



House Bill 553 – Condominiums – Mandatory Insurance Coverage - Alterations

Position: Support

The Maryland REALTORS® supports HB 553 which clarifies insurance coverage for condominium regimes used for single-family detached properties.

Typically, a single-family detached property would be organized under a homeowners association rather than a condominium regime. However, depending on the local zoning laws, a condominium regime may make more sense if the developer is building a small number of units on very small lots. That is the case in Queen Anne's County where the county government passed a cottage homes provision in March 2021 as part of their Comprehensive Plan strategy to build more workforce and affordable housing. Under that law, the homes must be built under a condominium regime even though these small homes are detached homes like residences found in many HOAs. This allows the homes to be built closer together saving money on land costs.

Unfortunately, the way insurance is provided under a condominium regime poses challenges for owners in a cottage home development like those in Queen Anne's County. Unlike a typical condominium where the council of unit owners must maintain insurance for the common areas that includes walls, ceilings, floors and other common elements (because the units are attached to one another), that shouldn't be true in a detached-unit condominium like cottage homes. These homes have their own walls, yards and are separated from the other units. Forcing these cottage home developments to carry larger insurance policies for common areas drives up the condo fees for housing intended to be more affordable.

In fact, many buyers think of these units in the same way as other detached units in HOAs and are confused about the difference in association fees. HB 553 will provide homebuyers seeking detached property a better comparison between ownership/insurance costs of all detached properties.

For these reasons, the REALTORS® recommend a favorable report.

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Insurance Barriers to Cottage Homes in Maryland

- Under §11-114 of the Maryland Condominium Act it is a specified duty of the council of unit owners to obtain and maintain property insurance on both the common elements and units of the condominium.
- This requirement makes sense if the condominium units are townhomes or apartments, where there are shared physical connections between units (walls, roof, etc.). It makes much less sense however if the units are all detached, single family units.
- This creates 2 distinct problems with cottage home communities
 - First, as most cottage communities are small, seldom more than a dozen units and often less, if even a single owner is unable to pay their condo fees it imperils the insurance of the entire condominium as that is a substantial cost to be borne by the remaining owners (compare to a traditional condominium with dozens or even hundreds of units to disperse these kind of costs over).
 - Second, in our experience with the community of Cole's Crossing (see attached for more information about this community), it was in fact highly counter-intuitive to potential buyers, who saw the high condo fee and thought they would have to pay both that and the typical costs of home ownership of a fee simple home as well rather than the comparatively less expensive condo owner's policy.
- We believe that the simple fix is to modify the Maryland Condominium Act to exempt condos in which all units are detached homes from the requirement that the council of owners maintain property and liability insurance for the units. The council would still maintain property and liability insurance for the common elements, but individual unit owners would be responsible for property and liability policies for their own personal units.
- This solves both noted problems the current law poses for cottage home communities and will help encourage them as a viable means of diversifying the range of available housing choices for all Marylanders.
- As an additional benefit, by providing opportunity for people to purchase individual homeowners policies rather than the smaller condo policies there are potentially greater savings to homeowners from policy bundling with auto and other policies they may have.