



Senate Bill 403 – Condominiums – Mandatory Insurance Coverage - Alterations

Position: Support

Maryland REALTORS® support SB 403 which clarifies insurance coverage for condominiums that are developed as single-family detached properties.

Queen Anne’s County currently allows condominiums to be constructed as small, detached cottages on a single parcel as opposed to the traditional, multifamily arrangement of units. The cottage homes provision was part of a strategy to build more “missing middle” and affordable housing. By using a condominium structure, the county can build detached homes closer together, thereby saving homebuyers on land costs.

Typically, detached properties would be organized under a homeowner’s association rather than a condominium regime, and would provide a master insurance policy just for the shared common areas. Condominiums, by contrast, would provide a much more comprehensive master insurance policy because of the shared nature of a condo unit’s walls, floors, ceilings, hallways, and the like.

Unfortunately, the way insurance is mandated for condominiums poses challenges for owners in a cottage home development like those in Queen Anne’s County. These homes have their own walls, yards and are separated from the other units, but are still required to carry larger insurance policies as if they were attached. Forcing these cottage home developments to carry larger insurance policies drives up the condo fees for housing intended to be more affordable.

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. SB 403 will provide homebuyers seeking detached properties a better comparison between the ownership costs of all detached properties in a given area.

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 share 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 kinds 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.

Cole's Crossing

Cole's Crossing is a small condominium development in Stevensville, MD created by Waterman Realty in 2007 and built in 2015. It consists of 1 prior existing home and 8 newly created single-family homes, with each home and lot parcel comprising a unit of the condominium. Each of the 8 new homes is 1164 sq. ft. with a 1 car garage.



While marketing the homes in this project we found a consistent issue with potential buyers not understanding that the condo fee included their property insurance and that many never even contacted us or came to see the homes, meaning there was no opportunity to explain it.

These homes were all eventually sold, and the individual owners now run the condo association but we do speak with them and it is definitely a concern they have as to what will happen if even a single owner finds themselves unable to keep up with the condo fees – a concern that grew especially pressing in light of the last year and the economic hardships so many faced as a result of the shutdowns.