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Real Estate

The Watson Writes Portfolio

(These are just a sampling of the dozens of articles written on this subject matter)

What is Scarier, Fires or the Insurance that is Supposed to Protect Us?

It sounded like Godzilla was taking a walk through the redwoods.

That was the sound that many of us woke to late one August night a few years ago. There was lightning, a harsh hot wind and our beautiful forests sounded like they were cracking under the weight of a giant monster. In a certain sense, they were. That monster was the threat of forest fire, and it came to fruition.

It was the CZU Lightning Complex fires which became the largest wildfires in Santa Cruz County history. The fires caused significant economic damage, estimated at over $1 billion. They burned for 37 days, destroying 86,509 acres of land and 1,490 structures, including 911 homes.

With resilience, San Lorenzo Valley, bolstered by the spirit of its communities, has bounced back. Living in this area is not a mundane inhabitance, it is a love affair. It will take more than a horrific fire to scare most of us away.

Unfortunately, one of those things that now is scaring some people away is the homeowner fire insurance that we need to protect us. Many of the major insurance providers have been on a steady drumbeat to withdraw coverage from the Santa Cruz mountains for some time now. One that had not, and was seen as a steady go-to, was State Farm. On May 26, they announced that they would no longer accept new homeowners insurance applications, and were vacating the state all together.

Why this is happening

Insurance is a concept that many do not understand fully, as the practice of it is full of paradoxes. Many who have it, which most of us do, get highly frustrated when our rates go up, but we have been perfect customers never taking risks, and never making claims. That is because insurance is not set up as a one-to-one relationship. It is not about the specific relationship between you and the insurance company.

Insurance is about risk sharing with a large population. In this case, all of us in San Lorenzo Valley are in it together.

The fact is, insurance companies only really want to insure people or homes that are very unlikely to ever have claims. Through their screening efforts however, there are a percentage of their customers who will have a disaster and they will contractually have to pay out. While most of us spend our years paying thousands of dollars to the insurance company and getting nothing back from it, those few in our community whose houses burned to the ground will have paid a few thousand dollars, but gotten, in some cases, over a million dollars back. It is all about gambling. Insurance companies are gambling that they have to pay out as little as possible, and people with insurance are gambling that they may one day need their insurance company to pay out.

To hedge their bets even further, once a claim is made by a homeowner, even if that claim is only for expenses due to an evacuation, the property is then classified as a less desirable candidate to be insured.

For many in San Lorenzo Valley, this has made the insurance picture harder. We were ALL evacuated during the CZU Lightning Complex fires. For those of us who claimed our hotel or other expenses on our insurance unknowingly dinged our properties as riskier insurance prospects on paper.

Insurance claims do not follow the people, they follow the property. This means that if you made a claim, the situation was rectified, and then you sell your house, the new owner is going to have a tougher time getting insurance, or a great rate, as a result. It is not fair, but it is important to understand the ramifications as we make life decisions.

This issue is not unprecedented

We are definitely living in dramatically new times. Climate change and effects of global warming are having severe impact on our local environment. From an insurance threat perspective, we have been in a similar predicament before and a solution was carved out. We need to press upon our Insurance Commissioner and state representatives to approach this issue in a similar manner.

There was a time that Insurance companies happily made earthquake coverage part of their packages to homeowners. In doing so, they amassed a stockpile of funding in the hundreds of millions of dollars.

What a difference a day makes. On January 17th, 1994 a massive earthquake hit Northridge California. The losses from that quake triggered payouts totaling over $20 billion dollars, many times over the entire reserve Insurance companies had compiled. It nearly bankrupted them all, and the vast majority quit offering earthquake coverage at all. This left many homeowners without earthquake insurance, and those who did have coverage found that their premiums had skyrocketed.

In response to the crisis, the California government created the California Earthquake Authority (CEA), a state-run insurance program that provides earthquake coverage to homeowners who cannot obtain it from traditional insurers. The CEA has helped to stabilize the earthquake insurance market in California. They now also use more sophisticated tools to assess earthquake risk instead of historical data. These tools include computer models that can simulate the effects of earthquakes of different magnitudes and intensities.

Now with the fire issue, California has set up the California FAIR Program. The concept is similar to CEA, but since its inception, the demand for it has gone far beyond what had been anticipated. It is a start, but we need to put pressure on our state representatives to elevate its reach, effectiveness and cost management.

How homeowners can cope with the current insurance offerings

Below are some of the avenues and choices potential homeowners can take to insure their beautiful mountain homes. None of these are guaranteed or in stone, as each property and owner is evaluated differently, and insurance company terms change frequently. See a trusted insurance agent or broker to lay out a plan that works for you. Here are some general guidelines to think about:

- **What risk are you willing to take on?**
  When you find an insurance solution, it generally is not a "one size fits all." Rather, it can be constructed to match your priorities. This means that you have to be realistic. You are not likely to find coverage that is inexpensive, covers you for the maximum amount and will be a smooth process should you have a claim. Solutions can be found that may provide one of the three, but you have to give on the others.
- **Risk of minimum coverage**
  Many people have home insurance because it is mandated by their mortgage company. If that is your primary reason for coverage, your mortgage company will often be satisfied by just enough coverage for them to be paid off in case of a disaster. The ramifications here are that you could end up owning a piece of property outright, with a burned-up house, but no funds to rebuild.
- **Cost of maximum coverage**
  California FAIR can cover your house in case of fire up to millions of dollars. You can make the choice to have this coverage be lucrative so that it covers your mortgage AND your re-build costs. You will need to also have an additional policy for other insurance needs as the California FAIR plan ONLY covers fire and no other issues like liability coverage, or a tree falling on your house, for example. Some insurance companies that possibly offer this "wrap-around" coverage may include American Modern, Beacon, First Republic, and Tower Hill. Also check with your local Farmers or AAA insurance agents.
- **How to lower cost but get robust coverage**
  One way to bring the insurance premiums down, without compromising on your coverage, is to have a very high deductible. Many homeowners dream of the comfort of only having to pay a few thousand out of pocket should disaster hit. In many cases, when reality hits, it is better to have to come up with 20 thousand dollars up front for a million dollars' worth of coverage, than to only pay 2 thousand, but only have a hundred thousand with which to rebuild.
- **Beware the "good deal"**
  The old adage "if it sounds too good to be true, it probably is" holds true. If you get a "great" insurance deal, do your due diligence and make sure the insurance company is sound and will be there should you need them. Research past customer experiences, and the financial backing of the company. Some who lost homes in the Paradise fire a few years ago had both a burned down dwelling and an insurance company that evaporated. Don't let that be you.

The bottom line is that San Lorenzo Valley is still a beautiful and vibrant place to live. There are insurance options available, and the solutions can range from paying more to being only minimally covered. This is not particularly fair, and we need to collectively strive to have our state officials address it. In the meantime, we can make some educated choices and still live our rich and pleasurable mountain lives.

SLV's 2023 Housing Market was Huge Business This Year!

As the holiday season commences, our valley has transformed into a wonderland of twinkling lights. Boulder Creek, Felton and Ben Lomond have adorned their storefronts with festive cheer. The aroma of chai teas, coffees, hot chocolate and mulled cider wafts through the air, beckoning us to our cozy cafes and creative holiday markets. Tis the season for holiday parties filled with food, libations and small talk with friends and family. While pivoting away from talking politics, religion, or the weather… here is a great talking point for you: "Wow, wasn't the SLV housing market on fire this year?"

OK, you may want to skip the "on fire" part.

You can mention, however, that over $206 million dollars went into the pockets of SLV folks selling their homes. Yes, even with the dampening effect of rising interest rates, the market was huge, and buyers were buying.

To be fair, right now, buyers have the least amount of choices than they have all year. December has seen the lowest number of new listings than any other month of the year. January this year was only a bit better. December has had 9 new listings, January had 10. Given the holiday pressures of those two months, those numbers should not be surprising. Peak months for 2023 for new listings were May and June, each having 56 new listings. July through October were also strong with new listings in the thirties.

Making the market even more attractive for sellers was the value their properties were achieving. The average list price started the year low, relatively speaking, at $709 thousand. It hit peaks in March and November of over $950 thousand, and December is ending at $824 thousand. Sales to list price held steady staying over 97% throughout the year, and getting as high as an average over 103% in June. Over the course of the year, Ben Lomond achieved the highest sales price average for single family homes at over $991 thousand. Felton single family homes did well too, though, hitting an average of $907 thousand. Size does matter, however, as the Ben Lomond homes were bigger than the Felton offerings, and Felton came out ahead in value and the price per square foot. Felton home sales averaged $651 per square foot, where Ben Lomond home sales averaged $636 per square foot. Other SLV areas were not far behind with Lompico/Zayante and Boulder Creek in the high 500s, and Brookdale in the low 500s per square foot.

Boulder Creek was indisputably the most active area in the whole SLV market. With over $88 million in single home sales in 2023, it also had the most homes launch onto the market. It had 112 home sale closes, more than double the next two SLV communities combined: Ben Lomond with 54 closes, and Felton with 44. It also had 159 new listings in 2023 while Ben Lomond had 86 and Felton had 52.

One concern most prospective sellers have is the question of how long it will take to sell their home. Across all of SLV, for 2023 the answer is "just over a month." Even with a preponderance of more volume, relatively speaking, it did not take a seller in Boulder Creek longer to sell than elsewhere in the valley. The “quickest” sales came in Ben Lomond with an average days to sell of 30 days and Lompico/Zayante of 32 days. Brookdale sales took the longest, but you could almost measure that by hours, as their average days to sell was only 38 days. They were followed closely by Boulder Creek at 37 days and Felton at 36.

For new people wanting to locate to the San Lorenzo Valley, and for those wanting to sell to make room for them, 2024 should be an equally strong year. We all know that SLV isn't just a place to visit during the holidays; it's a place to call home. It's a haven for those seeking beauty, community, and a connection to something bigger than themselves. SLV is the place where the holiday spirit lingers long after the last carol fades, and sellers can look forward to a positive experience as they complete their New Year’s resolution and put their home on the market.

Two ways that you may have to pay taxes when selling your house in Ohio

Selling your property is an exciting life endeavor. It marks a big change, and for some, it is the liquidation of their biggest investment. Many times, on paper, this can indicate a large cash profit from the sale. One of the best ways to get that cash is to engage with a buyer who is offering a no obligation cash offer on the house. This reduces many costs involved with a traditional sale and has features that include no commissions, no closing costs, and no repairs requested.

Depending on how big the mortgage is that you have to pay off after such a deal, you could end up with a fairly large amount of money in your bank account. This will lead to the next big question. Do you need to pay taxes on that money?

The good news is that depending on your situation, you may not need to pay capital gains taxes. If the proceeds from the sale are under $250000 and you have lived in the home for more than 2 years, you will not have a capital gains tax bill.

Here are the two areas where taxes might apply:

1. Capital gains

if you have gains that are more than $250,000 or more than $500,000 for married couples, you will get stuck paying taxes. If you have lived in your house for less than two out of the last five years, you’ll probably have to pay taxes in this scenario as well. If you owned and lived in the place for two of the five years before the sale, then up to $250,000 of profit is tax-free. The tax-free amount doubles to $500,000 if you are married and file a joint return.

2. Taxes as part of closing costs

Your closing costs may include recording fees and mortgage recording taxes (if a mortgage is involved). Then there is also a transfer tax. Generally, Ohio law requires a transfer tax on the sale of real property. Ohio law also requires the reporting of sales of real property to the County Auditor. Real estate taxes are usually based on the valuation of the real property, which is based on the last sale price at which the real property is last reported as sold. Statewide, Ohio has a mandatory tax of 1 mill ($1 per $1,000 of the value of the transferred property), which applies in every county.

It is important that you assess your full situation when thinking about taxes. This becomes easier when you are looking at an all-cash offer. That process is simple, and you can evaluate your potential tax liability right up front.

Should you exceed your maximum for capital gains, it means you earned greater revenue. You only pay on the amount that exceeded your maximum, and the remainder will be even more profit for you.

Taxes can be stressful. It would be good to enter into the least stressful way to sell your home and find a cash offer with no hassle. You may still have some tax liability, but the rest will be easy!

Five things you need to know about mold and selling your home

It is a common problem for many homeowners: Mold. Mold is a fungal growth that spreads on all kinds of surfaces. It comes in a variety of species, and those come in different colors. It grows in places with a lot of moisture. The most common types are Cladosporium, Penicillium, and Aspergillus.

Certain molds are toxigenic. They produce mycotoxins which can affect health. People with allergies may be more sensitive to these toxins. People with immune suppression or underlying lung disease are also susceptible.

This brings up questions for people who are selling their homes in which they have had, or currently have, mold issues. An important point is that Ohio does not have any statutes or regulations that require landlords to disclose high concentration of mold to renters.

Here are the facts you need to know about the history of mold and selling a house with it:

1. A cash offer and people who buy houses as-is, are your best opportunity

Companies who tell you “we buy houses as-is” and pay cash offer you the best solution regarding not having to disclose your mold issues. They offer no hassle, no repairs and have agreed to take on any unforeseen challenges

2. External mold isn’t about health

Mold on the outside of your house is not a health issue. It is an issue however on your home’s appearance and it will decrease your market value.

3. There is an obligation to disclose the mold

It is legal to sell your home with mold. People who buy your home “as is” do not require any disclosures. For all others, Ohio requires you to disclose all issues of which you are aware. You do not have to seek for hidden mold, but you do need to notify your prospective buyer of a mold history or current mold you have encountered.

4. You need to disclose things that can cause mold as well

Besides disclosing mold, you are also required to disclose conditions that can cause mold. Those can include: moisture seepage, condensation, sewer overflow/backup, and leaking pipes, plumbing fixtures, roof and gutter leaks, water intrusion, and water or moisture related damage as a result of flooding.

5. There is no license for mold inspection or remediation in Ohio

This means that in Ohio there is no professional standard of which you need to adhere in terms of a contingency or disclosure. If you are having mold removed, there is no professional standard for you to determine who is best qualified. It is recommended that you look into the reputation of who you hire and make sure they did not have mold reoccurrence with previous clients.

You can legally sell your house with mold. A prospective buyer may not want to buy it that way however, and you do need to let them know of the issue. If you have a huge mold problem and want to sell your house, options where you can sell your house quickly with out putting it on the market make a lot of sense. These usually come with no obligation to repair, and the mold is not an issue.