

DANIEL OLLACK



KATRINA STRIPPED the walls to the studs and smashed the window blinds on the first floor of a year-old home in the New Desire development. A mirror that survived reflects further damage.

Stonewalled!

A New Orleans real estate risk manager files a huge claim, only to find that settlement is still months away. *By Franklin Horowitz*

Perhaps Interstate Realty's Bill Geddes said it best. In the affordable housing developer/manager's 33-year history he never experienced a claim this massive—more than \$30 million. The size dwarfed any previous claim the controller and risk manager had ever experienced by almost \$25 million.

From an adjuster's viewpoint the dollar value of this claim is only part of the resurrection of this 98-acre piece of New Orleans' Ninth Ward. The complexity and sheer magnitude of the damage spread among three housing developments—two were completed and one was about 45 percent done—could only be described as surreal, as if it had rained for 40 days and 40 nights.

Why was one roof completely blown off while others were pretty much intact with just a few shingles missing? How did a heavy timber dock from a half-mile away end up hitting that house?

This destruction begged the question: What is a total loss? The answer, from an adjuster's point of view, is when it will cost more to repair than to tear down and rebuild, roughly \$5 a square foot more. However, that's not necessarily how insurers viewed this claim, insisting that their adjusters and engineers believe the homes can be saved with some remedial work.

Fortunately, Interstate had the right coverage. The National Flood Insurance carrier paid its claim fairly quickly, about \$13 million. Interstate's first layer of property/casualty coverage had a \$5 million limit, but that was backed by a \$145 million excess policy. A \$32 million builder's risk policy, a separate

claim, covered the portion of the project that was still under construction. So the claims didn't exceed the coverages.

To hasten the claims settlement, within the first week after Katrina, we calculated the preliminary reserve to bring the insurers up to snuff, and asked for the first advance for the emergency

fixes to avoid further damage.

In figuring this out, we asked lots of questions, such as: Will the insured rebuild? If it does but with some changes, will that affect the insurance recovery? In the very early stages, the architects' and engineers' message was loud and clear: The buildings should be torn down. That laid the foundation for the coming "he-said-she-said" process.

Initially, we presented down-and-dirty reserve requests to all the primary insurers, giving a breakdown of all the costs and expenses. At that point for the preliminary reserve we estimated the damage at all Interstate properties affected by Katrina at \$30.3 million on building damages. Based upon our anticipated construction time frame, we also estimated damages of about \$1 million for business-interruption claims, a figure that was ultimately revised higher as the claim process dragged on.

Within six weeks of the hurricane, we presented our more extensive request for \$1 million to cover emergency expenses at all the properties, customized for each adjuster, with a punch list of damage, along with photos and basically every detail an adjuster would need to make a claim decision. Weeks later, the primary insurance company cut us an advance check for \$250,000, a quarter of what we had requested, and just enough to cover the emergency expenses and nothing else. The builder's risk carrier advanced \$100,000.

By the end of January, we submitted our formal claim for nearly \$24 million for the two completed properties, including business interruption, and \$10 million for the builder's risk claim.

Our claims painted such a complete picture, they made it easy for the carriers to decide. Unfortunately, they didn't agree with our conclusions, and the primary carrier ordered its own engineering report.

We waited for more than three months for that report, and what we received put us right back where we had started from. It recommended repairs on the major buildings for roughly half of our estimate—\$11 million—unchanged from the initial report issued seven months earlier.

Of course, a dispute over a claim is nothing new. Even though flood damage was pretty obvious, with water lines nearly 10 feet high, it was also clear that the homes had been racked by the winds as much as they were slammed by the flood waters.

So it became a chicken-or-the-egg debate. Katrina's winds at landfall had been clocked at 140 mph, and the buildings had been built to withstand 130 mph winds, but the gusts far exceeded that. Consequently, there were some major structural and flood-caused air quality/mold issues, at the very least. The wind loosened the connections on the second floor, screws, nails and the like. That made the buildings unsafe and dangerous, especially if and when another hurricane blew through. Remember that Rita raged less than a month later.

Our conclusion was that the homes were a total loss and needed to be torn down and rebuilt. The architect and engineer who originally designed the buildings agreed with us. In fact, they said they wouldn't sign off on repair

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