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Insurance costs may inundate local summer rental market

A flood insurance relief bill doesn't protect all secondary homeowners from skyrocketing premiums, despite the importance of those homes to local economies

MARSHFIELD -- As a local resident and South Shore real estate broker, Brian Molisse knows the value of a healthy stock of summer rentals that bring vacationers to enjoy the beaches, to fish and to spend money.

“All winter it’s like a ghost town, and come Memorial Day, it’s like someone flipped on a light switch,” said Molisse, founder of Molisse Realty Group. “All of Bay Avenue is summer rentals. All of Rexhame is summer rentals. We see how much traffic they bring down here, and it’s a huge thing. Haddad’s, the Lobster Pound, the general store – the businesses rely on that.”

The owners of vacation homes can be a municipality’s dream. They pay the same tax rates as full-time residents – often on some of the highest-value, ocean-front properties – yet use few public services. They don’t vote at town meetings or elections, but fund tax overrides for schools and police stations. And when they offer their homes for summer rentals, visitors spur on the economy by eating out, shopping and sightseeing locally.

But the rising costs of flood insurance could impact the value, and even the existence, of summer housing if property owners can’t afford the increase and decide to sell the properties or move in full-time.

“A lot of people who own summer homes are 55 and over, and they’re looking at a 25 percent increase,” said Molisse, who lives in Marshfield’s Rexhame neighborhood. “You can see the fear in their eyes. That’s their retirement. It could hurt the market tremendously, and our fear is how hard it’s going to be to sell those properties.”

The buzz on the South Shore about flood insurance has largely died down since President Barack Obama in March signed into law the Homeowner Flood Insurance Affordability Act, which lessens the worst effects of the Biggert-Waters Flood Insurance Reform Act of 2012.

Biggert-Waters eliminated flood insurance subsidies for homes built to satisfy insurance requirements at the time of construction, but were subsequently remapped into areas with a greater risk of flooding. That caused premiums to soar on those homes.

The relief bill reverses much of Biggert-Waters for many property owners, but not secondary homes built before the late 1970s – when flood maps were first adopted. These homes, called pre-firm for pre-flood insurance rate maps, could see a 25 percent premium increase annually until rates reflect true risk, which may force owners to raise rental fees, sell the homes or move in full-time.

State Rep. James Cantwell, a Marshfield Democrat, said his parents met while summering in Marshfield, which sees its population skyrocket to more than 40,000 during summer months from its year-round population of 25,000.

“Flood insurance is going to change the culture of communities. You’ll see homes sold for year-round residences, and that could mean more issues for services,” he said. “You’re going to see some changes in the dynamic of the town, and the summer economy could definitely suffer.”

According to U.S. Census data, Marshfield in 2010 had just shy of 11,000 housing units, of which more than 1,000, or about 10 percent, were used only seasonally. Scituate’s summer housing stock is slightly higher than in Marshfield at about 11 percent. Of the about 8,000 housing units in Scituate that existed in 2010, nearly 900 were for seasonal use.

Hull has the highest percentage of vacation homes on the South Shore, at about 14 percent of its total housing stock. Of the nearly 6,000 housing units in Hull in 2010, 800 were for seasonal use, although Hull does not allow short-term rentals.



PHOTO/ GREG DERR/ THE PATRIOT LEDGER

Marshfield, like many coastal towns has an influx of summer rental residents. Many homes along Bay Avenue and many in the Brant Rock neighborhood are rented by the week or month, Sunday, June 15, 2014.

Research shows that having a great share of seasonal homes helps communities keep the property tax rate down because they jack up the total assessed value on property in a town.

Joe Rossi, chairman of the Marshfield Citizen Coastal Coalition, said secondary homes built before flood maps and located in the highest-risk flood zones could soon see “catastrophic flood insurance prices.”

“We see more pre-firm summer homes, at least in Marshfield, especially in areas like Brant Rock,” said Rossi, who estimated that about 30 percent of properties that hold flood insurance and are impacted by Biggert-Waters are pre-firm summer homes. “We’re very concerned what the rates for these structures could be.”

High flood insurance rates on these properties could have a substantial trickle-down effect in the rental market, which towns like Marshfield and Scituate depend on due to the lack of hotels.

“If someone with a second home they rent for the summer sees a big increase, then that person will translate the cost to people who rent it,” he said. “Someone who has rented a cottage for 20 years can’t afford it anymore, so then the rental sits empty. And the more it sits empty, the more apt the person is to sell it.”

Molisse, the real estate broker who lives in Marshfield, said the market for vacation homes has been busy this spring, thanks in part to the flood insurance relief bill. While Biggert-Waters blocked sellers from passing policies onto sellers who then assumed true-risk, unsubsidized rates, the relief bill reinstated it for all properties.

“If people stopped buying (secondary homes), it would have a huge effect on the market,” Molisse said. “A lot of people are using them in the summer as rentals, and even the winter rental market is big in Marshfield.”

For example, Molisse recently sold a home in Humarock to a couple from Virginia who plan to summer on the South Shore and rent the home out in the winter.

Matt Smith, a senior regional planner with the Metropolitan Area Planning Council, is drafting an economic development plan for Scituate that largely focuses on tourism. A component of the study looks at housing trends and stock, including vacation homes.

Even before the passage of Biggert-Waters, Smith said there was a decline in secondary housing in Scituate, which he said presents both pros and cons for the community.

“There could be the impact on town services, such as sewer and infrastructure costs, and secondary homes tends to be owned by slightly older people, and if they retire to those homes, there would be greater demand for senior services,” Smith said. “It all depends on who the buyer is. If it’s a family with kids, that’s a different reality.”

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