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# Condominium Sprinkler Retrofit Report

A Review of Retrofit Costs and the Impact of Retrofitting on Insurance Premiums

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## Report to the Governor, President of the Senate and Speaker of the House of Representatives

October 2009

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The Florida Fire Marshals and Inspectors Association

ISO, the Insurance Services Office

Lisa Miller and Associates

The National Fire Sprinkler Association

The Space Coast Communities Association

Wayne Automatic Fire Sprinklers, Inc.

## Executive Summary

In his veto message regarding Senate Bill 714, the Governor directed the Department of Business and Professional Regulation to survey the costs associated with installing or retrofitting a condominium with a fire safety sprinkler system. The Governor also asked for information on any insurance cost reductions associated with these installations.

Based on our review, the Department finds:

- The cost to retrofit a condominium with a fire safety sprinkler system ranged from a low of \$595 to a high of \$8,633 per unit. These costs vary depending on a number of factors. i.e., the extent of sprinkler coverage in the building (complete or common areas), the age of the building, the size and number of units in the building or buildings, type of construction, etc.
- Many associations have forgone retrofits because they are cash strapped in the current economy. With many units sitting empty or in foreclosure and not paying assessments, some condominiums are scraping by just paying their normal expenses.
- Another reason for this forbearance is that the deadline for such retrofits is far enough in the future (December 31, 2014) that they are, perhaps understandably, delaying this decision.
- A condominium can expect to receive a discount of 5% on the “all other perils” portion of their property and casualty insurance policy if the structure is completely sprinklered. However, this is not a certainty given that the risk a third party insurer is willing to bear may impact the decision after considering the nature, age, and condition of the property to be insured.

## **Introduction**

On June 1, 2009, Governor Crist vetoed Senate Bill 714. In his veto message the Governor expressed sensitivity “to the costs associated with installing the fire sprinkler systems, especially in these challenging economic times. However, in the event of a fire, public safety for residents and for the firefighters and emergency medical personnel who lay their lives on the line to provide services greatly outweigh all other considerations.”

The Governor then directed the Department of Business and Professional Regulation to initiate a review of actual retrofit costs and the impact that retrofitting may have on insurance premiums. This review was conducted by the Department’s Division of Florida Condominiums, Timeshares, and Mobile Homes (Division).

In conducting its review, the Division contacted leadership within Florida’s fire service industry, condominium community advocacy organizations, the Office of the State Fire Marshal, the Office of Insurance Regulation, Citizens Property Insurance Company, fire sprinkler installers and representatives of insurance companies, to receive input.

The Division appreciates the efforts of these organizations. Additionally, The Office of State Fire Marshal and the National Fire Sprinkler Association contributed actual sprinkler retrofit cost data. The Community Association Leadership Lobby (CALL), a statewide association representing approximately 4,500 condominium associations, surveyed its member organizations. The Community Action Network (CAN), representing approximately 2,500 condominium associations, issued an alert among its membership to identify associations that had initiated or completed a sprinkler retrofit. The Space Coast Communities Association also provided input to the Division.

The following report reflects the findings of the Division.

## Dolphin Cove

The early morning 5<sup>th</sup> floor kitchen fire at Dolphin Cove on June 28, 2002, that killed 2 residents and injured 3 firefighters is often referenced when discussing the need for high-rise condominiums to have sprinklers. As reported by the St. Petersburg Times on August 10, 2002, multiple factors contributed to delaying firefighters from bringing the blaze under control, including the internal water system (standpipe) having been turned off, the hydrant closest to the fire was nonfunctional, and the delayed call to 911 reporting the fire. The Clearwater Fire Chief also attributed the lack of sprinklers in the condominium as contributing to the tragedy. At the time of the fire, the Florida Fire Code required all residential high-rise buildings to install a fire sprinkler or engineered lifesafety system by 2013. However, the Legislature in 2003 passed Senate Bill 592, clarifying that for high-rise condominiums the required deadline to retrofit was by the end of 2014.



Dolphin Cove  
Condominium

The relevant language of Senate Bill 592, now current law, as it related to the sprinkler retrofit can be found at Chapter 718.112(2)(l), Florida Statutes, and reads:

*Notwithstanding the provisions of chapter 633 or of any other code, statute, ordinance, administrative rule, or regulation, or any interpretation of the foregoing, an association, condominium, or unit owner is not obligated to retrofit the common elements or units of a residential condominium with a fire sprinkler system or other engineered lifesafety system in a building that has been certified for occupancy by the applicable governmental entity, if the unit owners have voted to forego such retrofitting and engineered lifesafety system by the affirmative vote of two-thirds of all voting interests in the affected condominium. However, a condominium association may not vote to forego the retrofitting with a fire sprinkler system of common areas in a high-rise building. For purposes of this subsection, the term*

*"high-rise building" means a building that is greater than 75 feet in height where the building height is measured from the lowest level of fire department access to the floor of the highest occupiable story. For purposes of this subsection, the term "common areas" means any enclosed hallway, corridor, lobby, stairwell, or entryway. In no event shall the local authority having jurisdiction require completion of retrofitting of common areas with a sprinkler system before the end of 2014.*

The costs to install (retrofit) a condominium varies depending on the size of the condominium unit. To completely retrofit Dolphin Cove and upgrade the alarm system in 2003, the costs varied from \$2,200 to \$5,940, as a one-time assessment, and from \$3,126 to \$8,280, if financed for 10 years at 7%. The residents proceeded with the retrofit in an effort to prevent a reoccurrence of June 28, 2002.

This commitment to retrofit their building in advance of the mandate is but one example of costs associated with a sprinkler retrofit. Nevertheless, since Legislative debate began on the topic of mandating sprinklers, advocacy groups representing condominium unit owners have vigorously opposed these measures. As noted by Yeline Goin, Co-Director of the Community Association Leadership Lobby (CALL), "many associations are taking a wait and see approach, hoping the Legislature will provide relief by extending the date or removing the requirement altogether." The primary reason for the opposition is the cost.

### **Sprinkler Retrofit Costs**

Upon reviewing the database of condominium projects throughout the State, the Division anticipates that the universe of condominium projects affected by the mandated retrofit is approximately 5,600 based upon a review of condominium construction dates and the number of units. However, of the associations surveyed



Galt Mile Condominium Association, a 27 building, 6,400 unit association that would be required to retrofit with sprinklers.

for this report, a strikingly small number responded with actual costs. Donna Berger,

Executive Director of the Community Advocacy Network (CAN), suggests that retrofit costs are the factor. “Many associations have held off retrofitting because they simply do not have the funds to do so,” she noted. Whatever the reason, the Division found that only a few associations have taken steps to adhere to the impending deadline to retrofit their condominiums. As detailed below, a sampling of sprinkler retrofit costs, primarily in South Florida, highlight the variation in costs associated with a sprinkler retrofit:

Table: Sprinkler Retrofit Costs

Name	City	Total SF	Cost / SF	Total Cost	Average Cost / Unit	Retrofit Design
Corinthian	Miami Beach	183,518	\$1.30	\$238,355	\$1,727	Complete
Continental Towers	Clearwater	166,250	\$1.05	\$175,000	\$2,083	Complete
Brickell Phase II, D	Miami	357,400	\$1.16	\$415,024	\$1,836	Complete
Country Club	North Miami	71,568	\$1.05	\$74,954	\$503	Complete
Forest Place Tower	North Miami	286,000	\$1.20	\$342,404	\$1,695	Complete
Essex House	Sarasota	108,000	\$1.18	\$127,500	\$1,678	Complete
<i>Islander Club (bid)</i>	<i>Longboat Key</i>			<i>\$1.2M - \$780,000</i>	<i>\$8,633 - \$5,611</i>	<i>Complete</i>
Biscayne Cove	Aventura	425,000	\$0.49	\$214,790	\$813	Common Area
Biscayne Clipper	Aventura	607,500	\$0.42	\$195,250	\$595	Common Area
Arlen Beach	Miami Beach	250,848	\$1.58	\$394,950	\$1,755	Common Area
Admirals Port	Aventura	435,353	\$0.64	\$276,575	\$816	Common Area
Horizons West	Sarasota	245,000	\$0.58	\$121,000	\$896	Common Area
Peppertree Bay	Sarasota	50,400	\$0.47	\$175,000	\$810	Common Area

## **Findings**

As this survey of associations is five (5) years in advance of the mandated sprinkler retrofit, the sparse number of condominium associations that have completed the retrofit is not unexpected. The Division's experience is that condominium associations prepare their budgets in one year cycles. Further, with association board member terms being capped at no more than two years, any inherent fiscal shortsightedness coupled with the potential for a complete turnover of all association leadership could result in a last minute surprise for unsuspecting associations. To avert such a surprise—to the maximum extent possible—the Division, through its educational program, intends to play a role in alerting associations of current and future legislative mandates, namely the fire sprinkler requirement via annual billing inserts, the Division's webpage, and through regular interaction.

## **Impact of Retrofitting on Insurance Premiums**

As noted previously, with limited data regarding actual sprinkler retrofit projects, the corresponding insurance premium data is limited as well. The projects listed in the above table reported mixed results. If a reduction was granted for fire sprinklers, the impact of that reduction on the overall policy was not significant because the reduction applied only to the "all other perils" portion of the property and casualty policy, not the windstorm portion. To understand how sprinklers impact insurance premiums, the Division received input from Citizens Property Insurance Corporation, the State's largest insurer of condominiums. The Division also received input from the Space Coast Communities Association and Lisa Miller and Associates, an insurance consulting firm.

### Citizens Property Insurance Corporation

Citizens reported that a 5% sprinkler credit is applied if a building is fully sprinklered and the ISO (Insurance Services Office), a leading provider of information about property and liability risk, confirms the building has an approved sprinkler system. A condominium with sprinklers in the common areas only, as required by law, may be

eligible to be specifically rated by ISO (as opposed to class rated) and those specific rates would be based on the individual risk characteristics of that building (construction, occupancy, protection, exposure). As a result, a partially sprinklered building may receive a lower premium than a similar building that has no sprinkler protection.

#### Fully Sprinklered verse Partially Sprinklered

The experience of Harry Charles, President Emeritus of the Space Coast Communities Association, an umbrella association with 269 member associations, has been that associations receive a 5% premium discount of the “all other perils” portion of an insurance policy for a fully sprinklered building and no discount for a partially sprinklered building (see appendix D). That experience is echoed by Lisa Miller, an insurance consultant and former Deputy Insurance Commissioner. Mrs. Miller notes that ISO considers a building that is partially sprinklered the same as a building without sprinklers, from a rating perspective. However, individual insurance companies may or may not use the advice of ISO, which is a proprietary decision.

#### **Findings**

The minimum requirement for a high-rise condominium, by law, is to install sprinklers in the common areas, defined by Chapter 718.112(2)(l), Florida Statutes, as “any enclosed hallway, corridor, lobby, stairwell, or entryway” of the condominium. The data and information provided for this report suggests that condominiums that apply this minimum standard may receive little to no discount on the overall policy. However, a fully sprinklered building insured by Citizens Property Insurance Corporation should expect to receive a 5% discount. Depending on the insurer, the discount may exceed 5%; however, any discount not applied to the windstorm portion of the policy may be nominal.

## **Conclusion and Recommendations**

The Division concludes that the lack of substantial data regarding the costs of sprinkler retrofits is not unexpected in light of the budgeting practices of condominium associations. Inherently focused on the challenges of the present, a mandate five (5) years from now for many associations likely appears to be in the distant future. Further, considering that in five years, with two year staggered terms, an association's board could be entirely different than the membership elected this winter. Addressing a mandate not realized until five (5) years from now is likely a lesser priority than the challenges of today—most notably collecting regular assessments and addressing a significant wave of foreclosures. Under the circumstances, the prospect of adding any additional costs for most associations would be difficult to propose, and perhaps result in a recall of the association's board.

**Recommendation:** The Division views this situation as an additional opportunity to communicate with our customers. Over the next five (5) years the Division via inserts in the billing statements, educational presentations, and electronic communication, will significantly increase awareness of the impending sprinkler retrofit mandate.

The Division concludes that installation costs vary depending on multiple factors including the initial condition of the association's standpipe, the type of installation performed (common areas only or common areas and units), and any aesthetic considerations the association may want to incorporate into the existing décor.

**Recommendation:** Understanding that multiple variables impact the costs of installing a fire sprinkler system and understanding that the statute provides an alternative to a fire sprinkler system in the form of an "other engineered lifesafety system," best management practices for condominium associations retrofitting with a fire sprinkler system should be established as associations consider their options.

Finally, the Division concludes that condominium associations will receive a premium reduction if the building is fully sprinklered, but may not if an association chooses to adhere to the minimum requirement of the law of installing sprinklers only in the common areas. The Legislature may wish to address the uncertainty of a premium discount when associations opt to install sprinklers in the common areas only.

**Recommendation:** Chapter 627.0654, Florida Statutes, mandates a premium discount if a fire sprinkler system has been installed in accordance with nationally accepted fire sprinkler design standards adopted by the Office of Insurance Regulation and if the fire sprinkler system is maintained within nationally accepted standards. To the extent that the minimum requirement provided in Chapter 718.112(2)(l), Florida Statutes, regarding the installation of fire sprinklers only in the common areas doesn't rise to the standard in Chapter 627.0654, Florida Statutes, affording a premium discount, the Legislature may want to harmonize the two chapters.

## Exhibits

Exhibit A: Governor Crist's Veto Letter of Senate Bill 714

Exhibit B: Chapter No. 2003-14, Laws of Florida (Senate Bill 592)

Exhibit C: CALL survey to its membership

Exhibit D: Space Coast Communities Association Report