COMMERCIAL RISK MANAGEMENT & LOSS CONTROL

COMMERCIAL & RESIDENTIAL PROPERTY VACANCY

VACANCY AND INSURANCE

From an insurance perspective, vacancy is considerable concern. Vacant buildings are more susceptible to certain types of damage, and for this reason, most commercial property insurance policies include a vacancy condition that significantly limits or, in some cases, eliminates coverage if the building is damaged.

For example, most policies eliminate coverage if the property loss to the vacant building is caused by vandalism, sprinkler leakage, building glass breakage, water damage, theft or attempted theft. If something else causes damage to the vacant building, such as fire or windstorm, most policies automatically reduce the loss payment by 15 percent. This reduction is in addition to the policy deductible; further increasing the owner's out-of-pocket expense.

A major concern with the vacancy condition in most commercial property policies is exacerbated by the fact that a majority of building owners do not understand how the policy defines vacancy. In most policies, building owners are at risk of the vacancy condition and its potentially devastating limitations if less than 31 percent of the building's square footage is rented or used to conduct customary operations and/or used by the building owner to conduct customary operations. (It's important to note that buildings under construction are not considered vacant.)

As an illustration, consider a four-story office building. Each floor is a separate suite and each has identical square footage. ABC Company occupies the bottom floor. Due to declining economic conditions, three of the building's four tenants move out, leaving ABC as the building's sole tenant. Even though ABC is still there, they only occupy 25 percent of the building. Most commercial property policies now consider this building vacant due to the fact that total occupancy has fallen below 31 percent.

The vacancy condition in the policy is not effective immediately. Rather, the building owner typically has an allotment of time, usually 60 days, for occupancy to increase to greater than 31 percent. If after 60 days tenancy is still below 31 percent the vacancy condition is applied to subsequent losses and will be so until tenancy increases. Further, the building owner's commercial property insurance policy may be non-renewed upon expiration and the owner may have to purchase a special policy designed for vacant buildings. Such a policy is typically harder to obtain, more restrictive in terms of coverage and may be more expensive then a standard commercial property insurance policy. With gloomy predictions looming, do solutions exist that can help building owners protect their asset by mitigating the risk associated with damage to a vacant building?

Fortunately, yes.

Talk with your agent about the options available for your vacant buildings properties. Your agent may be able to amend your existing insurance policy to lower the threat of the vacancy condition by decreasing the occupancy requirement to a more achievable number (such as 10 percent). This option could help building owners weather turbulent economic times without the increased risk of significant financial detriment resulting from an uncovered or limited property claim. In uncertain economic conditions, why leave one of your biggest assets at risk?

Source: Vacancy: Know the Risks - http://www.trustedchoice.com/Content/Articles/Vacancy.aspx
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