

Challenging Times - Don't Let Property Vacancies Catch You Unaware

Talk to your risk advisor about occupancy changes in your commercial properties.

Tough economic times can obviously affect many aspects of a business: payroll, employee morale, and profit. Less obvious, though, is the possible effect on property insurance. All over the country, houses and various business buildings are empty. Some have nothing but the furniture of the previous tenants while others are only partially occupied by tenants. To most people, only those buildings that are completely empty are "vacant." To most insurance policies, any of those buildings could be considered "vacant." On the surface this seems to be merely a difference in definition, a small disconnect. Upon further inspection of the insurance policy, it is anything but a small disconnect.

Insurance policies have their own set of definitions that may differ from common usage. Most insurance property policies have some sort of vacancy provision that can severely limit or even exclude coverage for damage to a vacant building. For instance, in some property policies a vacant building has no coverage for vandalism and reduced coverage for fire. Even though most insurance policies provide a limitation of coverage for "vacant" buildings, the definition can vary among different insurance companies and also vary depending on if the client is a tenant or owner of the building.

Viable solutions to the problem caused by the vacancy provision are often limited. Carriers may be reluctant to remove vacancy provisions and a separate policy may be costly. Nevertheless, the consequences of not addressing this issue and your potential exposure could be devastating in the event of a loss. If you own a building without using it for ongoing customary operations or rent space from others with more than incidental square footage not occupied, you should have a conversation with your insurance advisor or Scott partner. Don't let the ripple effect of challenging times cause an uncovered and unexpected loss.

---Dustin DeJarnette, Commercial Compliance Specialist, CIC, ARM