

# How to Properly Insure Vacant Real Estate

## Why Traditional Homeowners And Landlord Policies Typically Do Not Cover Vacancy

Many insurance companies will begin to limit or restrict coverage on a regular homeowners or landlord policy if a property is vacant for 30 days or more. Why do they do this? The unique characteristics of vacant properties can create exposures with more inherent risk, and traditional homeowners and landlord policies are not designed to cover that risk. Why is there a higher risk associated with vacant properties? Simply because no one is monitoring/watching the property. If there is a significant loss, it can go unnoticed for some time, insurance claims may not be reported right away, and this can potentially lead to more expensive claims. If a vacant property is being vandalized and there is no one around to stop the vandals, the damage might be far worse.

## What Vacant Property Policies Cover

Vacant property policies will cover many of the perils (causes of loss) your homeowners or landlord policies cover such as fire, hail, lightning, explosion, smoke damage, and liability on the premises. For landlords of a vacant property, coverage can be provided for landlord

personal injury liability. Vacant property policies also cover one of the biggest risks associated with vacant properties: Vandalism.

Because vacancy timeframes can fluctuate, most vacant property policies are flexible, allowing you to pay for the policy on a month-to-month basis, easily cancel the policy when needed, and if canceled early, the insurance company will send a refund for any premium that is not used (unearned premium). Vacant property policies can also be written for 12 months and most can be renewed for up to 4 years.

### **What Vacant Property Policies Do Not Cover**

Vacant property policies may have some coverage limitations due to the general assumptions about typical vacant properties. There are two common exclusions to be aware of: Water damage and Theft of personal property. It is generally assumed if a property is vacant the water is turned off, so **it is important to note most vacant policies do NOT cover water damage from a burst, cracked, or damaged pipe, as well as many other water leaks.** Theft coverage for personal property is also not generally **provided on a vacant property policy.** The general assumption about theft is that there is no personal property on the premises and there is nothing to steal, so theft of personal property is generally not covered.

## **Unoccupied Versus Vacant**

There is a difference whether an insurance company sees a property as “unoccupied” or “vacant,” depending on the situation and the type of policy you have. In a traditional homeowners policy, unoccupied generally means the occupant is away from the home for 30 days or less; perhaps on vacation, or doing a cosmetic renovation on the home, but the home is still furnished and utilities and appliances may still be turned on. In this situation, a vacant property policy may not be needed. “Vacant” generally means the property has no occupants for 30 days or more, there are no furnishings, and appliances and utilities are turned off. It is always a good idea to notify your insurance agent or insurance company if you will be away and confirm how your insurance company would define the occupancy in your absence.

### **Additional Tips/Considerations For Your Vacant Property**

- 1). If you will be traveling or if your home might be unoccupied for a period of time, contact your insurance agent or insurance company. Depending on how long the property will be vacant, you may be able to ask your insurance company for a vacancy endorsement.
- 2). If your property will be vacant for a longer period of time and a vacancy endorsement is not available, it is important to insure the property on a vacant property policy to protect it. Many insurance companies can convert the vacant policy back to a landlord or homeowners policy once the property is no longer vacant.

3). Because vacancy timeframes can vary, make sure your insurance company offers a pro-rated cancellation. If you return home early, or fill a unit with a tenant faster than expected, you will be able to cancel the vacant policy and you will receive a refund for any unused premium.

4). Remember, water damage from a burst, broken, or cracked pipe and many other types of water leaks are not covered in a vacant property policy. Please remember to shut off the water to the property when it is not in use.

5). Do not store anything of value in your vacant property. Remember, theft coverage for personal property is generally excluded in vacant property policies.

6). Look for vacant property policies that offer either replacement cost value or agreed loss settlement coverage, rather than actual cash value. If your vacant property were to have a significant loss and you have actual cash value coverage, the insurance company will add depreciation, so you may not get the full value to rebuild your property.