A Vacant Home Still Needs Insurance – Don’t Be Caught Without Coverage

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NEW YORK, November 19, 2009? A tough economic climate and slumping real estate market has resulted in more and more homes left vacant by their owners?and that could have serious insurance implications, according to the Insurance Information Institute (I.I.I.).

The U.S. Census Bureau reported late last month that 14.5 percent of all U.S. residences were vacant in the third quarter of 2009, reflecting a trend that is having a major impact on homeowners insurance

?In today?s real estate market, it is not uncommon for homeowners to buy a new home without selling their old one first,? said Loretta Worters, vice president of the I.I.I. ?With it taking much longer for a home to sell?particularly with tightening mortgage requirements for potential buyers?people are moving into their new home while their previous one remains vacant and that can cause significant problems for homeowners and insurers.

Insurers discontinue coverage on a home if it becomes unoccupied for over 30 days and no new residents have moved in. However, some insurers will grant a policyholder a vacancy permit, providing it is requested before the 30 days expire. This permit continues to provide coverage against some of the standard homeowners perils, such as fire and wind, but does not protect the house against perils such as theft, glass breakage or water damage. The coverage provided by a vacancy permit varies from company to company, so policyholders should check with their agent or company representative.

?Many insurers will not insure a vacant home because there is a greater possibility that something could happen to it,? Worters noted. ?That's because such occurrences such as theft, vandalism, fire, or water damage are far more likely to happen in vacant houses than in occupied ones and the resulting damage is likely to be worse because no one is around to report it or stop it.?

Some insurers do offer vacant home insurance, the I.I.I. noted. The premium depends on a lot of factors, such as whether a home has a central alarm system, deadbolt locks and/or smoke detectors. Insurers also may assess whether a policyholder has winterized their home to protect plumbing fixtures from freezing temperatures, and how long the house will be vacant.

?Arranging for someone to come by regularly to check on the place is may result in a lower premium,? said Worters. ?But generally speaking, you could pay 50 or 60 percent more for a policy on an unoccupied home as compared to a regular homeowners policy.?

Renting vs. Vacancy

With slumping housing prices, more homeowners are renting out their homes rather than taking a loss on a sale or having them sit vacant. Homeowners who rent their property can protect themselves from financial loss by purchasing a landlord policy. A landlord insurance policy covers:

- **The house.** Much like a homeowners policy, it usually provides coverage against hazards such as fire, lightning, falling objects, smoke, explosion, wind and hail, water damage, among others.
- **Other structures located on the property** (garages, sheds, etc.). This coverage is often limited to 10 percent of the overall coverage on the house. For example, for a home with a $200,000 policy limit, no more than $20,000 would be paid to a policyholder to cover losses incurred to structures on the property but apart from the house itself.
- **Property contents.** While landlord insurance policies do not insure a tenant?s belongings, they do typically cover any of the landlord?s personal property that might be used by a tenant, such as tools, landscaping equipment, appliances and furniture (either stored on site or provided by landlords for use by their tenants). The best way to be sure of having enough personal property coverage is to take an accurate inventory of the contents on the premises.
- **Lost rental income.** This coverage reimburses a landlord for any lost rental income due to building damage. Typically it provides up to 12 months of lost rental income.
- **Legal fees and liability protection.** Landlords may be liable if a tenant is injured on the property. Most landlord insurance policies cover the landlord?s legal fees should a tenant file a lawsuit. This type of policy would also pay out in the event of a judgment against a landlord, protecting his or her personal belongings and assets if the tenant prevails in court. The policy may also cover medical payments in the event that a tenant is injured.

Landlord policies generally cost about 25 percent more than a standard homeowners policy because landlords need more protection than a typical homeowner. There are many factors used to determine the price of a landlord policy, including:

- The square footage of the house and any additional structures, such as a detached garage.
- Building costs in the area.
- The features of the home, and construction materials used to build it.
- The crime rate in the neighborhood.
- The likelihood of damage from natural disasters, such as hurricanes and hail storms.
- The home?s proximity to a fire hydrant (or other source of water) and to a fire station; whether the community has a professional or volunteer fire service; and other factors that can affect the time it takes to put out a fire.
- The condition of the home?s plumbing, heating and electrical systems.

When planning to rent out a home, it is important to take some basic precautions:

- **Require tenants to show proof of renters insurance** for personal property, family liability, guest medical and additional living expenses. This not only provides them with protection, but will prevent tenants from trying to sue the landlord if there is a fire or other disaster.

- **Notify an insurance agent** or company representative that the home is being rented out, and discuss the implications. Be aware that many insurance companies do not provide coverage for vehicles that are left at a landlord?s home and remain accessible to tenants.

- **Consider purchasing a personal umbrella policy.** Umbrella insurance is designed to provide liability protection beyond the limits of homeowners, auto and watercraft personal insurance policies. With an umbrella policy, depending on the insurance company, the policyholder can add an additional $1 million to $5 million in liability protection. This protection is designed to ?kick-in? when the underlying liability on other current policies has been exhausted.

The I.I.I. is a nonprofit, communications organization supported by the insurance industry.

Back to top