

Vacancy Provision

Typically, under a commercial property policy, coverage is significantly restricted for buildings that are vacant beyond a certain period of time. Usually, certain types of coverage are completely eliminated during the vacancy. Continued, full coverage often requires additional premium and the attachment of an endorsement indicating the insurer's acceptance of the increased risk. Insurance companies are interested in protecting ongoing businesses and premiums are based upon active occupancy. Therefore, if a property is vacant there is a considerable increase in its coverage cost. Since vacancy is often only discovered after a claim, the typical commercial property policy's Loss Conditions severely limit coverage when a vacant building has suffered damage.

Definitions

Before any restrictions can be imposed, the insurance company must define exactly what they mean by vacancy and the definition is affected by the type of occupancy:

Tenant - When the insured is a tenant and the policy covers that insured's property interest, the definition of building is the unit or suite that has been rented or leased to the tenant. That building is considered vacant when it no longer contains enough business personal property to conduct the customary operations of the insured tenant.

Building Owner Or General Lessee - When the insured is a building owner or general lessee, building is defined as the entire building. The building is considered vacant UNLESS at least 31% of the TOTAL square footage is rented to a lessee or sub-lessee and used by the lessee or sub-lessee to conduct its customary operations OR is used by the building owner to conduct customary operations.

Buildings Under Construction - Buildings that are under construction or renovation are not considered to be vacant.

Vacancy Provisions

Now that vacancy has been defined, the vacancy condition can be stated. If the building where loss or damage occurs has been vacant (see definition above) for more than 60 consecutive days before the loss:

- the insurance company will pay NOTHING if the loss was caused by vandalism, sprinkler leakage, glass breakage, water damage, or theft (including damage from attempted theft).
- the insurance company will reduce any loss amount by 15% if the claim is due to any Covered Cause of Loss not listed above.

Vacancy Permit

When vacancy does occur, many companies, for an additional premium, will add a provision (sometimes called a Vacancy Permit). This form changes the policy wording so that it provides coverage for the property during specific time periods that it is vacant.

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