



Property and Casualty Insurance for Vacant Buildings

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INTRODUCTION

Insurance coverage for vacant buildings presents unique challenges that can often make the process daunting and costly. Most standard property insurance policies include a vacancy provision – typically triggered after around 60 days of dipping below a specified occupancy percentage – that can severely limit or even exclude coverage for certain types of risks. This restriction can result in reduced coverage, higher premiums, or 80/20 coinsurance (meaning that the insurance payout is going to be \$.80 on the dollar). Many property owners are unaware of how vacancy complicates insurance and how provisions can impact their coverage. Without proper planning and proactively managing risks, a vacant building may become an albatross around the neck of an otherwise healthy real estate portfolio.

This white paper explores the major risks associated with vacant properties, offers practical strategies to mitigate those risks, and highlights how owners can navigate the complexities of vacant building insurance to best protect their assets and budget.

MITIGATING FIVE MAJOR VACANCY RISKS

1. Risk One –

Water Damage: Water exposure poses a significant threat to a building's structural integrity. Immediate steps include:

- **Shutting Off Water Supplies:** Disconnect water sources for fixtures not in use, such as bathrooms, and clear the plumbing system of water to alleviate problems that arise from freezing and other sources of pipe and fixture damage. Be sure to leave the supply to automatic fire sprinklers active.
- **Maintaining Indoor Temperatures:** Keep the interior temperature above 40 degrees Fahrenheit to prevent pipes from freezing, particularly in hard-to-heat areas.

- **Regular Inspections:** Consistently check and clean gutters and inspect the roof for debris or storm damage. Look for leaks and water stains within the building that may indicate larger issues.

2. Risk Two

Fire: The potential for fire increases in vacant buildings. It is important to address the following:

- **Preventing Accidental Fires:** Secure the property to keep out unauthorized individuals who might inadvertently start fires.
- **Landscaping Maintenance:** Keep vegetation on the property well-trimmed and away from the structure and its roof and foundation. Be sure to remove combustible materials from the vicinity of the building, including debris in roofs and gutters.
- **Fire Safety Assurances:** Test fire alarms and sprinkler systems regularly to confirm they are operational and ensure that the water supply to these systems remains intact.

3. Risk Three

Preventing Injuries and Criminal Activity: Vacant properties can both attract criminal behavior and pose risks to individuals who might trespass. To enhance security and minimize liability:

- **Enhance Security Measures:**

- > Perimeter Fencing and secure locks
- > Install a live security system.
- > Ensure all entry points, including doors and windows, are intact and locked.
Test alarm systems and maintain them to avoid false alarms.
- > Consider adding motion-activated lights and security cameras around the perimeter of the property to deter unauthorized access.

- **Informing Local Authorities:** Notify local law enforcement that the property is vacant, which enables them to keep an eye on any suspicious activities in the area.

- **Maintaining Property Appearance:** Regular inspections and upkeep are essential to keeping the property tidy and accessible and help deter vandalism and make the property less inviting to criminals.

- **Securing Hazardous Areas:** Potential hazards on the site, such as standing water and debris, should be removed or addressed promptly. Install warning signage for hazards and consider extra fencing around higher-risk areas like pools or ponds to prevent access.

- **Regular Monitoring:** Designate personnel to check the property regularly, ensuring ongoing security and the prompt identification of any emerging risks.

4. Risk Four

Pest and Wildlife Control Measures: Remove any sources of food and water that could attract pests. Monitor the property for signs of vermin and call in a pest control service if necessary.

5. Risk Five

Environmental Risk Management: Inspect for moisture buildup that could lead to contamination issues. Ensure plumbing systems are not prone to standing water that can foster bacterial growth and maintain adequate water heater temperatures. Regular checks are crucial to mitigating these risks effectively.

Compliance Concerns: Ensure compliance with all laws, insurance policy requirements, and any contractual or lender requirements.

- **Compliance with Local Codes and Regulations:** Stay informed about local ordinances regarding property maintenance for vacant buildings. Failure to comply can lead to fines or legal action



OWNERS CAN EFFECTIVELY SAFEGUARD THEIR INVEST- MENTS BY UNDERSTANDING THE UNIQUE CHALLENGES THAT COME WITH INSURING UNOCCUPIED SPACES AND IMPLEMENTING PROACTIVE MEASURES TO MITIGATE RISKS.

that can have an adverse impact on property value or insurance claims.

- **Insurance Compliance:** Regularly review insurance requirements, as vacant properties generally require specific coverage or stipulations to avoid lapses in protection, including documenting of maintenance, regular site visits and inspections, ensuring fencing is secure, or that the temperature is maintained. Also note that some policies consider partially occupied buildings to be “vacant” if the occupancy dips below a certain percentage, and this can trigger coinsurance penalties or even a denial of coverage if there is a loss.

FINAL THOUGHTS

Securing appropriate insurance for vacant commercial properties is crucial for protecting property owners against various risks. Owners can effectively safeguard their investments by understanding the unique challenges that come with insuring unoccupied spaces and implementing proactive measures to mitigate risks such as water damage, fire hazards, criminal

activity, personal injuries, and environmental concerns. Regular maintenance and compliance with insurance requirements enhance safety and ensure that coverage remains valid. By taking these steps, property owners can navigate the complexities of vacant building insurance and protect their assets against unforeseen challenges. ■

For more information on cyber insurance and the essential role it plays in protecting your company’s data, reputation, and ongoing success, contact the authors:

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