CUSTOM HOUSE RISK ADVISORS

Managing the Transition:

Builder's Risk Expiration and Permission to Occupy

BY THOMAS HUNT ESQ. & GEOFFREY J. MILLER ESQ.

THE END OF A PROJECT IS ONE OF THE HIGHEST-RISK PHASES OF THE CONSTRUCTION LIFE CYCLE. As work nears completion, owners must decide when to transition their property insurance coverage from builder's risk insurance to their stabilized insurance. That decision may not always be as simple as an expiration date. Many builder's risk policies are structured to expire upon certain milestones, and those milestones can be negotiable. Understanding how expiration terms and permission-to-occupy provisions interact is essential to avoiding uninsured exposures during this transition period.

FINANCIAL INCENTIVES

Strategic Risk Management

From a risk management standpoint, it's often advisable to keep projects on builder's risk insurance for as long as possible. Buildings experience frequent losses soon after and around completion due to defects and water damage. Plumbing and exterior leaks are common in the first months after systems are charged and the building becomes operational. Where the insured has a master stabilized property insurance policy covering multiple properties, this approach helps isolate losses from the master policy, hedging against pricing risk for future renewals and avoiding situations where one construction loss affects pro formas across the portfolio.

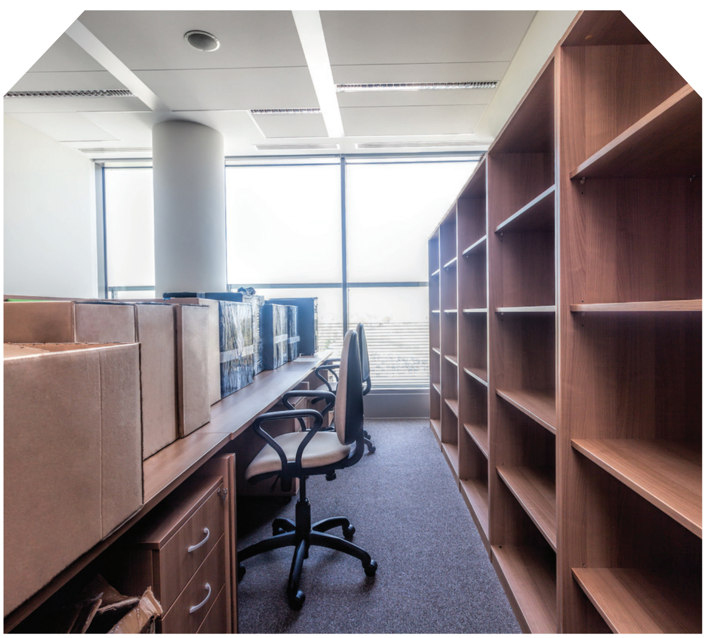
Immediate Cost

From an immediate cost perspective, builder's risk insurance typically costs more on a time basis than stabilized property insurance. Many builder's risk policies also offer return premiums when canceled early. Accordingly, owners may be tempted to transition coverage quickly to take advantage of these savings. However, the potential savings may not be worth the exposure. The cost of a single large claim during the transition period can exceed the amount saved.

COVERAGE TRIGGERS

A builder's risk policy can end at several different times depending on its specific terms. Common expiration triggers include:

- The scheduled expiration date
- Final acceptance by the owner
- When the interest of the insured ceases (for example, if ownership or control transfers)
- When the property is put to its intended use
- Upon issuance of a certificate of occupancy or temporary certificate of occupancy
- When occupancy begins and the permission-to-occupy period expires
- When the project ceases to be fenced, lit, or otherwise protected by required construction safeguards



Each of these potential triggers can create coverage pitfalls. For example, final acceptance by the owner can be delayed if punch-list work remains, which may extend builder's risk coverage. Conversely, punch-list work can sometimes be treated as routine maintenance, meaning it can qualify under a stabilized property policy. A temporary certificate of occupancy is often sufficient for transition to stabilized property insurance, even if a full certificate of occupancy is still pending.

If the general contractor is listed as the first named insured, coverage may terminate once the contractor's "interest ceases." Where a project owner is relying on a contractor's builder's risk program, the owner must monitor this timing to avoid any unintended termination once the contractor leaves the site.

"PERMISSION TO OCCUPY"

"Permission to Occupy" clauses provide the insurer's consent for a project to be partially or fully occupied by tenants, guests, or operators before builder's risk coverage ceases. Some policies grant unlimited permission to occupy through the end of the term, while others limit occupancy to a period of days or months. If occupancy continues beyond that permitted period, coverage can terminate automatically. Many policies provide no permission to occupy at all unless specifically requested, and requests to add it later can be denied or only provided at additional cost. For phased or multi-building projects, this provision is critical to maintaining coverage during partial openings.

Concrete or steel-frame projects often receive full permission to occupy, perhaps subject to reporting or inspection requirements. Full permission to occupy can be more difficult to obtain on wood-frame projects, which may only allow occupancy for a set number of days before the policy ends. For phased developments (multiple buildings finishing at different times or TCO by floor, for example), these clauses are critical. Carriers must know whether occupancy will occur in stages, and failure to request the proper terms in advance can leave parts of the project uninsured.

If a project becomes occupied without builder's risk insurance affording permission to occupy, property coverage may be void. The resulting uninsured loss could be catastrophic. If a $100 million building burned or flooded while occupied and still on a builder's risk policy that did not include permission to occupy, the whole loss could be excluded. Therefore, every developer should review their builder's risk insurance permission-to-occupy terms, both before the start of construction and before any issues arise prior to opening.

BEST PRACTICES FOR OWNERS AND DEVELOPERS

1. Review expiration triggers early.

Align policy terms with construction milestones, occupancy schedules, and phasing plans.

2. Negotiate permission to occupy at binding.

Do not wait until the project is nearly complete. Early negotiation is easier and cheaper.

3. Coordinate with lenders and property carriers.

Transition coverage only after confirming the property carrier's acceptance of the risk and understanding of any ongoing work or occupancy. Get that affirmation in writing, at least by email.

4. Maintain continuous coverage without gap.
There should never be a single day of uncovered exposure between builder's risk and stabilized property insurance. If there is a loss on that day, there is no recovery.

5. Avoid overlapping property coverage.
Unlike liability insurance, where construction and operational coverage cover different risks and may need to overlap during the permission-to-occupy period, property policies should transition cleanly. A full builder's risk policy and a full operational property policy should not both apply at the same time as coverage would be redundant.

CONCLUSION

Builder's risk expiration and permission-to-occupy terms are among the most critical elements of a construction project's insurance structure. These provisions may determine not only when a construction project's property coverage ends, but whether coverage exists at all once stabilized operations begin. By understanding and negotiating these terms early, real estate owners and developers can ensure continuous protection through the riskiest phase of the project's life cycle: its completion and opening.

Custom House advises clients to treat this transition as a managed risk event, not an administrative step, securing continuity, certainty, and long-term portfolio stability. We review policy forms early and negotiate the appropriate terms so the project is adequately covered. We help map out phasing and intended use against each carrier's triggers, working with partners and lenders along the way to secure insurance approval for closing. When the project is nearing completion, we help transition the insurance to cover the occupied property, verifying that all requisite conditions are met. If a loss occurs, our claims team is available to lead communication with adjusters and advocate for the insured.

Not every client needs each of these services, and that is the point of our model. Custom House tailors every engagement to fit the client's internal structure, capabilities, risk tolerances, and goals. Whether we are managing the entire process from groundbreaking to stabilization or providing focused support on one phase of the project, our objective is the same: to deliver maximum value and protection through a relationship that is practical, flexible, and built around each client's needs.