CLEAR
INSURANCE MANAGEMENT

The Cost of Empty Properties

The insurance industry has a long term dislike of empty properties, restricting cover, increasing premiums and demanding enhanced risk management. The current economic climate has meant that the proportion of vacant building stock has increased, break clauses are being enforced and leases are not being renewed; with very little chance of early re-occupation

Implications For Landlords

For the landlord this has far reaching implications. Not only may landlords have suffered a loss of income and become responsible for increased rates, they also have insurance policy conditions to comply with plus additional risk management requirements that increase the cost of maintaining the property. Insurers are likely to increase the premiums for empty premises, a premium which the landlord now pays if there is no tenant. Insurers will also reduce the cover they provide in respect of empty premises. Not a very attractive scenario, but one scenario that is being played out with increasing frequency as more tenants struggle to pay rents which may have been set years ago.

Typical of the insurance market there is no uniform approach by insurers when a property becomes vacant. In fact insurers differentiate between vacant un-occupied and void un-occupied, it may seem a matter of semantics but as far as insurers are concerned a vacant un-occupied property has a tenant but they are not in occupation, void unoccupied is where there is no occupant nor lease. Properties that are let under licence are by their nature usually occupied for a short period and also licences do not contain the same level of responsibility as a proper commercial lease, therefore if they become empty insurers treat them as un-occupied. Why the difference? If there is a current fully insuring and repairing lease a tenant still has certain responsibilities for the property, even when not in occupation. When insurers withdraw certain perils when a property becomes empty, these perils may become the responsibility of the tenant; a fact that most tenants are unaware of. To qualify this point the situation does depend upon the wording of the lease which may stipulate that the landlord must provide insurance only if available in the market, where there is no mention of this then there is room for argument.

What Landlords Must Do

When a landlord becomes aware that their property is empty they must notify their insurance intermediary immediately as nearly all Property Owners insurance policies contain a un-occupancy clause. Even if a policy does not explicitly contain this clause there is a still a basic tenet of insurance called "reasonable precautions" which places a duty of care on a policyholder when there is a material change to the risk e.g. the premises all become unoccupied. The un-occupancy clause (which applies to both vacant or void properties) varies between insurers but the salient points are:

- Number of days an insurance company define before a premises is considered empty
- Inspection regime on vacant properties internally and externally which must be recorded
- Waste and combustible materials removal
- Enhance premises security and seal letter boxes

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About CLEAR

CLEAR is a Chartered Broker and proud to be a Top 10 Independent Insurance Broker in the UK.

Our considerable experience in the property sector gives us the capacity to design bespoke and exclusive insurance solutions for the whole property market.

- Turn off and drain down services, especially sprinkler systems

Please check your own policy and ask your intermediary for exact conditions.

If these conditions are not complied with fully then cover will be prejudiced should an insured incident occur which can be directly attributed to a failure to implement these conditions.

Rates and conditions would normally be altered by insurers when a property becomes empty as this is a material alteration in the risk (unless a prior agreement has been reached regarding the maintenance of existing rates and conditions, which is very rare).

Factors that should be noted as part of any initial survey prior to an insurance application include: age of property, number of storeys, type of construction including floors, planning permission, length of time unoccupied, previous occupation, new/planned occupancy renovations, inspection schedule, waste clearance, confirmation of utilities being switched off and whether or not security systems are in place and activated.

If any of the above elements are missing, the risk would likely only receive cover for fire, lightning, explosion and aircraft. Should all of the above be provided, wider perils may be added to the schedule including riot, civil commotion, malicious damage, earthquake, storm, flood and impact. Only an all-risks policy can provide total peace of mind to all parties, but such a policy is only attainable if the underwriter is provided with a complete picture of the property.

So What Is The Cost?

Insurance rates on empty premises are higher than those for occupied premises. As mentioned earlier the landlord will have to pay these increased premiums which may be significantly increased.

So the cost of insuring the property will rise sharply as will responsibility and management time; add the cost of marketing and possibility of having to deal with dilapidation issues and on-going maintenance, a grave situation. This is why landlords are trying to keep premises occupied, high profile re-negotiations of covenants such as JJB sports illustrate it might well be worth accepting a lower rent from your tenant. The consequences of them moving out are significant, as highlighted earlier.

Notifying Creditors

But there is another party involved in this relationship and that is the lender. Credit may well have been granted based upon a level of yield and servicing these credit costs may well prevent landlords from re-negotiating rents. Financial institutions must be aware that a tenant in the hand is better than no tenant. The landlord's ability to service the loans may well be hampered by the additional insurance cost of the tenant moving out.

As there are greater demands upon the rental income a landlord may choose not to comply fully with insurance requirements to save costs; this will prejudice the insurance, which leaves the asset vulnerable. Could intermediaries help explain the situation to financial institutions to assist the landlord?

Of course some insurers see this as an opportunity to insure a sector of the property market not popular with mainstream insurers. The offer may be attractive but as always the devil is in the detail, these vacant property policies will always have very strict un-occupancy conditions which must be strictly adhered to. They will have onerous claims conditions. They will only offer limited perils. Cover will be made subject to survey and that survey may throw up requirements which again have to be implemented.

In conclusion if one of your properties is about to or has just become vacant tell your intermediary straight away. Check tenants are still in occupation, if they have left and the premises have been vacant for a certain time cover may well already be prejudiced. Insurers will expect co-operation in reducing the hazard of an empty risk, be willing to comply as far as practically possible, empty combustibles before being asked to do so for example. If you lose an insurer the alternative may be less attractive. Check your lease and make you tenant aware of his on-going obligations.

How Can We Help

At Clear Insurance Management Ltd we are specialists in the property market. If you'd like further information contact us today or visit www.thecleargroup.com/property.

Contact Us

For further property insurance advice and guidance please contact:

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