A Tale of Two Homes

Insuring Multiple Residences

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Homeowners insurance is a special insurance policy to protect the property and liability exposures arising out of an individual's primary residence, but some individuals have more than one residence, often called a "get-away" home. When there is more than one residence, the homeowner must be aware of the insurance ramifications of having alternative residences to avoid problems with both the primary and secondary residences. There are additional considerations for homeowners who choose to list properties as short or long-term rentals.

The basic way to insure a get-away home is with an ordinary homeowners insurance policy, but disclosing to the insurance company that this home is not the primary residence. This is because a vacant or unoccupied home presents a higher risk to the insurance company as no one is around to look after the home for what could be extended periods of time. Failure to disclose the dwelling as a secondary (and therefore less occupied home) may result in an unpleasant surprise if a loss occurs to the secondary residence. In some instances, failing to disclose this fact may result in the cancellation of policies for both homes.

Key Takeaways

- Insuring unoccupied homes presents unique risks.
- Make sure company knows policy is for a second home.
- Listing a home on any online rental marketplace presents further complications.

The secondary dwelling and its appurtenant structures are insured for property losses in the same manner as the primary dwelling. Since liability insurance for the homeowner is based primarily on the actions of the insureds rather than on a specific location and, therefore, is shared, the homeowner is paying for duplicate coverage without benefiting from it, resulting in wasted premiums. However, attempting to remove the duplicate coverage would result in a higher premium on the property portion of the policy and less favorable coverage.

Because the secondary residence is not occupied continuously, some coverage restrictions in the standard HO policy may be applicable. In addition, some insurance companies may endorse the policy with specific amendments to address occupancy and vacancy.

Is it Vacant or Just Unoccupied?

Homeowners insurance policies distinguish between an unoccupied house and a vacant house; the key difference being the homeowner's intention to return to the primary residence. For insurance purposes, an unoccupied house is one left in a state that suggests the owner will return "shortly." For example, unlike with a vacant house, the utilities in an unoccupied house are fully functional, and the personal effects remain.

The problem with the usual insurance meaning of "unoccupied" is that "shortly" is not defined in any insurance policy. A home left empty of people for the day while the family members are at work, in school, or running errands is not considered to be unoccupied, but a home left empty of people for a month while the family is vacationing might be seen differently in the eyes of a claims adjuster considering a loss. "Shortly" is a relative term, and its definition depends on the claims adjuster, not the policy wording.

Some insurance policies define unoccupancy and vacancy, but most do not. Of those that do, the restriction might be as severe as an exclusion for all property when the home is vacant or unoccupied. The definition might not recognize vacancy until no one has resided in the house for a specified period, perhaps 30 or 60 days, or, alternatively, until no one has resided there and no personal property has been present for the specified period. When the insurance policy does not define the terms, the insurance company is free to decide what the definition is, a decision that comes after a loss has occurred and a claim has been presented.

Before You List that Home on Any Online Marketplace

Because the secondary residence is not used much of the time, the owner may decide to list it on an online marketplace for short-term and long-term rentals. This adds an entirely new layer of complexity in the purchase of homeowners insurance policies. Here are some of the potential problem areas facing the homeowner/landlord.

"Business" is defined and excluded or limited unless "no 'insured' receives less than $2,000 in total compensation for the 12 months before the beginning of the policy period." So offering short-term or long-term rentals to the general public could easily be seen as operating a business, and if the rental income exceeds $2,000, the exclusion could be triggered, and an otherwise covered loss could be denied.

For landlord's furnishings, the policy pays "up to $2,500 for your appliances, carpeting, and other household furnishings, in each apartment on the 'residence premises' regularly rented or held for rental to others by an 'insured,'" but the peril of theft is excluded.

Personal liability has an exclusion for "business" with an exception for "the rental or holding for rental of an 'insured location,' on an occasional basis if used only as a residence." "Occasional basis" is not defined in the policy, but rather is determined after the loss by the claims adjuster.

Coverage for medical payments does not apply "to any person, other than a 'residence employee' of an 'insured,' regularly residing on any part of the 'insured location.'"

Under damage to property of others, the sublimit of $1,000 is not available for "property owned by or rented to a tenant of an 'insured' or rising out of a 'business' engaged in by an 'insured.'"

In short, the homeowner/landlord may be personally responsible for damage to the home and its contents, or for personal injury, medical payments, or property damage of the renters. The homeowners insurance policy may expose the homeowner to significant coverage gaps.

Because some insurance companies will not insure homes that are used as rentals, homeowners who rent their homes need to disclose their plans to offer the home for rent on an online market.

Some insurance companies will offer an endorsement that allows for "occasional" rentals and provide limited coverage. Again, "occasional" is not defined and is therefore subject to interpretation after a loss occurs.

Another option—and it's an extreme one—is purchasing business or commercial property and liability insurance on the house, which is more costly than a homeowners insurance policy with less coverage.

A homeowner offering their home for short-term or long-term rental does have the convenient option of purchasing coverage offered by the online platform, but that coverage typically is more limited in scope.

Homeowners wishing to rent their "unoccupied" home, whether the primary or secondary residence, should discuss this matter with their insurance agent or broker to determine which option is appropriate.

To add to the confusion, court decisions have not defined vacancy consistently, with the meaning ranging from "completely empty" of both people and personal property to "substantially empty of personal property necessary to sustain normal occupancy" to "unoccupied but not vacant." The commonly accepted meaning of a vacant home is one devoid of any personal property, such as a home without furnishings and that is for sale or rent.

While a true vacancy usually does not exist with the typical "get-away" secondary residence, unoccupancy is always present when the homeowner is away from the secondary residence, just as there may be unoccupancy when the homeowner is away from the primary residence.

What *Won't* a Policy Cover if House is Vacant or Unoccupied?

Some exclusions and restrictions are activated when a property is deemed to be unoccupied or vacant. For example:

Glass or Safety Glazing Material: "This coverage does not include loss on the 'residence premises' if the dwelling has been vacant for more than 60 consecutive days immediately before the loss…"

Dwelling and Other Structures: "We do not insure, however, for loss caused by freezing of a plumbing, heating, air conditioning, or automatic fire protective sprinkler system or of a household appliance . . . or by discharge, leakage, or overflow . . . caused by freezing. This provision does not apply if you have used reasonable care to maintain heat in the building or shut off the water supply and drain all systems and appliances of water." (Note that there is no mention of unoccupancy in this limitation of coverage.)

"We do not insure, however, for loss caused by vandalism and malicious mischief, and any ensuing loss . . . if the dwelling has been vacant for more than 60 consecutive days immediately before the loss."

Personal Property: "We insure for direct physical loss caused by theft. This peril does not include loss caused by theft . . . that occurs off the 'residence premises' of property while at any other residence owned by, rented to, or occupied by an 'insured,' except while an 'insured' is temporarily living there."

"We insure for direct physical loss caused by freezing. This peril [is insured] only if you have used reasonable care to maintain heat in the building or shut off the water supply and drain all systems and appliances of water." (Again, note there is no mention of unoccupancy.)

The difficulty with these exclusions or exceptions to property and perils covered is that the actions required to maintain coverage, such as turning off the water or maintaining heat, may also be used by the insurance company to determine unoccupancy or vacancy *after* the loss has occurred.

Tips for Ensuring Secondary Home is Covered

To minimize the chance of a loss not being covered because of an interpretation by a claims adjuster that the home is unoccupied or vacant, there are several steps a homeowner should take.

1. Read the entire homeowners policy to understand the definitions that are relevant to a secondary residence. Because insurance policies are difficult to read without training, the insured should speak to a professional insurance agent or broker from whom they purchased the policy to determine exactly what the policy says about unoccupancy and vacancy.

If there is a reasonable possibility—based on policy wording, the custom and practice of the specific insurance company providing the homeowners insurance policy, or relevant case law—that a secondary home would be considered vacant if left unoccupied for an extended time, the homeowner should consider finding a new insurance company with a less stringent interpretation of vacancy. Fortunately for the homeowner, this situation, while not unheard of, is uncommon.

2. Purchase insurance coverage for both primary and secondary homes from the same insurance company. The reason is two-fold. First, many insurers do not wish to insure secondary homes on a standalone basis. Second, since the homeowners insurance policy provides liability coverage to the insureds at or away from the premises, in the event of a liability loss such as an insured striking a person with an errant golf ball, two insurance companies would be involved in any claim. Even with the same insurance company on both homes, both policies would cover the loss, but the limit of liability is not increased; instead, it is shared by both policies. While the homeowners insurance policy contains a clause addressing "Other Insurance," this provision is nonetheless often contested by homeowners following a loss. In addition, using the same insurance company avoids gaps and overlaps in coverage that may result in time-consuming coverage disputes and expensive litigation.

3. Be certain the insurance company knows the policy is for a secondary residence. Some insurance companies have specific underwriting rules about secondary homes, and the best time to learn those is before the policy is written, because the homeowner will certainly learn them after a loss occurs.

4. Use common sense in handling utilities when the home, whether primary or secondary, is to be left unoccupied for an extended period because of the restrictions contained in the standard homeowners policy. That means taking reasonable care to maintain heat or to shut off the water supply and drain all systems and appliances. However, if the home has an automatic sprinkler system, take care to shut off the water supply and drain everything without disabling the protective device. Failure to maintain the automatic sprinkler may jeopardize fire coverage. Money saved by zealously turning off all utilities is small compared with the cost of an uninsured or partially insured loss.

5. Install a video surveillance system or cameras to protect against theft and vandalism. While such devices do not prevent losses, their presence may be a deterrent to the "professional" burglar and may aid in identifying the perpetrators and recovering stolen property. A step such as this may be important because of the policy conditions found in the definition of the theft peril regarding vacancy.

Secondary homes can be rewarding and enjoyable, but insuring one requires care and judgment both with the purchase of insurance coverage and with the normal steps of maintaining and caring for the property.

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