

Vacant Buildings Create Underwriting Concerns

Vacant buildings pose special underwriting challenges for insurers. The leading cause of loss to vacant buildings is fire, and many of these fires are deemed to be suspicious in origin. Other significant causes of loss to vacant buildings are theft and vandalism, water damage and collapse. When is a building vacant? When is a building unoccupied? What are the increased risks and insurance implications of such buildings?

The courts have defined “vacant” in insurance policies as meaning empty of inanimate objects while “unoccupied” has been defined as being devoid of human habitation. In either case, the result represents an increase in hazard. The real estate buying/selling process often results in buildings becoming vacant for a prolonged period of time. Many condominium owners are only seasonal occupants. The current economy has led to an increase in mortgage defaults and business closures. More and more properties are vacant.

Fire departments have different definitions of vacant buildings. For example, New York City’s FDNY says a vacant building is “a structure which is considered to be completely unoccupied and all efforts to maintain the building in a livable condition have been abandoned by the owner.” Fires in vacant buildings that have been neglected and left to deteriorate are particularly dangerous to firefighters, who often do not know what

they might find inside. Even if the fire department has inspected the building, there is no way of knowing what changes, such as vandalism, may have occurred since the inspection. The structural integrity may have been compromised. Staircases and flooring may be missing, making fire-fighting more dangerous and difficult. Vacant buildings are attractive to squatters. Just because a building is officially vacant does not mean it is unoccupied.

U.S. fire departments respond to an average of 28,000 vacant residential fires per year. These fires result in an average of 45 deaths, 150 injuries and \$900 million in direct property damage per year. From 2006 to 2008, the main cause of these fires (37 percent) was “intentional.” After the last housing slump, the number of home arsons spiked upward. However, arson by the property owner is not always the cause of the blaze. Fires can be caused intentionally by vandals, or accidentally by squatters knocking over candles or children playing in the building. United


States Fire Administration (USFA) data also shows that the highest incidence of vacant residential fires occur on January 1, July 4 and 5, and October 31. July has the highest frequency of vacant residential fires.



Because fires in vacant buildings may not be discovered promptly, they can quickly spread throughout the building and to neighboring buildings.

Nearly all vacant residential building fires are nonconfined. Confined fires are limited to a certain object or type of equipment. A nonconfined fire is not limited, and usually results in greater damage, which is sometimes significant. USFA studies show that half of all vacant residential building fires involve the entire building, with an additional 11 percent spreading to other buildings.

While fire is the main cause of loss in vacant/idle buildings, it is not the only major cause. Theft and vandalism losses are significant, and are much more likely when no one is around to protect the property. For example, a Liberty Mutual study showed that in 2006 alone



their clients lost more than \$1.5 million in copper materials. Theft of copper, electrical and plumbing supplies represented 70 percent of the company's reported theft and vandalism losses in vacant and idle buildings over a seven year period.

Water damage is another major concern with vacant buildings. Water damage can be due to the freezing and bursting of pipes, or water heaters that fail. In a building that is vacant or unoccupied, these events can go undetected for long periods of time, turning what could have been a minor loss into a large one. Shutting off water, or properly maintaining water flow alarms, can greatly reduce the severity of such losses.

Roof collapses due to the weight of ice and snow are also more prevalent in vacant or unoccupied buildings. One factor affecting this is that vacant buildings may be older and in ill repair. This is another area where frequent inspection and snow removal is essential to preventing losses.

Loss control is always important, but the importance is magnified when it comes to vacant or unoccupied buildings. Such buildings should be secured to prevent unauthorized access. Half of the reported vacant building fires occurred in properties that were unsecured. Combustible materials and all unnecessary items that could increase the fire load should be removed. Burglary and fire protection systems should be maintained. If power and/or water are turned off, then protective safeguards such as burglar and fire alarms and automatic sprinklers will no longer be operational. All of these factors are key to successful underwriting of vacant and unoccupied buildings.

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Vacant Building Underwriting Checklist

1. Are protective systems—fire and burglar alarms, water flow alarms, sprinkler systems and monitoring systems—operational and maintained?
2. Is the building heated adequately?
3. Has unessential power and water been shut off?
4. Is the building inspected regularly?
5. Have combustible materials been removed from the premises, or are being kept at least 50 feet away from the building?
6. Is the building secured?
7. Are fire doors closed?

