

# Secondary Residences Surge

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The pandemic of 2020 was marked with significant changes to how people thought about vacations and travel. With travel restrictions, fears about flying, and new ways of thinking about working or going to school, the idea of a second home that is within reasonable driving distance suddenly became very attractive. Another factor is the desire of city apartment dwellers looking for more space and a little less togetherness.

In June 2020, for example, demand for properties in the Adirondacks region of New York State started outpacing supply as people looked for alternatives. Other areas of the country, such as Rehoboth Beach in Delaware have seen similar surges in demand. According to the National Association of Realtors, vacation home sales from July to September 2020 increased 45 percent over the prior year. Existing home sales also increased 13 percent during the same period. On a state level, pending sales in New York were up 42.6 percent.

Under IRS regulations, a second home is one that the owner lives in at least part of the year. Classic examples are “snowbirds” who have a winter residence in Florida, or a city resident who has a cabin or house in the mountains or at the shore. Some are used solely by the owners, while others are rented out.

Historically, secondary residences have been more difficult and expensive to insure, since they are often vacant during extended periods of time and may be in locations that are susceptible to more severe weather events.

In the past, secondary residences were often used for weekend getaways and periodic vacations. With more and more people working and learning remotely, no longer is a second home a place to get away from it all. The secondary residence may now be where owners spend the majority of their time, with the primary home relegated to the

times when they need to go into the office. In fact, real estate appraiser Jonathan Miller of Miller Samuel Inc. uses the term “co-primary” to describe this situation.

High speed internet is the key. As long as there is internet/Wi-Fi access, people can work or go to school from the beach or mountains as easily as they can at the primary home. For those who already own more than one home, this could mean renovations to upgrade systems and reconfigure work and learning space. These changes may mean that the coverage limits need to be upgraded as well. Companies who write personal lines coverage need to reconsider their underwriting procedures to ensure that all changes in exposure are addressed.

While the idea of a cabin in the woods may seem romantic, there are risks to consider when providing coverage for secondary homes. Beach and lake front properties may be subject to flooding, hurricanes or other extreme weather events. Mountain cabins are often inaccessible at some points during the year. Such homes may be subject to more restrictive policy conditions, such as hurricane or wind deductible, or requirements for flood insurance. The influx of full-time residents to “vacation” towns puts a strain on the local services, including fire, police and grocery stores.

## Secondary Residence Risks

- Beach and lake properties are subject to flood, hurricanes or extreme weather
- Mountain cabins can be inaccessible during some parts of the year
- Influx of residents can put strain on local services in vacation towns



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Insurance for a secondary home is similar to that required for a primary residence. In some cases, the primary homeowners policy can be extended to include the secondary home, but coverage is not automatic, and limits may not be adequate. This is especially true when the secondary home is used as an income property. Coverage for loss of income is an important consideration, as the income from the second home may allow the owner to use the property at virtually no cost during the slow seasons. While excess or umbrella liability is recommended for everyone, it is particularly important for those with secondary residences whether or not they are rented out.

Standard homeowners insurance companies have strict eligibility requirements. For example, residences that are rented out at any time are often considered business properties and may not qualify for a homeowners policy. A home that is not occupied all the time poses additional hazards from a property and liability standpoint. Underwriting considerations include turning off water in areas that are prone to freezing, installing security cameras and systems, and sensors that remotely monitor interior temperatures. These considerations are applicable to both the primary home that may now be unoccupied for extended periods as well as the secondary residence.

Working from a home (or a secondary home) presents additional exposures to be considered. Business equipment such as computers, phones and printers that are provided to employees is usually not covered under a standard homeowners policy. The exposure increases when such property is transported back and forth between the two residences. Inland marine policies may be helpful in such situations as they offer more coverage flexibility than the traditional homeowners policy on its own. Although personal property under a homeowners policy is covered virtually everywhere in the world, personal property that is at the secondary residence is usually subject to lower coverage limits than property at the primary home.

Today's technology makes it easier to monitor conditions remotely. Security cameras and thermostats can be monitored on a computer or smart phone. A change in temperature may mean a window or door is open or broken, or the heating system is malfunctioning. Water flow sensors alert the owner to possible pipe bursts, or a faucet that has been left on. Many carriers are requiring installation of water sensors that shut the system off especially where homes are rented, and renters may be unfamiliar with shutoffs or just careless and leave water running. These systems have wireless options and alerts notifying central facilities in addition to shutting the main water supply off.

Security cameras and alarm systems not only warn the owner when someone tries to enter the home, but they can also act as a deterrent to criminal activity. These camera and alarm systems have video footage, send text alerts to the owner and the central monitoring station, and can be tied into local police departments. Some carriers are requiring security systems as a condition for insurance on some secondary residences. They are also a good idea for primary residences that are now unoccupied for weeks and possibly months at a time.

Having a second house can also mean double the expenses as well as the work to keep everything running smoothly. For some, this may result in a lapse in maintenance and upkeep, which is a reason some owners choose to rent their property out for at least part of the year. Owners may be able to completely pay for the mortgage, taxes, and other expenses of the second home by renting it out during popular times of the year. When the secondary home is a source of revenue, coverage for potential loss of income will be needed. However, rental properties are also subject to an increased potential for damage or theft by tenants. Annual inspections and renewal questionnaires can help shed light on potential risks to be avoided or reduced.

The concept of a secondary residence is not a novel idea, however the recent surge in purchases may lend to not only new trends in real estate but in the insurance industry as well. With an increase in secondary residences, it may make sense for companies to revisit their underwriting considerations. The use of homes currently in a company's book of business may have changed and as a potential business opportunity, there is likely a greater need for insurance coverage on secondary residences. Keeping in mind the changing needs of homeowners as we traverse these unknown times will play a crucial role in helping to keep them and their homes safe.

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### **Underwriting Consideration for Secondary Residences**

- Turning off water in areas prone to freezing
- Installing security cameras and systems
- Mounting sensors that remotely monitor interior temperatures



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