

Insurance Guide for Short-Term Rentals

Darren Pettyjohn, Co-Founder, Proper Insurance

Owning and/or running a short-term rental (STR) can be overwhelming. There is marketing, pricing, payments, cleaning, scheduling, reviews, service, and so much more. If you make it past year two, be thankful, as you have now earned the equivalent of an Ivy League MBA. This is business!

An often overlooked item is insurance. One of the reasons being the average property owner or renter only files an insurance claim every seven years. Plus, the premiums are typically paid annually, so the saying, “out of sight, out of mind” certainly holds true.

The problem? Insurance is a contract, and if you are in violation of that contract, there is simply no coverage. Or, the coverage you have is limited and potential risks from short-term renting are not included or excluded.

This article is going to dig deeper into insurance than any normal human should ever go. But insurance is complicated and to understand it, you need details and examples that resonate. Some might not have the patience or endurance to get through it. If this is you, then DO ME ONE FAVOR, and simply take away Pro Tip #1.

Pro Tip #1: Pull out your insurance policy, send your agent an email, ask two questions verbatim, and request that he or she respond to you in writing with an answer from their underwriter.

1) *If I regularly entrust my property/home to a paying, short-term rental guest for a period of less than 30 days, and that guest damages or steals my property, do I have property coverage?*

2) *If I regularly entrust my property/home to a paying, short-term rental guest for a period of less than 30 days, and that guest is injured on my property, do I have liability coverage?*

That’s it. These two questions are like mythic creatures that neither exist nor can be explained. Why is that as they seem like such straightforward questions? Read them again.

The reason are the words *regularly, entrust, short-term, guest, 30 days, damage, and injury*. Most insurance agents are not like me, they don’t write insurance contracts, and to be brutally honest they don’t actually know what’s in your contract. They are salespersons, they don’t pay claims, and they don’t have underwriting authority. Therefore, you need the answer from their higher up, which is their underwriter.

After you send the email, here are some typical responses you might see from your agent:

“Yes, if you are occasionally renting, or don’t do it that often”

“Yes, as long as you don’t tell anyone”

“I wouldn’t worry about it”

Unless you get a clear answer in writing from an underwriter assume you have no coverage. Again, insurance agents do not pay claims, insurers do, and they are represented by their underwriters. All agents have access to their carrier’s underwriters and there is NO REASON they can’t get an answer from you.

Fortunately, many will also get emails back that state, “No” and not only will you find out you are not covered, but you will likely be canceled, or your policy will be non-renewed as the result of the short-term rental activity, aka “business activity”.

OK, now what, your insurance is being cancelled, and you are thinking you should have never sent that email in the first place?

Because you had no coverage, and the choice is either STOP short-term renting, or find insurance that does cover you.

What if you had not sent that email, and a guest accidentally tossed a cigarette into your neighbor’s bush and burned their house down? Or a guest threw a party, trashed your house, and caused \$100,000 in damage? Or worse, a guest was seriously injured as the result of a slippery shower and sued you for their injury? *There is a reason you see “slippery when wet signs” at every business in the U.S., because 5% of them were sued at some point from someone who slipped!*

Insurance is serious stuff and if anything ever happens to your short-term rental, you will be thankful you bought insurance that covers you.

If you are an Airbnb host, this is the point in most education pieces on insurance where the Airbnb Host Guarantee (\$1,000,000 in property coverage), and the Airbnb Host Protection (\$1,000,000 in liability coverage) comes up.

Doesn’t Airbnb provide free property and liability insurance for every booking, every day, for every host, all over the world?

All I ask is that you Google “Airbnb Insurance Claims” and get into some of the forums and read real reviews from real hosts on sites like www.airhostsforum.com, or www.airbnbhell.com. If after reading, you feel that if someone sues you for \$1,000,000 that you are simply going to send Airbnb customer service an email, and they are going to send you their lawyers and settle the claim, then there is no reason to keep reading.

If you want a well-documented denial, with real emails from Airbnb, read [Amanda Wong’s story](#).

Even deeper, read this lawsuit in CA currently still in court as of Jan 2018, [Emily Richer Vs Traveler’s](#). And here are the actual [court documents](#).

We all appreciate Airbnb and what they have done for the short-term rental industry, but let’s accept the fact they are a technology company interested in bookings, not insurance claims.

Pro Tip #2: You need insurance with your name on it. When you are the named insured, you have full policy rights, and the carrier has a duty to defend you.

The question now is what type of insurance do you buy for your short-term rental? There is a simple answer, and that is a policy where an underwriter can respond to your two questions from Pro Tip #1.

Now is when we get into details and take your education of insurance to another level.

Definitions:

Property owner: This would be a person or business that owns a property and rents it as an STR.

Re-renter: This would be a person or business that does not own the property, but leases a property from an owner, and then “re-rents” it as an STR.

Non-owner occupied: This would be a property in which neither the owner nor re-renter lives at the property. This would be a second home, investment property, vacation rental, or leased property that is advertised and rented as an STR.

Owner-occupied: This would be a property in which the owner or re-renter resides and considers it their residence. This could be someone that lives in their main home and rents a guest house as and STR or lives on one side of a duplex and rents the other as and STR, or has a separate apartment in the basement, or simply rents a room within the home as and STR.

Property Manager: Someone who manages multiple STR properties on the behalf of the owners of those properties. This would not be a re-renter who manages multiple listings.

Common Problems

- Many carriers hear the word short-term re-rental, STR, or even Airbnb and they cancel coverage
- Some carriers endorse for “home-sharing” owner occupied, but coverage is minimal
- Some carriers endorse second home policies to allow for only a certain number of weeks
- Re-renters are purchasing renter’s insurance without letting the carrier know it’s for an STR re-rent
- Re-renters are purchasing limited supplemental coverage
- Re-renters are being asked by the property owner for proof of insurance
- And so much more

(1) Property owners/non-owner occupied

This would be the most common property, a property in which the owner does not live at the property and it’s either self-managed or professionally managed on an STR service website. Most would consider this a vacation rental. These properties, whether it is a single-family home, condo, duplex, townhome or cabin, already carry insurance. This is because the owner is required to carry insurance by the mortgage holder/lender, or because the investment needs to be protected.

For homes, the most common insurance is homeowner’s (HO) or landlord insurance (DP) and for condo’s it’s similar, just called HO-6 condo insurance. Let’s first look at what needs to be insured:

Building(s): This is the actual structure(s) on the property. The home, detached garage, guest house, etc. You need coverage from fire, theft, lightning, vandalism, smoke, water damage leakage, etc. *Note: no building coverage is required for condos as the owner is responsible for walls in only.*

Contents: This is all the contents or stuff in the structure(s). Things like furniture, electronics, dishes, linens, artwork, rugs, décor, etc. You need coverage from fire, theft, lightning, vandalism, smoke, water damage leakage, etc.

Income: This is the gross income the vacation rental generates. In the event of a covered loss, i.e. fire, the property would be uninhabitable or un-rentable. You need to insure the income and receive reimbursement for lost income.

Liability: This is protection for “bodily injury or property damage” the owner could be found liable for. If a guest is injured, or if a guest injures someone else or damages someone else’s property; the liability could ultimately fall back on the owner.

Now let’s look at what types of insurance is available:

Homeowners Insurance (HO): Homeowners insurance is designed for primary, owner occupied properties. It carries building, contents, loss of use, and personal liability coverage for the insured.

- Loss of use is for relocation costs the insured would incur in the event of a loss, i.e. a fire. This is a coverage you need for your primary home as you would need to rent a condo or house while your property was being rebuilt.
- Personal liability covers claims or lawsuits against you arising out of bodily injury or property damage to others caused by an accident on your property, or by accidents away from your property, caused by you or family members who live with you. This something you need on your primary home.
- Personal liability carries a “business activity exclusion”. If the carrier deems vacation rental activity, business activity, then any claim, both property and liability could rightfully be denied.
- Most agents and carriers will not sell a homeowner’s policy to cover STR property. It’s written to be owner occupied and carries personal liability.
- Many carriers will drop the homeowner’s insurance in the event they find out the property is being rented as an STR.

Landlord Insurance (DP): Landlord insurance is designed for landlords, tenant-occupied properties. It carries building, contents, loss of rents, and premise liability for the insured.

- Loss of rents pays “fair market value” for 12 months if there is a covered loss, i.e. fire and the property is un-rentable. Fair market is the average long-term rental value/price of surrounding properties in the area. An average, or fair market. In the event of a total loss, i.e. fire, it can 18-

24 months until the property is fully rebuilt and back up and renting. A 12-month loss of rents would be considered a limitation.

- Premise liability applies to bodily injury and property damage only if the bodily injury or property damage occurs on your premise. There is no coverage beyond the premise line for amenities like bicycles or canoes or an assault off premise.
- Premise liability excludes sexual acts and sexual molestation by any tenant or resident of the dwelling.
- Premise liability carries a “business activity exclusion”. If the carrier deems vacation rental activity, business activity, then any claim, both property and liability could rightfully be denied.
- Premise liability carries an alcoholic beverage exclusion, arising of the selling, serving, or giving.
- Many agents brand a landlord policy as an “STR policy” but it’s not. It's designed for a long-term rental property being occupied by tenants, not guests.

Commercial Insurance (CP/CL): Commercial insurance is designed for a business, a property that is open for business. It carries building, contents, loss of income, and commercial general liability.

- Loss of income pays the “actual business loss” and has no time limit. The amount is only subject to the limit chosen on the policy.
- Commercial general liability is a standard insurance policy issued to business organizations to protect them against liability claims for bodily injury and property damage arising out of premises, operations, products, and completed operations; and advertising and personal injury liability.
- Commercial general liability is the highest level of insurance a business can purchase and extends beyond the premise. It also covers things like assault and invasion of privacy.
- Commercial liability excludes alcohol and watercraft liability.
- Commercial property coverage is excluded when the property/building is entrusted to someone else. There would be no coverage when the property is rented/entrusted to others.
- Commercial property has a vacancy clause and does not cover personal property of a residence. There would be no coverage if the property was vacant, or for the contents of the vacation rental.
- Commercial insurance is not suited well for an STR unless it is carefully endorsed to address the above exclusions. Many agents are starting to sell commercial insurance for STRs, but the language of the policy is not correctly modified and endorsed.

Summary of Coverages: Each type of insurance has gaps regarding an STR vacation rental property. Many carriers have tried to endorse the homeowners and landlord forms, but they are fundamentally

wrong from the beginning as they are not designed for a business and do not carry the correct liability. As the industry matures things are leading to commercial requirements, but insurance forms are slow to adapt.

Which choice is best? Ultimately, a property owner needs to make the decision, contact an insurance agent and ask the tough questions. Questions like, if an STR guest was to assault my neighbor and my neighbor sued me, would this insurance respond and cover me? Or, if an STR guest stole all my contents, would this policy respond and cover me with no limit?

Or, to keep it simple, refer to **Pro Tip #1**, and get those two questions answered.

Proper Insurance® decided it was best to start with a commercial insurance policy as it has the horsepower needed to cover all three and carries commercial general liability. It just needed some fine tuning to the property coverage forms and the commercial liability forms.

Fine tuning means making endorsements to things such as no limit on theft, the removal of the liquor exclusion, a \$1,000,000 in personal liability added when the home is also a primary residence. Below are the policy highlights:

- Commercial Package Policy: coverage for **building, contents, liability, and income**.
- **Building & Contents:** special cause of loss (all risk) with replacement cost valuation (new for old).
- **Liability:** \$1,000,000/\$2,000,000 in commercial general liability (extends beyond premise).
- **Income:** actual loss-sustained business income coverage with no time limit.
- Additional \$1,000,000 in personal liability when rental “doubles” as primary residence.
- Liability coverage enhancement for animals/pets & liquor.
- Liability coverage extended over amenities: pools, bicycles, small watercraft, golf carts, rec area, + more.
- Property coverage enhancement for theft and damage caused by a renter.
- Vacancy clause removed with no standard occupancy restrictions.
- Underwritten by Lloyd’s of London, AM Best’s Rated A.

Proper Insurance® is not the only company that sells commercial insurance for short-term vacation rental properties. Do your due diligence, compare coverages, and ultimately purchase a commercial policy from someone you trust, and someone who can deliver on Pro Tip #1.

(2) Re-renters/non-owner occupied properties

Most re-rent situations are properties that are leased long-term and then re-rented on an online STR service. The re-renter really has three areas of exposure: contents, income, and liability. The most important of these three is liability, and commercial general liability is needed.

Airbnb offers the Host Protection which is the \$1,000,000 in free commercial liability for every booking. Most hosts do not feel comfortable with relying fully on this as we discussed earlier.

There are supplemental insurance carriers now offering liability only, but most are expensive, pay-as-you-go nightly rates (\$8-10) or monthly rates (\$75-\$125) that can add up quickly. Also, some publish on their sites that properties must be “Americans with disability act” compliant and excludes things like

assault. Most hosts should assume if they do not have an insurance policy with their name on it, then it's likely very weak coverage.

The only foolproof way to feel good about having good coverage is to have a commercial liability insurance policy with your name on it. And hopefully one that also covers contents and business income.

Proper Insurance® offers coverage to re-renters like home owners except removes the building coverage. Essentially it covers contents, business income, and commercial general liability. It's an annual individual policy. However, the contents coverage can be applied to building damage from the renters if the insured chooses to use it. We brand it as "commercial renters insurance".

I'm not aware of another national broker selling annual "commercial renters insurance" to STR hosts. It's very technical in how the policy is structured to provide coverage for a "re-renter", or someone who does not actually own the property.

(3) Property owner/owner occupied

These properties should be insured the same as non-owner occupied as the same STR business activity exposure exists. This also applies to re-renters that are owner occupied.

There are a few carriers that have started to endorse standard homeowner's policies, with riders branded for "home-sharing", but they appear to be very limited, with typically only \$10,000 in coverage for "home-sharing". This goes back to the saying, "patching a leaky raft". The only foolproof way to insure STR exposure is with a commercial property and commercial liability policy.

Proper Insurance® does insure property owner/owner occupied properties, however does not insure "room sharing" scenarios where there is no separation from owner and guest, i.e. the owner and renter share the bathroom, living room, and kitchen. As of summer 2018, we will start accepting "room sharing" and issuing full policies.

(4) Property Managers

Property managers have the option to purchase a commercial liability policy for their business; however most carriers do not extend the liability to the properties they manage. So how do managers get coverage? Through the owner's insurance, traditionally in the form of being added as additionally insured.

Property managers should simply require their owners carry commercial general liability, and request to be added as additionally insured. This can be easily verified through a certificate of insurance.

Many managers do not like to require this as it's a barrier to entry and many owners have difficulty finding coverage. This is true, but it's becoming more common as it's the only realistic way for property managers to have coverage. Property managers do get pulled into liability claims as they are the responsible party of managing the home.

In closing I hope you have enjoyed this read with the biggest takeaway being **Pro Tip #1**. Pull out your insurance policy, ask the tough questions, find an agent you trust, and feel good about paying a premium for an insurance contract that covers you!