

Commercial property confidential: Vacant property risks

Do your property investor clients know that when commercial premises become vacant for an extended period their insurance could be voided? Or that a change in the tenant's occupation can impact their premiums? Here is some essential reading for your commercial property owner clients.

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Re-tenanting a commercial property that becomes vacant can take some time. A stroll down Oxford Street in Paddington – once Sydney's most coveted fashion hub – and the ubiquitous 'For Lease' signs echo the retail strip's recent change in commercial fortunes.

While the loss of rent can be a significant financial setback, property owners need to take additional precautions when their commercial premises become vacant to avoid more potential losses.

Vandals and squatters often target vacant shops, warehouses and factories because they see them as easy pickings. Here are some steps you can take to help minimise these risks:

1. Turn off gas and water services to the building when your tenant moves out. Not only will this make the property less habitable for potential squatters, trespassers won't have an opportunity to flood or blow up the building by leaving water or gas taps running.
2. Secure any openings to the building. Pull down security shutters, board-up rear windows and ensure gates and doors are securely locked.

3. Conduct regular inspections of the building to minimise any potential damage in the event squatters take up residence. If possible, install a back-to-base alarm and engage a security company to monitor the property.
4. Notify your broker/insurer that your premises have been vacated. Most insurance policies contain a clause that automatically voids the cover if the premises become vacant for an extended period, usually more than 90 days. Under the Insurance Contracts Act 1984, this is regarded to be a material change to the policy. So if you don't notify your insurer and a fire occurs at your premises 100 days after the tenant moves out the claim may not be paid.

The increased risks associated with a vacant property are likely to mean a temporary increase in your insurance premiums and/or an increased excess (the amount you pay in the event of a claim). You might also be required to move your cover to an insurer that specialises in vacant commercial property if your current company doesn't have an appetite for this type of risk.

Property owners also need to let their broker/insurer know about any change in occupation of new tenants, which can lead to increases/decreases in premium and changes to terms/conditions.

For example, if you replace your metal signwriting tenant with a woodworking business, your premiums and excesses are likely to go up because of the increased potential for a total fire loss.

Likewise, you might find it difficult to find someone to insure your property if you lease it out to a tattoo parlour because of the moral risk/association with bkie gangs and past fire bombings.

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