

# TIME TO GET 'PREOCCUPIED' WITH UNOCCUPIED PROPERTIES!

## ADVICE FROM THE LEADING PROPERTY INSURER - RSA INSURANCE.

As the largest property insurer in the market, RSA Insurance is well positioned to offer guidance on the risks of unoccupied properties in the residential and commercial sectors. With extensive knowledge and experience in the property market our objective is to ensure customers in this sector are adequately covered at all times, are informed about the implications of material change in the insurance risk which may impact on their policy and are guided on the necessary steps required to limit threat of potential loss.

For the purposes of this document 'unoccupancy' means "a residential property not lived in by the Insured or any member of their household or by any other person with the Insured's permission" or "a commercial property where less than 40% of the lettable space is in use".

Research conducted by RSA in January 2009 has provided further insight into the growing scale of unoccupancy among residential and commercial properties. Some of the key survey findings include:-

- In 2002, unoccupied residential properties were at 140,000 throughout Ireland. By December 2008 this figure had risen to 350,000 properties (+150%)\*.
- Private dwelling properties make-up the largest proportion of unoccupancies (66%), followed by Holiday Homes at (19%) and Apartments (16%).
- Of those counties with an unoccupancy rate greater than the national average (15%), a large proportion (66%) are made up of rural counties and predominantly those in the west of Ireland (a percentage influenced by the scale of investment and holiday homes in these areas).
- The downturn in the economy has put previously thriving businesses under threat of closure. Liquidations increased from 273 in 2007 to 575 in 2008 and indications are that this upward trend will increase and gather pace during 2009.
- The unemployment rate has increased from 4.97% in June 2008 to 9.27% in January 2009 with some forecasting that this could rise as high as 12% by year end.
- All of the 'expert' forecasts suggest that GDP will shrink significantly during 2009. What this points to is an increase in business failures across all sectors with a significant increase in the number of commercial and industrial premises becoming unoccupied.
- It is no surprise that, with the greater concentration of such properties, the estimated office unoccupancy rate in Dublin comes out on top at 15.8%\*\*.

\* Source: CSO and Finfacts

\*\* Source: CBRE 2009 Outlook Report



## VACANT HOUSEHOLD PROPERTIES 2002 - 2008



The above snapshot provides food for thought for brokers. In essence, with the economic landscape set to continue its downward spiral, the trend of increasing numbers of unoccupied properties will continue. Reason therefore for insurers, brokers and policyholders to be very aware of the potential impacts that attach to this escalating phenomenon.

While the reasons for unoccupied properties may appear obvious, it is worth reminding ourselves of some of the primary explanations why premises lie vacant.

- The building may have been just purchased by a new landlord who has not yet found a tenant for the house and the premises remains unoccupied - in this case the property 'may' become occupied after a few weeks - or remain unoccupied for a much longer period.
- A property may need renovation before becoming suitable for a tenant - in this case the insurers of the unoccupied property will need details of the type of renovation, the estimated duration of the works and site security before appropriate cover can be determined.
- The property may have been purchased as a holiday home but, in uncertain economic times, may not be utilised by the owners / or for short term holiday rental for considerable periods.
- The previous owner may have died and the property is now undergoing probate or up for sale so that the proceeds are added to the estate.
- The tenant, to whom the property was rented to has gone out of business.
- The tenant is still bound by the lease but has vacated the property and it has not been possible to locate a replacement tenant.
- The property may have been bought with a view to its site value, where existing building(s) will be demolished and new structure built.
- The property may have been bought with a view to its redevelopment and / or refurbishment which in turn may or may not require planning permission.

## IMPLICATIONS FOR INSURANCE

From an insurance perspective the primary issue relates to increased risk for the premises and the need for the Insured and broker to ensure disclosure to the insurer of unoccupancy as a key material fact impacting on the policy cover. The approach in how insurers manage a specific unoccupied property will depend on the circumstances of that unoccupancy and may require a questionnaire to be completed. In the main however restrictions will be applied to elements of the policy, especially in the event of a long term unoccupied risk being identified.

### **RSA New Business approach**

For new business, RSA request specific information as to occupancy of the property at the quotation stage. As outlined above, the reasons for unoccupancy can be varied and as such each case will be looked at on its merits by an Underwriting Team.

RSA will only consider requests to cover new or newly unoccupied properties for existing clients or where an unoccupied property is incidental within a portfolio of properties.

### **RSA Existing Business approach**

Should a property become unoccupied during the course of the Policy year, the Insured must advise the Broker / Insurer of the revised occupancy details as it is a material fact. The terms of the Policy will, in most cases, change and the extent to which the terms do change depends on the reason for and the probable length of the unoccupancy.

RSA may have to restrict cover to Fire only and apply a warranty to the policy that requires all combustible materials to be removed, all services disconnected and regular inspections of the property.

## RISK MANAGEMENT GUIDANCE

The Risk Control Unit in RSA has produced a comprehensive 'Risk Management Guide to Unoccupied Properties'. This guide outlines the key action to be taken to ensure the safety of the property and the precautionary steps to ensure against loss through burglary, fire or malicious damage and health and safety of unwanted visitors!

Copies of this guide can be ordered from our Marketing Team by calling 01 290 1196.

## WHAT BROKERS NEED TO DO

It is important to ensure that insurance broker staff recognise the increasing trend and implications of property unoccupancy and the potential impact on customer policies. The disclosure of such a material fact is critical in safeguarding their interests and the implications need to be brought to the attention of policyholders. As outlined in insurance policy documents it is the customer's obligation to communicate the occupancy status of a building during the period of policy cover. However, as insurers and brokers, it is our obligation to ensure they are aware of this requirement.





RSA Insurance Ireland Limited

RSA Insurance Ireland Limited is regulated by the Financial Regulator and is a private company limited by shares registered in Ireland under number 148094 with registered office at RSA House, Dundrum Town Centre, Sandycove Road, Dundrum, Dublin 16.

[www.rsagroup.ie](http://www.rsagroup.ie)