



## March 2024 Newsletter

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### Short-term Rentals Pose Problems for Associations

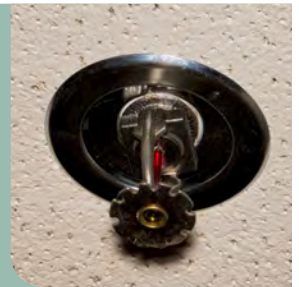


Communities that allow short-term rentals may find their community association insurance impacted. An insurance carrier considers short-term rentals like a business and doesn't want the liability exposure. Many standard insurance carriers ask questions on applications regarding short-term rentals. The carriers often carry out underwriting diligence by searching online for properties on websites like VRBO and Airbnb. While short-term rentals bring economic benefits to a homeowner, they also present challenges for community associations. From an insurer's perspective, short-term rentals can create higher risk for the community association. Many insurance carriers flat out do not allow short-term rentals. The property is at greater risk for both property and liability claims which could impact all owners within the community, not just the short-term rental units. An owner renting to a long-term tenant would have a lease agreement and insurance requirements in place. The contract for short-term renters is not the same and does not transfer the risk to the short-term renters. Although some communities are in coastal areas or vacation destinations, short-term rental guidelines with insurance companies apply to any geographic location.

The association's insurance policy is not designed to take on this added risk and often the premium does not reflect the added exposure. Community Associations do not always have policies or guidelines in their governing documents that restrict short-term rentals. Typically, the minimum number of days for a rented unit is 30 days. Alternative insurance companies could accept short-term rentals. However, this may be in the **non-standard market** with reduced coverages and higher premiums.

Establishing clear policies and guidelines for a community is important for all owners. A policy should also include enforcement mechanisms if an owner continues to rent their unit out on a short-term basis. Discuss options with the association's attorney to see if your community can put guidelines in place for short-term rentals. The investigation and discussion are worth the effort.

### Update of the Month: Sprinklers



Sprinkler systems are a vital defense against devastating fires and offer crucial protection to homes and people. However, over time the systems can break down and become susceptible to issues which create concerns for insurance losses that impact an association's insurance. The metal components in sprinkler systems can rust and corrode. This deterioration impacts their structural integrity and reliability. If routine maintenance and inspections are neglected, issues can be exacerbated and cause losses for a community. If a sprinkler inspection reveals defects that compromise the system's functionality, these issues need to be addressed immediately by the association. Identifying and addressing these defects are essential and will ensure the system operates as intended during an emergency. It will also help prevent future losses. Communities also need to consider weather conditions. The freezing temperatures in January 2024 caused many sprinkler lines to break and resulted in millions of dollars in property damage. Proper inspections and repairs are essential to prevent losses.

Depending on the size of your community, sprinkler systems are becoming an underwriting requirement in the standard insurance market. If you live in an established community that does not have a sprinkler system, now may be a good time to talk about the community's options.

## An Owner's Burning Question



**Question:** How does the owner's HO6 policy work with the association's master policy? I'm not sure what to discuss with my agent.

**Answer:** The complexities between an association's insurance policy and an owner's policy coverage needs can be daunting. Associations that insure the building structure in some way whether it is on a bare walls, original specifications, or an all-inclusive policy, will have a certificate of insurance that should reference the coverage type. Your agent will need to look at the governing documents for the community and reference the association's insurance policy to first determine what an owner will need to cover. It could be the association's deductible, or the entire unit. A review of the governing documents and association's policy is the first step. If the certificate of insurance does not indicate the type of coverage the association's policy covers, I recommend reaching out to the agent who wrote the master policy.

The association's policy does not cover items, for example personal property and loss of use coverage. Each owner will need to work with their agent to get sufficient coverage in place for property not covered under the association's policy.

# Q&A

## Corporate Transparency Act

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## Coverage Corner: Asbestos



In the 1960s and 1970s asbestos was commonly used in home building materials. It is possible homes built before 1960 could also have asbestos. It is commonly found in ceiling material, flooring, and sometimes insulation components. According to the U.S. Environmental Protection Agency (EPA), asbestos only poses safety issues when harmful fibers are disturbed and released into the air. This can be concerning for an association because the liability risk for owners or tenants getting sick increases. A sudden loss, for example a burst pipe, could cause water damage to an area that contains asbestos and could require the damaged area be fully abated and the debris properly disposed. Laws must be followed when disposing of building materials in recycling and garbage centers.

Asbestos abatement is not always covered by insurance policies, including an association's master policy. Insurance companies view asbestos as a foreseeable risk that property owners should address proactively, rather than relying on insurance coverage to mitigate the potential liability in the time of the loss. This can also include asbestos testing for homes built more recently. To learn more about this topic, a licensed, insured, and experienced contractor will be the best resource and can help if a loss occurs requiring asbestos abatement.

Lack of insurance coverage for this exposure, whether it is the association's policy or an owner's individual policy, can create significant financial challenges for the parties involved. I encourage communities to confront the realities of asbestos exposure within the community by ensuring residents are safe and assets are protected.

## We Want Your Input!

Have a question or want to see a specific topic highlighted in next month's newsletter?

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