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Product Fact Sheet - Loss of Rent insurance.

Most Landlords of residential or commercial properties take insurance on their buildings and public liability as property owners but these are not the only risks a Landlord should consider when arranging insurance.

One of the greatest risks to a Landlord is the loss of rental income, brought about by:

- A storm, fire, explosion, vandalism or the like, rendering the premises uninhabitable for a period whilst repairs are complete
- Failure of the tenant to pay their rent, resulting in eviction

Both risks can be insured against under a Landlord's policy.

Residential Properties

Most insurers offer "loss of rent cover" following a storm, fire, explosion, vandalism or the like, rendering the premises uninhabitable for a period whilst repairs are complete. Following such an event, if the premises cannot be occupied, the tenant usually has a clause in the lease that allows them to cease paying rent. Repairs following a claim, can take weeks or months depending on the severity of the damage. The ongoing loss of rent can add up.

Generally, an insurance policy will pay for the loss of rent from the date of loss until such time as the premises is fit to rent again. It may still be some weeks until a tenant is found following completion of repairs but the insurer will cease payment once the premises are ready to rent.

The maximum period an insurer will pay for loss of rent under this type of claim is usually 12 months from the date of loss but this period can vary from one insurer to another.

Some insurers will also offer "rent default" cover. This covers the loss of rent following the failure of the tenant to pay their rent, resulting in eviction. The maximum period an insurer will pay for loss of rent under this type of claim is usually 15 weeks although again this period can vary from one insurer to another.

For a claim to be allowed for rent default, the tenant must have been up to date with their rent payments on the date the policy was taken out or in the case of a renewal, the date the policy was renewed.

Most insurers will not pay for the first 4 weeks of any rent default period; the rationale being that the Landlord can claim this amount from the bond held by the relevant state bond board.

Commercial Properties

The cover listed above is in most cases the same for a commercial property. However, there are two important considerations.

Rent default cover is only offered a handful of insurers for commercial properties. Most insurers believe rent default by a commercial tenant is part of the “commercial risk” of owing such a property. CGU Insurance is one insurer who does offer the cover.

Loss of rent following a storm, fire, explosion, vandalism or the like, rendering the premises uninhabitable for a period whilst repairs are complete, can be insured in two different ways for a commercial property.

The first method is to add the cover for loss of rent under the “fire and perils” section of the policy. If insured using this method, an insurance policy will pay for the loss of rent from the date of loss until such time as the premises is fit to rent again. It may still be some weeks until a tenant is found following completion of repairs but the insurer will cease payment once the premises are ready to rent.

The second method is to add the cover under “Business Interruption” insurance. Using this method, the insurer will not only pay for the loss of rent from the date of loss until such time as the premises is fit to rent again, but in most cases, will continue to pay the loss of rent until such time as either a new tenant signs a lease or the “indemnity period” expires. The indemnity period under a commercial policy can be 6, 12, 24 or even 36 months.

Owners of commercial properties should consider insuring for an indemnity period that takes into account:

- that repair or rebuilding times may be longer for their property due to location, unique design, unusual building materials, or perhaps issues with rebuilding due to council re-zoning
- unique use of their building – such that there are fewer tenants wanting to use such a building after it is repaired (a car yard, petrol station, flammable liquids store, restaurant or take away food shop are examples of where it is harder to find new tenants so the landlord may want to take a longer indemnity period for loss of rent)
- environmental issues – where repairs can take longer due to issues that may need addressing – such as removing old fuel tanks.

It is recommended that all Landlords of commercial premises take at least 12 months indemnity for loss of rent but preferably 18 to 24 months.

Other issues to consider when insuring Loss of Rent

Insurers generally will not take into account any “rent free” period a Landlord may have to give a new tenant to sign a lease following repair or rebuilding. This cannot be added to the amount claimed.

It is rare that a tenant will wait around until a property is repaired (as most must relocate immediately to keep trading) so following a claim, in almost all cases, the Landlord will be looking for a new tenant. For this reason, it is recommended that loss of rent be covered under Business Interruption and not under Fire and Perils.