The Real Hidden Costs to Owning a Vacation Home

Renting a vacation home has become a hot trend in recent years. According to realtor.com, “37% of vacation home buyers plan to use their property to generate income.” Websites such as HomeAway and Airbnb have made it easy for homeowners to make a profit when their homes would otherwise be vacant.

Talk to your advisor
Insurance coverage for short-term rentals can be complex and coverage may be restricted under your homeowner insurance policy. Although advertising and marketing are the typical first steps homeowners consider when taking on this business venture, the first step should be to call your insurance advisor. Insurance advisors will make certain the proper liability and property protection is in place, and will point out what coverage restrictions or exclusions to be aware of, resulting from the tenant occupancy of your home.

High risk
With the turnkey nature of a short-term rental, risk of liability and property losses can be quite high. Even with a property manager in place to carefully screen prospective renters, the risks may outweigh the end reward. Careful planning and coordination of all rental agreements and management contracts with your legal advisor and insurance professional, is a critical step in protecting your assets and the anticipated revenue generated from renting.

Liability exposure
When a residence is rented on a short-term basis, an insurer may consider this to be a ‘business activity’ which may no longer qualify the home for typical liability coverage. Airbnb does offer liability insurance under their Host Protection Program; however, coverage is capped at $1,000,000. A good insurance advisor will have access to specialty markets, to provide you with the coverage you need.

Please keep these considerations in mind as you evaluate the return on your investment, when renting your home to generate income.
If you are contemplating a vacation rental in your future, please consider the following:

1. Calling your Insurance Advisor to review your homeowner liability and property coverage.
2. Exploring regulations of city ordinances and rules governed by homeowners associations, which may penalize or prohibit short term rental occupancy.
3. Hiring a rental management company to screen potential tenant applicants and to oversee the ongoing maintenance and safety of the property.
4. Seeking the advice of an attorney to create rental agreements and tenant waivers.
5. Consider deeding the home in an LLC or other legal entity to minimize your loss exposure and to protect other personal and financial assets.

Consider these claim examples. Allowing tenants to occupy your home, increases your chance of incurring a claim:

- A Michigan Homeowner rented out his home and was unaware the tenant had become a snowbird, leaving the home unoccupied for the winter months. The thermostat was improperly set causing a frozen pipe to burst causing more than $150,000 in uncovered water damage.
- A Georgia homeowner rented the lower level of his home to a group of women celebrating an upcoming wedding. One of the bridesmaids slipped and fell on the pool deck causing a traumatic brain injury. A lawsuit was filed against the owner of the home.
- A popular athlete rented his primary home while he was traveling during the baseball season. Sports memorabilia was stolen from the home, and hardwood flooring was damaged by tenant.

Coverage exclusions may apply in each of these claim examples, under normal terms of most homeowner insurance policies.

Short-Term Rental Risks

Whether you are considering renting out your vacation property on Airbnb for additional income or leasing a place for your own vacation, short term rentals may be the perfect idea… until there is a loss.

Your Risks Include:

- Exclusions of Personal Liability
- Occupancy/Vacancy Deductibles
- Rental Income Business Exposure
- Identity Theft
- Theft or Damage of Personal Property
- Violations of City Ordinances
- Squatters

The largest exposure you have as a vacation rental owner is liability. When you open the door to your home, you are opening yourself up to a liability risk.¹

The next largest exposure is your actual property. What if a guest were to accidentally start a fire and burn your property down? Or steal/damage your contents? Or refuse to leave. Depending on your insurance policy, there may be a coverage gap.²

To learn more, contact:

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¹ https://www.airbnb.com/host-protection-insurance
² https://www.proper.insure