**A Comprehensive Insurance Guide for STR Owners**

*Written By Proper Insurance®*

Understanding key insurance coverage is essential for short-term vacation rental owners. This guide outlines the most important protections and how they apply to your property. After reading this guide, we encourage you to get a free coverage comparison and consultation from [Proper Insurance](http://www.proper.insure/).

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**Short-Term Rental Insurance Options for Property Owners**

There are three insurance policies available to STR property owners, regardless of whether the property is a single-family, townhome, multiplex, or condo. The options are homeowners, dwelling, and commercial.

* **Option 1: Homeowner's Insurance (HO)**

Homeowners Insurance is intended for primary, owner-occupied properties. It provides coverage for the building, personal property "contents," loss of use, and personal liability.

There is a recent endorsement carriers use titled [[Home-Sharing Host Activities](www.wiins.com:5080/forms/Policy/PDF/HomeISO/HO%2006%2053%2002%2017.pdf)]. The purpose of this endorsement is to allow for home-sharing or short-term renting of a primary home. Maybe you live in Augusta, Georgia, and you rent your home every year during the Masters golf tournament.

If your short-term rental property is NOT your "residence premises," often known as your "primary home," insuring it under a homeowner's policy that includes a home-sharing endorsement is incorrect, and your policy may be null and void. The home-sharing endorsement does not rewrite the definition of "residence premises."

The courts are very clear about this: [Veronika Serpikova Vs American Risk Insurance](https://www.dallasfortworthinsurancelawyerblog.com/definition-residence-premises-homeowners-policy/).

Coverage for a secondary or investment property is found in a dwelling or commercial policy.

When you look at your insurance policy, you have a homeowner's policy if you see the word "homeowners" or "HO" in the policy forms.

* **Option 2: Dwelling Insurance (DP)**

Dwelling insurance, also known as landlord insurance, is intended for tenant-occupied properties. It covers the building, personal property/landlord furnishings "contents," loss of rent, and premise liability.

Most insurance carriers allow short-term renting on a dwelling policy, but the coverage contains some significant gaps, such as no protection for damage or theft caused by a tenant or guest and no liability protection that extends off the premises.

Dwelling insurance is the most common insurance policy found on short-term rentals and does suffice for a short-term rental property owner. The downside is that it's not comprehensive and was never intended to cover the full scope of a short-term rental.

When you look at your insurance policy, you have a dwelling policy if you see the word "dwelling" or "DP" in the policy forms.

* **Option 3: Commercial Insurance (CP/CGL)**

Commercial insurance policies are designed for business purposes, offering protection for the building, business/personal property "contents," loss of income, and commercial general liability.

Generally, a commercial or business insurance policy offers broader protection than a homeowner's or dwelling policy, such as loss of business income and commercial general liability.

Not all commercial insurance is created equally, so it's essential to review the exclusions. A handful of carriers offer a commercial policy for short-term rentals, but then they remove coverage via exclusions or limitations, such as damage caused by a tenant/guest or animal/pet liability.

**Core Coverages**

All three policy options (homeowners, dwelling, and commercial) offer the same core coverages but vary significantly in terms of perils or covered losses.

* **Building**

From a property coverage standpoint, the building is the most important as it's the asset. You need protection from perils such as fire, wind, hail, and more. The two key terms here are "cause of loss" and "valuation," as they will ultimately determine your level of protection on your building.

There are three "cause of loss” types: basic, broad, and special. Basic and broad are "named perils," meaning the insurance carrier names what's covered, such as fire. In contrast, special is exclusions-based, meaning everything is covered unless specifically excluded.

Broad form coverage lists 17 covered perils; in theory, special form covers hundreds of perils and is far superior. For property owners who want comprehensive protection, you want special form coverage. The "cause of loss" form will be listed in your policy.

Next is valuation, either "replacement cost" or "actual cash value," which includes depreciation. With replacement cost, you get new for old, so in the event of a claim, your property is replaced with no deduction for depreciation.

Unfortunately, many insurance carriers provide replacement costs on their policies but add endorsements that limit specific claims to actual cash value, such as roof repair from wind or hail. It's essential to ensure you don't have these limitations, as they can be costly during a claim.

* **Contents**

Contents or personal property is anything that is not part of your building, such as furniture, kitchenware, electronics, décor, and so on.

Since contents fall under property coverage, the exact cause of loss and valuation concepts apply. Granted, the contents are not as valuable as your building, but you still want a special form and replacement cost. It's significant when you add up all the contents in your short-term rental.

* **Income**

Rental income is often the most overlooked yet critical component of short-term rental insurance. In the event of a claim, the loss of rental income can be financially devastating. Like building and contents coverage, income protection begins with the cause of loss and proceeds to valuation and time limits.

It's essential to have 'special form' coverage—rather than basic or broad—as income loss is only covered when tied to a covered property loss, making the cause of loss the most crucial aspect of the policy.

Following a covered loss, the claim is valued based on either 'fair market value' or 'actual loss sustained.' For short-term rentals, which often generate higher income than comparable properties, 'actual loss sustained' is preferred, as it reflects the actual income lost due to the claim.

Many policies limit income coverage to 12 months, which may appear sufficient. However, in the case of a total loss—such as a fire—rebuilding and resuming operations can take 18 to 24 months. To ensure complete protection, you want coverage with no time limit.

* **Liability**

Liability protection is the most critical part of insurance for short-term rental property owners. Building, contents, and income protection are essential, but nothing can devastate an owner more than a serious bodily injury claim at the property.

Each policy option carries a different type of liability. Personal liability is found in homeowners policies, premise liability in dwelling policies, and commercial general liability in commercial policies.

Since most short-term rentals are not primary homes, we won't discuss personal liability; we will discuss premise and commercial general liability.

Premise liability is included in a dwelling policy, and it will protect you from any bodily injury or property damage you could be held legally liable for that occurs at the premises.

Standard exclusions and limitations found in premise liability:

              -It does not extend off the premises, where many bodily injury claims happen.

              -Animal pet liability exclusion

              -Assault and battery exclusion

              -No amenities extension

              -Invasion of privacy exclusion

              -Communicable disease exclusion

              -Punitive damages exclusion

Commercial general liability is included in a commercial policy and will protect you from any bodily injury or property damage to your operation, so you could be held legally liable. The key term here is operation, and part of the reason it's so much broader than the premise.

Because commercial general liability is business insurance, your short-term rental is treated as such. For example, if you offer bicycles and a guest is injured while riding the bike off the premises because this is part of your operation, the policy will respond to an injury off the premises.

Much like premise liability, many insurance carriers will fill the commercial general liability policy with the same exclusions and limitations. You must find an insurance agent that understands these potential exclusions and can answer your potential claim questions.

* **Extra Enhancements**

When choosing an insurance policy for your short-term rental property, we encourage you to focus on enhancements. These enhancements make the difference between poor protection and superior or enhanced protection.

Few insurance providers have created a policy specifically designed for short-term rental owners. Virtually everyone sells a dwelling policy created initially for a landlord, not a short-term rental.

The Proper Insurance policy was purpose-built for short-term rentals and provides exclusive enhancements.

Here are a few Proper Insurance policy enhancements:

              -Special form coverage on building and contents

              -Replacement cost valuation on building and contents

              -Actual loss sustained business revenue protection with no limit

-No sub-limit on damage caused by a tenant/guest

              -No sub-limit on theft from a guest

              -No sub-limit on backup of sewers and drains

              -No sub-limit to water damage (broken pipes)

              -Squatters & eviction expense

              -Bed bug extermination & business revenue

              -$1,000,000 in commercial general liability, with $2,000,000 option

              -Liability protection extends beyond the premise

              -Amenities protection on & off-premise (hot tubs, pools, bikes, kayaks, and more)

              -Assault and battery liability

              -Animal/Pet liability

              -Liquor liability

**Summary**

Short-term vacation rentals come with a higher risk level. Therefore, knowing you have adequate or even comprehensive insurance is important.

* **Know How to Read Your Insurance Policy**

Every insurance policy comes with a declarations page (dec), which summarizes your coverage. It will highlight whether you have homeowners' insurance (HO), dwelling insurance (DP), or commercial insurance (CP/CGL).

The dec will highlight the cause of loss (basic, broad, special) for both the building and its contents and whether you have replacement cost or actual cash value.

The dec will show the type of liability, either personal, premise, or commercial, and the limit you have: $300k, $500k, or $1,000,000.

Most importantly, the dec will highlight the exclusions in your policy.

* **Get a Coverage Comparison**

While it's good to know the basics of reading your insurance policy, there are always fine details that can be missed or hidden in the coverage forms. Whether you upgrade your insurance to Proper or not, free coverage comparisons and consultations are how we've grown the business.

Feel free to visit Proper's homepage and request a quote. Upon completion, a licensed agent will reach out to discuss your insurance options – [www.proper.insure](http://www.proper.insure)