



Home-Sharing for Apartment Buildings and Condominiums

"If you can't beat 'em, join 'em."

Condominium associations and owners of multi-unit housing are embracing that time-honored maxim regarding short-term "home sharing" rentals of individual units.

Many unit-owners, landlords, and tenants of multi-unit buildings and complexes were not enthusiastic a few years ago when some residents began renting their units for short periods through online services such as Airbnb, HomeAway, and similar networks.

For landlords and condo associations, home-sharing introduced hotel-type risks into structures ill-equipped for the unique exposures of hospitality establishments. Many properties responded with lease conditions and by-laws prohibiting home-sharing, and most still insist on their right to regulate home-sharing in their properties.



However, monitoring compliance is intrusive at best, and prohibitively difficult in some jurisdictions. Moreover, resistance to home-sharing puts landlords and condo associations at odds with a strong desire among homeowners to earn money from their dwellings, especially in areas where the cost of living is high, such as New York City and San Francisco.

Sharing the benefits

Today, some multi-family complexes are embracing short-term rentals to share in their benefits, and there are online services to help them do just that, including Pillow (an affiliate of Airbnb), Stay Alfred, WhyHotel, and YOTELPAD, as well as a "Friendly Buildings" program sponsored by Airbnb.

While they focus on different aspects of home-sharing, in the aggregate these services allow property owners and managers to:



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- Rent vacant units before they are leased or sold, or in between occupancies;
- Reserve certain units for rental, essentially marketing a location while collecting revenue from it; and
- Share in the home-sharing revenue earned by individual tenants and unit-owners, while helping to manage rentals and ensure compliance with applicable laws, rules, and regulations.

By engaging in home-sharing, property owners and associations expand their risk for loss to property (principally furnishings of rented units) and for bodily injury and property damage incurred by or caused by tenants.

Those types of risks are typically covered under standard property and liability insurance policies but, depending on their scope, insurers may treat temporary rentals as a different class than units owned by occupants or rented on long-term leases. Coverage may be more costly and require more reporting, but any additional premium cost would presumably be offset by rental earnings.

Coverage clarified

Recent changes in the market for residential insurance help clarify the application of coverage for short-term rentals by unit-owners, property owners, property managers, and/or condominium associations.

For decades, homeowners insurance policies, including those for tenants and condominium unit-owners, have provided coverage for damage to a primary residence during an occasional rental, as well as liability coverage for bodily injury or property damage to third parties. (Coverage for damage to personal property in a rented space is generally limited, and insurers have

some discretion about applying business exclusions to claims arising from rentals.)

That coverage developed when home rentals were informal and infrequent, such

as when individuals rented living space to visitors for a major concert or sporting event. With online networks incorporating home-sharing into global enterprises, insurers are taking a new approach by developing policy provisions to explicitly address home-sharing through online services.

Following the example of several major US insurers, the Insurance Services Office (ISO), an organization that develops standard policy provisions used as models by thousands of US insurers, introduced two such endorsements in 2016.

The first, in effect, preserved the traditional homeowners coverage for short-term rentals arranged informally, but defined “home-sharing host activities” through an online network to be a business activity, and thus excluded from homeowners coverage. This policy provision was provided as a “mandatory” endorsement that insurers were expected to add to all ISO-based homeowners policies to clarify the intent and extent of home-sharing coverage.

The second ISO endorsement is entirely optional and extends the property coverage under a homeowners policy to a “host’s” household furnishings and other structures rented or held for rental to home-sharing



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“guests.” The endorsement extends liability coverage for bodily injury and property damage to home-sharing activities and adds coverage for claims of personal injury such as false arrest or invasion of privacy.

Network coverage

In addition to the coverage for short-term rentals available to tenants and unit-owners through their homeowners insurers, some online networks themselves provide insurance and financial guarantee programs to their users. These programs can provide compensation for losses to building owners and condominium associations, but you must review them carefully.

As an example, Airbnb provides a “Host Protection Policy” that includes \$1 million in personal liability coverage. According to Airbnb, the program “covers landlords and homeowners associations in many cases when claims are brought against them because a guest suffers injury during a stay.”

While Airbnb’s Host Protection Policy only covers rentals made through Airbnb, a Homesharing Liability Insurance plan sponsored by Peers.org covers any rental made by an insured, no matter which method he or she uses to rent living space. The plan pays up to \$1 million for liability to third parties arising out of a rental, plus up to \$50,000 in lost rental income for a host that suffers at least \$10,000 in property damage from a rental.

Choosing among options

In summary, property owners and condominium associations have several options for accepting and working with short-term rentals, which are obviously popular with prospective tenants and unit-owners.



There are three general courses of action, apart from allowing occupants to rent their units on an unregulated basis.

First, landlords and condominium associations can allow occupants to offer short-term rentals under a covenant or lease condition that permits home-sharing as long as an occupant maintains insurance that explicitly covers the property owner or association for damage or liability claims. A landlord or association gets no added benefit from this, but at least is protected while not restricting its market for prospective unit-owners and tenants.

Secondly, landlords and associations can allow long-term occupants to offer their units for short-term rental through a service arranged through the property manager or association. Landlords and associations share in the revenue derived by occupants, who have an incentive to market the amenities of a property. In return, landlords and associations will take on a greater share of the risk.

By relying on occupants to identify short-term lessees, landlords and condominium associations limit their exposure to potential claims of discrimination, which they would assume if they choose to screen potential

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guests individually. This does not guarantee, however, that a landlord or association will not be found responsible for abetting discriminatory practices by individuals, if public authorities ever investigate such discrimination.

Finally, you can reserve some of your units for short-term rentals, managing the risks and earning the rewards on your own. This can be a useful approach for condominium associations seeking to minimize assessments on unit-owners, provided the rental



income exceeds the assessments that are lost by leaving some units without a permanent occupant.

In all cases, a property owner and condominium association will want to know if, how, and from whom insurance coverage is provided for property at a location, as well as for liability claims for bodily injury, property damage, and personal injury to guests and any other persons.

These are choices every property owner or condominium association now have to make, but decisions have become easier in recent years as practical options for implementing an approach have emerged.

