

September 26-29, 2024 | Sheraton Boston Hotel



09/28/2024

Insuring the Commercial Tenant – Problems & Solutions

11:15 AM - 12:15 PM

Catherine Trischan

1 CEU

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Insuring the Commercial Tenant – Problems and Solutions



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What If?

- The Tenant has made improvements and betterments to the space
- The Tenant is responsible for insuring portions of the building
- The Tenant is responsible for damage he does to the rented space
- The Tenant will suffer financially if the lease is cancelled because he has invested in the lease or the space or has favorable lease terms



Building And Personal Property Coverage Form³ (CP 00 10 10 12)

Your Business Personal Property includes:

Your use interest as tenant in improvements and betterments. Improvements and betterments are fixtures, alterations, installations or additions:

- (a) Made a part of the building or structure you occupy but do not own; and*
- (b) You acquired or made at your expense but cannot legally remove*



Which are (probably) TIB?



Payment of a TIB claim

Damage to Tenant Improvements and Betterments	What is paid under Tenant's CPP
Tenant repairs promptly	ACV (RC if option is activated)
Landlord repairs	Nothing paid
Can not/does not repair promptly	Unamortized portion of original cost



Payment of TIB claim

Tenant added \$100,000 of TIB at the beginning of a 10-year lease.

5 years into the lease, the building is destroyed, and the tenant permanently closes his business.

\$100,000 - \$50,000 (amortized portion of the original cost 50%) = \$50,000 paid



Your Business Personal Property – Separation of Coverage – CP 19 10 06 95

- Specify a limit of insurance for any of the seven categories of Your Business Personal Property
- The Your Business Personal Property Limit of Insurance on the declarations does not apply to property scheduled in this endorsement.
- Can be used for tenant's improvements & betterments to get a building rate rather than a business personal property rate



THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

YOUR BUSINESS PERSONAL PROPERTY – SEPARATION OF COVERAGE

This endorsement modifies insurance provided under the following:

BUILDING AND PERSONAL PROPERTY COVERAGE FORM
CONDOMINIUM COMMERCIAL UNIT-OWNERS COVERAGE FORM
STANDARD PROPERTY POLICY

A. The following Limits of Insurance and Covered Causes of Loss apply to the types of property included under YOUR BUSINESS PERSONAL PROPERTY:

Prem. No.	Bldg. No.	Type of Property	SCHEDULE		Coinsurance
			Limit of Insurance	Causes Of Loss Form Applicable	
1	1	TIB	\$250,000	Special	90%

B. If a Limit of Insurance is shown for Your Business Personal Property in the Declarations, without further indication of the Type of Property, that Limit of Insurance will not apply to any property described in this endorsement.



Ordinance or Law Coverage for Tenants Improvements and Betterments CP 04 26 09 17

Coverage A – Coverage For Loss To The
Undamaged Portion Of The Building

Coverage B – Demolition Cost Coverage

Coverage C – Increased Cost of Construction
Coverage



Ordinance or Law Coverage for Tenants Improvements and Betterments CP 04 26 09 17

- Coverages A, B and C can be chosen.
- Post-Loss Ordinance or Law Option is available.
- Improvements and betterments are fixtures, alterations, installations or additions made a part of the building you occupy but do not own and which you acquired or made at your expense but cannot legally remove.



POLICY NUMBER:

COMMERCIAL PROPERTY
CP 04 25 09 17

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

**ORDINANCE OR LAW COVERAGE FOR TENANT'S
INTEREST IN IMPROVEMENTS AND BETTERMENTS
(TENANT'S POLICY)**

This endorsement modifies insurance provided under the following:

BUILDING AND PERSONAL PROPERTY COVERAGE FORM
STANDARD PROPERTY POLICY

SCHEDULE

Building Number/ Premises Number	Coverage A	Coverage B Limit Of Insurance	Coverage C Limit Of Insurance	Coverages B And C Combined Limit Of Insurance
/	<input type="checkbox"/>	\$	\$	\$ -
/	<input type="checkbox"/>	\$	\$	\$ -
/	<input type="checkbox"/>	\$	\$	\$ -

Description Of Tenant's Improvements And Betterments

At Building Number/Premises Number :

At Building Number/Premises Number :

At Building Number/Premises Number :

Post-Loss Ordinance Or Law Option: Yes No

*Do not enter a Combined Limit of Insurance if Individual Limits of Insurance are selected for Coverages B and C, or if one of these Coverages is not applicable.

Information required to complete this Schedule, if not shown above, will be shown in the Declarations.



**Lease requires that the
tenant insure the building**

Good Idea?

Bad Idea?



Tenant Insures the Building Might the Landlord Want This?

POLICY NUMBER: COMMERCIAL PROPERTY
CP 12 19 06 07

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

ADDITIONAL INSURED – BUILDING OWNER

This endorsement modifies insurance provided under the following:

COMMERCIAL PROPERTY COVERAGE PART
STANDARD PROPERTY POLICY

SCHEDULE

Premises Number:		Building Number:	
Building Description:			
Building Owner Name:			
Building Owner Address:			

The building owner identified in this endorsement is a Named Insured, but only with respect to the coverage provided under this Coverage Part or Policy for direct physical loss or damage to the building(s) described in the Schedule.



Tenant Insures the Building Might the Landlord Want This?

POLICY NUMBER:	COMMERCIAL PROPERTY CP 12 18 10 12	
THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.		
LOSS PAYABLE PROVISIONS		
This endorsement modifies insurance provided under the following:		
BUILDERS' RISK COVERAGE FORM BUILDING AND PERSONAL PROPERTY COVERAGE FORM CONDOMINIUM ASSOCIATION COVERAGE FORM CONDOMINIUM COMMERCIAL UNIT-OWNERS COVERAGE FORM STANDARD PROPERTY POLICY		
SCHEDULE		
Location Number:	Building Number:	Applicable Clause (Enter C.1, C.2, C.3, or C.4.):
Description Of Property:		
Loss Payee Name:		
Loss Payee Address:		

4. Building Owner Loss Payable Clause

- a. The Loss Payee shown in the Schedule or in the Declarations is the owner of the described building in which you are a tenant.
- b. We will adjust losses to the described building with the Loss Payee. Any loss payment made to the Loss Payee will satisfy your claims against us for the owner's property.
- c. We will adjust losses to tenants' improvements and betterments with you, unless the lease provides otherwise.



Tenant Insures the Building Might the Landlord Want This?

POLICY NUMBER:	COMMERCIAL PROPERTY CP 15 03 06 07		
THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.			
BUSINESS INCOME – LANDLORD AS ADDITIONAL INSURED (RENTAL VALUE)			
This endorsement modifies insurance provided under the following:			
BUSINESS INCOME (AND EXTRA EXPENSE) COVERAGE FORM BUSINESS INCOME (WITHOUT EXTRA EXPENSE) COVERAGE FORM			
SCHEDULE			
Description Of Rented Premises:			
Name Of Additional Insured:			
Mailing Address Of Additional Insured:			
	Applicable Business Income Coverage Form (Enter Form Number)	Limit Of Insurance	Coinsurance Percentage
Causes Of Loss Form		\$	%
Endorsements, If Any, Supplementing Or Restricting The Covered Causes Of Loss With Respect To The Coverage Provided Under This Endorsement:			
Information required to complete this Schedule, if not shown above, will be shown in the Declarations.			



Business Income – Landlord as Additional Insured (Rental Value) CP 15 03 06 07

When might an agent recommend this?

Facts:

- Tenant Inc. – owned 100% by Son
- Building Owner Inc. – owned 100% by Mom
- Son is concerned with Mom’s financial well-being.

Tenant Inc. is required by its lease with Building Owner Inc. to insure the building. Ownership is not common so your underwriter will not include both entities as Named Insured. Building Owner Inc. does not want to insure its own building on its own policy (despite your repeated suggestions.) Tenant Inc.’s policy includes Building, Business Personal Property and Business Income coverages.

The building burns to the ground, and it takes over a year to rebuild. How will Building Owner Inc. be made whole for the loss of rents?



Business Income – Landlord as Additional Insured (Rental Value) CP 15 03 06 07

What about Tenant Inc.'s Business Income coverage? (CP 00 30 10 12)

Business Income means the:

- a. *Net Income (Net Profit or Loss before income taxes) that would have been earned or incurred; and*
- b. *Continuing normal operating expenses incurred, including payroll.*

Is the rent a continuing normal operating expense for Tenant Inc.?

- Language in the lease may state that the lease terminates if the premises are untenable following damage or destruction.
- The law may state that the lease cancels if the premises is destroyed.
- Case law in a jurisdiction may address this issue.



Insuring Part of the Building

<small>POLICY NUMBER:</small>	<small>COMMERCIAL PROPERTY CP 14 01 09 17</small>
THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.	
SCHEDULED BUILDING PROPERTY TENANT'S POLICY	
<small>This endorsement modifies insurance provided under the following:</small>	
<small>BUILDING AND PERSONAL PROPERTY COVERAGE FORM STANDARD PROPERTY POLICY</small>	
SCHEDULE	
Location Of Building:	
Causes Of Loss Form (and related endorsements, if any):	
Valuation Condition: Actual Cash Value <input type="checkbox"/> Or Replacement Cost <input type="checkbox"/>	
Coinsurance (if applicable): %	
Deductible On Building Glass (if any): \$	
Deductible On Building Property Other Than Glass \$	
<small>Description Of Building Glass</small>	<small>Limit Of Insurance</small>
	\$
<small>Description Of Other Building Property</small>	<small>Limit Of Insurance</small>
	\$
	\$
	\$
	\$
<small>Information required to complete this Schedule, if not shown above, will be shown in the Declarations.</small>	



Insuring Part of the Building

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POLICY NUMBER:	COMMERCIAL PROPERTY CP 14 02 09 17
THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.	
UNSCHEDULED BUILDING PROPERTY TENANT'S POLICY	
This endorsement modifies insurance provided under the following:	
BUILDING AND PERSONAL PROPERTY COVERAGE FORM STANDARD PROPERTY POLICY	
SCHEDULE	
Location Of Building:	
Causes Of Loss Form (and related endorsements, if any):	
Valuation Condition: Actual Cash Value <input type="checkbox"/> Or Replacement Cost <input type="checkbox"/>	
Coinsurance (if applicable): %	
Deductible On Building Glass (if any): \$	
Limit Of Insurance On Building Glass: \$	
Deductible On Building Property Other Than Glass: \$	
Limit Of Insurance On Building Property Other Than Glass: \$	
Information required to complete this Schedule, if not shown above, will be shown in the Declarations.	



**What if the
Tenant
Damages the
Building?**



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Can the Tenant Be Held Responsible for Damage Done to Rented Space?

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What does the lease say?

- Who is responsible for insuring the building?
- Has landlord waived rights of recovery?
- Is there waiver of subrogation language?

What if the lease is silent or unclear?

- Can the landlord's carrier subrogate against the tenant?



State Positions Vary

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1. The tenant is an implied coinsured – The Sutton Rule/Doctrine

Sutton v. Jondahl, 532 P.2d 478 (Okla. 1975)

.....subrogation should not be available to the insurance carrier because the law considers the tenant as a co-insured of the landlord absent an express agreement between them to the contrary....

Basic equity and fundamental justice upon which the equitable doctrine of subrogation is established requires that when fire insurance is provided for a dwelling it protects the insurable interests of all joint owners including the possessory interests of a tenant absent an express agreement by the latter to the contrary.



State Positions Vary

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2. Subrogation is permitted – Anti-Sutton

- Tenant should be responsible for its negligence.
- Tenant is not a coinsured unless – e.g.
 - The lease requires that the landlord maintain insurance for the benefit of the tenant.
OR
 - The lease exculpates the tenant from loss caused by the tenant's wrongdoing.

3. Case-by-case

- What does the lease say?
- What are the reasonable expectations of the parties?
- Other factors



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MA follows Sutton (sometimes)

Massachusetts follows the “Implied Co-Insured Doctrine”. The term “insured” impliedly includes the tenant. *Peterson v. Silva*, 704 N.E.2d 1163 (Mass. 1999). Absent an express provision in a lease establishing a tenant’s liability, the landlord’s insurance is deemed held for the mutual benefit of both parties. When a residential landlord sues a tenant for damages to the landlord’s property, the Implied Co-Insured Doctrine presumes that the landlord’s liability insurance is held “*for the mutual benefit of both parties*”. This rule applies to residential leases but is generally inapplicable to commercial leases.





MA follows Sutton (sometimes)

Federal Ins. Co. v. Commerce Ins. Co., 2010 WL 716412 (1st Cir. 2010). Massachusetts recognizes that while courts have not distinguished between commercial and residential tenancies in applying *Sutton* (see Oklahoma), commercial tenancies present different considerations, for “[c]ommercial tenants tend to be more sophisticated about the terms of their leases and, unlike residential tenants, commercial tenants generally purchase liability insurance”; thus, commercial tenants will be relieved of liability for negligently caused fire damage only if the lease reveals the parties so intended. *Seaco Ins. Co. v. Barbosa*, 761 N.E.2d 946, 950 (Mass. 2002).



Business Auto Coverage Form CA 00 01 11 20

Liability Exclusion

This insurance does not apply to any of the following:

6. *Care, Custody Or Control*

"Property damage" to or "covered pollution cost or expense" involving property owned or transported by the "insured" or in the "insured's" care, custody or control. But this exclusion does not apply to liability assumed under a sidetrack agreement.



Business Auto Coverage Form CA 00 01 11 20

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1. Who Is An Insured

The following are "insureds":

- a. You for any covered "auto".
- b. Anyone else while using with your permission a covered "auto" you own, hire or borrow except:

...

Section V - Definitions

G. "Insured" means any person or organization qualifying as an insured in the Who Is An Insured provision of the applicable coverage. **Except with respect to the Limit of Insurance, the coverage afforded applies separately to each insured who is seeking coverage or against whom a claim or "suit" is brought.**



Commercial General Liability Form CG 00 01 04 13

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Coverage A Exclusion

This insurance does not apply to:

- j. Damage To Property

"Property damage" to:

- (1) **Property you own, rent, or occupy**, including any costs or expenses incurred by you, or any other person, organization or entity, for repair, replacement, enhancement, restoration or maintenance of such property for any reason, including prevention of injury to a person or damage to another's property;



Possible Solutions

- Damage to Premises Rented to You
- Carrier-specific enhancements
- Legal Liability Coverage Form



Damage to Premises Rented to You CG 00 01 04 13

- Insured must be legally liable for fire damage to the property he rents (other than simply contractually liable.)
- The limit is part of the Each Occurrence CGL limit.
- Erodes the General Aggregate limit



Damage to Premises Rented to You
CG 00 01 04 13

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CGL is written with a \$1,000,000 Each Occurrence limit and \$300,000 Damage to Premises Rented to You limit.

Damages during a fire loss caused by the tenant:

- \$ 500,000 damage to rented space (policy will pay only \$300,000)
- \$ 600,000 damage to neighboring premises
- \$ 100,000 medical payments to 10 injured occupants of the building
- \$1,000,000 paid for this loss

Who will defend the Named Insured when the injured people begin to file lawsuits?



Damage to Premises Rented to You
CG 00 01 04 13

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Surely, the Umbrella will help. Won't it?

- Umbrella likely will not drop down over a sublimit.
- Umbrella likely excludes damage to rented real or personal property.

And what if the Umbrella says this?

*Retained Limit is the sum stated in the Declarations as such. If the policies of underlying insurance do not apply to the occurrence or offense covered by this insurance, the insured shall retain the amount stated as a Self-Insured Retention.....**These retained limits shall only be reduced or exhausted by payment of claims that would be insured by this policy.** The Named Insured shall bear all legal costs and expenses incurred until such time as the retained amounts are exhausted by payment of claims **that would be insured by this policy.***



Damage to Premises Rented to You

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Insurers may:

- Increase limits in enhancement endorsements
- Expand perils to include causes of loss other than fire
- Enhance coverage in other ways using proprietary endorsements



Legal Liability Coverage Form – CP 00 40 10 12

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We will pay those sums that you become legally obligated to pay as damages because of direct physical loss or damage, including loss of use, to Covered Property caused by accident and arising out of any Covered Cause of Loss.

- Insured must be legally liable for damage to the property it rents (other than simply contractually liable.)
 - For building damage from burglary or robbery, contractual liability triggers coverage.
- Basic, Broad or Special Form Cause of Loss is chosen.
- Insurer has the right and duty to defend.



Legal Liability Coverage Form – CP 00 40 10 12

- No deductible applies.
- No coinsurance applies.
- ISO - Multiply the 80% coinsurance building rate by .25
- Form is a cross between property and liability coverage. As such, it includes features common to liability coverage.
 - Supplementary payments (including defense)
 - Coverage for certain automatic insureds if NI is partnership, LLC or corporation (partners, LLC members, executive officers, trustees, directors, stockholders, LLC managers)



CP 10 30 09 17 (Special Form) and the Legal Liability Coverage Form

Certain special form exclusions do not apply.

- Paragraph B.1.a. Ordinance or Law;
- Paragraph B.1.c. Governmental Action;
- Paragraph B.1.d. Nuclear Hazard;
- Paragraph B.1.e. Utility Services; and
- Paragraph B.1.f. War and Military Action

Two additional exclusions are added.

- Contractual liability
- Nuclear hazard (replaces the nuclear exclusion that applies to other coverage forms)



CP 10 30 09 17 (Special Form) and the Legal Liability Coverage Form

Contractual Liability Exclusion

We will not defend any claim or "suit", or pay damages that you are legally liable to pay, solely by reason of your assumption of liability in a contract or agreement. But this exclusion does not apply to a written lease agreement in which you have assumed liability for building damage resulting from an actual or attempted burglary or robbery, provided that:

- (i) Your assumption of liability was executed prior to the accident; and*
- (ii) The building is Covered Property under this Coverage Form.*



Leasehold Interest Coverage Form CP 00 60 06 95

Provides coverage when:

- An insured is a tenant and has a favorable lease and/or invested in his lease or improvements to his space;
- The lease is cancelled by the landlord as a result of direct physical loss of or damage to property from a covered cause of loss; and
- The insured suffers a financial loss as a result.



Leasehold Interest Coverage

Artie's Art Gallery signed a 10-year lease to rent one of nine stores in a building that extends a full block on Main Street. Artie made \$50,000 in improvements to his space and pays rent that is less than the going rate in the area. He got such favorable terms by paying a non-refundable amount of \$100,000 when the lease was initially signed. The lease includes the following clause.

If by fire or other casualty the Premises are totally damaged or destroyed, or the Building containing the Premises is partially damaged or destroyed to the extent of 20% or more of the replacement cost thereof, or the damage to the Building otherwise exceeds the amount of \$25,000 (even though the Premises may not be damaged), Landlord will have the option of terminating this Lease or any renewal thereof by serving written notice upon Tenant within 180 days from the date of the casualty and any prepaid Rent or Additional Rent will be prorated as of the date of destruction and the unearned portion of such Rent will be refunded to Tenant without interest.



Leasehold Interest Coverage

Five years into the lease, the space three stores down from Artie's is severely damaged by fire. Because rents in the area have increased dramatically, the landlord exercises the abatement clause and terminates Artie's lease.

Artie is insured under a Commercial Property Policy with the following limits:

- Business Personal Property \$250,000 limit, Special Form
- Business Income \$500,000 limit, ¼ monthly indemnity



**Leasehold Interest Coverage Form
CP 00 60 06 95**

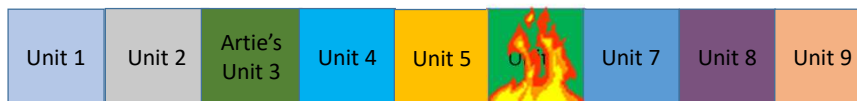
We will pay for loss of Covered Leasehold Interest you sustain due to the cancellation of your lease. The cancellation must result from direct physical loss of or damage to property at the premises described in the Declarations caused by or resulting from any Covered Cause of Loss.

1. Tenants' Lease Interest
2. Bonus Payments
3. Improvements and Betterments
4. Prepaid Rent



**Leasehold Interest Coverage Form
CP 00 60 06 95**

100 Main Street, Anytown, USA



How should the premises be described on Artie's Leasehold Interest Coverage?



**Leasehold Interest Coverage Form
CP 00 60 06 95**

- a. **Tenants' Lease Interest**, meaning the difference between the:
- (1) Rent you pay at the described premises; and
 - (2) Rental value of the described premises that you lease.

CP 00 60 06 95 Copyright, ISO Commercial Risk Services, Inc., 1994



**Leasehold Interest Coverage
Form (CP 00 60 06 95)**

In order to understand net leasehold interest, one must first understand gross leasehold interest.

F. DEFINITIONS

1. **"Gross Leasehold Interest"** means the difference between the:
 - a. Monthly rental value of the premises you lease; and
 - b. Actual monthly rent you pay including taxes, insurance, janitorial or other service that you pay for as part of the rent.
 This amount is not changed:
 - (1) Whether you occupy all or part of the premises; or
 - (2) If you sublet the premises.

CP 00 60 06 95

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Page 4 of 4



Leasehold Interest Coverage Form (CP 00 60 06 95)

F. DEFINITIONS

3. "Net Leasehold Interest":

- a. Applicable to Tenants' Lease Interest.

"Net Leasehold Interest" means the present value of your "gross leasehold interest" for each remaining month of the term of the lease at the rate of interest shown in the Leasehold Interest Coverage Schedule.

The "net leasehold interest" is the amount that, placed at the rate of interest shown in the Leasehold Interest Coverage Schedule, would be equivalent to your receiving the "Gross Leasehold Interest" for each separate month of the unexpired term of the lease.

To find your "net leasehold interest" at any time, multiply your "gross leasehold interest" by the leasehold interest factor found in the table of leasehold interest factors attached to this form.

CP 00 60 06 95

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Page 4 of 4



Leasehold Interest Example Tenant's Lease Interest

- \$10,000 monthly rent paid
- \$12,000 monthly rent for equivalent space
- Gross leasehold interest is \$2,000 per month
- 60 months left on the lease as of policy inception
- Maximum exposure of \$120,000 (60 x \$2,000)
- Net Leasehold Interest is the sum that equals what the insured would have at the end of 60 months if he invested the amount paid at a specified rate of interest.
- Using a rate of return of 6%, the leasehold interest factor is 51.9238. (this number is found on the endorsement)
- $\$2,000 \times 51.9238 = \$103,847.60$ net leasehold interest



Endorsements are available for interest rates between 5% and 15% and cover periods up to 400 months.

e.g. CP 60 06 11 85

COMMERCIAL PROPERTY

LEASEHOLD INTEREST FACTORS FOR 6.0%

This endorsement provides supplementary information to be used with the following:

LEASEHOLD INTEREST COVERAGE FORM

MONTH	FACTOR	MONTH	FACTOR	MONTH	FACTOR	MONTH	FACTOR
1	0.9952	52	45.8429	103	80.8528	154	108.1829
2	1.9955	53	46.6160	104	81.4563	155	108.6540
3	2.9710	54	47.3854	105	82.0569	156	109.1229
4	3.9518	55	48.1510	106	82.6546	157	109.5894
5	4.9278	56	48.9129	107	83.2494	158	110.0537
6	5.8991	57	49.6711	108	83.8413	159	110.5158
7	6.8657	58	50.4257	109	84.4303	160	110.9756
8	7.8276	59	51.1766	110	85.0165	161	111.4332
9	8.7848	60	51.9238	111	85.5998	162	111.8886
10	9.7374	61	52.6675	112	86.1803	163	112.3417
11	10.6854	62	53.4075	113	86.7580	164	112.7927
12	11.6288	63	54.1439	114	87.3329	165	113.2415
13	12.5676	64	54.8768	115	87.9050	166	113.6881
14	13.5019	65	55.6062	116	88.4744	167	114.1326
15	14.4317	66	56.3320	117	89.0410	168	114.5749



CP 60 05 11 85 - LEASEHOLD INTEREST FACTORS FOR 5.0%
 CP 60 06 11 85 - LEASEHOLD INTEREST FACTORS FOR 6.0%
 CP 60 07 11 85 - LEASEHOLD INTEREST FACTORS FOR 7.0%
 CP 60 08 11 85 - LEASEHOLD INTEREST FACTORS FOR 8.0%
 CP 60 09 11 85 - LEASEHOLD INTEREST FACTORS FOR 9.0%
 CP 60 10 11 85 - LEASEHOLD INTEREST FACTORS FOR 10.0%
 CP 60 11 11 85 - LEASEHOLD INTEREST FACTORS FOR 11.0%
 CP 60 12 11 85 - LEASEHOLD INTEREST FACTORS FOR 12.0%
 CP 60 13 11 85 - LEASEHOLD INTEREST FACTORS FOR 13.0%
 CP 60 14 11 85 - LEASEHOLD INTEREST FACTORS FOR 14.0%
 CP 60 15 11 85 - LEASEHOLD INTEREST FACTORS FOR 15.0%



**Leasehold Interest Coverage Form
CP 00 60 06 95**

- b. **Bonus Payments**, meaning the unamortized portion of a cash bonus that will not be refunded to you. A cash bonus is money you paid to acquire your lease. It does not include:
- (1) Rent, whether or not prepaid; or
 - (2) Security

CP 00 60 06 95 Copyright, ISO Commercial Risk Services, Inc., 1994



**Leasehold Interest Coverage Form
CP 00 60 06 95**

- d. **Prepaid Rent**, meaning the unamortized portion of any amount of advance rent you paid that will not be refunded to you. This does not include the customary rent due at:
- (1) The beginning of each month; or
 - (2) Any other rental period

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Payment of a Bonus Payments/Pre-paid Rent claim

Example:

- 10-year lease
- \$100,000 non-refundable bonus payment (or pre-paid rent) made at the beginning of the lease period
- Loss half-way through the lease

$\$100,000 \times 1825$ (days left in lease) = $\$182,500,000$

$\frac{\$182,500,000}{3650}$ (days in lease) = $\$50,000$



Leasehold Interest Coverage Form CP 00 60 06 95

c. **Improvements and Betterments**, meaning the unamortized portion of payments made by you for improvements and betterments. It does not include the value of improvements and betterments recoverable under any other insurance, but only to the extent of such other insurance.

Improvements and betterments are fixtures, alterations, installations or additions:

- (1) Made a part of the building or structure you occupy but do not own; and
- (2) You acquired or made at your expense but cannot legally remove.

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Payment of a TIB claim under Leasehold Interest

Example:

- 10-year lease
- \$50,000 Improvements and Betterments made at the beginning of the lease period
- No damage to Improvements and Betterments, but NI must leave them behind.

$$\$50,000 \times 1825 \text{ (days left in lease)} = \$91,250,000$$

$$\frac{\$91,250,000}{3650 \text{ (days in lease)}} = \$25,000$$



CP DS 07 10 00 - LEASEHOLD INTEREST COVERAGE SCHEDULE

This endorsement provides supplementary information to be used with the following:

LEASEHOLD INTEREST COVERAGE FORM

Inception Date of Lease _____ Months Remaining at Inception _____
 Expiration Date of Lease _____ % Interest _____

The Leasehold Interest Coverage Form applies to the items described below for which an amount of "Net Leasehold Interest" At Inception is shown:

	"Gross Leasehold Interest"	"Monthly Leasehold Interest"	"Net Leasehold Interest" At Inception	Premium
Tenants Lease Interest	\$ _____ per month	xxxxx	\$ _____	\$ _____
Bonus Payments	xxxx	\$ _____	\$ _____	\$ _____
Improvements And Betterments	xxxx	\$ _____	\$ _____	\$ _____
Prepaid Rent	xxxx	\$ _____	\$ _____	\$ _____
Total Covered Leasehold Interest			\$ _____	\$ _____



Calculating the Limit of Insurance (TIB, Bonus Payments, Prepaid Rent)

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- Calculated by dividing the original costs by the number of months in the lease at the time of the expenditure (monthly leasehold interest)
- Does not consider any options to renew for an additional period of time
- Net leasehold interest is the "monthly leasehold interest" times the number of months remaining in the insured's lease.

F. DEFINITIONS

2. **"Monthly Leasehold Interest"** means the monthly portion of covered Bonus Payments, Improvements and Betterments and Prepaid Rent. To find your "monthly leasehold interest", divide your original costs of Bonus Payments, Improvements and Betterments or Prepaid Rent by the number of months left in your lease at the time of the expenditure.



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Calculating the Limit of Insurance (TIB, Bonus Payments, Prepaid Rent)

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Monthly leasehold interest is used in defining net leasehold interest.

3. "Net Leasehold Interest":

- b. Applicable to Bonus Payments, Improvements and Betterments or Prepaid Rent.

"Net Leasehold Interest" means the unamortized amount shown in the Schedule. Your "net leasehold interest" at any time is your "monthly leasehold interest" times the number of months left in your lease.



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Calculating the Limit of Insurance (TIB, Bonus Payments, Prepaid Rent)

Insured has a new 10 year lease (120 months)
Insured put in \$120,000 TIB at the beginning of the lease.

\$ 1,000 Monthly Leasehold Interest Per Month
X 120 months left on lease at inception
\$120,000 Net Leasehold Interest at Inception

Fast Forward – 5 years later

\$ 1,000 Monthly Leasehold Interest Per Month
X 60 months left on lease at inception
\$60,000 Net Leasehold Interest at Inception



Thank You for Being Here!



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