

# COVID-19 and Business Interruption

## *Real Estate Industry*

April 2020

COVID-19 is an unprecedented and constantly evolving pandemic. Lockton is concerned about the effects of COVID-19 on our real estate clients' businesses. Along with you, we are watching what is likely to be the largest adverse impact to business in history. Unprecedented numbers of businesses will be financially affected by COVID-19. Many clients are reaching out wondering if there is any insurance coverage that might provide some relief from these losses.

Property and Casualty insurers will evaluate numerous elements in determining their coverage position for presented claims. Please see our in-depth coverage document that identifies the factors which will be considered during the coverage evaluation process: <https://lockton.global/3akkgFA>

Please also reference our business interruption checklist, which helps compile necessary documents should there be a government directive on exposure: <https://lockton.global/39ADnd6>

Lockton recognizes that your real estate business may be suffering a loss. While insurance coverage and/or government assistance may be uncertain, the loss to your business is real. Lockton wants to provide you with tools to proactively monitor the impact to your operations and document your business loss. Tracking and preserving this data could be the differentiator in any future coverage battle. The following are some areas of potential loss to be considered and documented:

### Loss of Rental Revenue

- Tenants not paying rent or requesting rent abatement because of COVID-19–related job loss
- Tenants not paying rent or requesting rent abatement due to COVID-19 illness and/or long hospital stay
- Tenants not paying rent or requesting rent abatement due to quarantine, based on family member with COVID-19
- Tenants not paying rent or requesting rent abatement due to work loss from child care or school closure
- Tenants not paying rent or requesting rent abatement due to governmental directive or guidance by the National Multifamily Housing Council (NMHC)
- Loss of student rent due to school closure
- Student tenants requesting release from lease due to COVID-19 illness of roommate
- Late fees not paid due to governmental directive or NMHC guidance waiving late fees for a period of time
- Return of deposits or rents to student tenants due to college closure due to COVID-19
- Tenants requesting rent abatement for closed amenities (fitness center, business center, clubhouse, tennis courts, pool, and hot tub)
- Unfilled vacancies, decline in occupancy, or inability to attract new tenants due to inability to show units or inability to rent units in buildings with positive COVID-19 tenants
- Inability to rent vacant units due to COVID-19 shelter-in-place directives

## Loss of Ancillary Revenue

- Lost revenue from closed amenities (exercise equipment rental fees, Wi-Fi charges for business center)
- Loss of pet rent and nonrefundable pet fee
- Returned checks or late charges
- Month-to-month fees
- Utility bill-back income
- Cable income
- Credit report income

## Expenses

- Costs to close amenities; physical closure costs (signs, locks, barricades); and soft costs (tenant memos, employee time to send and respond to emails, setting up online communication sites, removing furniture in common areas to promote social distancing, monitoring entrances)
- Extra cleaning and disinfecting costs for amenities that remain open; providing cleaner and cloths for wiping down exercise equipment; cleaning and disinfecting rental office, gloves for staff, hiring staff or repurposing staff to perform cleaning functions
- Employee wages or additional staff costs to prevent contamination or to prevent other COVID-19-related damages
- Staff wages for COVID-19-related tasks such as tracking exposure, answering tenant questions, and other activities that take away productivity from normal business operations
- Maintenance and other staff requesting hazard pay for entering residential units
- Extra cleaning costs after tenant move out due to COVID-19

- Extra expenses due to residents being quarantined in place, such as a spike in electric, water, or gas usage due to more people being home during the day when they would normally be at work or school. Utility receipts pre- and post-breakout should be maintained for documentation
- Costs of cleaning out units, disposing of property of deceased tenants with no family
- Moving costs and temporary storage fees for contents of tenants deceased from COVID-19
- Costs of cleaning and disinfecting units of tenants infected or suspected COVID-19 infection

## Workforce Issues

- Impact to business operations due to workforce availability
- Wages paid to idle employees or nonproductive employees or employees performing in an inefficient manner due to work from home
- Additional operating costs due to work-from-home directives or to facilitate social distancing in the workplace
- Loss of security services due to COVID-19 exposure and resultant issues from lack of security or need to hire replacement security services

This is not an all-inclusive list due to the changing nature of the questions. Lockton recommends that you document all damages being incurred related to COVID-19, regardless of any decisions that may be made related to coverage by your insurance carrier(s).

Your Lockton real estate team and claim consultant are available to answer questions and to support you through this process.