Rent Loss vs. Business Interruption Insurance

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Landlords and Tenants sometimes confuse these two terms, which have totally different meanings but apply to similar situations. Each can cover circumstances where a casualty or other unforeseen event occurs which disrupts a Tenant's business, thereby precluding the Tenant from earning revenue with which to pay its rent.

Leases can provide for two different outcomes in such a scenario. It may be that the Lease allows the Tenant to abate (temporarily cease paying) the rent for the duration of the casualty or event (i.e., the period in which the Tenant can't operate its business). In this case, the Landlord needs a source of funds to replace the rent it does not get from the Tenant during the period of abatement. That is what Rent Loss Insurance is intended to cover.

Alternatively, the Lease may require the Tenant to continue paying its rent notwithstanding the casualty or unforeseen event. In this case, the Tenant needs a source of funds to replace the revenue it loses due to the interruption of its business, so that it can continue to pay the rent. That is what Business Interruption Insurance is intended to cover.

Accordingly, whether one or the other is appropriate depends on whether the Lease gives the Tenant the right to abate the rent. If so, the Landlord will want to obtain Rent Loss Insurance. If not, the Tenant will want to obtain Business Interruption Insurance.

Of course, a Leases may not provide for the total abatement of rent in the event of a casualty or unforeseen event. Either form of insurance is adaptable to a partial abatement. If the rent abates by half, the Tenant may want business interruption insurance to cover the half of the rent it still has to pay, and the Landlord may want Rent Loss Insurance to cover the other half of the rent it does not receive.

Since rent is only one of a Tenant's many business expenses, a Tenant may still want Business Interruption Insurance even if the rent is abated, so that it has a source of funds to pay its other expenses.

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Typically each party pays for its own insurance, but like any other contract a Lease can be negotiated to allocate expenses any way the parties see fit (or have the leverage to impose). This includes insurance premiums.

Insurance policies are contracts that are notorious for their fine print, which often contains exclusions from and limitations on coverage. Ideally, each party to a Lease has a good insurance agent who will look out for their interests when it comes to the placement of either type of insurance.