



LEASEHOLD INTEREST

For an additional premium, *we* provide coverage under this endorsement subject to the *terms* contained in the General Policy Provisions.

WHAT WE PAY FOR

We pay for the loss of *your Leasehold Interest* as a result of the cancellation of *your* lease. The cancellation must result from direct physical loss or damage to covered property at the premises described on the Declarations page, and the loss must have been caused by or result from a peril insured against under this policy.

Leasehold Interest.

Leasehold Interest means the following for which an amount of *net leasehold interest* is shown in the *Leasehold Interest Schedule*:

- a. *Tenants' Lease Interest* means the difference between the:
 - (1) rent *you* pay at the described premises; and
 - (2) rental value of the described premises that *you* lease.
- b. *Bonus Payments* means 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.
- c. *Improvements and Betterments* means 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* acquire or made at *your* expense but cannot legally remove.
- d. *Prepaid Rent* means the unamortized portion of any amount of advance rent *you* paid that will not be refunded to *you*. This does not include the normal rent due at:
 - (1) the beginning of each month; or
 - (2) any other rental period.

HOW MUCH WE PAY FOR LOSS OR CLAIM

- a. *Tenants' Lease Interest*-The most *we* will pay because of the cancellation of any one lease is *your net leasehold interest* at the time of loss. *Your net leasehold interest* decreases automatically each month. The amount of *net leasehold interest* at any time is *your gross leasehold interest* multiplied by the *leasehold interest* factor for the remaining months of *your* lease. A proportionate share applies for any period of time less than a month.
Refer to the Leasehold Interest Schedule for the table of *leasehold interest* factors.
- b. *Bonus Payments, Improvements and Betterments and Prepaid Rent*-The most *we* will pay because of the cancellation of any one lease is *your net leasehold interest* at the time of loss. *Your net leasehold interest* decreases automatically each month. The amount of each decrease is *your monthly leasehold interest*. A proportionate share applies for any period of time less than a month.
If *your* lease is canceled and *your* landlord allows *you* to continue to use *your* premises under a new lease or other arrangement, then the most *we* will pay for loss because of the cancellation of any one lease is the difference between the:
 - (1) rent *you* now pay; and
 - (2) rent *you* will pay under the new lease or other arrangement.

The following Loss Condition is added to *your* policy:

Vacancy.

If the building where direct physical loss or damage occurs has been vacant for more than 60 consecutive days before the loss or damage, and:

1. *You* have entered into an agreement to sublease the described premises as of the time of loss or damage, *we* will:

- a. not pay for any loss caused by any of the following causes of loss even if they are covered causes of loss under **your** policy:
 - (1) vandalism;
 - (2) sprinkler leakage, unless **you** have protected the system against freezing;
 - (3) building glass breakage;
 - (4) water damage;
 - (5) theft; or
 - (6) attempted theft.
 - b. reduce the amount **we** would otherwise pay for the loss by 15%.
2. **You** have not entered into an agreement to sublease the described premises as of the time of loss or damage, **we** will not pay for any loss of **your leasehold interest**.
- Buildings under construction are not considered vacant.

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 as part of the rent.

This amount does not change:

- (1) whether **you** occupy all or part of the premises, or
- (2) if **you** sublet the premises.

EXAMPLE:

Rental value of your leased premises	\$4,800
Monthly rent including taxes, insurance, janitorial or other services that you pay for as part of the rent	<u>- 4,000</u>
The Gross Leasehold Interest	\$ 800

2. **Monthly Leasehold Interest** means the monthly portion of **Bonus Payments, Improvements and Betterments and Prepaid Rent**. To determine **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.

EXAMPLE:

Original Cost of Bonus Payment (Improvements and Betterments or Prepaid Rent)	\$9,000
24 months left in the lease at the time of Bonus Payment	<u>/ 24</u>
Monthly Leasehold Interest	\$375

3. **Net Leasehold Interest**.

- a. **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 Schedule**.

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

To determine **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 the **Leasehold Interest Schedule**.

EXAMPLE: (20 months left in lease, 10% effective annual rate of interest).

Gross Leasehold Interest	\$1,000
Leasehold Interest Factor	<u>x 18.419</u>
Net Leasehold Interest	\$18,419

- b. **Bonus Payments, Improvements and Betterments** or **Prepaid Rent**. **Net Leasehold Interest** means the unamortized amount shown in the **Leasehold Interest Schedule**. **Your net leasehold interest** at any time is **your monthly leasehold interest** multiplied by the number of months left in **your** lease.

EXAMPLE:

Monthly Leasehold Interest	\$375
10 months left in the lease	<u>x 10</u>
Net Leasehold Interest	\$3750