

Seven Reasons Why Renters Insurance is Vital to Landlords

Reason #1

Owner Occupied Apartments or Multi-Family Buildings Do Not Cover Owner's Personal Property or Liability

First, let's take care of number one — you need renters insurance if you live in the same building where you rent residential units. Your apartment insurance policy excludes coverage on any of your personal belongings. The contents or business personal property section of your owner's policy will only cover "business" property, like lawn chairs, tools in the shed like the lawn mower, stoves and refrigerators that you provide for the units, etc. Your home stereo, personal computer, flat-screen television, microwave, DVD collection, furniture, luggage, etc., is not covered by your apartment business policy. Renters Insurance is the easiest and least expensive way to get coverage on any of your personal property.

Your apartment building policy does not cover you for personal liability. The liability on your business policy for the apartment building is only good for covering business liability claims, like when a tenant slips and falls down the stairs.

If your dog bites someone, or if your child runs into a sweet old lady while he's out riding his bicycle or you throw a party and your guests get sick with ptomaine from the bad bologna in the finger sandwiches you served them, you have no coverage in any of those situations.

For owners who reside at the properties they rent, they need to buy either a renter's insurance policy or a condominium unit owner's policy and the renters policy is cheaper.

The property and liability coverage on the renters policy works exactly like a homeowner's policy.

Reason #2

Your rights of recovery are better protected when a tenant becomes legally liable to reimburse you for property damages to your apartment building.

You've heard the old saying — "You can't get blood out of turnip." Let's face it. If a tenant caused extensive damage to your apartment building, by, let's say started a fire by leaving something burning on the stove, or fell asleep smoking, you would need to pay for the damages with your own money and file a claim under your insurance policy. Even if you have an iron-clad lease, any experienced landlord knows from all of the uncollectible eviction judgments that tenants usually have limited means in which to pay judgments.

Owners that lease commercial space have an insurance requirement built directly into their leases. It looks something like this:

Insurance

Lessee, at his expense, shall maintain plate glass and public liability insurance including bodily injury and property damage insuring Lessee and Lessor with minimum coverage as follows:

Lessee shall provide Lessor with a Certificate of Insurance showing Lessor as additional insured. The Certificate shall provide for a ten-day written notice to Lessor in the event of cancellation or material change of coverage. To the maximum extent permitted by insurance policies which may be owned by Lessor or Lessee, Lessee and Lessor, for the benefit of each other, waive any and all rights of subrogation which might otherwise exist.

Here's an insurance clause, taken from an industrial lease. The basic message of this clause is that the tenant understands that they must carry insurance, name the owner as an additional insured under their policy, and give advance notice in case the insurance is cancelled.

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other, waive any and all rights of subrogation which might otherwise exist.

Once the tenant signs this form of a commercial lease, the tenant becomes contractually required to carry liability insurance. That immediately creates protection for the landlord against damage to the rental unit, caused by the tenant. When the owner is named as additional insured on the tenant's policy that assures that if your name is dragged along into a legal situation that involves them, their insurance, and not your insurance, will provide for funding your defense. If they keep a dog, for example, and that dog bit someone and you got sued, the tenant's insurance would pay for a lawyer to defend you and pay for the claim. This clause also mentions *subrogation*. Waiving subrogation against each other simply means that since each party has insurance to cover their own accidents, the owner and tenant do not need to sue each other for reimbursement.

One of my customer's tenants had this peculiar habit of conducting her worship rituals with a candlelight altar. The problem was that her altar was located in her bedroom closet, with all of her clothes hanging just above the area. One night, her candles caused a fire resulting in over \$150,000 damage to the building. The landlord's insurance company sent the tenant a letter seeking reimbursement since she had caused the fire. The tenant was of middle-lower income, and therefore unable to pay, and carried no insurance. Had the tenant carried liability insurance, her insurance company would likely have reimbursed the owner's insurance company, and the owner would not have a \$150,000 claim on his insurance policy. Had the tenant been of sufficient means but uninsured, it is quite likely that the insurance company would have pursued the tenant.

In the scope of running a normal business, the company usually insures a key man to the organization. Your tenants are the "key man" of your business, because they provide your income, and insuring them makes good business sense for the apartment owner.

Reason #3

When tenants carry renters insurance, it means a lot less headaches for everyone.

Recently, one customer experienced having one of his tenants drive her car right through the exterior wall of the building, into another tenant's living room. The tenant with the car in his living room approached the owner for reimbursement of hotel bills while the

damage was being repaired. When the owner called me for advice, I instructed him to refer the tenant to the automobile insurance carrier of the tenant who caused the damage. The landlord was in no way responsible for providing alternative housing for these tenants because another tenant was responsible, not the building owner. The driver is responsible, in addition to the damage to the unit, to the other tenant for his family's additional expenses of staying in the hotel, and additionally responsible for reimbursing the building owner for the owner's loss of revenues, if any. Renters insurance includes additional living expense coverage which would have covered the renter's hotel bill in this situation where building damage caused him to become temporarily displaced.

Since there was no renters insurance, my landlord customer received several phone calls, the resident manager received several phone calls and my client received two letters from an attorney. A nasty situation was created because the tenants were unfortunate victims of another driver, but the apartment owner suffered by suffering in two ways, having building damage and a hostile tenant with misdirected expectations.

Reason #4

When all of your tenants carry renters insurance, the rest of your apartment insurance might cost less.

In many cases, insurance underwriters have some discretion in lowering your rates. In the insurance world, something exists called an "Individual Risk Premium Modification Credit". This is the secret sauce that lowers your insurance rates. What happens is that an underwriter may be able to lower your premiums by as much as 50%, depending on solid criteria that they can document. They don't want to give these up for no reason, otherwise their company can be sued by a disgruntled insurance customer who complained he did not receive a fair rate and that John Doe got a better price for no reason. The underwriters will give these sacred IRPM premium credits for justifiable factors like safety programs, stable management history, ultra-low long term eviction rates, and a building consisting of 100% insured tenants. The potential credits available with some carriers may even help offset much of the cost of the tenant insurance program.

Reason #5

When you provide a low-cost or no-cost renters insurance program for your tenants, you gain a competitive advantage over other landlords

If you are in a position to include all or part of the monthly premium for a tenant, you offer a service that most other landlords do not offer. You need to have every possible advantage that you can in order to attract tenants. With the glut of unsold homes on the market and as home-sales decline, owners are getting smart and leasing these vacant homes to help cover their mortgages and other expenses. Tenants now can strike up leases on homes for just a little more than what they would pay to live in an apartment building. Apartment owners now need to look for every edge they can to keep and attract tenants. People who rent do so to save money, have little or no maintenance overhead, to have the security of close neighbors and to have the freedom of changing locations if they want or need to move. Having an established renters insurance program gives prospective tenants one more reason to choose your apartment instead of your competitor's apartment building next door.

Reason #6

Insured tenants are more stable and likely to stay after a claim

Picture a tenant who comes home to find that his apartment has just been robbed. Thousands of dollars of electronic and other items are missing. The tenant is shocked, bewildered and in a state of complete emotional panic. Part of the blame will shift toward the landlord for nothing more than the fact that the theft was able to happen (never mind the fact that his teenage son's friend has been casing the place for weeks). The tenant may become hard pressed to replace the items and may even slow up on the rent, not to mention considering a move because his privacy and security have been breached. Somewhere between the police report and all of the phone calls, some of the grief will be directed toward the landlord. Now picture an insured tenant. There is still shock and bewilderment and outrage for the robbery, but now the tenant considers the landlord an ally, that is, an ally who will help to replace all of the missing items. The tenant just picks up the phone to call either the landlord or the insurance agent, and who does the tenant think of when they look at all the new items to replace the lost ones? The tenant thinks of **you**, that's who! This tenant will talk, and the talk will be all about the great landlord that had him insured and got his things replaced.

You can't even buy advertising like that!

Reason #7

Sponsoring a renters insurance program creates goodwill for a landlord

With all of the pummeling of landlords by the media, television shows, movies, news stories and even politicians, there is some adversity in the perception of a landlord. Like it or not, much of the world sees the difference between landlords and tenants as the haves and the have-nots. Juries are largely made up of tenants, not building owners. Providing a renter's insurance program encourages and reinforces a positive relationship between the tenant and the landlord. A tenant sees a landlord who provides insurance as someone who looks out for the best interests of the tenant. A tenant who has his claim or legal liability covered by the insurance policy that the landlord provided is less likely to litigate against the landlord. When a tenant gets a welcome packet that includes a renters insurance policy, along with their copies of the rental/lease agreement inside and other receipts, that creates goodwill, and at a minor cost.