



## Landlord Insurance Basics

### Single Family and 2 to 4 Unit Properties

Landlord Insurance (also called hazard insurance) is essentially insurance covering the physical structure for most types of damage. Always purchase, when possible, the Broad or Special Form contract.

Coverage exclusions include (but are not limited to) damage caused by an earthquake, a flood, wear & tear, mold, animals (including rodents, birds, etc.), war, and illegal or intentional acts (such as malicious damage caused by a renter).

Hazard Insurance should be written to incorporate enough insurance to replace the structure following a devastating fire. Preferred policies include extra protection over and above the policy limits, called Extended Replacement Cost.

Example: If insurance provides 125% of the dwelling limit to replace the structure in the event of a total loss, a home insured at \$200,000 has \$250,000 of protection.

Extended Replacement Cost is not always available in our current insurance crises, so it is important to establish suitable insurable values.

Hazard policies may provide personal property (rent ready contents) and loss of rental income protection for an unattached property and rental income loss resulting from insured damages. This coverage may not be automatic, so ask for it.

A landlord's policy must include liability coverage to protect and defend you against bodily injury or property damage claims from another person from the owner of the property. We suggest a minimum of \$1,000,000 or more landlord liability protection.

Be sure to verify that your policy includes coverage for dog bite claims (if your property is pet friendly) and personal injury protection for allegations of slander & wrongful eviction.

If you move your property to an LLC or other entity, advise your insurance agent to add the entity as an Additional Insured. If your property manager requires being named as an Additional Insured, your agent can add them as well at no cost to you if they are working with a landlord friendly carrier.

Deductibles are a good thing. We recommend a minimum of about \$2,500 to \$5,000 for multi-family properties.

## **Condominiums & Townhomes**

These are different from insuring single-family homes. Verbiage like Special vs. Broad forms, Additional Insured, LLCs, etc. are the same.

However, ensuring the structure and your personal property is different. While the HOA usually insure only the exterior, ask your HOA a few more questions about the levels of protection as most HOA's are different.

For example, your HOA may allow for coverage inside the unit as well.

What HOA's generally do not cover:

1. Protection for damage to your unit is limited. You may need to insure your interior improvements; everything inside the walls. Make sure your agent clarifies your insurance responsibilities and obtains at least \$50,000 in protection for inadequate HOA coverage; you must ask for this coverage as carriers do not voluntarily provide it.
2. Loss of rental income due to damage; always ask for it.
3. Personal injury, renter damage, worker's compensation, etc.
4. the deductible resulting from a claim from your unit or the common area.
5. Damages to other units resulting from legal liability for an event emanating from your unit.

Ask a lot of questions from the HOA management. For example:

*"My water line, connected to my washing machine, broke and water ran everywhere. It caused damage to my unit and to the adjacent unit. The damage included my floor, cabinets, walls, the floor and ceiling between the adjacent units, and of course there is damage to the common structure. What damage will be covered by the association's insurance? What is my responsibility under the association's current policy, CC&Rs, and the By-Laws?"*

## **Protection Issues for Dwellings & Condos**

Depending on your property's location, you may want to know of any of these exclusions could cause you financial hardship, call your agent to discuss if:

- Sinkholes are excluded but endorsements are available.
- Wind pools will provide wind coverage.
- Earthquake & flood insurance policies are excluded under regular property insurance policies.
- Vacant Properties (generally unoccupied for 30 to 60 days) are subject to limited or no protection from fire, vandalism, and additional types of specific damage unless the policy is rewritten.
- Burst water pipes, resulting from a freeze and causing home interior damage, are excluded in vacant properties from the day of vacancy.

- Water & sewer backup damage coverage may be provided for loss caused by water which backs up through, or overflows from, a sewer, drain, sump pump, or any system on the premises designated to remove subsurface water from the foundation area. This damage is excluded unless endorsed onto the policy with limits of \$5,000 or \$10,000.
- If you give a renter a break on rent in exchange for doing tasks for you on the property, it creates an employer/employee relationship, and you now need Workers Compensation.

### **Umbrella Liability Insurance**

An umbrella liability policy provides additional protection to your primary limits of coverage. It is generally written in increments of \$1,000,000, in addition to your auto, home and rental insurance policies.

Basically, umbrella policies kick in when a claim exceeds this first layer of protection. You must be sure that the limits of the primary policy (the first layer) end where the umbrella policy's layer begins.

Make sure all entities (you and any spouse, trust, or LLC) are listed on your primary and umbrella policies, and you must request this.

Generally, umbrella policies will not cover actions outside of what the primary layer will cover. A good example of this is tenant discrimination as these will most likely not be covered by either the rental or the umbrella policy. Other policy options are available for this.

### **Other Tips**

One: It is likely your loan will be sold to another lender or transferred to other loan servicers. Please be sure to let your agent know if this occurs to update your policy accordingly to avoid the risk of cancellation due to non-payment for escrowed accounts.

Two: If you change your mailing address, you may not receive your renewal insurance documents, so always let your agent know when you move.