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Landlord's Insurance Policy

Those of us that own rental properties should expect that at some time we will be sued. As any other business owner, we are sometimes viewed as someone with assets and there will always be someone that wants to grab those assets.

The first line of defense in protecting yourself is a good Landlord Policy. Landlord policies cover liability risks as well as property damage. A landlord policy is designed to cover the risks associated with owning rental properties. Most insurance companies offer landlord policies, however, they can differ in many ways. Here are some things to consider when you buy a landlord policy:

- 1. All Risks Provision.***

Basic landlord policies only cover natural disasters (fire, windstorms, tornadoes, and floods). This may not be enough coverage. A policy with an All Risks Provision expands basic coverage to include such things as theft, vandalism, and malicious mischief. If you have this coverage it will cover the damages caused by an angry tenant spray-painting the walls black to get back at you for some perceived wrong done to them, or the cost of a tenant taking your refrigerator when they move out. It shouldn't cost a lot to upgrade and in some neighborhoods it would be money well spent. Talk to your insurance agent about an All Risks Provision.

- 2. Many landlord policies reduce (or cancel) coverage if the property is vacant more than 30 days.***

Make sure you know what the premium changes to or what coverage is dropped during a vacancy.

- 3. Loss of Rents Provision.***

A Loss of Rents Provision means if the house burns down, the insurance company will continue paying you rent until the house is back in rent-ready condition. Without this provision you will be funding your own mortgage during the repair period.

- 4. Increase your liability coverage.***

In today's world you need more than the basic \$300,000.00 or so of basic coverage. Most companies offer \$500,000 or \$1,000,000 for little in additional in premium. If it doesn't cost more than \$50.00 or so per year to raise your coverage to \$500,000 it would be money well spent.

5. ***Make sure your property manager is covered.***

Most management agreements require the manager's name added as an "additional insured" for the purpose of liability. If a house burns down and a lawsuit develops over wrongful death, your insurance carrier doesn't want to fight with the management company's insurance carrier over who is at fault. It shouldn't cost anything to add them to the policy. You can add your manager through an endorsement if the language in the policy does not automatically cover them. Make sure your property manager is covered. It is a standard practice in the industry and costs you nothing.

6. ***Shop around for good coverage.***

Like any other insurance there is good coverage, and not so good coverage.

7. ***Consider a Personal Umbrella Liability policy.***

You should always carry a Personal Umbrella Liability policy. Consider at least \$1,000,000 policy. It covers any non-excluded item that you own and is much cheaper than higher limits of liability on each individual policy.

8. ***Consider a Commercial Umbrella Liability policy.***

When you own a certain number of rental properties your personal umbrella policy may not cover them. The company may just stop covering you the day you buy your next property (every company has their own formula). A Commercial Umbrella Policy is reasonable and covers everything you own without limits.

Insurance agents that understand investor issues

Talk to a competent insurance agent for reliable information on this subject. These notes are just guidelines to get you started in the right direction and asking the right questions. Make sure that your insurance agent understands issues regarding investment real estate. How you hold title (as an individual, corporation, LLC or other means) can affect your coverage and possibly your rates. It may take some investigation but there are agents out there that understand these issues. Be sure you find one.