

Decrease Your Risk and Increase Your NOI with Renter's Insurance

By Dirk Wakeham

A recent independent telephone survey of 1,000 people conducted by the Independent Insurance Agents & Brokers of America (IIABA) found that nearly two-thirds of more than 80 million individuals living in U.S. rental properties do not have renters insurance. (In this instance, the term "renters insurance" is a broadly used term. Technically, it covers both the resident's personal property and liability for the property damage he or she causes.)

While the survey did not distinguish between single and multi-family rentals, the disturbing finding is of great concern to apartment owners whose property insurance premiums have skyrocketed in the past few years. The increased premiums also include larger deductibles, causing more financial exposure. Thus, these factors are having a negative impact on property's net operating income (NOI), which in turn hurts the capitalized value of the real estate.

The survey found that a frequent reason many renters reportedly give for not purchasing renters insurance is due to a common misconception - they believe they are covered under their landlord's insurance in the event of fire or theft. Many residents also neglect to obtain insurance because they believe accidents such as fire, theft or floods can't happen to them.

Overview of the Problem

To truly comprehend how this recent finding negatively affects a property and to pursue a solution, you must first understand the problem at hand.

Apartment communities carry property insurance with per occurrence deductibles typically ranging from \$5,000 to \$500,000. A majority of resident-caused claims, however, fall way short of this. Therefore, communities typically pay for such accidents through an operational or maintenance budget, which hurts their NOI.

Consider this example:

A resident accidentally walks away from a plugged sink. It overflows and causes significant water damage to the unit and to some of the individual's personal possessions. Damages to the unit total \$8,000, which fall short of the \$10,000 property insurance deductible.

The community does not require residents to carry renters or liability insurance, so the resident has neither. As a result, the owner simply absorbs the cost and pays for the damage to the unit directly from the operations budget. On top of that, the resident assumes the owner's insurance covers the contents of the apartment. He or she then asks for retribution for water damage caused to personal property.

This situation is all too common, and these smaller resident-cause claims of \$2,000, \$5,000 and \$8,000 can quickly add up and erode a property's NOI. Plus, disputes frequently arise over liability and retribution, which often lead to adversarial property owner/resident relationships, lost rents and legal fees.

In spite of this, the multi-family industry still lags behind other industries in addressing this problem. In fact, it is one of the only segments that does not universally require liability insurance. In virtually every other sector associated with liability risk, such as automobile or home purchases, the individual is accountable for his or her losses.

Solution

While many properties encourage or loosely require residents to obtain renters and liability insurance, some owners are realizing the benefit of making it mandatory and taking it one step further. After all, a "full participation" insurance program is the most effective approach to managing and transferring risk back to the resident, where it belongs.

By mandating that all renters show proof of insurance as requirement of residency, communities are protected from the expense of accidental resident damage. Additionally, an

insurance company can underwrite every unit in the property, thereby making this valuable product available to all residents and easier on owners to require proof of insurance.

While it may seem tedious, implementing full-participation program can actually be very easy despite individual state and municipal licensing issues. Simply follow these guidelines when choosing an insurance provider:

- **Multi-family expertise.** Choose an insurance provider that specializes in insurance programs for multi-family residents.
- **Licensed.** Make certain the company is licensed and compliant in all states and municipalities where you own properties.
- **Multiple policy options.** It is essential that the insurance company offer not only a blanket renters insurance policy, but also the option of separating renters and liability insurance into two separate policies. This will ensure that if jurisdiction prohibits mandatory renters insurance, you can still transfer risk to the individual for resident-caused damages by mandating liability insurance.
- **No selling.** Most states require anyone wishing to sell insurance products to be licensed as an insurance agent. The provider should offer substantial support so the property staff is simply communicating and carrying out administrative duties.
- **Easy set-up.** Select an insurance provider with a process that is easy on leasing agents and residents. Some providers even offer online enrollment and administration.

Once you choose an insurance provider and implement your full-participation program, you are well on your way to decreasing your risk and increasing your NOI. And, perhaps the next time the IABA conducts a survey of renters, 100 percent of these individuals will carry renters insurance!

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