

Insuring against disaster

Did you hear about the investor whose property was so badly damaged by tenants, it was uninhabitable for three months? Luckily he had landlords insurance. Many investors take the option of landlords insurance, but there are also many who don't.

Property investors who don't take out landlords insurance are taking a risk that their tenants won't default on the rent, damage the investment property or sue the property owner over an accident on the premises.

Terri Scheer Insurance national marketing manager Carolyn Majda says the main reason people get landlords insurance is for "peace of mind". (Terri Scheer is an insurance company specialising in landlords insurance).

NRMA national home insurance manager Leanne Stagnitta says landlords insurance covers two important areas for property investors which aren't covered by the normal owner-occupier policies. The first is theft and malicious damage by the tenant and the other is loss of rent.

Personal finance author Peter Cerexhe says property investors should be aware that there are some benefits and issues regarding landlords insurance which aren't contained in a normal home insurance policy.

"The first and major benefit is loss of rent. It covers two situations. One is where you're left out of pocket because the tenant leaves, disappears or you've evicted them. This covers the loss of rent after you've taken into account their bond.

"The other is where the tenant or their visitor has damaged the property. So you're covered for malicious or deliberate damage to the property, whereas in your own home, you're not covered for that."

Cerexhe says after understanding these issues, landlords should then examine how long they're covered for loss of rent and to what value. He says there may be a weekly maximum, a total amount for a certain period of time or a time limit as to how long the insurer will pay for.

Majda says there are a lot of misconceptions about landlords insurance.

"I guess a lot of property investors think that because they've appointed a property manager that's the end of their worries – 'I will put good tenants in there and everything will be okay'. But tenants can lose their jobs or their marriages or relationships can break down. When things like that happen and people are stressed because things go wrong for them, often they'll stop paying their rent and if there's anger involved, they can lash out and punch their fists through the walls or windows or things like that, and generally stop looking after the property as they should be doing. Those sorts of things are covered under the landlords insurance policies."

One of the most common misconceptions about landlords insurance, says Majda, is that it's expensive. She says it's generally about \$5 a week or less to have the cover and it's tax deductible.

Another misconception is that landlords will be covered for market conditions.

Majda says if a tenant absconds and the loss of rent is covered for six weeks, but it takes more than that to find a tenant because of market conditions, many people think that extra time will be covered.

Legal liability is one area where Cerexhe says property investors shouldn't short change themselves. He advises to ensure that you have about \$10 million worth of cover (standard at the moment). But he says landlords must also ensure their property is in good repair and doesn't pose a threat to the safety of the tenant or their guests.

Majda says investors need to look specifically for cover for loss of rent and cover for accidental or malicious damage to their contents.

Legal liability is very important because if there's something in the property that they're legally liable or responsible for and the tenant is injured or the property is damaged because of that, the cost for legal liability claims can be quite enormous. Also, anything that protects their contents from theft or accidental or malicious damage. Majda says their policies cover for up to \$45,000 worth of contents. Carpets, curtains, blinds and light fittings are covered, as well as anything that's left in the property for the tenants to use.

She advises investors to read the policies carefully because while many can offer similar sorts of cover, it's important to be aware of the excesses and exclusions.

Another feature of landlords insurance is the coverage of legal costs. Cerexhe says this covers the cost of taking tenants to a tribunal or court over unpaid rent or damage to the property.

Another feature to look for in a policy is that there's an annual indexation of the benefits, he says. This could include rising building costs if your property was destroyed and other costs such as architect or designer fees, council fees, etc. A survey carried out by Insurance Australia Group last year found that 35 per cent of property investors didn't have

specific landlords insurance on their tenanted properties. Another 8 per cent didn't even know what their level of cover was.

Stagnitta says one in three of the investor-owners believed they'd be protected against malicious damage by their standard home building and contents insurance.

"Another concern is that one in five believe that if their tenant doesn't pay the rent they'll be covered," she says. "But only a landlords policy can do that."

Majda says most policies won't cover the actions of pets.

"(That's) because animals are too difficult to control," she explains.

"In a lot of cases, it can say on the lease there's no pets but as soon as the property manager is gone, they can easily bring an animal in and they can cause a lot of damage."

Stagnitta says the biggest group of investors who are unaware of landlords insurance is those owning a strata title property.

"A lot of those just assume that the body corporate will cover it. But they haven't even asked what the body corporate is insuring the building for," she says.

While body corporate insurance varies from state to state, Stagnitta says most don't cover the owner for what's inside their unit, apartment or townhouse.

"Things like your kitchen stove, your hot water system, kitchen cupboards, light fittings, blinds, carpets - a lot of those items aren't even covered for things like storm damage," she says.

Cerexhe says it's fairly inexpensive to get landlords insurance for a strata title property - often cheaper than your own home insurance.

Generally he says the body corporate has insurance for the structure, but because it varies from state to state, different boundaries can exist.

"In one state the front door may be the owner's responsibility whereas in another state it's the body corporate's," he says.

Stagnitta says malicious damage and theft in rental properties has become a common problem for landlords. Common claims made to NRMA include

- > doors ripped off hinges;
- > damage to carpets from burns, urine and animal faeces;
- > holes in walls, windows, doors;
- > damage to light fittings, bathroom fixtures and appliances; and
- > stolen items (such as appliances, window treatments).

Stagnitta says they had one claim under landlords insurance where the tenant had removed and stolen the entire kitchen.

Majda says, "Anecdotally and statistically from our own files, people have become more litigious. When something goes wrong, it's always someone else's fault.

"Landlords are legally liable to provide a safe living environment for their tenants, so if they haven't done that and are found to be at fault, they could be up for thousands or even millions of dollars in legal liability costs. We've found that the number of claims are increasing and the amount paid out goes up accordingly.

"One case, on the very serious end of the scale, was where a little girl was paralysed after being electrocuted through the bath.

"She touched the tap and there was a problem with the electricity. She was electrocuted and left as a quadriplegic. That's a very extreme example of what can go wrong, but people are more aware that they can make a claim if they have suffered a loss. If the landlord can be found negligent, the tenants are quite entitled to sue."

But the main claims made by landlords are loss of rent and malicious damage, says Majda.

"We know of one instance where the tenant was asked to leave and before they did, they put the plug in the bath and turned the water on and just left it. That flooded through the property and damaged the floors and the carpets."

Holes in walls are the most common, says Majda.

"Every week we get reports from the assessors where the tenant has let fly with foot or with a fist. Curtains and blinds are pulled down and left half hanging or disappeared or stolen. And light fittings re broken. All sorts of things, just whatever they can destroy in the property.

"We've had cases where a property has been destroyed by fire, we've known of another where the tenant poured concrete down the pipes and blocked all the pipes up. We had one recently where the tenant flushed kitty litter down the toilet and that damaged the sewerage pipes."

Stagnitta says NRMA hasn't noticed an increase in claims on landlords insurance policies. But Majda says the number of claims has gone up.

"The average claim for malicious damage is now about \$4000, but when you add loss of rent it can climb up to about \$6000 to \$7000.

"With the number of claims each year, it's mainly to do with economics," she says.

Majda says their research shows that when the government introduced the first homebuyers grant a lot of good tenants were taken out of the market as they went to purchase a home. She says that made a difference in the number of claims with not as many good tenants in the market.

"A lot also depends on geographic area," she explains.

"In some areas, we get a lot of claims for smaller amounts but in some of the more affluent areas, we still get claims but they're not as many claims, but the actual claim amount is bigger."

For loss of rent claims, Majda says it depends on the circumstances.

"If the tenant has absconded or they're evicted by court order loss of rent is usually covered for up to six weeks (under a Terri Scheer policy). If the tenant has damaged the property to the extent it can't be rented loss of rent is covered for up to 52 weeks until it can be repaired and relet."

One of the more unusual scenarios, but one that Majda says is becoming more frequent, is damage caused by death of a tenant.

"That's something people probably don't think about very much and are not aware of the damage that can cause to a property. If the tenant has suicided, they may not be found for a while so there are things that happen to the property that will make it untenable for a while. And then the property can be difficult to relet."

Cerexhe believes people should use an insurance broker for their landlords policies, at least in the early stages of property investment.

"You're dealing with something that you're not familiar with."

Brokers can help to source insurance that's appropriate for your property as well as an affordable rate, he says.

Often, Cerexhe says good brokers will even assist when you make a claim on your landlords insurance policy.

Stagnitta says people who self-manage their investment properties should ensure their property is in good repair, carefully check references of tenants, perform regular inspections on the property and ensure they have a valid rental agreement in place in order for their landlords insurance policy to be effective.

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