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Shielding the Asset



By Keat Foong, Executive Editor

Apartment owners may find it a challenge to mandate renters insurance in a soft economy. Renters living in Class B or Class C properties may already be financially squeezed and living from paycheck to paycheck, and paying premiums for a policy represents an additional expense. And should there be a property down the road that does not require renters insurance, your prospect may well take that walk to his or her new home.

Nevertheless, the fact of the matter is that in the long-term, the apartment industry may be moving toward the adoption of a policy under which residents are required to purchase the insurance coverage as a condition of living in the property. According to a survey conducted by the National Multi Housing Council in the fall of 2010, a full 66 percent of respondents said that they required renters insurance in 2010, up from 44 percent in 2009 and only 24 percent in 2008. Sixty-eight percent of respondents said they require coverage of \$100,000, with limits ranging from \$25,000 to \$2 million required by one respondent.

Steve Hein, vice president of Assurant Specialty Property, asserts that apartment owners now have a greater comfort level with the belief that the mandates will not affect their core business adversely. Also, he argues that as a result of the softer apartment market in the past few years, property owners have been seeking to reduce their expenses further and generate additional income from ancillary sources, and requiring renters insurance is one way to achieve this bottom-line goal.

Nevel DeHart, executive vice president, sales, at CoreLogic SafeRent, adds that property owners did not mandate renters insurance in past years more widely, not because they did not desire to, but because they did not have mechanisms to enforce the policy: How do you make sure your residents will purchase, keep and renew their policies?

Renters insurance today most commonly protects against damages resulting from smoke, fire, explosions and water and offers three basic components of coverage: liability coverage, personal possessions coverage and external living expenses coverage. Liability insurance

protects against damages caused by the residents for which they are liable to other parties. Personal possessions insurance will reimburse the resident for loss of personal property. And external living expenses insurance will reimburse the resident for living expenses and accommodation costs if they should be displaced as a result of a fire or some other disaster. Landlords can mandate that residents purchase liability insurance—though not insurance for personal possessions or external living expenses.

The greatest benefit to apartment owners that comes from requiring residents to obtain renters insurance is the ability to recover damages. If the resident should cause destruction to the apartment property—for example, if they started a fire or caused a tub to overflow—the landlord would be able to recover the costs of repair and replacement from the resident’s insurance company.

That ability to recover costs is desirable because the vast majority of apartment renters, especially ones residing in Class B and Class C properties, may not have the personal wherewithal or may not want to compensate the landlord for damages. “The resident may give the apartment company \$20,000 to fix the fire damage he or she caused,” says Hein. However, if not, the apartment company may have to go to court and obtain a judgment against the resident, but it may not collect any money, Hein notes.

“Most apartment owners realize the residents have inadequate money reserves,” says DeHart. “We have never seen owners pursue residents for these claims. It involves filing a lawsuit, and it would be like trying to get money out of stone. These residents may have lost everything, and many of them are already living paycheck to paycheck.”

The apartment company’s master insurance policy may cover the damage, but it may have a deductible, says Hein. And in any case, making claims against its insurance policy may raise the rates.

Another benefit to property owners is that residents will not look to them with claims for which the apartment company may not be responsible. “There is the perception among residents when they move in [that] the owner has coverage for everything: ‘You are the apartment complex, and you need to make me whole,’” says Hein. If the residents have renters insurance, they are less likely to come to the apartment company asking for reimbursement for a stolen bike, the theft of which the apartment company may not have caused.

“If the tenant has renters insurance, [he is] less likely to come to you looking for damages,” says Barry Saywitz, president of The Saywitz Co., one of the largest brokerage companies in Southern California that also has an arm to acquire and manage apartment properties. “If they do not have a policy, the first place they come to is to you.”

Apartment companies can mandate residents obtain renters insurance and leave it at that. They are not allowed, under state laws, to require that residents subscribe to any one insurance company, but they can offer an insurance company or a list of insurance companies as an additional option, or options, to residents.

Some companies offering renters insurance are targeted to the apartment industry specifically. One advantage of contracting with such companies, as opposed to letting the residents locate their own insurance providers, is that the prospect would be automatically approved for renters insurance and can obtain it more quickly and easily—which helps the leasing effort. “One big difference is that we do not exclude coverage for anyone—as long as they are renting from one of our clients,” says Hein, who adds that other commercial

insurance companies may require more lengthy applications processes. "If the insurance is a leasing requirement, we do not want it to be a hurdle to the prospect's moving in."

"Under state laws, owners cannot sell renters insurance unless they are licensed," says DeHart. "All the apartment owner can do is to have the leasing agent make the prospect aware that such and such a company 'has an agreement with us.' You can make them aware that you have an agreement with us, that you are pre-approved with us, and that our policies satisfy your requirements—for example to provide a minimum of \$100,000 in liability insurance that covers the perils of fire, smoke, water and explosion. However, they can obtain renters insurance from any other company as long as they obtain the coverage."

Owners choosing among insurance companies are advised to seek those that have a strong track record of paying claims; issuance capabilities in all regions that the apartment company operates in; and their own claims staff, as opposed to third-party adjusters, that they deploy all over the country. An insurance company that has dedicated its own legal resources to stay current on the myriad of individual state insurance laws is also a plus, says Hein.

Whether insurance companies that provide a fee to owners for signups are more preferable is an open question for DeHart. According to DeHart, insurers that do not provide incentive fees to the apartment owners are more motivated to help the owner achieve maximum penetration by providing monitoring compliance, and on-going training to onsite personnel regarding the insurance product.

According to Saywitz, who manages apartments in Southern California across the range of price points from \$800 to \$5,000, many blue- and even white-collar workers are watching their budgets today, and they do not have expensive belongings. If the owner is operating in a soft apartment market, and a competing apartment nearby does not require renters insurance, then Saywitz says he is not likely to make the resident's refusal to obtain renters insurance a "deal breaker." If the market is reasonably firm, then "the additional layer of coverage is always worth it," he says.