

ADVANTAGE ASSET MANAGEMENT

PRESENTS

DAVID D. SCHEIN*

Important Insurance Issues for Landlords and Tenants

August 29, 2018

A. Landlords:

- Insurance needs to cover the main risks – property losses to the rental unit and liability for injuries, and for damage to someone else's property.
- In the greater Houston area, insurance is expensive and getting more so.
- If you are renting one house or condo, your regular insurance agent may be OK. If you are renting multiple units, a general agent should be used.
- Replacement and repair today is very expensive. Make sure you have enough insurance to repair or rebuild in the event of a major event like a fire or flood.
- Watch exclusions! While Terrorism may not be a concern, many other exclusions apply, like mold. Note vacant property provisions and the amount of the deductible.
- Investigate making upgrades and updates that might reduce your insurance costs, like installation of fire detectors and extinguishers beyond what is required. Removing hazards like a hot tub or pool can also help a great deal.
- Flood insurance is required by virtually all mortgage companies if the property is in a flood zone. However, if the property is not in a designated zone, it still might be a good idea since regular homeowners insurance does not cover any damage related to a flood. Unfortunately, many homes flooded for the first time in Harvey and estimates are that as many as 2/3 of the flooded homes did not have flood insurance.
- Umbrella policies are a must for landlords. When an investor owns more than one property, especially, they are regarded as a higher level target for plaintiff actions. It is expensive to have large amounts of first level coverage.
- If an investor holds property in an LLC or Sub S corporation, make sure the insurance names you **and** the entity as the insureds.
- Take photos of everything inside and out. This should be done each time a new tenant moves in and make special note of areas where mold might grow in bathrooms and some windows and garage walls.
- Taking photos also helps in the Claims Process. This irritating part of any fire or flood requires patience and information. It may help to also have your own contractor or contractors give you bids before the insurance adjusters get involved.

B. Tenants:

- Most tenants do not carry any insurance. This is a really dangerous situation for them, and their landlords.
- Often, tenants actually expect that if something happens to their contents, the landlord will cover it if it is due to a roof leak during a storm, etc.
- Even disclaimers in the lease do not seem to help.
- Checking out your new tenants is actually also part of the landlord's risk reduction. Making sure the tenants are not running a meth lab, for instance. Be sure to include appropriate restrictive language in the lease.
- Tenants should be told that they can buy both regular contents insurance and flood insurance. If the landlord has flood insurance, the tenants should be specifically advised to also buy it. Having a local insurance agent who knows your property and can make tenant coverage easy may also help.
- Unfortunately, most landlords cannot restrict the presence of children due to anti-discrimination laws, and they represent a continuing risk that should be covered by insurance.

C. Real Estate Outlook:

- Many high density rental units coming on the market in close-in areas, but the rents are very high and there may be a reduction in demand.
- 4.1 months supply of single-family houses.

Report for June 2018 by MLS: From: <https://www.har.com/content/mls/>

HOUSTON — (July 11, 2018) —the greatest one-month sales volume of all time sent average and median prices to new highs. Single-family home rentals were also in strong demand.

Houston Association of REALTORS® (HAR), reports 8,518 single-family homes sold in June compared to the last record high of 8,367 homes exactly one year earlier. That represents a 1.8 percent increase.

The single-family home median price rose 2.6 percent to \$245,000

The average price climbed 4.3 percent to \$316,463.

Prices are the result of strong activity in the luxury market – homes priced at \$750,000 and above – which saw an 18.4 percent year-over-year jump in sales volume.

Lease Property Update

Single-family home rentals rose 4.7 percent while leases of townhomes and condominiums fell 4.2 percent.

The average rent for single-family homes increased 3.9 percent to \$1,877 and the average rent for townhomes and condominiums rose 6.7 percent to \$1,662.