National Real Estate Insurance Group

How to Properly Insure Your Real Estate Investments

NOTES:

PROPERTY COVERAGE:
Basic vs. Special Form Coverages

Special Form Coverage is the best and in turn, the most expensive coverage form an investor can purchase. It is considered "All-Risk" coverage, meaning unless there are specific exclusions listed within the policy, coverage is afforded to you in the event of a loss.

There are six standard exclusions that come on every Special Form policy:

- **Mold and fungus**
- **Wear and tear**
- **Sewer and drain back-up**
- **Earthquake**
- **Flood**
- **Intentional tenant damage**

Some of these "exclusions" can be purchased as an endorsement or stand-alone policy and others cannot. If your locations fall in a county that touches coastal waters or one county removed, Named Windstorm or Hurricane coverage may also be excluded, but may be purchased separately.

Basic Form coverage is a "Named Peril" coverage, meaning that following a loss, the burden of proof falls on the insured to prove to the insurance company, that the loss in question was caused by an included peril. Basic form can save you approximately 25% to 30% per year, but offers coverage only for those perils that are specifically listed on the policy. Please see p. 18 for Basic vs. Special form coverage and peril comparison.

TIP #1:

Consider the geographical location of your portfolio and how comfortable you are taking on additional risk, along with historical claims performance of your portfolio.

PROPERTY COVERAGE:
Actual Cash Value vs. Replacement Cost

Actual Cash Value (ACV) is a more cost-effective option than Replacement Cost (RC), but figures depreciation into the final settlement of your claim. On the contrary, Replacement Cost is a more expensive option, but gives you a chance to recover all depreciation that was initially levied against you.

Please see p. 19 for an example of how your claim will be settled with ACV vs. RC.

TIP #2:

Consider what you would do if you had a total loss at one of your properties. If you would not rebuild the property, go with the ACV. If you would rebuild, RC is a better option for you*.

*One exception would be if there is a loan on the property. Many lenders require Replacement Cost Coverage.

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PROPERTY COVERAGE:
Co-Insurance Provision

Coinsurance is an industry-wide property provision that states the amount of coverage that must be maintained as a percentage of the total value of the property at the time of loss. Common coinsurance percentages are 80, 90 or 100% of the value of the insured property.

Example:

A home insured to $100,000 suffers hail damage in the amount of $25,000. The coverage you have is Actual Cash Value and **80% coinsurance. For this example, we will assume** that the depreciation percentage from each situation is 20% and your wind deductible is $5,000.

At the time of loss, the reconstruction value of the property is determined to be $235,000. Per your 80% coinsurance clause, you agree at the time of loss to be insured to at least $188,000 ($235,000 x 80%).

The carrier would divide your $100,000 of coverage into the $188,000 and determine you are 26.8% underinsured.

Next Steps:

$25,000.00 Amount of Loss

- $6,700.00 Coinsurance Penalty
- $5,000 Depreciated Amount
- $5,000.00 Wind Deductible

= $8,300.00 Total Adjusted Settlement

TIP #3:

Provided a location is insured to at least $50 per square foot, coinsurance is waived at NREIG.

BUILDER'S RISK POLICIES

Be particularly careful when shopping for coverage for these types of policies as most have minimum earned premium clauses included and require you to purchase coverage for 6 months or even a year up front.

This may be fine if the renovation is scheduled to take that long – if it is a shorter-term deal and you finish prior to your builder's risk coverage ending, you can cancel coverage but are severely limited to the amount of unused premium you can recover. If you are eligible to recover any at all.

Consider the following factors when deciding what coverage is best for you: minimum earned clause, the coinsurance percentage, how are the betterments and improvements you are completing insured as opposed to the existing structure.
Builders Risk coverage works differently with NREIG. Monthly reporting allows you to only pay for the coverage you need, for the time you need it. No minimum earned premiums or long-term commitments. No coinsurance applies to existing structure or renovations provided the location is insured to $50 per square foot or greater.

TIP #4:

Don't just buy a Builder's Risk policy just because it looks cheaper, and avoid minimum earned premium at all costs.

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HOW PROPERTY DEDUCTIBLES WORK

Deductibles you carry directly affect the premiums assigned to you by the carrier. The higher the deductibles, the lower the property rate.

TIP #5:

As a rule of thumb when determining what property deductible is right for you, consider the minimum property loss you would ever turn in to your insurance carrier and double that amount. That's usually an accurate tool in gauging the property deductible you should be able to carry, without jeopardizing your business following a loss.

Review your existing declaration pages, if your deductible is lower than what you would ever file a claim for, you are paying the insurance company more than you need to. Go back to your agent, tell them to raise your porperty deductible in an effort to decrease your annual cost. If they can't accommodate, you are with the wrong agent.

The average property deductible an insured with NREIG carries is $2500 - $3000. This level of property deductible enables us to provide fair and consistent rates.

LIABILITY POLICIES

The minimum limits of liability are $1MM per occurrence and $2MM aggregate per annual policy term. These limits reset to new limits every year at renewal. Settling for limits less than 1MM per occurrence and 2MM aggregate saves little to no money, and jeopardizes having a sufficient amount of coverage to settle in the event of a loss.

If you have a rather large portfolio of investment properties, you may want to consider higher limits of liability or excess policy.

TIP #6:

When it comes to liability policy there is no right coverage limit. It is all up to you and how much risk you are willing to take on.

Note, liability policies also have common exclusions, such as K-9 bites, pollution coverage (carbon monoxide).

When you settle for limits under $1 MM per occurrence, these policies usually have any defense costs included inside of their per occurrence limit (which range from $100,000 - $600,000). Imagine how costly your defense could become following a severe injury or wrongful death that occurs at one of your properties. These expenses will greatly diminish the amount of money available from your liability carrier to adequately compensate those injured parties, leaving you susceptible to additional out of pockets costs to settle the occurrence.

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GENERAL CONTRACTOR'S POLICIES

The minimum limit of liability insurance we recommend you require your General Contractor to carry is $1,000,000.

No Premises Liability policy extends coverage to workers hired to work at your property. As a result, hiring unlicensed handymen creates an unnecessary exposure for you and your business.

TIP #7:

Where it can be both difficult and expensive, you should only hire licensed general contractors to complete work at your property.

Require that they list you as an Additional Insured on their liability policy for the duration they are hired.

In the unfortunate event of a loss on your property that is caused by the General Contractor, their liability policy would be responsible for making those affected parties whole again. If you (or your entity) are also listed in a lawsuit (following the loss in question), and you are listed as Additional Insured on their policy, their coverage can extend to you.
If you are working with a GC that does not have coverage we have developed a General Contractors liability policy that offers these limits and compliments NREIG liability coverages nicely.

RENTERS INSURANCE

More than 60% of the property losses our market experiences are “tenant caused” negligent claims, yet very few tenants carry renters insurance. These losses leave your property carrier responsible to repair the damages, despite the fact that you did nothing wrong.

By enforcing a renter’s insurance with all tenants, you can stabilize your property rates long term. In addition to underwriters looking favorably on portfolios of investors that do this, having their policy to fall back on following a tenant caused loss will minimize or (eliminate all together) your property carrier’s responsibility.

Renters Insurance coverage generally includes limits of liability anywhere from $50,000 - $300,000. In addition, contents coverage is provided, usually up to $10,000 for the affected tenant.

TIP #8:

Enforce your renters insurance requirement in your lease. This opens up the option to subrogate against that policy and helps ensure the negligent party and their insurance policy pays for the damages.

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CHART:
Basic vs. Special Form Coverages

CAUSE OF LOSS (PERIL)	BASIC	SPECIAL
FIRE	X	X
LIGHTNING	X	X
EXPLOSION (Includes Sonic Boom and Water Hammer)	X	X
WINDSTORM & HAIL	X	X
SMOKE	X	X
AIRCRAFT & VEHICLES	X	X
RIOT or CIVIL COMMOTION	X	X
VOLCANIC ACTION	X	X
SPRINKLER LEAKAGE	X	X
SINKHOLE COLLAPSE	X	X
VANDALISM/MALICIOUS MISCHIEF *	X	X
FALLING OBJECTS		X
WEIGHT OF SNOW, ICE, or SLEET		X
WATER DAMAGE		X
COLLAPSE - Additional Coverage		X
THEFT		X
RISK OF DIRECT PHYSICAL LOSS “subject to policy exclusions		X

EXAMPLE:
Actual Cash Value vs. Replacement Cost

A home suffers a kitchen fire that causes $30,000 of repairable damage. The assigned claims adjuster would visit the property and determine how much useful life was left in what was damaged. Let's assume they depreciate the loss at 40%, meaning 12,000 will be depreciated from the $30,000 loss. That leaves you with a payout of $18,000.

Let's also assume you have a $3,000 deductible. The carrier will then take your $3,000 deductible from the settlement, leaving you with an ACV settlement of $15,000 to cover your $30,000 fire loss. If you are on ACV, this is all you can recover.

If you are on RC, you can recoup some or all of the depreciation that was levied against you. To do that, you would first exhaust the initial ACV payment of $15,000 on repairs, make the remaining repairs out of pocket, submit the receipts to your insurance carrier and receive a reimbursement for up to $12,000. The only part that is not recoverable to you on an RC policy is your deductible.

ABOUT NATIONAL REAL ESTATE INSURANCE GROUP (NREIG)

National Real Estate Insurance Group is the nation's leading agency offering coverage options for real estate investors across the country. Our lineup of products includes: REIGuard™, LandlordGuard, PMGuard, TurnkeyGuard, LenderGuard, and CommercialGuard.

WHY WE ARE DIFFERENT

- Cover occupied, vacant and renovation properties
- Monthly reporting
- No co-insurance @ $50/square foot
- Unique coverage and benefit package
- No minimum earned premiums
- Can cover liability only, if desired
- Replacement cost coverage @ $70/square foot
- Coverage specific to your business model. Not “off the shelf.”

THANK YOU

VISIT OUR WEBSITE OR CALL TO REQUEST A PROPOSAL TODAY!

888.741.8454 | NREIG.com

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SHAWN WOEDL
Senior Vice President

Shawn Woedl, Senior Vice President of National Real Estate Insurance Group (NREIG), is an industry-recognized speaker and educator with an emphasis in commercial property insurance. Prior to committing to growing NREIG into the largest and most profitable insurance program in the country, Shawn spent seven years with CORE Insurance Group, specializing in large habitational risks nationwide.

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