

The Complicated Risk Exposures of Property Managers and Investors



By Mark Gannaway

What you hear on the radio and TV about “flipping,” renting, or managing residential or commercial properties and reality are two different worlds.

The lives of property managers and real estate investors are far more complicated than what’s seen on television. Every day, property managers and real estate investors face bedbug exposures, mold behind the dishwasher, tenant and vendor service issues, tenants without insurance, vetting contractors, insurance claims, property inspections, tax authorities, tenant harassment and discrimination claims, and more.

When I speak with both real estate investors and professional property management organizations and their members across the United States I see a lack of insurance knowledge associated with this industry, and observe that few have relationships with insurance agents who understand the exposures they face. And, like most insureds, property managers are no different than anyone else – price points drive the decision making, not proper insurance coverage placement.

Typical Insurance Scenario

Most property management companies have a business owners policy for their corporate coverages. In addition, some will purchase a third-party employment practices liability policy to protect against any

professional liability exposure.

Many of the policies I have reviewed have very narrow tenant and third-party definitions, along with limited insurance protections for the property manager against discrimination or harassment claims, and against any alleged regulatory violation from the U.S. Department of Housing and Urban Development (HUD) or the Fair Credit Reporting Act.

I always advise existing and potential insureds to review their policies for exclusions and limitations, and to get their insurance questions answered in writing from their insurance agent. If the insurance agent refuses to do so, I tell them to find a new agent.

Property management firms often assume that by having their investor add the property management firm as an additional insured on the investor’s personal homeowners or commercial multi-family policy they can mitigate all their liability exposures related to the servicing of the individual property. I always ask them if they have read the homeowners or commercial policy and very few say they have. In those cases, they may be facing uninsured losses due to vacancy clauses, intentional acts or damage by the tenant, and “service animals” that could take down a moose.

In most cases, the property manager is responsible for tenant screening and placement of the tenant in the investor’s property, which leads to another potential financial exposure for the property manager. Many property management firms have the leasing tenant add the property management firm as an additional insured to their renter’s policy and most lease agreements now require a minimum liability limit of \$100,000. Medical payments, property damage to others, additional living expenses, and contents coverage are not required or reviewed. The main prob-



lem with this is that almost 70 percent of all renters policies cancel prior to renewal, mostly due to non-payment.

If the renter’s insurance is cancelled and he or she has a kitchen fire or a third party files an injury claim, whose insurance responds to the loss? Does the property insurance company subrogate against the property manager’s insurance? Does the tenant file a claim against the owner of the property and the property manager for not keeping track of in force coverage during the term of the lease?

The good news is that there are insurance programs and insurance providers available to address and educate on these issues.

According to a recent Pricewaterhouse Coopers report, homeownership will continue to decline through 2025 while some 12.5 million net new households will be created, with half of these households renting. At a recent property managers conference one of their industry speakers said a third of the U.S. population rents today and by 2023 that number will grow another 45 percent. If true, then the property management market will also experience tremendous growth, and we as insurance professionals educated in this space have a great opportunity to grow with them. ■

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