

Five Common Exclusions Found in Most Landlord Investor Policies

By Mark Gannaway, CPCU

Hopefully you have had the opportunity to hear an Arcana employee speak at one of the National Real Estate Investors Association conferences or at your local REIA meeting. Most of our discussion is focused on what the Landlord Investor insurance policy typically provides coverage for, but also on what the insurance policy DOES NOT cover. Another resource is the RE Journal (which you're reading now). Arcana employees have been contributing educational articles for the past 3 years on how to mitigate property and liability losses through insurance on single-family investment properties. We started off 2021 with an article featuring the "Exclusions" of most insurance policies that you may purchase as a real estate investor and believe bringing it to your attention once again demonstrates to you the importance of knowing what coverages you do and do not have. Having no insurance or improper coverage could make investing into these assets a nightmare or a potential financial disaster.

In the world we live in today, many insureds believe everything is covered or should be covered no matter the situation. If that were the case, insurance companies would quickly go out of business. Here are five common Exclusions found in most Landlord Investor Policies and many standard property insurance policies including your own Homeowner's coverage. We have extracted the exact wording from a typical property insurance policy for you to review and understand. Notice below how many of the insurance companies cap or use bold type to immediately get your attention when it comes to "PERILS EXCLUDED or OTHER EXCLUSIONS" Again, these are common general exclusions, you need to read your own insurance policy to see exactly what is covered and not covered.

First, Surface water entering the basement through cracks in the walls or up through drains.

THE PERILS EXCLUDED

Notwithstanding anything to the contrary contained herein, this policy does not cover loss resulting in damage to or destruction of the insured property directly or indirectly caused by or resulting from:

- (i) Water: Loss or Damage caused by, resulting from, contributed to or aggravated by any of the following:
 - b. Water below the surface of the ground including that which exerts pressure on or flows, seeps or leaks through sidewalks, driveways, foundations, walls, basement or other floors, or through doors, windows, or any other opening in such sidewalks, driveways, foundations, wall or floors;

Second, is Freezing of pipes in vacant properties where the heat was not maintained, and the pipes and plumbing systems were not drained or winterized.

THE PERILS EXCLUDED

Notwithstanding anything to the contrary contained herein, this policy does not cover loss resulting in damage to or destruction of the insured property directly or indirectly caused by or resulting from:

- (i) Water: The Underwriters shall not be liable for Loss or Damage caused by, resulting from, contributed to or aggravated by any of the following:

- d. Loss or damage, including subterranean, water damage, resulting from freeze of plumbing or heating or fire protection systems in buildings that have been vacant beyond a period of thirty (30) consecutive days immediately preceding the loss as hereby excluded unless the insured has used reasonable care to maintain heat in the property or unless the insured has shut off the water supply to the property and has drained all pipes, plumbing, sprinkler systems, hot water heaters, radiators, including all appliances, heating and cooling systems of water.

Mold in the structure. The policy does not cover the cost of mold remediation.

THE PERILS EXCLUDED

Notwithstanding anything to the contrary contained herein, this policy does not cover loss resulting in damage to or destruction of the insured property directly or indirectly caused by or resulting from:

- (a) wear and tear, marring, scratching, deterioration, rust or corrosion, fungus, decay, mold, wet or dry rot; inherent vice, hidden or latent defect, obsolescence, neglect, animals, birds, rodents, vermin, termites or other insects; smog, rust or corrosion; smoke, vapor or gas from agricultural or industrial operations; consequential loss; discharge, dispersal, seepage, migration, release or escape of pollutants; settling, shrinkage, cracking, shifting, bulging or expansion including resultant cracking of pavement, foundation, patios, walls, floors, roofs or ceiling: unless such cracking, shrinking bulging or expansion is directly caused by fire, lightning, smoke, windstorm, hurricane, hail, explosion, aircraft, vehicles, vandalism, malicious mischief, riot, civil commotion or falling objects;

Damage resulting from improper repairs or lack of maintenance.

THE PERILS EXCLUDED

Notwithstanding anything to the contrary contained herein, this policy does not cover loss resulting in damage to or destruction of the insured property directly or indirectly caused by or resulting from:

- (e) errors in design, errors on processing, faulty or inadequate workmanship, methods of construction or faulty materials; nor delay, loss of market, loss of use, faulty, inadequate or defective planning, zoning, development, surveying, siting, grading,

planning, design, specifications, workmanship, repair construction, renovation, remodeling, compaction, materials or maintenance; and/or interruption of business, extra expense or increased cost;

Damage to foundations due to movement of the ground.

EARTHQUAKE EXCLUSION

Notwithstanding anything contained to the contrary it is agreed that this policy does not insure regardless of location against loss or damage caused by or resulting from any natural or man-made earth movement including, but not limited to, Earthquake, Earth Tremor, Mudflow, Landslide or Subsidence.

Damage to the property resulting from flood waters. You must have a flood policy for this type of coverage.

FLOOD EXCLUSION

This policy does not insure any loss, damage, claim, cost, expense or other sum directly or indirectly arising out of or relating to: flood, surface water, waves, tidal waters, tidal wave or overflow of streams or other bodies of water. We do not cover spray from any of these, whether or not driven by wind;

Hopefully you will put this article somewhere where you can read it every time you order an insurance policy or think about filing a claim.

Arcana offers members of National REIA multiple insurance products specifically designed for Investors and their tenants. Features include no underwriting or inspections, 24/7 desktop & smartphone certificate delivery system, outstanding claims management service, and a very knowledgeable & courteous staff to handle your insurance needs. Learn more by visiting www.nreia.arcanainsurancehub.com.

Mark A. Gannaway, CPCU, is the Chief Executive Officer and Founding Partner of Arcana Insurance Services, an all-lines property and casualty managing agency that's been working with real estate investors since it began in 2005.