

## **The Importance of Insurance Coverage for your Tenants to protect your Property Owner Interest**

Is your tenant carrying proper insurance coverage to help reduce your exposure as a property owner/landlord? Do you have a certificate of insurance as well as actual endorsements to the tenant's insurance policy on file naming you as additional insured, providing a waiver of subrogation and indemnifying you and providing a minimum of 30 days notice of cancellation? We would like to suggest the following to make sure adequate coverage is in place to cover yourself and your tenant in case a claim should occur.

First, your tenant should have in force an effective **Commercial General Liability (GL) Policy** of insurance protecting themselves as the lessee and you as the lessor. Their GL policy should name you as an additional insured against claims for bodily injury, personal injury and property damage based upon or arising out of the ownership, use, occupancy or maintenance of the premises and all surrounding areas to your premises. This coverage should be an actual endorsement from the tenant's policy at attached to the certificate as a General Accord Certificate alone does not alter or substitute for the policy. Such insurance should be at a minimum an occurrence basis providing single limit coverage in an amount not less than \$1,000,000 per occurrence and an annual aggregate of not less than \$2,000,000.

Additional protection would be afforded if you require your tenant's policy to be primary, noncontributory, waive subrogation against you and provide a minimum of a 30 day notice of cancellation. For this we recommend that you obtain a **specific waiver of subrogation** in your favor. The limit of the insurance should not however, limit the liability of your tenant nor relieve your tenant of any obligations. With the Lessee adding you as an Additional Insured you also need to make sure coverage has been extended to include damage caused by heat, smoke or fumes from a hostile fire.

We also suggest that your tenant(s) carry their own **Fire Legal Liability coverage** to help protect them if they occupy your premises for which they could be held legally liable for damage due from a fire or explosion. We suggest a minimum limit of \$500,000 for this coverage.

Second, **What about Tenants Improvement Coverage?** This is a coverage your tenants would secure for themselves to protect their use of and interest in improvements and betterments they installed or arranged for in a leased building. This coverage is only available to tenants that occupy buildings owned by others. This coverage is one your tenants can purchase as a separate insurance or as part of the coverage on their personal property Coverage form.

What is your interest in this as the building owner? You have interest in the improvements and betterments because this asset reverts to you when the lease ends. As a result, the value should be included in any building valuation and you should be named as an Additional Insured on tenant improvements and betterments.

**Loss of Rent Coverage.** As a landlord certain circumstances may occur beyond your control that may result in your building being unfit for occupation and subsequently your rent not being received. To assist you with your loss of rental income make sure you have the proper coverage in place under your Commercial Property Policy for Business Income (and Extra Expense) Coverage Form. This coverage form is where coverage will be afforded to you under, extended Business income "Rental Value". This coverage would begin on the date the property is actually repaired, rebuilt or replaced and tenant ability is restored and ends on the earlier of the date you could restore tenant occupancy with reasonable speed to the level which would generate the "Rental Value" that would have existed if no direct physical loss had occurred. Note: loss of rental value here needs to be caused by direct physical loss or damage at the described premises caused by or resulting from any covered cause of loss. Some leases require this coverage to be placed by the tenant to reimburse the landlord and if this is the case then the tenant's certificate of insurance should be issued evidencing above with a minimum of 360 days of coverage in favor of you, the landlord.

Finally, you need to make sure that you obtain in the certificate of insurance you will be requesting from your tenant a **Workers Compensation waiver of subrogation endorsement** in your company's favor. This will protect you in case the tenant or one of his employees is injured on your property from no fault of your own.

The limits of coverage recommended herein are a minimum limit we would suggest and certainly additional limits would further strengthen to protect you as the landlord. We also suggest that you always have your insurance agent review your leases to help strengthen them and to request that your property management company, if you use one, provide all certificates of insurance for tenants to your insurance broker for review.

