

# Managing Multifamily Housing Risks Is a Joint Effort



Managing even a small multifamily residential building can expose you to significant risk. As a property manager, you may be required to screen tenants, establish appropriate rental rates, collect payments, monitor expenses, handle leases, and resolve both property owner and renter complaints, among other duties.

You often must represent the interests of a landlord, suppliers, visitors, and past, current or potential tenants. And you frequently have negotiating power and authority over communications. More than that, there is a substantial amount of property under your custody and care.

With all this responsibility, someone may allege that your professional choices or actions caused harm, and they may seek financial compensation. This makes insurance protection and risk management top priorities. The good news is you can share the financial risk for accidents, errors and natural disasters with landlords, subcontractors, vendors and tenants.

## Professional liability insurance is a necessity

Remember that you don't need to be wrong to be sued. Even if you are not found liable, the financial consequences of a lawsuit can be significant. If anyone does file a claim against you for an error, omission or professional failure, professional liability insurance will help with financial judgments assessed against you. Professional liability also covers the cost of your legal defense and income lost while establishing a defense or attending court. Some policies will even cover the expense of any temporary replacement staff required during your absence.

Claims covered include those related to:

- Alleged or actual negligence, misrepresentation or errors
- Invasion of privacy
- Wrongful eviction
- Hiring unlicensed contractors
- Personal injury, including libel or slander

Of course, professional liability insurance is not a blank check, and protection does not extend to any acts that are proven to be malicious, dishonest, criminal or illegal. Nor does it cover any copyright, patent or trademark infringements. In addition, any bodily injury or property loss suffered by a resident or visitor while at your managed property is not covered by a professional liability policy. Instead, these types of claims would be covered by a general business liability policy, which will be discussed in the next section.

## Additional coverage needs

Other insurance policies to consider:

- **General liability** – This coverage is a must. If a person suffers bodily injury or property loss while at the property you manage, they can sue for damages. These are often called slip-and-fall claims, but they can encompass other types of accidents like falling from a ladder, or damage to their property while on your premises. While the actual property owner may carry general liability insurance for these situations, the property manager remains at risk. In fact, the Supreme Court has ruled in the past that, because the property manager is required to maintain the property as part of their job, they can be held liable for 50% of the damages. You can ask to be added by name to the landlord's general liability policy so you have some financial protection there. But it's also prudent to explore options for your own, separate general liability policy.
- **Property insurance** – Although the owner will have property insurance, you may need your own policy to protect any personal property you have on site, such as computers, tools, furniture or other possessions. This type of policy is also important if you have a contractual responsibility for any specific building features or equipment. As part of your property protection suite, consider whether you may need equipment breakdown insurance, sometimes called boiler and machinery coverage. If the landlord doesn't have it, you could face serious losses if a major system fails.
- **Tenant discrimination** – Even if you reject a potential tenant for sound financial reasons or you leverage a penalty against a current resident for legitimate issues, you can be accused of wrongful discrimination. Many general liability policies exclude these types of claims, so you may want to purchase tenant

discrimination insurance to protect yourself from any claims made by current, prospective or even past tenants. This is of particular concern for property managers who handle significant turnover of leases.

- **Renters insurance** – Although you do not need renters insurance as a property manager yourself, it is a good rule to require this type of insurance for your tenants. Renters insurance offers your tenants valuable protection for a nominal fee. It also reduces the likelihood that you will face claims from a disgruntled tenant if there is an incident at your property leading to tenant property loss, personal liability or loss of use.
- **Vehicle insurance** – If you use your personal vehicle to travel between locations or run business errands, you will need to discuss this scenario with your insurance professional. Typically, your personal car insurance will not cover accidents that happen when you are using your car for business purposes. There may be no issue if the property owner you represent carries commercial auto insurance that extends to your personal vehicle. But if you operate as a contractor, you may need to purchase commercial auto insurance or add limited coverage for business use to your personal auto policy.
- **Cyber security/liability** – Most commercial residential properties process large amounts of personal and financial information online. This type of insurance will help you pay the costs of any losses that result from a data breach, including recovery, investigation, victim restitution and even post-incident public relations.

## If you also manage people

If you supervise any employees, you should consider purchasing employee crime insurance to cover any instances of theft, embezzlement, forgery, computer fraud or illegal transfer of funds.

Another important coverage option to consider is employment practices liability. This type of policy will help with the cost of defending yourself against claims of wrongful termination, sexual harassment, discrimination, invasion of privacy, breach of contract, emotional distress and other accusations of employment wrongdoing. If you are found at fault, it will also help with any awarded damages.

## Special circumstances

Some commercial residential complexes offer specialized spaces such as gyms, tanning beds, cooking facilities and spas. These high-end amenities may require additional insurance clauses or specialized policies, particularly if you add trainers, beauticians, therapists or other support staff (either as contractors or employees) or if you open the services to non-residents.

If the property you manage is classified as affordable housing, it can be more difficult to secure coverage, especially if the property is in a neighborhood with higher-than-average crime rates. However, there are insurance professionals who will take the time to look beyond one-dimensional crime scores and understand the risks of your particular property. As with all residential property management insurance, your security and risk management measures will figure heavily in your ability to obtain quality coverage at a good price.

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