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Renting Out Your Home? Get Landlord Insurance

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If you're renting out your home, it might not be covered by homeowners insurance, so look into landlord insurance instead.



Landlord insurance typically costs about 25% more than homeowners insurance.

Image: Vstock LLC/Getty

Maybe you're moving up to a bigger home and holding on to your former residence as a rental property. Or maybe you've tried to sell your home without success. Whatever the reason, if you're thinking about renting out your home, you need to look into landlord insurance.

Homeowners insurance covers your house if it burns down, your possessions if there's a break-in, and medical and legal bills if

someone gets hurt on your property. Problem is, homeowners insurance might not offer protection if you decide to rent out your home. Landlord insurance does. Set aside half a day to research policies.

Renting out your home raises risks

Homeowners insurance typically covers owner-occupied, single-family residences, says John W. Saunders, president of Slemp Brant Saunders, an independent insurance brokerage in Marion, Va. When your home doesn't meet that definition because it's being rented out regularly, it's no longer covered.

Most homeowners policies will cover an occasional short-term rental if, say, you're going away for a few weeks, says Dave Millar, a partner at Riley Insurance Agency in Brunswick, Me. "But if you have a summer home you've decided to use as an income property and are putting different people in there every week," he explains, "that's a lot higher risk for the insurance company."

The risk is also higher for both you and your insurer when you rent out your home on a full-time basis. You have an increased responsibility for injuries on the property, whether to your tenants or your tenants' guests, says Bob O'Brien, vice president of Noyes Hall & Allen Insurance in South Portland, Me.

Insurers also experience more claims on tenant-occupied properties because tenants typically don't care for properties as well as owners would. Renters are less likely to either identify or report maintenance needs, says O'Brien, and may be unfamiliar with a home's systems like the location of the water shut-off.

Look into landlord insurance

When you decide to become a landlord, inform your insurer and ask about a specific **landlord insurance policy**, sometimes known as a dwelling fire policy or special perils policy. Coverage from a basic landlord policy isn't quite as broad as a homeowners policy, says O'Brien, but it includes big risks like fire, wind, theft, and ice damage.

There are several levels of dwelling fire policies: DP-1, DP-2, and DP-3. The higher the number, the better the coverage. "A DP-3 policy might provide replacement cost on the house and theft of contents coverage for your belongings," says Millar.

Expect to pay about 25% more for landlord insurance than you did for homeowners insurance, according to the Insurance Information Institute. In recent years the **average cost of homeowners insurance** was \$822 a year. Tack on 25%, and that would put the average annual premium on landlord insurance at about \$1,025.

A landlord policy covering a one-year rental for a home in Maine insured for \$370,000 and personal property for \$10,000 would cost \$1,170, for example, says Millar. Expect to pay even more if you allow short-term rentals. The same insurance for the home if rented by the week for 12 weeks during a year would be \$2,170.

Other insurance policies to consider

Landlord insurance typically covers the house itself, other structures on the property such as sheds, the owner's possessions (but not the tenant's possessions), lost rental income if the house is damaged and uninhabitable, and some liability protection for the owner in case of injury or a lawsuit. Policies vary, however, so read the fine print. If lost rental income isn't included, you might be able to add the coverage for an additional \$50 a year, says Saunders.

Also consider an **umbrella policy** that provides additional liability protection beyond the limits of your landlord policy. "If you're talking about owning more than one house, and your net worth is starting to build up, then you should consider an umbrella policy," says O'Brien. You can usually get an additional \$1 million worth of liability coverage for \$250 to \$300 a year.

Finally, O'Brien advises that you require tenants to buy **renters insurance** that protects their own property. Remember, landlord insurance only covers the owner's property. In recent years, the average cost of renters insurance has run \$182 annually.

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