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Insurance advice for landlords

A policewoman in a suspected cannabis factory



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Lost rent, damage and cannabis farms are all potential nightmares that make reading the small print imperative

The booming lettings market is driving more investors to return to buy-to-let, but landlords are being warned to check their cover because some insurers will not pay out if tenants damage property or fail to pay rent.

Many landlords do not realise that most ordinary home insurance does not cover rental properties, but even those who take out a specialist landlord's insurance policy may find that it is not as comprehensive as they expect.

Competition among tenants has pushed rents to record levels, boosting landlords' profits and reducing the chance of long periods when they are unable to let properties. Average rents reached £705 a month in July and annual rental inflation was 4.2 per cent, according to the latest LSL Property Services buy-to-let index. However, the downside of high rents is that tenants are becoming increasingly stretched and are at risk of signing up for properties that are beyond their means, so that they may gradually fall behind with their payments.

Those new to letting property might assume "rental cover" means that the insurer will pay out if their tenant falls into arrears; however, it often only reimburses lost rent for periods when a property is uninhabitable because of another event that is covered by the insurance, such as a fire.

Chris Norris, of the National Landlords Association (NLA), says: "There is a lot of confusion about what landlords' insurance is because policies can differ greatly. Depending on your attitude to risk, it may be worth taking out a rental guarantee policy."

Landlords may need to buy an add-on or a separate policy for this. YourMove.co.uk, the estate agency website, offers a rent indemnity and legal cost insurance, which covers 90 per cent of rental payments for up to six months and the legal costs involved in repossessing the property. Rental guarantee policies will usually require the tenants to have credit checks and to provide references.

Direct Line guarantees to beat any quote for a comparable landlord's policy, but the insurer does not provide the option to cover lost rent if the tenant stops paying, even if you are willing to pay a higher premium. Legal & General offers landlords an add-on that can be bought for between £150 and £200, depending on the rental value of the property, to cover rent for up to 12 months or until the non-paying tenants have been evicted, whichever is sooner.

Most policies will not cover a landlord for theft or "malicious" damage to a property by tenants. Jeremy Cryer from Gocompare.com, the price comparison website, says: "As a general rule, claims in which there is no sign of breaking and entering are excluded by most insurers. If you are worried about getting the right tenants for your property, it is always a good idea to ask for references from their previous landlords — this can help you decide who is suitable."

Richard Hanson-James, director of Claim Experts, a loss adjuster that works on behalf of policyholders, deals with cases in which landlords' insurance claims have been rejected by insurers. In one case he is fighting, the insurer refused to pay out when a tenant stopped paying rent and caused £10,000 of damage to the property, including ripping out electrical sockets. The insurer refused to cover the damage, claiming that it was "wear and tear" and arguing that the landlord needed to provide a crime reference number, even though the police refused to give one because it was a civil matter.

Another problem Mr Hanson-James says that his company encounters frequently is rogue tenants turning properties into cannabis farms, which cause enormous damage and which insurers usually refuse to cover. Properties may be left covered in mould, with partition walls ripped down and electrics ruined through the installation of high-powered lighting. Repairing the property often requires stripping it back to the bare bricks and removing plaster, wooden structures and wiring, and the cost can run to six figures.

He says that Claim Experts has dealt with about a dozen such cases within the past 18 months, all of which were eventually resolved in favour of the policyholder, by arguing that the factory was likely to have been set up by a person other than the tenant, who was therefore on the property unlawfully.

"The trouble is that every time we win a case the insurers change the wording on the contracts again," Mr Hanson-James says.

There are many other common exclusions that could catch out landlords.

Mr Cryer says that landlords should be careful if their properties are left unoccupied for long periods between lets, because many policies will not cover this. Damage caused by pets may also be a problem. "Many landlords don't allow pets in their properties but pet-friendly lets are often in high demand. If you do choose to rent to pet owners, be sure to look for policies that cover this."

Wear and tear or badly executed repairs are also unlikely to be covered. “While it is tempting to keep your outgoings low and cut the costs of maintenance, you will be expected to keep your property in good condition. This could save you money in the long run, as putting off repairs could lead to larger problems with bigger bills and could also invalidate an insurance claim,” Mr Cryer says.

“Damage caused during or as a result of repair or restoration is not generally covered by landlord insurance, so do not be tempted to have a go yourself — instead, look to employ reputable tradesmen for repairs and maintenance work,” he adds.

Aaron Strutt, of Trinity Financial Group, the mortgage broker, says: “If you are buying a landlord’s insurance policy alongside your mortgage it is important that you have read the small print to know what you are covered for. You may be surprised to find some of the most obvious things are not covered.”

Case study

Sunil Popat, 39, from Kent, is an experienced buy-to-let landlord with a large portfolio of properties, but last year one of his tenants stopped paying her rent. The tenant missed one payment in February, but Mr Popat, above, arranged a payment plan with her and at first she kept up with her rent as well as the extra amount agreed to make up for her arrears. However, in July she missed her rent again and began to rack up considerable arrears.

Mr Popat notified his insurer, Endsleigh, and began the legal process required to evict the tenant. But Endsleigh refused to cover the £3,350 in missed rent payments because Mr Popat contacted the insurer only in July and the terms and conditions of his policy required that the landlord report any arrears within 68 days.

Mr Popat says: “I still think it is worthwhile taking out insurance, but you need to watch out for exclusions.”

He recommends that landlords do as much reference-checking of tenants as they can to satisfy themselves that they are both trustworthy and creditworthy.