EPISODE 491

[INTRODUCTION]

[00:00:00] ANNOUNCER: Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[0:00:24.1] WS: This is your daily Real Estate Syndication show. I'm your host Whitney Sewell. Today, our guest is Darrin Gross. Thanks for being on the show, Darrin.

[0:00:34.3] DG: Thank you, Whitney, glad to be here.

[0:00:35.8] WS: Yeah, I'm honored to have you on the show, you all probably heard Darrin's voice before. Maybe heard him, heard his podcast before which I would highly encourage you to listen to. But a little more about him. He's a commercial real estate insurance broker providing risk management solutions and coverage in premium negotiations on all new and renewal business.

He is also a real estate investor and has 25 plus years of experience in the property management, multi-family, single-family rental, and commercial insurance industry, specializing in real estate investor's coverage needs. He's a host of Commercial Real Estate Pro Network Podcast, which is designed to be a resource for investors and professionals engaged in commercial real estate.

So, Darrin, thank you again for your time and sharing with the listeners and myself and give us a little more about who you are and what your focus is and let's dive in.

[0:01:26.5] DG: Yeah, again, thanks for having me. And again, I just want to acknowledge you've done, your program, your daily program is – I don't know how you do it. But also, just as a veteran and also as a parent of adoptee kids, you know? I'm adopted as well, I totally appreciate that.

[0:01:43.5] WS: Thank you, Darrin.

[0:01:44.8] DG: About me. I'm based here in Portland, Oregon and insurance broker and ever since I got started, I've had the good fortune of working with real estate investors. Started off as just somebody that called in, looking for insurance and steadily grew into something that could buy in properties and to learn along their journey. But also, along the way, I recognized the power of real estate, you know, started investing in myself, my wife and I, we invest and we have a small portfolio.

But still just the identifying with what an investor is up against. You know, the concerns they have and we're trying to approach it form that way.

[0:02:26.7] WS: Okay. You know, your specialty is insurance, correct?

[0:02:32.0] DG: Yup. That's it and I'd say, within insurance, real estate-oriented insurance so investors.

[0:02:41.0] WS: Yeah. Insurance is such a crucial part of being successful, right? I mean, you got to have it, right?

[0:02:48.9] DG: Yeah. I think that if you're borrowing money, your lender's going to require it. I think that most investors, it's not the first thought when you're thinking about a property. Usually, it has to do with the revenue or some sort of an expense metric, maybe on the back of a napkin, 50% kind of thing and then go to letter of intent.

And then if I'm lucky or if you're thinking about insurance, you might contact your broker right away, more likely, it's closer to the end of your due diligence and you're expecting flow or whoever you saw on TV can give you a quote in 15 minutes to give you a quote. Only to find out

that that may not be the case, especially if you're doing any kind of value-add properties but yeah, we try and work with – not just multi-family but also retail, warehouse, office, primarily commercial real estate investors.

[0:03:42.4] WS: You know, when should we contact you? I like having just a relationship. I mean, we're consulting with insurance brokers very early on. If we feel like it's a property we're going to pursue, we're talking to them about the property before we have it under contract even just so we can be that much more accurate with our numbers. But when do you say we should contact you?

[0:04:03.2] DG: Well, I would follow Whitney's model, your example there and have a relationship with a broker and if you've got something that looks attractive and you're running the numbers before you run a letter of intent or you know, write a letter of intent. Just have a conversation quick, you know, a couple of things to know the age of the properties are usually kind of a starting point.

What your plans are for the property, if it's going to be a heavy lift or if it's more a matter of its fully occupied and you're just going to continue to operate it. But those are just two things and then I think probably the thing that people don't realize that I would – if they take nothing else away from this, is if you're buying an older property and you are in that letter of intent and you understand that you're going to need to know what the seller's experience has been with that property.

So, you want to get a loss history and that's not something that they have at their ready. They usually have to go request it and depending on the level of service of their broker provides, their insurance broker provides, could be delayed and that could delay you getting competitive quote for your insurance is. It's a surprise. You know, if god forbid, there's a horrible loss that nobody – "yeah, I forgot about that." And you know and you've gone past your due diligence period and you didn't press that they had to give that to you or you didn't ask for it, could be a surprise, it could upset your numbers.

[0:05:32.3] WS: We think we have, you know, one number in mind for insurance and then we get much closer say to closing and then we find out that that seller had some other history or had some claims and that really affects our numbers for insurance.

[0:05:46.2] DG: It can. It can. Depending on what it was and if it's been rectified, you know, if it's something that is electrical fire because they had some sort of a problem that has not been mitigated, you may find out you can't get insurance, you know? Or at least something that would be affordable. But yeah, I think just knowing the few things that you're going to need and pressing that and adding that to your due diligence list and put you in a better position to have actual numbers so that you can hit your mark.

One of the things that I hear and I read sometimes in some of these Facebook groups and stuff is that, people have this a number that they put in for underwriting per door and I got to tell you, you're in Virginia, I'm here in Oregon. The weather which is primarily the driver of insurance claims, it's dramatically different across the US, okay?

In Oregon, we have rain, okay? It's not going to boil your roof off, it's not going to blow your house down, it's rain. If you got a good roof, you're probably in good shape. If you go anywhere to like the Gulf States or you know, the coastal, where there's more wind right in the Midwest, where you have tornados, hail, all of these different factors that they all affect the rate for insurance.

If you listen to this and we threw out a number, number I've heard is like 250 or $300 per door, you could be way off the mark, you know? Either pro or con. I mean, for out here, you may totally miss the number because you put too big of a number in your expense. Whereas you know, down the southeast, along the Gulf Coast, you may lose your – you may find out like, "My god, this stuff's expensive."

All I can say is start that process early and get the information, communicate with your insurance broker and you know, get an actual number.

[0:07:39.1] WS: I would think it, I mean, it sort of goes back to that relationship. I know, if we were moving into a new market, that's one of the things we're going to do is contact our

insurance broker and say, “You know, these types of properties.” Or maybe even give an example what should we expect, how would you handle that or suggest?

[0:07:54.9] DG: Absolutely. You know, start with our relationship and local is usually going to be your best option, you know, somebody that’s familiar with the territory. I mean, they’re kind of the eyes and ears of the insurance company. Having said that, we write – I think it’s like 43 of the 50 states, we have clients that have properties out and about and stuff and the Internet is the World Wide Web so we need to get opportunities and we just try and be focused and provide service to those, our customers.

[0:08:28.4] WS: Nice, we mentioned a few minutes ago about getting this history and finding that there’s been problems that could affect our rates for insurance. And maybe you know, if we didn’t ask for that early enough, could be late in the due diligence phase of buying this property and it really turn our numbers upside down. Could that ever happen say after closing?

[0:08:51.7] DG: You know, the insurance companies have written in their policy that there is a – I can’t remember if it’s 60 days or 30 days but there’s a – if they bound coverage on something and then they go out and inspect it and find out it’s absolutely not what they were told, maybe the pictures were of the street of the property across the street, just anything like that, it was thought to be this pristine property only to find out it’s anything but. The insurance company can send you a letter saying, “Hey, we’re off. Here’s your notice, 10-day notice, good luck, we’re out of here,” kind of thing.

Absolutely, you know and even with that loss control, they can go out. I mean, most companies anymore, you’ve got the Internet, you’ve got people on the ground, you’ve got people in the area that they can contact and go out and do an inspection. They’re taking advantage of all those tools.

They’re getting out and inspecting properties right away so they can avoid staying on risk and waiting for the loss. They’re exercising the contract to their benefit so at the very least, you’re going to get a list of inspection, loss control recommendations, you know? It could be that the railings are not appropriately, they’re too wide or they’re lateral as supposed to vertical or trip and fall hazards or the fire extinguishers aren’t up to date or you know, just on and on it goes.

But the fact is that the insurance company in a sense that they are your partner in a sense that they don't want to have a loss.

If you recognize, that's what their goal is not to have loss and you work to keep them happy, more than likely you're experience will be profitable and you may have to spend some money to update certain things or correct certain things.

But in the end, it should be prevention measure as supposed to attracting perspective loss.

[0:10:47.3] WS: Is there anything else that you suggest that we collect from the seller just to get that information that we need or everything that we need as far as insurance is concerned?

[0:10:56.8] DG: Yeah. Just to kind of reiterate the value-add property is probably the ones that I deal with the most. I'm guessing that majority of properties you've dealt with or your listeners that are doing any kind of syndicating or dealing with as well, these properties tend to be older, they have some sort of need of capital improvement. And maybe some deferred maintenance and the insurance companies know that most of the systems and the systems being –

There's four basic systems, you get your roof, electric, heating and your plumbing systems. They have a limited life expectancy. And so, 30 years, most of the companies I deal with and I think nationwide, most companies are looking in and saying like, "Your roof needs to be replaced if it hasn't been."

When you're dealing with a seller, if you can find out these – the most recent date of these four systems that they've been updated, replaced, you'll be much further ahead and then even have your inspector verify that, you know, whether it be at the electrical panel, if they can see an installation date or a furnace. If it is a furnace or a boiler.

I mean if it is a – I am trying to think of? What's the heat deal, electric, I can't even think what it is now, just on the wall there that plugs in this electrical thing and they flip the switch and so on and off? I think even that kind of thing it is not a big deal. But your electrical systems probably weren't the ones that were running into more issues here as of late.

There are some panels out there that are known to be problematic. There is a Zinsco and a Federal Pacific used to be really was worried about the knob or two, the fuses or aluminum wiring. All of this can be problematic.

But knowing those things before you make your offer and then I also have an idea of what it will cost to correct can really help you and position yourself in a position of strength both within negotiation and also with no unexpected surprises.

And also, if there is a period or an insurance company will not accept the property in its current condition but you have bids to correct it and you have a contract with the provider to correct right away, you might be able to negotiate coverage with the understanding that these are going to be corrected right away. Does that make sense?

[0:13:19.6] WS: It does, yes and you know you mentioned like the electrical panels or a little bit of the electrical systems that you are having problems with those right now or you are noticing more problems or I guess as these properties are aging, you know that cycle of properties in a way for a value-add and what are some other problems that you are seeing that maybe we should play closer attention to?

[0:13:40.1] DG: Well, I think a couple of things that I would encourage everybody to consider is more of an operational thing that you know, let me point to where this is coming from. I think we're finally to a point where insurance companies were able to quantify and use all of the data they have collected for years and years. For years and years, we have been inputting this data in the computer. Nobody has really understood what we are inputting or why.

But I think now there is just so much data that you've got data scientists that are looking in and saying, "Hey look, this is a problem and we can correlate it to this." Two things that I am seeing where you can probably save yourself some money is if you are taking over a property that allows smoking and you instill a no smoking policy, you'd be surprised. I think a lot of insurance companies if they know that they may provide you a no smoking discount, okay? Provided that it's in your lease and that you enforce it.

If you are a landlord that believes like, “Well, our tenants that’s just kind of who they are and we don’t want to chase them off.” Then you know that is your choice but just know that that’s something on a – you are probably going to attract the higher caliber tenant if you enforce these simple things. So non-smoking will be one.

The other thing is renter’s insurance requiring renter’s insurance from your tenants. This provides a means for you should your tenant cause a fire or a claim to collect rather than they go against your own insurance policy to fix the problem, the fire. I’ve got one client here locally that for years just resisted and said, “No, you know…” blah-blah, finally they elected to require a renter’s insurance and I guess a couple of months ago when I was out visiting with him and he was, “You know what? We’ve had three kitchen fires this year.” And I said, “You had three kitchen fires?” He said, “I haven’t had to call you once, you know? Because each time renter insurance took care of it.”

He’s got a larger portfolio but still it was kind of unique because what an insurance company looks at when they are trying to price your business, you know your renewal as they’re looking at frequency, a loss end, it’s still very lost particularly to things that they look at as far as pricing a risk.

[0:15:58.1] WS: So, if he had to have claimed those three kitchen fires, his premiums would have gone much higher, wouldn’t they?

[0:16:06.2] DG: Yeah, I don’t know the extent of if you run to the pretty high deductible so you might have been eating those them self but still I mean that’s money from the bottom line, whether it be in deductible or higher premium, right? And if you can transfer that risk to your tenant who is the cause of the problem, all the more better, right?

[0:16:24.9] WS: Yes, so you know Darrin I guess changing tracks here a little bit but you know as far as the listener or even myself, when we are looking for that new insurance broker I thought maybe you could provide a few questions that maybe people forget to ask when they’re selecting that team member, you know that is going to provide the insurance, some things that maybe we wouldn’t even know that we would need to ask.

[0:16:47.7] DG: Well you know I think A, experience is probably your first and foremost. I mean what is their level of experience working with investors. I didn't know what syndication was, only to find out that I have been working with syndicators for years. You know I didn't really understand how real estate was purchased. You know I knew who I was working with but I didn't know how they structured the deal.

But anyway, I would say experience with insuring properties would be primary.

And then I think also access to markets especially if you're dealing with value-add properties, it is one thing to have a brand new property or a newer property that has new systems, is all up to code and needs no value add capital improvement kind of thing. Those are pretty vanilla in almost every company available would be, "Pick me, pick me," kind of thing but if you are getting an older property that is need of some other capital improvements, your list can shorten.

And so, if you're with somebody that doesn't have access to viable companies that can limit your ability to work with that person just based on their ability to place coverage.

[0:18:04.6] WS: How negotiable is that quote that we get?

[0:18:08.0] DG: Oh, I mean insurance it's a guess. I mean it's kind of like the insurance company they've got a floor, the lowest price though, right? The first price thing that they might offer you might be a little more, hoping that you don't have any lower number kind of thing.

But having said that, you know it is no different than you when you make an offer in a property right? You got your maximum that you are willing to pay, which probably going to start with that number. You going to start with a number where you can hopefully give you a little bit of room if you need to sweeten the pot right? And so similar there is that piece to it.

But I think though the more experience you have and the more relationship you have and the more you have to insure is going to be more of your leverage. If you have just that one property and it is kind of smaller property, you are not going to – You don't have a lot of leverage, right?

But if you've got a portfolio of a couple of thousand units and you've got a perfect loss history and you're known to be acquiring more properties and you are in the driver's seat at that point more so than the guy with one property, okay? Some people say, "You better sharpen your pencil." I'm just like I never come to the deal with trying to hide a little bit because I figured like, "Look, I am trying to win period." Just to go out and do this for exercise doesn't pay.

You know you try and win on everything. So, we go to a multiple companies every time and we try and present a comparison between the companies we went to and break it down on line by line coverage so you can see where one company is stronger than another, just a couple of quick things here. Loss of rent is something that I don't think is totally understood. It is usually I think most companies give you like 12 months loss of rents. But on the labor market you're in and demand.

I have seen it here, locally, take as much as 18 to 24 months to get your property put back together depending on the size of the loss. So that is something to consider. But I would say again just to answer your question, experience and markets will be the primary thing that I have.

[0:20:16.4] WS: A few more questions before we run out of time, Darrin, and you as an investor as well, you know how are you preparing or prepared for this potential down turn that everyone is talking about?

[0:20:26.2] DG: Let me answer that based on insurance just with a hard market. Insurance is cyclical just like real estate and if you take note of a lot of the environmental or climate related claims whether it would be floods or significant storms and stuff, insurance companies are believers in global warming or climate change or whatever you want to call it because they are paying the claims, right? And what most people don't understand is that the insurance policy you buy from the insurance company, they buy insurance on that.

So, if you've got a million dollar building they are probably in-house taking the first hundred, $200,000 worth of risk. And then they go buy the balance of that from another insurance company, which is called reinsurance. And most often those reinsurance companies are fairly protected from the loss. But when the loss goes to a million, the reinsurance companies pay in

and if they get hit a lot like they do with these fires and floods and whatnot we are starting to see how a market hardening.

And so what I would encourage everybody to do is look at what we have been talking about is start early talking with your insurance broker and be aware of what you have and communicate with them and ask them what do they need to get you the best quote. If they need a form then fill it out and get it back to them. They ask, you get the answers and then also understand what your coverage is, where there's something you're willing to do without or if there is a higher deductible that you might be willing to take on to contain your cost.

[0:22:00.1] WS: Darrin what is the number one thing that's contributed to your success?

[0:22:03.5] DG: Probably experience, just doing it more and more. I mean I've had the good fortune to have customers that are acquiring properties and learning the difference between the coverage and then being able to provide them different options and just continue to – I would say just practice, you know? That's probably it right there.

[0:22:26.7] WS: And tell us how you'd like to give back?

[0:22:29.3] DG: I do like doing maybe a podcast. I think so often people think that you are doing something to make a sale or some other thing. You know the reality is that at the end of the day, if I can help you save something or make a better decision, that is a win for me. I love talking with investors and that's probably it.

[0:22:50.1] WS: Darrin, tell people how they can get in touch with you and learn more about your podcast?

[0:22:53.8] DG: Yeah, so my podcast is called like you said, Commercial Real Estate Pro Network and do a weekly podcast. We interview investors and professionals and talk about how to grow your real estate portfolio, asset management and risk management. So that and you can also go to my website. It is the letter jdarringross.com.

[END OF INTERVIEW]

[0:23:21.0] WS: Don't go yet, thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show.

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[OUTRO]

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