

EPISODE 957

[INTRODUCTION]

0:00:00.0 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]

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Whitney Sewell: This is your daily real estate syndication show I'm your host Whitney soul Today our guest is DJ McClure. Thanks for being on the show, DJ.

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DJ McClure: Good morning, thank you for having me.

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WS: Yeah. DJ is the Director of Business Development for National Flood experts, a Tampa-based engineering firm. Fun fact is he had worked internationally for years with his wife before moving to Florida. He joined National Flood experts three years ago and enjoys helping new clients add value to their investments.

You know, knowing things about flood insurance or flood plains buds, you know, are we in a flood zone is something I am not an expert and that's for sure. That's why I'm going to have somebody like DJ helped me. But, I'm looking forward to this conversation so he can help educate me and others. And maybe, there's maybe some value here to be had when we can be better educated about this specific subject. So, DJ welcome to the show, give us a little more your background and you know what you're doing right now your focus and how that can help us.

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DM: I'm originally from Kentucky, move south to warmer weathers. Lifetime tennis player, so tennis

took me all over the world when I'm in my younger years. And then, transitioned a lot of those skills into into business and sales. And, you know, met this company some years back, and was really inspired by you know their mission and their, you know entrepreneurial spirits and just dealing with the company now for several years. And, you know, recently have become, you know multifamily investor myself, and so it's just interesting being on kind of both sides of it and just really excited to help pass on some good knowledge to the listeners.

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WS: Nice. Well, you know, let's dive right in and help us to better understand what is the flood zone, why is that important to somebody in commercial real estate?

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WS: Yeah, so each community around the country, you know, at any given time has a flood study that's been you know done on your way and they're trying to determine you know which areas from a development standpoint have a higher risk of rising water, you know in a worst case scenario type storm. And so, you know, at the basis, these maps are being created to help with, you know, permitting requirements, but then they also have a dramatic impact on flood insurance rates. And, so you know we work as an engineering firm to consult with the property owners to help establish if they can be in better scenarios from a financial perspective.

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WS: Okay, so what are some examples maybe of how they could be in a better financial situation, you know as far as the flood zone is concerned?

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DM: So there's a lot of data that goes into flood insurance premiums and the way that they're calculated. And so, when we're looking at a situation, the elevations of the building the elevations of the flood zone, and some historical data based on the area as well, it can all go into how that in premium is calculated. And so we're working with property owners to look for exceptions to the rules and look for, you know, any consistencies that could be beneficial to getting their premium costs reduced. In some instances even get their properties, out of the flood zones.

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WS: Wow. So, so we could potentially get our property out of the flood zone. You know, how you know

how in depth is achieving something like that or how worthwhile is it for the operator to try to pursue that?

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DM: Well the flood maps are really updated about every 10 to 15 years in most areas. And so, obviously land is not flat, but as the flood maps are created a bit more of a macro level. You know we're going in at a more granular building by building level of detail. And then we can take that information to FEMA directly and say hey, these particular buildings have the characteristics to be excluded from the flood map, and then FEMA will issue an official letter of map amendments that changes the flood zone for those buildings, and at that point the lender requirements for the flood insurance are then removed.

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WS: Wow. So are you someone that we would hire say to help me to try to accomplish this and then work with our insurance provider?

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DM: Absolutely. We work adjacent to, you know, insurance brokers all around the country as an extension to their team. You know we go in audits, a lot of their clients that have properties in flood zones, you know, looking for situations where we could possibly get the flood zone changed. You know this has the most dramatic impact to the property because when you go to sell the property, your then selling it without an insurance requirement. And so from an underwriting perspective, obviously, that can have a dramatic, you know, impact on the cap rate and, you know, the NOI cash flow. When that doesn't qualify we go into a second part of our process, which is really evaluating all of the data, all of the details of the actual flood premium itself. And then looking for scenarios where we can leverage that premium to lower number and get refunds for our clients from the actual insurance carrier.

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WS: Wow, get a refund, that would be incredible. So, what about you know the operator that's listening right now, you know, how many of them should you know say reach out to someone like yourself, you know, to investigate something like this or is that, you know, any property that would be in a flood zone or are there some specific things that they should say okay, you know this property isn't a flood zone but there's this criteria that's met that could tell me that you know I need to reach out to somebody like DJ?

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DM: Really any property that's in a flood zone is worth our team taking a look because basically every lender in the country is going to require flood insurance, and depending on if it's agency debt or what type of loan that you're going after that will determine the levels of what insurance that they require. And so in some instances, it can be a dramatic, you know, impact to, you know, the, especially first couple of years of cash flow. When you know the properties are the most, you know, maybe brutal as they're working their capex budgets, but what happens is that some investors don't find out about this requirement until much later in the buying process. Until you've already your loan values have already been established and then all of a sudden you get this requirement out of nowhere, saying you've got to have 30,000, 50,000 flood insurance, and that can be just a dramatic blow to, you know, to the finances. So the earlier in the process that we can talk to someone in many cases we can actually solve this problem before the closing.

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WS: That's incredible. We can solve that before closing right. So, that was going to be one of my next questions, it's just the timeline for doing something like this we found a property and flood zone. Maybe we are you know we've submitted an NOI on that property, you know, when in that process should we reach out to someone like yourself? How quickly can something like this be done?

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SB: I was varying stages, you know, even before the otherwise and put in place. I'll have investors send me just an address because it's all the information they have at that time and say hey what do you know about the area. It's not uncommon, especially in areas where we've done a lot of projects where I have quite a bit of background knowledge on the area and it can give at least some high level information. And then once the Li is in place and you get into due diligence, this point we're gathering information from the seller. That's when I can get a more definitive answer as to what the solution could be. And then a timeline. and depending on the solution, we can sometimes get these things handled with FEMA in a matter of weeks, which can be obviously very beneficial if the timing works out.

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WS: No doubt. What about just, I would imagine most you know are not aware of just the value that can be created. You know by doing something like this, you know, what are you know some of that just hidden values are things that we should know about when looking at, you know, property in a flood zone?

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DM: The most common stigma is that the bank is never going to release the flood insurance

requirements. And so for that reason, a lot of investors avoid flood zones. And then also have the belief that once they have that flood insurance mandate that, that's just going to be the, you know, kind of the way it is for the life of the loan. And so, educating a lot of investors that once we do have an official correction from FEMA, all the lenders follow the same process. And at that point, once they removed the flood insurance requirements. Not only can you choose to cancel it. But, you also are then eligible for more preferred pricing, it's not to say you can't still have one insurance. And like most of our clients, still do. And you don't have the lender dictating. You know what you have to carry.

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WS: Wow. What about anything, I guess, anything that would hinder us from, I mean that are just like an obvious red flag that would say okay there's no way we're changing this flood insurance before we go down that path?

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DM: There are obviously areas that have had more severe historic flooding. And, you know, so that's not always information that's easily available during the buying process, you know, so that's where sending us an address. We can tell you if there's anything knowledge wise that we do have, but it just also looking at some of the long term impact because what the previous seller may have had in place, may not be the same situation that will be in place for you. Because it's very common that someone's getting an off market deal previous owner didn't carry any debt for those last years of their ownership. And so the insurance situation that they have is much different than when you go into the buying cycle, and you're saying well these guys, you know this is looking great. And then you find out the surprise requirement that comes into place from the bank. See that scenario quite often.

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WS: So that seller, he didn't have to have flood insurance because he didn't have that. Is that what you're saying and then the buyer obviously their lender is going to require it?

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DM: Exactly. With you this scenario, a lot with the refinance process right now currently as well, you know someone had, let's say, perhaps a bridge loan the first couple of years, they only had a very low requirement. Initially they go into the refinance process with, you know, agency debt. They're going with Fannie Mae, Freddie Mac, who have more extensive requirements, and now at this point, you know, and you're underwriting you're only paying let's say you know 15,000 a year for flood insurance, you

know something small on, say 20 buildings. Then you go into the refinance, they want business income for 12 months potentially they want full building replacement value for the flood. So now your floods insurance expense may have gone from before 15,000 to now, possibly as much as you know 50 to 100,000. You know, all unexpected things that you weren't in the business plan.

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WS: Right. What kind of regulations should we be concerned with around, you know flood insurance or you know anything like that changing that we should be aware of as well?

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DM: Yeah, that's a great question. Just recently FEMA has released, you know, some new information. Very surface level. They are changing the rating methodology that they'll be using in 2022, you know some of these things will take effect October 1 for brand new business. So, a couple important details, you know for investors that are going to be in the Q4 for acquisition cycle, you know, assuming the policy from the previous owner is going to become especially important because anything that gets a brand new policy after October 1, we'll have to use the new rating regulations, and we don't know the specific details of what that will be. But, additionally, anything that's renewing for the next 12 months will continue to use the same rating system that's in place currently.

So, right now there's a strong bit of urgency for any investors that have flood zone properties in their portfolio. You know, they really want to let our team, take a look and see if there's anything that we can do to get them in the best price position. So, getting someone in the best price point possible before April 1 of next year will then help them stay at that lower price point at a longer timeline.

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WS: Okay, so how difficult is it to assume the previous policy of someone else's?

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DM: It's a pretty common process, most any insurance broker would be familiar with that you know NFIB insurance, allows that you can transfer the policy, essentially from the previous owner to the new owner. So it allows to where they don't have to create a brand new policy. And again, we're not an insurance agency we work adjacent to so many groups and you just see this as a common, common process.

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WS: So their methodology can speak this morning methodology is changing, and that is changing for the worse as far as the owners that what you're saying?

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DM: There's some areas of the country they're saying that will see decreases, there's other areas of the country that they say we'll see increases. They hasn't released a lot of really specific details, other than some of these timeline, dates, but there will be a little bit more information based on some of the historic flooding of the areas or other characteristics that could affect the pricing. That's what's still yet to be seen.

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WS: What about any other just misconceptions around flood zone? Let say as a multifamily operator or commercial real estate operator. Any other misconceptions I know you know one thing you talked about it's just you know the hidden values as well because I assume many people are avoiding flood zones, like you mentioned but anything else that we should be maybe thinking through a little more or not putting as much weight on?

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DM: Yeah, I think just being a more open minded is the idea. You know there's a lot of areas of the country that are really, you know, great markets right now, and there's all the time, someone will call me and say I really liked this deal. And then once they start seeing what some of the flood zone implications could be they really just go a different direction. And so, we have also another...I would say community of investors that take the opposite approach, you know they're looking for properties in flood zones and then calling us and saying hey you know, can we have you know some secret value day one, as a bit of a new strategy. And so I think just being open minded as a whole will definitely find some, some unicorns out there, or for the investor.

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WS: I see. Anything else as far as getting these, the flood zone mandate, or removed or anything else that you would want to leave with us that maybe we don't know, before we move on to a few final questions?

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DM: Sure, um, you know, we get a lot of questions about the lending process and why banks, you know, and how banks remove the mandate. And so you know when a property is being purchased that bank is

having the property, put through a third party flood zone determination process. Essentially just fact checking the flood zone and flagging which buildings have to then have flood insurance, the banks have their own compliance requirements. And so then once we have this letter from FEMA, there's a federal case number, specific to the buildings that were approved. Once that letters provides to the bank, they update all of those flood zone determinations in their files. That's what then ultimately removes that mandates for the, for the investor.

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WS: Okay. I mean ultimately I see you having to just have somebody like yourself on our team, right, that you know they can help us, you know, walk through that process. But I do see like we've talked about how there could be some value here. Most people do avoid any kind of properties that are in a flood zone or maybe you know when you're looking at a new deal as an operator or buyer. You see that, you think up, you know, moving on to the next project right or next deal because that one's in a flood zone. You know when you see that, and that there could be there could potentially be a lot of value here if you can have that removed, I think it's just assumed that that can't be removed, right, that it's in a flood zone it's always going to be in a flood zone, like you said, the ground is not moving so much, right. What would change that by the way, why would that change in there maybe you could elaborate on that a little bit like why would it change from flood zone to not being in a flood zone?

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DM: You know, there are just properties that are built up higher than others. And, you know, so you walk the neighborhood and you can even just see variations, especially in certain cities around the country. You know, Houston and had a tremendous amount of flood zones. They have also a great deal of elevation change, you know, so you may be just from one side of the street to the other, one could be dramatically higher than the rest. And then also development just moves faster than flood zones. And so someone may have come in and elevate a site, during the construction, but yet that doesn't make an automatic change on which was on their end. And so there's just an extra step that's required in some instances, to go in and give an extra layer of detail to FEMA, and that's kind of where they're depending on someone like us to be to be helpful there.

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WS: DJ Do you have any predictions for the real estate market over the next six to 12 months?

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DM: That's a really good question. I predict that there'll be more investors, buying properties in flood zones. After listening to the show. It's gonna be very interesting to see what happens with interest rates. Over the next 12 months. It seems like there's a very aggressive buying cycle right now, but a competition for deals. And a lot of investors are looking for, you know, some type of angle, over the next guy on how to win the deal. Obviously, we'd love to try to be an angle and we can but, yeah, that's about the extent of my time.

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WS: Hopefully we are as our, you know, our minds are more open to properties that are potentially in flood zones and noticing some potential value there. DJ, do you have any daily habits that you are disciplined about that have helped you achieve success?

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AC: Yeah, I try to start off every day with something motivational. And so our team listens to a lot of different material from Grant Cardone, and you know starting each day with something positive, getting motivated from the first hour. That's really what kind of gets our team going every day.

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WS: What's the number one thing that's contributed to your success?

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DM: Consistency. You know, never lowering the goal. And, you know, never thinking that a goal is not reachable. I'm a very competitive person. Overall, and so just continuing to, to kind of push the finish line out, so it's something that I'm always reaching for.

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WS: How do you like to give back?

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AC: Well for me tennis is then, you know, a life changing skill that I was, you know, exposed to at a young age. And so, you know, I often just find myself, you know hopping on a court with, with some kids or helping some neighbors, their kids and so I'm always trying to promote life skills that you know could be life changing for the next person.

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WS: Nice. DJ grateful to have met you and to have you on the show and talk about a flood zones, it's something that I mean any kind of real estate investor needs to be aware of, or at least have some education about and really thinking through having someone like yourself on our team, and potentially, there could be a lot of value there now that we know that hey that that could be removed, you know, or maybe we have somebody like you do a little research for us and figure that out. DJ, how can the listener get in touch with you and learn more about you?

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DM: They're welcome to send an email to inf@nationalfloodexperts.com, and myself or one of my team will follow up and be glad to take a look at their property. You know, like I said, the review process is no cost, no obligation, you know will give you a transparent view of what's possible. Some cases the flood zone can be changed. In other cases, you know, we're looking at it from more of a consulting perspective. But, obviously, if there's no cost savings then there's nothing for us to do.

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