

EPISODE 960**[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]**00:00:24.00**

Whitney Sewell: This is your daily real estate syndication show I'm your host to Whitney Sewell. Today our guest is Stuart Moore thanks for being in the show Stuart.

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Stuart Moore: Thanks for having me. Glad to be here.

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WS: Yeah, great to have you on the show. Insurance is something that is so important in our business and really probably in any business, most anyway, especially if it's dealing with real estate. But a little about Stuart, joined Turner Wood & Smith Insurance in May, 2012, as a Property-Casualty Agent in the Commercial Division and became a partner in 2019. He is a graduate of Auburn University, was named captain of the golf team and was twice selected to the All-SEC Golf Team. Stuart specializes in multifamily insurance and can insure properties in all 50 states.

Stuart, welcome to the show. Give us a little more about your background but and you know let's dive into some insurance issues, whether it's success stories or pitfalls, you know that our operators investors that are listening need to know.

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SM: Yeah, so, like you said, I got into insurance, kind of fell out of the golf scene, and fell into a friend that had an insurance shop and really never planned on getting an insurance that just, just kind of happened. And to get into the multifamily, had a good friend who's in the property management business, and they he started sending me clients, and then from there it's just kind of grown on referral basis, and it's gotten to where the last four or five years it's probably 90% of the business that are right is in the multifamily sector. So you know it's been a good time to be in that business, we've cut our teeth on the Fannie and Freddie requirements and all that stuff. So, a lot of different, lot of different markets and carriers that we use, and we haven't insured everything in all 50 states but I haven't seen any properties in Hawaii or Alaska, but be glad to go see them if we need to.

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WS: Yeah, that sounds like a fun trip, a business trip. Right? Well, let's jump in there a little bit about you know obviously you are majority, now you're working with multifamily operators multifamily properties you know ensuring those deals and, but let's talk a little bit about, you know, we're having a provider, like yourself, that operates, just with multifamily or the majority multifamily anyway as opposed to someone that's, say, you know, writing our insurance for our

home or cars or things like that that's also trying to ensure multifamily what are some differences that we need to be aware of in that insurance provider.

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SM: Just as far as knowing that knowing the marketplace. And the biggest thing that that we run into is when you start dealing with Fannie and Freddie and or bank Corp or Arbor. Just knowing what their requirements are, knowing that you're going to have to have a \$3-5 million umbrella or you're gonna have I think they have up at 15% for ordinance a law for four different carriers where if you just go get a quote, anybody can run on an insurance quote through travelers or nationwide system. And it looks great, but then you may get to the closing and you may say, oh man, we don't we need this, we need this we need this and next thing you know it's \$5-8,000 more and that's blowing up the closing and in everybody's mad about it. So that's, that's really the thing is knowing the marketplace. Well yeah, I'll leave it that for right now.

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WS: Yeah, what are some of those requirements so that we should be aware of, you know, or anything that maybe often overlooked by an operator?

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SM: Well, the biggest thing that that we see is just figuring out what value to ensure it for. The lenders are always going to have their, their requirements; the insurance company is going to have their requirements. Usually, I shouldn't say usually, a lot of times the replacement cost of insurance company things is going to be more than the lender and you've got to explain that to somebody that, hey, will it appraised for this. Okay, well the insurance company is going to want they want to ensure that they have to build it back. So you get some discrepancies there. Then, you know, just on, on the business income side of it the amount that you have to ensure the umbrella, the umbrella is enough, they keep going up people keep getting more and more of them. And then one Stickler is just ordinance and law whereas if you're building burns down, you need coverage to build it back to code. The current code and lender that can be expensive with some carriers, some carriers will throw it in it really just depends. But if you don't know that you need it. And then it gets down to, you know, two days before the closing and now like you don't have. You don't have any of us, it can really, really put everybody in a bind.

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WS: Of course, you know as far as, you know, the numbers that you're trying to come up with in your thinking about you know being able to build back, right. I was just thinking through that could you just elaborate on that a little bit as far as when do we need that level of insurance I think a lot of people think they have like insurance is just going to cover to build it all back right the way the way it I was just thinking through that could you just elaborate on that a little bit as far as when do we need that level of insurance I think a lot of people think they have like insurance is just going to cover to build it all back right the way the way it not always the case right?

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SM: Right. Yeah and it keeps going up I mean the price of, you keep in mind the price of lumber and the cost of construction keeps going up. A few years ago, it seems like you could get carriers that would ensure things for, we look at it on a per foot basis. And it'd be \$60 or \$70 a foot, which is just crazy.

Now, most people were or \$100 or up to even \$120 for newer stuff, which to me still seems kind of low, but I mean you've got other coverage in there for the debris removal and things like that so you're not obviously building it from the ground up.

But, it keeps increasing. And like I said that's we run into that with people, especially buying new properties will they get an appraisal and say it appraises for 8 million, and we're trying to ensure it for 12 million why they want to know why. Why do I have to ensure this for \$12 million? Well, if a tornado comes through and knocks the thing down and you got to rebuild it you're going to be happy you had \$12 million, as opposed to \$8 million.

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WS: So help us maybe that's a good place to talk about say, like, I can understand that argument because the insurance cost of, say, a \$20 million project. I mean, it can make or break a deal right you know it can change the value of that property so much. But, but, you know, how do we how do we think through or justify say that \$12 million value of insurance vs. the 8 million purchase price or you know, purchase price or you know at that time when we're thinking through you know having to build this back or, I don't know I'm just trying to get that in my mind or even in the listeners mind because I know that's a struggle for many people when they're trying to evaluate insurance.

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SM: Yeah, I mean the biggest thing is just, like I said, we look at it, and most carriers do on a per square foot cost. So, you know we're, like I said, it just to go out and buy the property is completely different than if the things knocked down and you gotta rebuild it from the ground up just more cost involved.

So it's always the same thing with your with your house, you know, a lot of times it appraises for one a mountain, you pay more or pay less and just kind of where it falls, but with multifamily. It's gotten a little better with the lenders but I mean sometimes you see lenders and all. You know, a lot of times that can depend on the loan size too. They just want to make sure their loans covered back. If something happens. So it's always a. It's always a big juggling act, but the cost, usually most people when you explain it to them, hey, if this thing is not down and I'm in a tornado. It's going to cost you more than \$8 million to rebuild all this, all this stuff all these buildings. So that's, that's where we are, we try to sell them on it.

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WS: How quickly does the lumber prices affect our insurance rates, or just material cost you know, I started to get some quotes on building a barn recently and numerous builders or like, you know, if you built this part a year ago, it'd be like third the cost.

So, you know, and then obviously that made me start doing more research, just in material prices and how a crease so much I realize here. How quickly does that affect our insurance?

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SM: We haven't really seen it affect the actual price yet per se. You know, the market carriers have different relationships with different people. And the market is so broad I think it's kind of vague in there almost. You know rates to me over the last couple years for us have been steadily increasing. But I told a client. We had some renewals at the end of March, it actually went down, which I haven't seen I haven't seen it go other way in a few years. So I'm really hoping for all the buyers out there the property rates are starting to, to kind of level off a little bit.

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WS: What about some closing issues that you've seen you know as far as you know when somebody is working with, you know, Freddie or Fannie types of debt or anything like that as far as they didn't have the proper insurance they didn't do proper due diligence around insurance, anything around closing issues that you've seen calls problems?

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SM: I tell you one of the biggest ones that we've seen is flood. There will be a gray area on which buildings are going to be required to have flood, and it can come down to a lender call on you know some of them, some of them will say if a flood zone, if it's touching the corner of any part of the building. You've got to ensure the, the building for flood some of them, you can get it, you get their work with a little bit like okay it's very, very small portion, we're not going to do it. But flood is the cost for flood is just all over the place.

The National Flood Insurance there have been private markets that have gotten in here lately that have helped out a little bit, but a lot of that even though you can tell the, you can tell the buyer say "Hey, get some clarification on if you're going to need flood for these two buildings." The lender will say no, and then, you know, waiting for the closing they'll say "hey, by the way we are going to have to have that," and then nobody's happy, you know. It can be \$1500 building it can be \$2500 a building, and you just really don't know.

So, you get the closing and flood, even though you think you have it where it's supposed to be. It can change at the last second, flood and then then umbrella. Umbrellas have gotten a little tougher just the whole umbrella market. And not that you can't find it, you can just it's just gotten a little more expensive once you get above \$3-5 million, and a lender can make some different requirements on umbrella or even like we talked the insurable value can change it. It's just really, it can be really difficult. Or you can think you have everything, where it needs to be and then something could come in last minute like the, well we actually need more of this we need more flub we move more umbrella. And then you look like the bad guy because it's going to cost them thousand more dollars, but I'm just telling, we can't do this without the lender so.

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WS: Right, you know, Stuart, a couple of questions I wanted to go and ask you about flood just a little bit. So I had interviewed I just interviewed a guy who's an engineering. He works on flood plains, things like that. And he talked briefly about even getting that changed; you know where you know there are things that change that where sometimes they can get that updated. So it's, you know, the property is no longer in a flood zone. I just wondered from your experience how often you've seen that happen or is that something you recommend like hiring somebody like that to help you to figure that out maybe that's changed recently in this property or these buildings, you know, or no longer in a flood zone.

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SM: Absolutely. We've got, I've got a good guy and I don't know who was on your podcast, but we got a good flood experts and his name is DJ McClure. Okay. Perfect, perfect. He recently, I mean last month, he reached out to me, six or eight months ago and, and we had one that we thought was going to work and it was 16 buildings, and it didn't work. So, it doesn't always work but then we had one last month, where, you know, it saves the guide at closing, and they got it done, they got the letter in released in two weeks. So, I would absolutely recommend them and we send them to a lot of our clients. Even if we don't know if there's an issue, you can send it to them and say "Hey, what do you think of these buildings?" They can do something, something

online and get it figured out quickly and say “hey, yeah, we can help” or “no, we can't.” But they're very upfront, which is very good as well.

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WS: It's a small world. It's interesting as a listener that it'd be yesterday's show where you know you're going to hear DJ talking about floodplains, you know, and potentially you know getting that changed, and so talking about saving a lot of money. You know if that's an option, you know, or maybe even properties that you wouldn't have pursued maybe you should pursue now if you have somebody you know like DJ. But now let's jump to umbrella insurance a little bit. Stuart, you know you mentioned umbrella, you know, when dealing with multifamily properties or any commercial properties like that when should we consider umbrella insurance or is it always is it sometimes and how much?

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SM: I would say always, at least have a million dollars just to protect yourself I mean it's, it can be \$500 annually. I would always recommend at least, at least a million dollar. You get up depending on a lot of different factors that can be it can be a lot more expensive than that but you get a run of the mill property with no issues. And I know we talked about the umbrella, I guess from the general liability standpoint the biggest issue that we've seen lately, it has do with crime scores, assault and battery coverage.

So, a lot of carriers now they are running, they will Google an apartment complex, and if any sort of shooting, stabbing, anything of that nature pops up, they will want to subliminate your assault and battery coverage. Meaning “Hey well you've got a million dollars for general liability but you have an assault and battery incident, will give you \$250,000.” And that's it. And that can get at least around Atlanta, Georgia, you can change based on judicial climates. Those are some real issues I mean you think about how many personal injury attorney billboard you see. If they have a song battery in an apartment complex, they are naming, they're filing a lawsuit against the property owner for negligence security, anything in. You really do not want to be supplement and on assault and battery.

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WS: Wow. So, assault and battery coverage. I don't know if anybody's talked about that before. And that's something say on a personal level that you should have or is that what you're saying or as the building the property itself?

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SM: Just the property itself. You just want to make sure on your general liability policy that it's not sublimated or it's not excluded. Because if you get it sublimated or excluded, obviously you're going to have a lot less coverage and then it may not be picked up by your umbrella. So, there. It's just become a bigger, bigger and bigger issue that we run into where carriers are limiting it or they don't want to provide coverage at all because you can turn on the news unfortunately and see a lot of bad incidents that have happened. And you think okay if I'm a property owner and that happens, I'm going to get them in a lawsuit.

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WS: Well let's, you know, before we run out and get to close on time, I wanted us to get you to be able to talk about some pitfalls. When reviewing say a quote policy then often it's hard to understand a lot of that stuff right? You get this big document and you don't understand a lot of it that maybe you need to. That's so important. Help us to think through some of the bigger pitfalls that most operators are probably overlooking.

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SM: Like I said, we just talked about the assault and battery, make sure that's included or that you're clear on how much you have. The other thing and we like to, I like to tell the operators that are work with, when you are pretty serious, even before you send a letter of intent, send me the offering memorandum, and we can look at it pretty quickly and say okay it's in this area of the country. Just don't believe the offering memorandum, get some advice from somebody who's written in that area or at least can get some information, and it's all from everyone says 100,000, and I run it past them people and they're like oh it should be 60,000.

Okay, I'll go back to the operator and say hey, figure out some loss history here, there's something going on that they're paying, you know, 50 60% more than they should. There's something going on there. I don't know if it's a, if it's a fire. If there's a GL claim. You know, they're just a lot of different things that that you can overlook just about trusting and offering memorandum or it can signal, you know, if this offering memorandum is \$100,000 and they're telling me that it should be 60 or they're telling me show 150. Okay, what else is going on I'm not offering memorandum that may not be what we think it is. So just some, some things like that where, where you can very quickly figure out okay there's something going on at this property with insurance and I don't know what I don't know what it is from what they're presenting there.

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WS: Has there been any issues, you know, related to the pandemic, Covid, you know, over the last year that have really, that have altered you know insurance in a big way?

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SM: Um, I wouldn't say anything crazy that. The strange thing for us was. You mean just talking about it, Covid, covered in the whole thing is last March and April Everything was still bombing along because there were some deals in the pipeline that were closed and there were a few people that complain about some terms that have changed maybe at the last minute from the lender. The insurance side, no. And then, for me in our office, May and June was pretty slow, but I'm done you since the last July, it has been absolutely gangbusters on the multifamily side, people then closing deals, left and right.

It's a little worrisome there, May and June, but then, man, it is, it has not slowed down at all. In, like I said, I actually had some renewals of rates. Finally, I feel like started going the other way. So, I think it's a it's a good time for multifamily, there were, I think the worrisome thing in the beginning was just the rents and you know the jobless claims and some things like that but I feel like that but a lot of that has leveled off at least in Georgia and around the Southeast. So, it really has not, we haven't seen anything, anything crazy from the, from the insurance side it's it's been just kept right and rolling.

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WS: Stuart is there anything around insurance you all leave us with before we move to a few final questions?

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SM: No, I would just say the main thing that we mentioned earlier, and even if it's not, obviously, we'd like i'd love it for it to be me. But if it's not just find somebody that has written multifamily and work with, with agency loans and in knows what you're doing, you know the offering memorandum.

Don't just take the word for it if you're if you're about to make a deal there there's so many things that are going on behind the scenes. I mean, you have no idea what type of policy the current owner has. Asked him for the policy and you may find out "Hey, they've got a \$500,000 deductible and they don't have general liability insurance." I mean it's just, you never know.

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WS: Right, that's awesome Stuart. I definitely need somebody like yourself on our team to help us think through those things that we're talking about that kind of expensive and very needed for any type of large deal like this I mean it can make or break it or ideal so quickly. So we need to know, we need to know that as thoroughly as possible before we ever close on a project. So, Stuart, do you have any daily habits that you are disciplined about that have helped you achieve success?

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SM: I wouldn't say of the best pieces of advice I got when I first got in the business was a guy that that works with us and he said he just simply told me if you answer the phone and you call people back, you will write more business than you know what to do what he said you'll separate yourself from 90% of the people. But I do try to be very active on LinkedIn and connect with people try to find networking events to go to. I try to make a daily habit of at least connecting a LinkedIn people or, you know, shooting emails out to, to people who have closed in the past and we write stuff for us "Hey, anything you're looking at anything I can help you with" It's just really being present and top of mind, with with your people, I asked him for referrals. I don't want to make it sound too simple but it's really just simple stuff of doing it every day and being active in it.

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

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SM: I would just say responsiveness. Being open, being transparent, and being responsive. When somebody sends me an offering memorandum, my first question back to them is, when do you need this back. And, hey, let me know when you need it back. We had a guy a couple weeks ago he said man I completely forgot. It was 11 o'clock on a Friday morning, he's like can you give me something about two o'clock. Oh, yeah. You really do really need it back about two o'clock. We can do that. It's just being responsive and being transparent about people to people. You know, sometimes they will say, what do you think? A couple months ago we had some guys that were looking at a property, and I Googled it, and I wrote them back I was like, Look, you're not going to get assault and battery coverage on this location, and here's why. And I just said, "Look, that's fine if you want to do it," but you're not going to be able to get it, it's just not going to happen or it's gonna be too expensive. So, I think they ended up not even making an offer because of what I told him. Now I don't know if that's good or bad, but I don't want them to not only win, I want them to win the deal but I don't want them to get in a bad situation on one deal where they then can of course be more down the road.

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WS: Now you added a ton of value to them right there. I would imagine about sharing something like that maybe opening their eyes a little bit to the neighborhood or things that maybe they haven't thought through enough. Stuart how do you like to give back?

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SM: I volunteer at our church, love coaching kids in sports. Anything that way, but really probably one of the favorite things that I did was coaching eight year old girls basketball here, couple months ago. Just taken seeing the, seeing how much you can pour into kids and they listen to you and figuring out their strengths and weaknesses and kind of going from that, that's a lot of fun.

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WS: Awesome. Well Stuart, it's been a pleasure to get to know you and have you on the show and go through the ins and outs are pitfalls and things we need to know about insurance related to commercial real estate and then I know we talked about multifamily a lot today. But, you know, appreciate your time. Tell the listeners how they can get in touch with you and learn more about you.

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SM: Yeah, sure, you can email me anytime. My email is stuart.moore@twinsinsurance.com. That's the easiest place to reach me like I said I tried to be active on LinkedIn so, you can even find me pretty easily.

[END OF INTERVIEW]

[OUTRO]

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