EPISODE 1252

[INTRODUCTION]

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Whitney Sewell (WS): This is your Daily Real Estate Syndication Show and I'm your host, Whitney Sewell. Today is a Highlights show that's packed with value from different guests around a specific topic.

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[INTERVIEW 1]

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WS: Our guest is Clinton Orr. Thanks for being on the show, Clinton.

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Clinton Orr (CO): Thanks for having me, Whitney.

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WS: So, are there any kind of checklists we could be using while we're going through this process or for insurance and for that piece of this puzzle?

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CO: Yeah. Actually, I have one right here that we try to go through from a pre-LOI standpoint, as far as you're underwriting and getting numbers to once you get into due diligence and doing a little bit of homework as far as the property requesting loss runs from the previous owner, looking at their policy versus your policy and what your lender's going to want, a lot of properties. The location of the property is going to change your price. If you're on the coast, you can anticipate much higher insurance premiums. If it's a property built in the '60s, '70s, '80s, even early '80s and they have aluminum wiring, that's going to be something that's going to increase your insurance cost. Things like that and looking into those.

Is it student housing? Is it vacant? Are you looking at this property and saying, "Okay, this is a huge value-add play. We're 30% occupied." So, there are eight buildings that are empty. Well, your insurance professional should know that, because that's going to be a completely different type of policy that they're going to have to write for you to protect you properly.

So, once the property has been purchased, this is what we do with all of our owners. We sit down and say, “Okay. This is your property now. This is what we found through our risk assessment situation. These are some things we want to see addressed. We’ll circle this wagon in 90 days.”

The objective is to make sure that – no one wants losses. Not you as the owner and not the insurance company, not me. It affects all of us. I know that from an insurance standpoint, there’s a negative connotation. But it does. It affects everybody when there are losses paid.

So, I think we’re all on the same page, just trying to – The objective is to make sure that this property is safe and profitable.

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WS: No doubt about it. I wonder and appreciate you going through some of those items, but I wanted to ask you. How often and how much is the difference from, say, the seller's insurance policy to what you're quoting the new buyer? What's the normal difference there, say, even in the types of insurance or coverage that they have to even the cost?

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CO: I hate to do this. It's going to vary. I mean, it all depends. I mean, insurance is peace of mind. That's what I sell. I sell peace of mind. What might make a seller give him peace of mind might not do that for you as a buyer. We look at that line item. It is a starting point to say, “Okay. You're paying about this. And being that we’ve been doing this for 10 years just about every day, we know if it’s within ballpark if it’s the number that we look at. You’re at $150 a door.”

Well, we’re going to look at it and say, “Well, probably don't have enough insurance. You’re not covered properly.” If they go in and we have another one we’re working on right now that they’re close to a thousand dollars a door, we’re like, “Okay. Something’s not right there. That’s high.” As far as per door, there really is – It all depends on coverage. I mean, if someone’s got a Fannie or Freddie loan, we’re able to look at that number and say, “Okay. They might have flood insurance. They might – That's why it’s high.” Or they could have a Fannie or Freddie loan, and that's what's running it up.

There are just so many different variables, Whitney. It really is tough to just say this is – A rule of thumb is you’re going to be paying 10% more than the previous guy. I mean –

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WS: Yeah. I just wanted to reiterate. Drive home that we need to contact somebody like yourself. Maybe not just go off those old or the seller's policy. It’s like we got to have a

professional like yourself on our team, so we can be – During the underwriting process, I want to know. I want a pretty good number of what that insurance is going to and be communicating with somebody like yourself. So, we know that you know long before it's a final number that we think the property is worth or what the insurance is actually going cost to, say, per unit or overall.

So, what are some of the bigger problems that you see investors making on the insurance side when we're – Whether it's from underwriting or whether it's not getting the correct coverage?

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CO: Well, what I see a lot of and especially now, these are investment properties. So, most people are going to be number-driven. They're going to look at a quote saying, "Well, this one's $100 cheaper or $1,000 cheaper," whatever that number is. You run the risk of, "What are you going to do in the event of a claim that's going to help increase your rates by 10 times that because you didn't have coverage or you're going to have to come out of pocket?"

A lot of people get caught up in the number itself. I did it because of the look. I mean, that's what you're looking at. You're looking at a spreadsheet of numbers, and you want that NOI to be as high as possible because for your investors and for you. But you also want to make sure that you're protected, because the last you want to do is go to your investors and say, "Hey, look! I know I saved us a bunch of money on our insurance, but that policy did not have ordinance and law coverage."

Ordinance and law coverage is a big piece when you've got a building that you're looking at a value-add play that the building was built in the '80s, and you have a partial loss now. The city is like, "Well, you've got to get this entire building up to code."

Well, you don't have that – An insurance policy doesn't have that built-in most of the time. That's an added coverage. Fannie and Freddie require it. That's how important it is. If that's not in your policy, you're going to be on the hook, and you're going to have to go to your investors and say, "Hey! I know I saved a thousand dollars on our insurance, but I need 20,000 to fix this claim." That's a tough conversation to have with somebody.

So, I think that some of the other things I see as far as underwriting is some of these schools of thought are using X for the door. We're just not in that market anymore. It's every market's different, every construction type, close proximity to the coast. Is it vacant? Is it student housing? What type of roof? What type of wiring? There are so many different pieces and nuances that go to that.

It makes it tough to say it's 250 a door. And that's what people are so used to doing because they want to blow and go on these underwritings. They're taught to underwrite a hundred deals a week. Or 20 deals a week. So, plugging that number in is the fast way to do that, and I get that and I understand that. I do. But if you go into a deal and you sign an LOI doing in that, you're going to be disappointed. I mean, we've seen a lot of situations where lenders are cutting loan proceeds because of that. Even lenders are doing it.

We got a lender to do it with a coastal property once. They used inland offshore rates for a coastal property, and the insurance was about 30 or 40% higher, and they wanted to cut loan proceeds a week before closing up to $200,000. We had to get creative with deductible structure and things of that nature to kind of help offset that, and we got lucky doing that. But we see that very, very often where it's like you said.

Just no one knows what's going on in this insurance world, and that's what we try to do. We just try to, "Hey, look. This is what we're here for. This is –" Just like every team should have an attorney and all of those things. We want to be the insurance guy for your team.

[INTERVIEW 2]

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WS: Our guest is Matt Sutika. Thanks for being on the show, Matt.

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Matt Sutika (MS): Hey. Thank you very much for having me.

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WS: Speaking to the new syndicator, or new operator, somebody that's just coming into this business, maybe they've had a few rentals in the past for single-family homes, same things like that, but now they're looking – they are putting in LOIs, or potential LOIs on larger properties now. They're growing their syndication business. What are just some tips on the insurance standpoint that you see when you're speaking to new operators, things that they miss, or things that they just don't know, they don't know yet?

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MS: Yeah. I think that the two biggest things is get with me yesterday. The faster I can get the deal and work on it, the more I can be aggressive on it. I think new syndicators will see that if I get it quicker and we get a rate and then they actually win the deal, then I have 60 days, where I can continue to beat up that rate all the way till about two weeks before closing until I have to get that final invoice basically in. I think that's key.

Then I think the other biggest thing is for a new syndicator and really, all syndicators to a point, is what the insurance cost on the OM, or even the T-12, we can use that as an indication, but to expect it always to hit that, or to have that knowledge, I think that's probably the number one conversation I have is the OM, or the T-12 will say 78,000, I'll come in at 89. The conversation I have on a daily basis is if you really think it's 74, ask the seller for their policies because we can need to see it.

Because various things that I think a new syndicator and just, in general, is that when we're going on these deals, we're going to have Fannie, Freddie, Arbor, Bancorp type of requirements that are full bells and whistles and umbrellas and all this stuff. That current owner could be sitting on that property for 10 years, they could have GL-only for all I know. They might not even have a loan on it. They could have it as part of a large portfolio.

We use that as an indication and we try to get close or beat it, but really understanding that unless we actually see that policy, or we can prove that that's actually what they're paying, we use it as an indication and not the end-all-be-all number. That's what we're trying to prove for the syndicators anyways. Otherwise, you can just use the T-12 and move on, right?

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WS: Right. Yeah, and that's some great advice. Ask the seller for the insurance policy and all they can do is say no. Then you're really going to question that number.

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MS: Here's the best thing about asking for those insurance policies; at the end of the day, the seller wants to close too. I always say this and sometimes people look at me funny, or right now where everything's Zoom and phone, so I know they're looking at me funny just through the phone, is that if the seller has an awesome policy, most likely I have that carrier. If that's the best rate out there and they get me those policies, there's not a carrier in the world most likely that I can't convince to let me to BOR and flip that over to my new buyer. They don't want to lose the business.

A 100K account, 200K account. Why would they want to? They already like the risk. That's the other thing. I'm like, get me that policy because maybe I can beat that. If we can't, I bet I can get that for you, and that's easy. It's already there. They already know it. You probably can even skip the inspection, because it's already probably been done recently.

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WS: Interesting. If we can get that policy and then you can figure out who that provider is and connect with them and skip a lot of the process.

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MS: I had one just the other day. It was already with State Auto, which is one of my bigger carriers, and called my rep up and said, “Hey, you already have this.” They looked it up and said, “Yeah.” They said, “Do you like it?” Yeah, of course. I said, “My [inaudible] is buying this in September. Can you re-quote it? I’ll get you a BOR and we like that price. We’re good with it.” They were like, “Absolutely.” It just makes sense, what carrier – It’s not like they’re in love with the owner. They’re in love with the property and the risk. Whether the LLC is Main Street LLC or John Smith LLC, they just want to keep the business. It’s really actually quite the tool that a lot of people forget about.

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WS: What are a couple of mistakes that you see new operators, or even experienced operators making when getting the proper insurance?

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MS: Getting the proper insurance, I think the biggest mistake I see is syndicators, or whoever doing the blanket approach, where they haven’t found their person yet, or they’re just trying – all they care about is rate, rate, rate, and they go out to 17 different brokers and blanket the market. To me, that is initially, you’re probably thinking, I’ll tell you like, “Oh, that’s bad for Matt, because he has competition.”

It’s really bad for that syndicator because we all have carriers that we have a really strong relationship with and there’s a thing called blocking the market. The first end blocks the market. If all of a sudden, they send it out to five people and that first broker goes and just blankets the market and then they come to me, I can’t do anything. I might be able to do things better or whatever. That’s a mistake I see a lot of new people, or maybe the first time I work with them, I find out two weeks later, also and I text them and like, “Did you go to everybody in the United States who sells insurance? Because we’re blocked everywhere.”

They’re like, “Oh, yeah. I didn’t even think about it. I just went out.” I think that’s the biggest mistake is that at the end of the day, if you work with me, or there are other brokers out there, right? They’re taking around. I’m not the only one that’s in this space, is when you have your person, they’re going to have 99% of the carriers. There are not a billion carriers in this space. You only need a one really good broker who will go out to all the markets for you and take care of it and get a good job done. That’s the biggest mistake I’m seeing.

Then other than that, I think just as we alluded to, just understanding the numbers and understanding that there might be a difference in the policy that you need for new purchase with all the lender requirements compared to what the current owner who could own it for 20 years might have.

[END OF INTERVIEW]

[OUTRO]

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