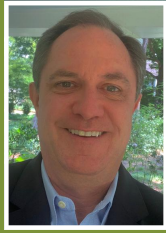


INDUSTRY INTERVIEW:

Increase NOI while Improving Tenant Satisfaction and Reducing Costs



Patrick Long
Managing Director
River Oak Risk



Cliff Minsley
Co-Founder
10 Federal

About the Contributors:

Patrick Long has been a Managing Director of River Oak Risk for the past 6 years. He provides self-insurance solutions to multifamily owners and property management companies. Patrick's first client asked him to review their P&C program with River Oak. The client owned 10,000 apartment units and received nearly \$200,000 per year from their renters insurance partner as a "marketing fee." River Oak created a captive that not only increased coverage to 100% of the tenants but captured over \$1,000,000 in profit per year for the owner - a 5x improvement over the status quo. Since then, Patrick and colleagues at River Oak Risk have been bringing this solution to smart owners and managers across the Multifamily, Student Housing and Storage Unit industries.

Patrick enjoys educating owners on how captive insurance works and often presents at legal, accounting, finance and IMN conferences. He lives in Chapel Hill with his wonderful wife and two children.

Cliff Minsley is co-CEO of 10 Federal, a real estate firm with MultiFamily, Student Housing and Storage Units. 10 Federal leverages custom-built technology and vertical integration to create superior risk-adjusted returns for their investors and partners. Co-founded in 2010 by Cliff and his brother, Brad, 10 Federal has pioneered new methods to incrementally improve performance across their portfolio.

Cliff is responsible for the development side of 10 Federal including general contracting, site work and finance. 10 Federal is headquartered in Raleigh, NC with properties located predominantly within the Southeast. Cliff is a graduate of the University of North Carolina at Chapel Hill.

Patrick: How is your business navigating through COVID-19?

Cliff: COVID has added complexity to what we do. We operate in the multifamily and self-storage space. Housing is necessity based and storage tends to do well in times like these. Our storage properties are operated in an automated, unmanned fashion, which tends to be atypical. That has allowed us to service our clients in a contactless manner, which is being widely adopted across the industry. We have been able to implement these traits, such as automated tours, rather quickly into the multifamily side of the business. The ability to adapt has done well for us.

Patrick: I'm glad to see that all of the automation that you had put into place prior to the pandemic is paying off. I'm managing director of River Oak Risk. We are specialists in self-funding and self-insurance, typically around a captive which earns greater returns for our clients, ranging across industries. Anytime there is an anomaly in the market, whereby clients such as Cliff are paying too much for insurance, we're here to help. We don't sell insurance, but rather look at the risks within your business and determine whether protecting yourself would earn you a better return.

"It's almost without exception that tenants are going to let their policies lapse."

We entered the apartment space somewhat by accident. We met with a client with 10,000 units and looked at their builders' risk and P&C risk. We discovered that they were paying well over \$1 million to third-parties for tenant liability and only had about 5% in paid claims back. Thinking it was a rarity, we looked back over several years and actually found out that it was the norm. Today, they enjoy a \$1 million dividend every year. That launched us into the multifamily space around 4 years ago. Since then, we've rolled this out to 130,000 units.

Cliff, how did you approach tenant liability prior to River Oak Risk?

Cliff: Prior to setting up our captive, we went through the normal third-party channels that provide tenant insurance in the storage and multifamily realms. It helped with our insurance premiums when we could demonstrate that there was a protective layer on the multifamily side for tenant liability. It's essentially like herding cats in the sense that when someone signs a lease, you're trying to track down that they have a COI to provide indemnification against the property. That can be administratively burdensome, especially if you have a property where people are staying past their initial term, if they're renewing licenses and things of that nature.

It's almost without exception that tenants are going to let their policies lapse or they don't send you renewal certificates. On the multifamily side, it was incredibly important and attractive to us that we could require that a tenant have liability insurance, and if they couldn't provide evidence that they had any or did not want to opt to get any, we could get them to participate in our program. That eradicated a huge inefficiency on our side. It was attractive for us to be able to provide the service.

On the storage side, it was about being able to provide a product that we tailored with you and your team to address the needs of our tenants, such as water damage and rodent issues, without paying an arm and a leg. We really got that policy honed in, and I think we offer a better product for our tenants. And to be clear, this is tenant content indemnity. We provide a really good product and ask that tenants have content insurance in the unfortunate event that something happens. We now have River Oak Risk to lean on to work through those issues because there are a plethora of other operational issues that we're addressing on a day-to-day basis.

**"I never knew we had the ability
to open our own captive."**

Patrick: I know that you didn't just look at River Oak Risk, but rather a number of other options. Can you tell us more about the process that you went through and the research that you conducted?

Cliff: We are a vertically integrated operation. We're essentially a real estate investment firm, developers, property managers, and even have a technology company where we develop proprietary platforms to run the properties.

"We're a one-stop shop. The customer experience is paramount."

We have identified so many inefficiencies in real estate operations and can address them all under one roof. I never knew that we had the ability to open our own captive through the reinsurance program, but when we saw that it was possible, we started vetting who had the programs and whom did they work with. You came in high regard, you were local and spent so much time on the front end to really tailor what we wanted to do. That is one of our driving foundational principles.

Patrick: We also learn something with every client. We have to win over every persona, the first being the tenant. They don't like the status quo, which ranges between \$12-\$35 per month across different markets. Our program is at \$12 a month. From a tenant perspective, where do you see the status quo versus our program?

Cliff: We have a lot of control over the product that we provide. A tenant does not have to get a COI on top of signing their lease - we're a one-stop shop. The customer experience is paramount.

Patrick: In exit interviews, community managers mention that knocking on tenant doors is the least favorite part of their jobs. You've eliminated that through automation, but what efficiencies does this program offer for your community managers?

Cliff: We operate in the traditional sense in our multifamily properties with full staff, having made some adjustments for COVID. Our storage facilities are managed to a degree from human beings, from our corporate office.

That said, it creates efficiency when it's our own program and the staff is educated on it. It's not some other tenant insurance group that comes in with their own guidelines. River Oak Risk explains how to communicate the program to our tenants, including the type of vernacular to use. Again, it's a one-stop shop. I have to tip my hat off to you. The program has been up for a while and has been a very seamless process. He have storage properties across the country and offer this tenant insurance in all of them.

**"Of all the business units that we run,
it has one of the highest ROIs."**

Patrick: This program generates around \$100 per unit per year in pure profit on the multifamily side, and you're covering 100% of your tenants. How does this stack up for you as an owner and an investor?

Cliff: This is truly found money and is the best of both worlds. It provides a great product from an operational standpoint because you have 100% coverage. It provides peace of mind for the insurers of the property because your tenants are covered. Lastly, it is wonderful that the captive is profitable, but it's also rewarding in the sense that you can overcome the barrier to entry by having a portfolio of properties that are covered under the program. Of all of the business units that we run, it has one of the highest ROIs. We spend very little time on it once it is set up. River Oak Risk does all of the heavy lifting – thank you for that.



RIVER OAK RISK
Return on Risk

River Oak Risk is the leading captive insurance management company for the Multifamily and Student Housing markets to self-insure for tenant liability which generates new revenue and decreases traditional costs – therefore improving portfolio value. We are not insurance brokers and we do not sell renters insurance – we simply help our clients capture the economics they are producing for others that sell those services. Over the last 12 months Multifamily clients representing over 130,000 units have implemented our Protect Plus program.

The primary benefits of Protect Plus:

- **Financial Gain:** net income on average of \$100 per unit per year
- **Eliminate Gaps:** program covers 100% of occupied units
- **Increased Efficiency:** program is consolidated with lease for easy accounting and reporting requirements
- **Lower Costs:** valuable resources don't waste time collecting/verifying/managing certificates
- **Personal Service:** dedicated customer service agents for each of our clients throughout the life of the program
- **Additional Benefits:** your Captive allows you to self-insure in other areas of your business

Contact Us

Doug MacGinnitie
Chief Executive Officer
dmacginnitie@riveroakrisk.com
(404) 445-5585