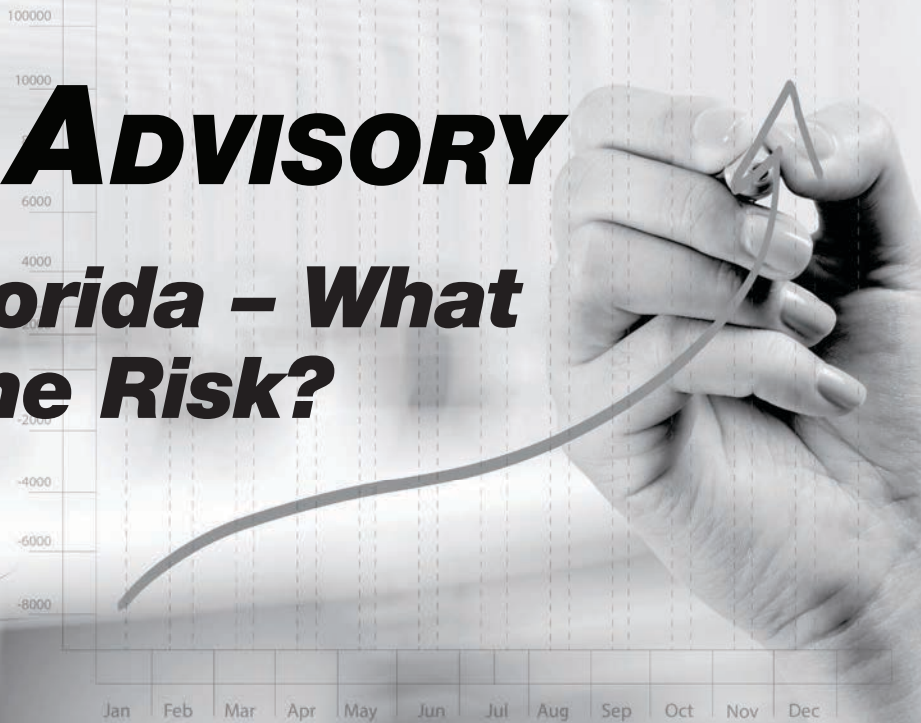


# FINANCIAL ADVISORY

## Investing in Florida - What is the Hurricane Risk?

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**T**his month's article was inspired by a recent conversation with a client. I have liked investing in growing areas of the country such as Texas, Florida and the Atlanta Suburbs, among others, for over a decade now. I feel that growing population in these areas make things easier on us landlords: it's easier to lease space and raise rents if the pool of potential tenants is growing every year.

My investor was considering a purchase of an apartment property in the Orlando, Florida suburbs. His question, a good one, I have heard a number of times: "What if a hurricane comes through and strikes the property?" The answer is a long one that covers topics such as risk, probability, demographics changes and insurance. Let's dive into my answer:

### WALT DISNEY AND DISNEYWORLD ORLANDO

In 1959, Walt Disney began searching for a place to build Disney World. In 1963 he began buying land near Orlando, attracted 12-month sunshine and the

ability to open year-round, proximity to the newly constructed Interstate 4 and an inland location that would insulate it from hurricane damage.

### HOW HURRICANES ACT

Although hurricanes can cause significant destruction on the coast, their power drops significantly over land. A hurricane may be strong on the coast, but it is merely a heavy rain and wind storm by the time it travels 10 miles inland. Remember, also, the paths that hurricanes most often take; forming east of the Caribbean and travelling near the Virgin Islands, Dominican Republic and Cuba before turning North, where they frequently follow the coast. Although Orlando is about 50 miles due west of Cape Canaveral and the Atlantic Ocean, it is very unlikely that a hurricane will travel up the coast, make a 90-degree left turn at Cape Canaveral, and head straight for Orlando. More likely the storm would instead hit Miami, West Palm Beach or Vero Beach and have to travel 240, 175, or 110 miles respectively to reach Disney World – weakening the storm significantly along the way.



**Christopher Miller** is a Managing Director with Specialized Wealth Management and specializes in tax-advantaged investments including 1031 replacement properties. Chris' real estate experience includes work in commercial appraisal, in institutional acquisitions for a national real estate syndicator and as an advisor helping clients through over four hundred and fifty 1031 Exchanges. Chris has been featured as an expert in several industry publications and on television and earned an undergraduate business degree and an MBA emphasizing Real Estate Finance from the University of Southern California. Chris began his real estate career in 1998. Call him toll-free at (877) 313 - 1868.

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### STRONG CONSTRUCTION IN FLORIDA TO RESIST HURRICANES

Much as homes in the east are built to withstand snow or houses in California to withstand earthquakes, buildings in Florida are designed to handle heavy rains and winds – even those caused by hurricanes.

One of the partial-interest management companies that I work with was offering a \$117,000,000, 297-unit, apartment property in the Florida Keys back in 2017. After the manager's purchase, and while sales to investors were underway, the property suffered a direct hit from Hurricane Irma. After a thorough check of the property, \$500,000 of necessary repairs were identified. In a property that collected over \$8 million of rent per year, that's not a very big number. This property was built in 1989 and had just completed a substantial renovation – a testament to robust construction practices in Florida.

#### LOSS OF RENTS AND REPLACEMENT COSTS COVERED BY INSURANCE

You should have, and your lender will almost certainly require, insurance that covers the rebuilding of your property AND loss of rents. In such a case, your insurer will pay you rent for any damaged units and will pay to repair them to rentable condition. Much of the damage from hurricanes will come from floods, and your lender will likely require flood insurance if your property is in a risk zone.

So, in a worst-case scenario, my apartment property is wiped out by a hurricane. My insurance pays me my lost rent while we rebuild, then we lease the property up again when it's completed. Everything works well – as long as residents move back into the area, which brings us to my last important point:

### BUY IN AREAS THAT WILL REBUILD AFTER A DISASTER

Regarding potential natural disasters, I like to ask, "If something does wipe a huge portion of the city out, will people move back?" If a hurricane somehow formed on Lake St. Clair and wiped out Detroit, how many people would move back there to rebuild?

We have a real-life example in the city of New Orleans. Any New Orleans native will tell you that the city has been slowly dying since the 1960s. In fact, between 1960 and 2000, the city lost 140,000 residents or 22% of its population. Hurricane Katrina hit in 2005 and many residents were forced to flee the city. Most of them did not return: the population declined another 140,000 people, or 29%, between 2000 and 2010. We need to evaluate potential areas and decide if a population would rebuild and resettle a damaged city.

#### PERHAPS THE POSSIBLE RISK IS WORTH THE POTENTIAL REWARD

Any location we choose to buy in will present its own unique blend of potential risks and potential rewards. In Florida and the southern East coast, we have hurricane risks as we have earthquake risks in California or tornado risks in "tornado alley." (The Texas panhandle, Oklahoma, Kansas, Nebraska). The explosive growth that Florida is experiencing, and the potential income and property value increases it could bring, may make this added risk worth it. If you have any questions, call my office at (877) 313-1868.

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