CHASE J.P.Morgan

Commercial Real Estate

Getting a Multifamily Deal Done and Driving Success in California Today

The multifamily asset class has emerged as a popular property type for investors. Its appeal has been driven by a number of factors, ranging from demographic composition to supply and demand, as well as renter preference. Connect Media asked Greg Newman (/pages/commercial-banking/services/ctl-greg-newman), Head of California Multifamily Lending (/pages/commercial-banking/services/ctl-multifamily-lending?source=co/cre/ext/cmedia/0516) for Chase, to share insight into what it takes to get multifamily deals done today.

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What is the lending environment like today for multifamily investments? Is it any more challenging now?

2016 and 2017 were record years in commercial real-estate financing. In 2018, the fundamentals for multifamily continue to be very good. We are very active in the stabilized B&C class product in the major markets of California, and the drivers for that specific product are terrific.

There's plenty of liquidity today for people who are looking for term loans. A challenge is that on the purchase side, cap rates are still low, which is causing today's transactions to require more equity. However, with acquisitions, we're seeing properties with upside potential.

What are the ways you're seeing clients differentiate themselves in today's competitive environment?

I'd say it's less about changing what they're doing; rather, they focus on getting better at what they do. They are digging into their business practices to make sure they're optimizing their operations to maximize their revenues. Keeping up with new inventory requires higher-quality unit turns. Tenants expect more for what they're paying in rents today.

We've known many of our clients anywhere from 10 to 30 years or more. They're strategic about where they do business and know what's happening in their geographies on a street-by-street, building-by-building basis. They're able to find opportunities and capitalize on them quickly. We have bankers with just as much experience who are there when clients need them—and our team gets it done quickly, with simplicity and with accuracy.

That's the biggest differentiator today: focusing on doing business better, smarter and faster. Technology is a huge factor and is really beginning to impact our clients and how they do business. Just like our clients, we're constantly focused on improving and being the best and easiest bank to do business with. Every day at Chase, we continue to take a client-centric approach in everything we do. We lead the industry on loan closing times, and with our new loan origination/processing technology we recently rolled out, our clients can expect their turn times to be cut in half.

We're focused on ensuring we're offering an industry-leading client experience that gives our clients a competitive advantage.

How have the Fed's monetary policies or other government policy actions been received by the lending sector and how are they expected to play out in the commercial real estate markets?

Interest rates are top-of-mind for everyone in this industry. After years of near-zero rates, the economy is on solid footing now, and the Fed is normalizing rates. It's important to keep in mind how cautious the Fed has been around rates. The fact that rates are rising, signals strength in the economy—which is a positive for multifamily investors.

One factor that is affecting our clients is the cost of labor and supplies, like lumber and other building materials—as well as having to contract out labor for repairs and updates due to not having a maintenance team. We're seeing examples like this drive up costs considerably today.

What has changed in the way deals are done today from when you first started in this business? What has stayed the same?

A lot has changed, but a lot hasn't. The fundamentals are the same: Go where the jobs are, go where the cost of housing is higher and go where people want to live. If you look at the major markets in California, all of those boxes are checked.

What is changing is what you provide; people will pay a little more to get more. Again, the fundamentals are the same, but the style of living is different today. The question is, do you provide a standard garden style, or do you focus on providing amenities that many renters today are looking for? We're seeing owners update their B&C properties through increased rents to include things such as free Wifi, Amazon drop zones, bike racks and workout areas.

How are your clients structuring their portfolios to allow them to capitalize on opportunities while remaining successful through the cycle?

I frequently hear from our clients that they approach their business in the same manner our firm does. They create a fortress balance sheet and make conscientious decisions during the good times so that they're in a position to succeed during the tough times.

Our clients are setting themselves up to be successful throughout the cycle. They aren't looking to over-leverage, and they look to maximize rents while minimizing expenses. At some point, there will be a correction. We don't know when or how big, but you want to build a balance sheet that can withstand whatever comes our way. So that at any point in the cycle, you'll be in a position to make strategic investments—and our team will be there to help you get things done.

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