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Lee Works Its Multifamily Plan

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Published: April 19, 2016

"Don't worry. I don't see nearly what we saw in 2008. But the question remains, when will the music stop?" —Warren Berzack

LOS ANGELES—As GlobeSt.com reported exclusively earlier this month, **Lee & Associates** has formalized a multifamily strategy to, as Kelsi Maree Borland wrote, "unify and organize that practice to better serve clients."

(**Click here** for the original story.)

Now we catch up with the man tapped to give wings to the new advisory group, 15-year multifamily veteran **Warren Berzack**, heading an operation that CEO Jeff Rinkov predicts could account for as much as 20% of the privately held firm's total volume.

GlobeSt.com: Of course, one of the great things about multifamily is that it seems to be a little less cyclical than office or retail.

Warren Berzack: Exactly. In the last downturn, lenders were frozen for office or retail. There wasn't a lot of volume, while in multifamily you could still get a loan. With the availability of that debt, the market didn't correct as much for multifamily as it did for other product types. There was a cap-rate adjustment but not nearly what you saw in other property types.

GlobeSt.com: Which had to factor into the company's decision.

Berzack: The diversification of the company revenue was a factor in what was a multi-tiered decision. It would be much more stable with a multifamily/apartment component. There was also the competitive factor. Such diversification is obviously the direction in which the whole industry is moving.

GlobeSt.com: So what's the next order of business?

Berzack: The push nationally is for the presidents of each office to recruit multifamily agents and teams. We currently have 50 multifamily brokers across the country, but the focus will be on increasing that presence in about half of our offices and providing appropriate training. Then it will be a matter of providing consistency of collateral materials across the spectrum–marketing pieces, newsletters and proposals and our website.

GlobeSt.com: We talked about the cyclicality of the market and multifamily's strength. So, given all of the talk of the market peaking, it's an interesting time to launch.

Berzack: The volume peak was probably last year. I'm starting to hear in conversations with clients questions about how long the current cycle can go on. In every year since 2011, the market has increased pricing exponentially over the year before. In Southern California, we're seeing 3.5% cap rates, but across the country they've compressed substantially. We had a conference call recently with our multifamily agents and New York reports that they're starting to see rents soften and concessions pop up. I'm hearing lenders say their volumes have dropped. So now they're all dropping rates in order to compete.

GlobeSt.com: And so the perennial question . . . interest rates.

Berzack: I don't see interest rates changing much. The government needs cheap money. Rates are still very low–you might see a jump here or there–but there's also a lot of money flowing into real estate, and a lot of it is foreign capital.

But the overarching trend is that while construction is happening it's not at the crazy levels of the past. There's more demand, with Boomers and Millennials alike moving out of their homes and renting. Rents have jumped substantially since the bottom, by as much as 35%.

GlobeSt.com: And along with the Millennnial movement comes a focus on multifamily in TOD developments and CBD growth.

Berzack: We're seeing it in L.A. and for the most part it's working, with these buildings offering all sorts of amenities for their target audience.

GlobeSt.com: So a lot of the growth for Lee will be in those scenarios.

Berzack: In bigger markets I think so, as cities try to control where the growth is happening and try to cluster jobs and housing. It depends on the area but, yes, cities will continue to push in that direction.

GlobeSt.com: Do you see a general economic slowdown next year?

Berzack: Typically real estate cycles spread over seven- to 10-year periods. I don't think it will be 10 years. I think it will be more like seven, and if so, if you figure we trended up from 2011, we're basically five or six years into the cycle already. So in the next 12 or 24 months there'll be some gyration in the market.

GlobeSt.com: With multifamily floating somewhat above it all.

Berzack: Correct. It's not affected as much by the gyrations in the economy.

GlobeSt.com: So what else worries you?

Berzack: I see people buying properties at extremely aggressive numbers based on expectations of rent growth and purchasing properties with interest-only loans. If rents drop and your interest-only payments burn off, your cash flow will be reduced and, depending on where we are in the cycle, that could be substantial.

GlobeSt.com: Valuations based on potential worries me. Been there, done that.

Berzack: Don't worry. I don't see nearly what we saw in 2008. But the question remains, when will the music stop?

GlobeSt.com: So, you're an optimist.

Berzack: Every market goes up and down. The question is, is it the scare-the-crap-out-of-you sort of downturn or just an adjustment. There have been plenty of markets that adjust 100 or 200 basis points and when things pick up steam, it goes up again. So, yes, I'm an optimist.
