Stan Sorensen:

Welcome to Altabanking, a business podcast for everyone interested in elevating their financial future. I'm your host, Stan Sorensen, And together we're going to hear interviews, information and insights for making great financial decisions for your business. Today, I'm here with my good friend and colleague Ryan Jones, who is executive vice-president and chief lending officer at Altabank. Ryan, welcome.

Ryan Jones:

Thank you. Thanks for having me.

Stan Sorensen:

Yeah, thanks for being here. It's great. And we're going to be talking about all things commercial real estate, from construction to lending. How you doing Ryan?

Ryan Jones:

Good.

Stan Sorensen:

Good.

Ryan Jones:

How are you Stan?

Stan Sorensen:

I'm great, thanks. Good to have you here.

Ryan Jones:

It's great to be here.

Stan Sorensen:

Yeah, thanks. Let's get started with talking a little bit about your background. Talk about how you got into banking and let's talk about your role at Altabank too. I'm not sure if everybody knows what a commercial lending officer does.

Ryan Jones:

Yeah. It's the standard joke in the industry, right, that no one chooses to be in banking, and it's the accidental career. And that's probably true to a large degree for me as well. You find yourself finishing up college and all of a sudden you got a young family started and you just have a friend that's in banking and you take a job just thinking it'll be great to help you get through school. And 20 years later here you are in banking.

Stan Sorensen:

Still here, yeah.

Ryan Jones:

Yeah. It's a 20 plus years in the industry. 16 years at Altabank. Chief lending officer, as we define it, I run commercial banking, so we're focusing on businesses. My teams are focusing on businesses 10 million plus in revenue and we seek to go out and just provide great value through expertise, great products, lending products, deposit products, treasury products. And I really try to take great care of those clients.

Stan Sorensen:

Yeah. So you used a phrase with me. Well, you've used it with me a few times as we sit down and talk where we talk about Altabank wanting to be the best bank for your business. You like to use the phrase, the best bankers for your business. So talk a little about that.

Ryan Jones:

Yeah. Great question. And yeah, as we worked through the rebrand project that we went through and then came up with the best bank for your business as our mission statement, our vision statement, it really came to me, "How do we deliver that?" And we deliver it by providing the best bankers for your business. And in an industry sometimes that can feel a little bit commoditized, product-wise, the differentiator is that banker and having a banker that understands financial metrics, that understands markets and what's going on. That's where you can really have a banker that comes in and is a real value add in terms of not only connecting you with a product, but really helping you think through what product might be the right one for your business at any given time. And that's what we really aim to deliver at Altabank, is bankers that really sit down and provide great value because they're experts at what they do, not just because they kind of facilitate the issuance of a product.

Stan Sorensen:

Yeah, yeah. And it's working, which is fantastic. All right. So let's jump into some of the detailed stuff we want to talk about. Let's start off by talking a little bit about commercial construction. And I was hoping that what we could do is start off by defining it, at least how we think about it, at Altabank, because that might be something that helps our clients and potential clients. And then give me your read on the state of the industry right now.

Ryan Jones:

Sure. Yeah. So when we talk commercial construction, typically there's four major asset classes that we discuss there, and then that would be office space, a retail space, so places where people go to shop, and then we would talk a lot about industrial or warehouse type space, you think more fulfillment centers where things are stored or housed in transit. And then the final one that sometimes it's a little surprising is multi-family is actually considered commercial construction. So for rent residential properties fit into that commercial construction category as well. And so those are the four main ones. And then obviously, you have little niches that come off of that as well. So things like hospitals, hotels, assisted living centers, storage units are all these little nichey offshoots, that get lumped in there as well, but don't maybe have a place in one of those four major categories.

Ryan Jones:

And then we'll even talk a lot about residential construction, single family homes, which technically isn't commercial construction, but is really that bellwether. You typically watch that the residential construction market to see patterns that you can start to expect often in the commercial market a year or two down the road. So a lot of times residential becomes that canary in the coal mine, or that leading indicator of what might happen on the commercial side.

Stan Sorensen:

Yeah, yeah. And we'll take some time to talk about that a little bit. I think it's an important topic and it's one that a lot of people are interested in. So we'll definitely take some time to talk about that. If I look across all of those major categories at least, how are we looking this year, especially after last year, which nobody could predict any of what was going to happen?

Ryan Jones:

Yeah. So if you look at it globally, I think a lot of people know that that through the pandemic, Utah really didn't lose that many jobs. I think our unemployment is only up just a few, like eight tenths or something like that. And so there are industries, obviously through the pandemic, that were hurt. You think of hospitality and of these retail areas, and you start to say, "Okay, if there's so many losses there, then why are we even?" And construction is why we're even. So construction jobs are up about 10% through the pandemic. And so if you look kind of big picture globally, how are we looking from a construction standpoint, really fantastic. We've seen a ton of construction activity here. It really didn't slow down through the challenges of the last year. Now that said, you may have heard this term, a K-shaped recovery, and economists have coined this term, looking at the impact of the pandemic and saying, okay, that creates this pivot point.

Ryan Jones:

And there are businesses that recovered quickly or even were benefited by the pandemic, right? And that's the upper side of this K. But then the lower side is you have some of these businesses that were really challenged by the pandemic. And you see that in the commercial real estate world everywhere, and particularly here in Utah. So when you think through things like industrial and warehouse space, you start to think of the Amazon economy and having large warehouses where things can be stored and shipped and this logistical fulfillment can occur. Right?

Stan Sorensen:

Yeah.

Ryan Jones:

And that space is just crazy demand for it. As fast as it gets built, it gets leased up. And so when you look at the data there, you're seeing stable vacancy. Vacancy's actually a touch higher, but that's only because there's been so much investment in this. But as soon as it comes on market, it leases up. Lease rates are increasing. And so that's on that upper end of the K.

Ryan Jones:

Similar multifamily housing. We've had a well-documented housing shortage. I think you had Natalie in here the last time you did this, Natalie Gochnour. And she's been one of the leading folks on that documenting that housing shortage we've had. You look at Utah, we've had great net in migration. We have a high natural rate of reproduction. You look at the 2020 census, in the last 10 years, 2010 to 2020, Utah was the fastest growing state in the nation.

Stan Sorensen:

Right.

Ryan Jones:

And we're struggling to get all these people in homes. I don't know that there's official data yet, you might know, but it appears that the pandemic actually increased net in migration to Utah and heightened this housing pressure we have. Right?

Stan Sorensen:

Yeah.

Ryan Jones:

Just very similar to that warehouse space, you're seeing multifamily space. As soon as it comes out of the ground and is available to rent, it's renting. You're seeing lease rates go up. If you're trying to rent an apartment right now, you're feeling that. And so you're seeing just really great activity there. If you were to look at retail space, initially you might say, "That had to be the hardest hit." The interesting thing about retail though, is that they've been preparing for this moment. Obviously they didn't know-

Stan Sorensen:

Right, that it was going to hit them that hard, that fast, yeah.

Ryan Jones:

But you saw, three to four years ago, you saw rising vacancy in the retail space and you saw the market adjust to one, deliver less of that to the market, and two, to start shifting to tenants that are resistant to the internet economy, food, cell phone providers, those types of things that are a little tougher to... Mattress stores, they're a little tougher to order off the internet. And so they've been making this transition for years and while it sped them up, they were probably a little more prepared for this. And so for years now, you've seen very modest retail growth. There hasn't been a lot of investment there because they've been making this transition.

Stan Sorensen:

Right, yeah.

Ryan Jones:

So because of that, because they weren't too far out over their skis, the pandemic didn't have a huge impact there. Office space is the one that's really been challenged by this. And obviously, as you look at work from home, a lot of companies wondering if they can do work from home for a long time and start saving on real estate costs. Employees seem to generally like work from home. We've got a tight labor market. And so employers are having to contemplate, okay, can we provide this as a longterm solution? I don't know what the ultimate change will be there, but even if it's a five to 6% switch to full-time work from home, that will have a pretty big impact on commercial real estate and office space in particular. So you are seeing office vacancy. There are pockets where it's better than others in the state, but on the average, you're seeing office vacancy 16, 17, 18%, which is quite high.

Stan Sorensen:

Yeah, yeah. On the office space, there are a couple of interesting points. Number one, as you and I have talked about as we were preparing to have this conversation, a lot of the measurement of construction momentum right now is in the number of building permits that are taken out. And we both know that just because you get a project permitted doesn't mean that it's under construction or even being completed. But when you think about the fact that we have the 17% vacancy rate. Through April of this year, we've got 49 permits for new office space. That's statewide, so I don't know where exactly it is. But it seems like a bit of a disconnect there. If you've got this fairly high vacancy rate, and you're still building new offices. There's got to be some reason why those two things are happening like that.

Ryan Jones:

Yeah. As you presented that data to me, I was speechless for a minute, which for me is a little bit odd. But I don't know entirely the answer. I do think, as you look at some of the things we're working on at the bank, we are looking at some office projects, but they're all pre-leased. And so there still are companies that are growing that want to have office space. And so they're either pre-leased or we're actually building the building for the business themselves. It's not being done for investment or speculation. My guess is, and again, we we've talked a little bit about this because they show permits and they show value, and we're not quite sure what that value data is on that ivory report. But thinking through that, permits are up a hair, but the value was way, way, way down.

Stan Sorensen:

Right.

Ryan Jones:

So I think what you're still seeing, the bulk of those are, are smaller, what we would call owner occupied type projects that are still being built. And that makes sense. They're not speculating, that's not impacting the vacancy number per se.

Stan Sorensen:

Yeah, yeah, yeah. It is interesting. The other piece of it too, and we don't need to spend a lot of time on it today, but this whole notion of getting people back to work and not only do we need less office space, but how can we or should we be utilizing the office space that we have differently. Right? And there's a whole discipline out there now that you're starting to see in architecture firms and all that are all around that workspace planning. University of Stanford just released this big study about, and I can't remember exactly what they call it, but it has something to do with utilizing your office space differently, not necessarily giving it up.

Ryan Jones:

Yeah.

Stan Sorensen:

It'll be interesting to see how that all plays out.

Ryan Jones:

Yeah. I think there'll be some trends. Again, the first one is just how much of the workforce is going to shift to work from home, I think will be interesting to watch. I think it'll be interesting to see different people's attitudes. I went to one of the Jazz games, hopefully that's not too soon to have a Jazz reference. That was a tough night last night.

Stan Sorensen:

It was a tough night. Yeah.

Ryan Jones:

But I went to one of the Jazz games, probably the second game they had with a full crowd. And I remember going and almost thinking, "Do I want to be in a building with 18,000 of my closest friends?" Even though I'm vaccinated and different things, it still was a little bit odd to think I just haven't been in an environment like that for so long. And are there people that will be hesitant? Now ultimately, I got in there and they introduced the starting lineup and I reverted right back to two years ago pretty easily.

Stan Sorensen:

Good. Yeah.

Ryan Jones:

But there could be people that have hesitancy for different reasons to come back. It's interesting because as we've talked to some of our employees, the most common response is, "I'd like to work from home two days or three days a week and I'd like to work from the office two or three days a week," which I understand the appeal of that. As a business owner, it's a little tricky to say, "How do we support and staff and you set up a home and then provide space at work as well?"

Stan Sorensen:

Yeah.

Ryan Jones:

But you're right. So do you start looking at more hotel office space where maybe someone doesn't have a dedicated office or a dedicated space, but you start setting up schedules to allow people to have this hybrid work schedule. I think that'll for sure be things that come into play, right?

Stan Sorensen:

Yeah, yeah. I think it will be. And long as there's not this loss of productivity, I think that the hybrid model, it's probably here to stay at least in some way, shape or form, even if it's just one day a week where I'm working from home or working remotely somewhere. As soon as you see a dip in productivity, of course, all bets are off, everyone's coming back. It'll be just like it was two years ago.

Ryan Jones:

Yeah, how could you measure productivity? I mean, most of the people that I manage, almost all of the people I manage are salespeople, and salespeople have very defined productivity metrics. And so that's the joke I have. I had someone complained that one of my people was spending too much time on the golf course. And I said, "Well, have you seen their numbers? Maybe you should call more." I'm not terribly worried about where they're at, if the productivity numbers there.

Stan Sorensen:

Right, yeah, yeah.

Ryan Jones:

And the other thing to watch is the labor market. I mean, the labor market is so tight right now. And I think employers have to be really thoughtful about providing their employees the benefits that they want, which may very well be some work from home ability.

Stan Sorensen:

Yeah. So one of the interesting litmus tests on this, and it's a bit of a tangent, but I'll bring it up. The JPMorgan CEO said the other day that remote workers are basically going to have to come back in the office by fall, just no ifs, ands, or buts. He understands they are going to be times when people are going to be needing to work outside the office, but you know what, 90%, 80%, some high number, you're going to need to be back in the office, or you're going to end up "paying the price". I don't know what that means, it didn't seem that he meant that we're going to start firing people, but it's an interesting attitude to take, especially right now. It'd be interesting to see what the blow back is on that, if any.

Ryan Jones:

Yeah. I mean, Jamie Dimon's a fascinating guy and then I believe he's probably the best banker in the world, so I'm in no way probably qualified to critique his thoughts, but it does seem to be a little bit of an interesting take. But again, I think it's also important to remember that I think some of the things we're experiencing right now in Utah in terms of labor market and economic growth are not being experienced in other places as well.

Stan Sorensen:

Oh, absolutely. Yeah.

Ryan Jones:

So yeah. He made me making a decision or a comment for a much larger geographic swath where he might have a little more flexibility to make that comment, as opposed to us. Yeah.

Stan Sorensen:

Yeah. Let's sort of go back and talk a little bit about construction because one of the things that we're starting to hear... Well, so there's some interesting things that go on in Utah, in particular. One of the things we talked about in the last podcast was that the pandemic was great for the airport, and that we were able to actually get the airport done just slightly ahead of schedule, just a little bit under budget, because we weren't having to work around all the travelers. So that was fantastic. That labor market rolls off, the majority of those folks already have jobs. And there are a number of big projects, we've got Inland Port, we're going to have that whole Point of the Mountain Development, so things are looking pretty bright there from the ability to get people to work. But we're also hearing about difficulty in the supply chain, so how do we think about those two things next to each other?

Ryan Jones:

Well, yeah. I mean, I think you think about that in the sense that if you're looking at a real estate construction project, it's going to probably cost more than you're planning on and take longer than you think it will, which as you mentioned there's pros to that, there's plenty of people at work. But the supply chain issues, I mean, commodity risk is always an issue when you're looking at a construction project, but right now it seems to be even elevated.

Ryan Jones:

A couple of kind of oddball things that... You and I talked the other day that we want to quit talking about the pandemic so much, but the fact of the matter is it's what's impacting a lot of these things, right? So for whatever reason, the pandemic made a lot of people hesitant to sell their homes, and so there's kind of a historically low number of existing homes for sale. Well, people still need homes and are moving, and so that drives them all to construction, right? And so there's this spike in construction materials on the housing side, but construction materials for houses are largely construction materials for commercial buildings too. I mean, there's a lot of overlap there. So you just see this spike.

Ryan Jones:

And then on the supply side, they weren't really ready for a spike. There's a lot of these lumber mills that are older and have had issues with equipment and shut downs, obviously COVID related protocols and spacing and those types of things have decreased output. And then a couple of oddball things, some environmental issues, things like beetles impacting the supply of lumber or cold weather in Dallas. Unusually cold weather, what was that, in January, February they had that really, really cold storm that actually hurt some of these supplies. And so you just have this spike in demand with a lot of different things impacting supply, and so you've seen commodity prices just raise through the roof.

Ryan Jones:

And then I think the final factor there is, we're starting to see inflation data come in and inflation is unexpectedly high, so you're starting to hear talk of interest rates raising. At first it was in 2023 and then this week we've heard as early as 2022. And if, quite frankly, if the data continues, you may see rates raise earlier than that. And so inflation obviously drive some of this commodity risk as well, and so we're going to need to really watch that.

Ryan Jones:

So yeah, I mean, it's a big issue right now. If you're looking at a construction project, you're going to typically see your contractor want to push pretty hard for a cost plus type of contract, meaning that the only thing that's kind of fixed is their fee, but shifting commodity risk back to the owner of the project. And so I think there are great opportunities now, but I think you need to be a little bit prepared that one, your project might cost a little more, you probably need to think through some liquidity to make sure you've got capital to address some of this variability. And then your project, you probably ought to have a plan that it might take a little bit longer than you're planning on just given all these dynamics.

Stan Sorensen:

Yeah. Well, so one of the interesting impacts on this, by the way, just in some conversations that I've had with homeowners, as well as with a few folks that I know that are in the home building business, is that you're seeing this ripple through impact where remodels are becoming really adversely impacted. And it's not as much the supply chain as it is the labor market, right? You're good home builders, you're good contractors, they've got all they can handle building homes.

Ryan Jones:

Yeah, no. So anecdotally, I'm finishing my basement, speaking of remodels, yeah. And no, you're totally seeing that the one-off job or the contractor that can only supply a few jobs a year, we are hearing that it's getting pretty tough for those folks, that a lot of, not only labor, but really even from the supply side, a lot of people are prioritizing larger contractors who they know have repeat business who really kind of drive these trades and these suppliers year to year. And so it's for sure a challenge, as you look at a remodel, it's typically either being generaled by the homeowner, or the business owner in the case of a business remodel, or a small contractor, there are definite challenges that way, on both the labor and the supply side.

Stan Sorensen:

Yeah. Yeah. Yeah, we-

Ryan Jones:

We're expecting my basement to be done in 2024.

Stan Sorensen:

Okay. No, that's good to know. That's good to know. I might need to actually then take your contractors up to my house. Yeah, I won't go on and on talk about that because my wife listens to this and I'll get in a lot of I'll get in a lot of trouble for having that conversation.

Ryan Jones:

We're just going to have to come to this space to have the band room.

Stan Sorensen:

Yeah. Yeah, I think that that's exactly what we're going to have to do. Yeah, have to hide in here to keep me out of trouble. Let's talk a little bit about real estate, not building, but land, buying existing buildings, et cetera. And sort of talk about what that market looks like, and maybe we can actually start with talking about the different types of loan products that are available to people who are interested in either making an investment or in acquiring real estate so they can put a building on it.

Ryan Jones:

Yeah. Yeah, that's a great question. I mean, on the commercial side, it's a question that most business owners face at one time or another, is it worth making a real estate investment? Is it worth diverting some of my capital into a long-term fixed asset like real estate? And there are lots of different ways to look at and think through that. Generally speaking, if your business is fairly stable, if you're not planning a real quick sell or exit from your business, owning real estate tends to make a lot of sense. There's some tax benefit to it. There's some stability to it that's really nice. And it usually is an asset that can kind of stabilize returns and you can kind of get some stable returns out of that over the long run.

Ryan Jones:

And so it's a decision that a lot of businesses really ultimately want to make that. Now, sometimes they go into that and start to say, "Okay, well maybe I should get a building that's twice as big as what I need and then I can use the rent, I'll rent out the other half and use that to lower my real estate costs." And that can be a great option, we've seen that work really, really well for clients. We've also seen it become a challenge.

Stan Sorensen:

Yeah. Well, I was just thinking with a 17% office vacancy rate, that's probably not necessarily the best course of action right now.

Ryan Jones:

Yeah. So, I mean, just use current data, if you use that and went out and bought a bigger warehouse building than you needed and could... Well, you'd probably be in great shape and you probably have a really nice offset to your real estate expenses with leasing it out. But if you went out a couple of years ago and kind of speculated on just straight office space, you could have something on your hands that's actually costing you more money than this kind of rebate you were hoping to get from your real estate. So those are the things just to think through, what's your risk appetite? What's the market doing? And you want to analyze that. Typically if you are looking at owning a business and you're going to primarily occupy that business or that building with the business that you own, there are some pretty neat programs.

Ryan Jones:

Most people have heard the term SBA, small business administration, but they exist to help businesses be able to purchase real estate among, they do other loan types as well, but they got a couple of pretty unique programs that can allow businesses to get into a real estate project for 10% sometimes, as low as 10% down, which typically you're talking kind of 20 to 30% down as a typical down payment for commercial real estate. Some of these programs can get you in with as little as 10% down. But again, those are targeted to small, to medium businesses who are primarily occupying their building and they're not using it for investment opportunity. You can carve out a little bit for some investment, but the primary use needs to be the owner of the business also occupying the building. So there's a couple items there. I mean, this is the topic where I can sit and talk about commercial loans for hours, and someone will need to throw something at me to get me to stop.

Stan Sorensen:

We'll eventually the camera batteries will go and…

Ryan Jones:

It just runs out.

Stan Sorensen:

Yeah.

Ryan Jones:

That's how I know.

Stan Sorensen:

Yeah, and then just time.

Ryan Jones:

Yeah, when I look up and everyone's gone. So a couple of things to be mindful of. On the construction side again, we talked a little bit about, right now, current pricing, I think you want to be thoughtful about whether you've got the liquidity position in order to enter a construction project. That said, it could be a good time and you could probably find some deals on office space if you're looking to expand that way, or if you're a retail business. I mean, one of the things we didn't talk about, and one of the reasons retail did okay, is we do have a lot of these kind of home care, hobby type businesses that just thrived, right?

Ryan Jones:

I actually went to a bike shop this morning, my son and I got into mountain biking during the pandemic. And there's a million people like us that we're like, "Okay, we need something to do with our free time, what about mountain biking?" You walk into that mountain biking store, there's a million people in there, there's 12 bikes on the shelf because they can't keep them in stock. And so if you've got a retail business that's thriving, then you could have some really good opportunities to pick up space.

Ryan Jones:

And the other thing you may want to think about, rates are low. It could be a time to get in with rates being low. And as of right now, I mean as it looks like costs are escalating, maybe it's a good time to get in and kind of lock in some prices. [crosstalk 00:28:22], and kind of on the commodity side, if you think it's going to continue in the long-term.

Stan Sorensen:

Yeah. Yeah. So at the bank we have the investment real estate team, talk a little bit about what they're doing and the types of clients that they're talking with.

Ryan Jones:

Yeah, and we do a lot of commercial real estate of the bank. So we do have one team that's dedicated to larger investment projects. In the past, historically, we kind of shied away from some of these bigger deals, and so we've set up a team where we have some real expertise there and so we're willing to do a few larger projects just because we got some expertise looking at it day in and day out. That said though, we are seeing... We do a lot of real estate all throughout the footprint, but maybe not of the size that that specific team does.

Ryan Jones:

So typically again, we're seeing really high demand. I mean, it's a lot of these things we've talked about. We're seeing extremely high demand for the warehouse for multifamily, a ton of new projects coming online. We're seeing every one of these developers be nervous about supply costs, so we're thinking through strategies of how do we pre-order, but still maintain the integrity of the loan? Because typically on a construction loan you bring in your supply, you get it installed, we send an inspector out and the bank disperses off that loan once all that has been provided, right?

Stan Sorensen:

Right.

Ryan Jones:

Well, now we're having people want to take advantage to lock in prices today because two months from now, prices are so much higher. And so we're having these issues of how do we solve that problem and try to help lock in those prices without putting the bank in a vulnerable spot of paying for things that aren't there. And so typically we're looking at pre-buying and then storing them in say, bonded warehouses or things. So we still at least know that the raw supply is somewhere and safe and protected. So those are the big issues that we're dealing with now. But again, generally economy is pretty positive, people are pretty optimistic. You do have lots of clients looking for space, lots of clients that are growing and looking for new space and ways to expand their business.

Stan Sorensen:

Yeah. Let's say, and it might be a little... I don't know, we might be treading on some sacred ground here or something as we talk about it. But let's chat a little bit about multifamily housing. Right. I mean, I think that you're right, there are people that are surprised that, that falls under a commercial building. Stop and think about it, makes sense that it would. As we were looking at some of the data earlier today, multifamily is still lagging behind single family homes with the exception of Salt Lake County. And I know we're looking at the crystal ball here, but do we think that that's a trend that's going to continue? It feels a little out of sync with some of the shifting demographics that we have. I'm curious what your thinking is?

Ryan Jones:

Yeah. It is interesting. And it'll be interesting to see how quick some of these demographics do shift. As a general rule, this still is the west. We tend to like space, we tend to like cars, we tend to like to grow a garden and different things. There is that open big sky, open mentality and culture here, right?

Stan Sorensen:

Yeah.

Ryan Jones:

And so that still exists. Now, I think it doesn't exist to the same degree. And then the other thing you've really got to think through is prices. I mean, we've talked a little bit about that. And again, to go anecdotal, I mean, I live in a... It's a home that was built by tract builder. It's on a quarter acre lot. And it's in a nice town, but it's not in a posh town by any means. And we're seeing home prices in our neighborhood started to reach that 800,000 mark for pretty regular suburban homes. And you start to look at that and just say, "That's going to be out of reach for a lot of people that live here." And so we need to start being really thoughtful of how do we provide housing to people that work here and live here. And so I do think there is always a balance. Developers often will want to overdevelop multifamily small footprint because the cost per square foot goes up when they do that, right?

Stan Sorensen:

Of course.

Ryan Jones:

There's a profit incentive for them to do that. And often you're going to have cities sometimes that are unrealistic about what are the changing demographics, and cities that think everyone wants a half acre lot and a goat in their backyard or whatever. And obviously that's changing as well. So you do have these two competing interests. I do think generally speaking, the more suburban counties have probably lagged a little bit with that insight. You are having developers putting more and more pressure on for these suburban counties to start to grapple with this idea of more dense housing because they have to. I mean, and that's what again, you look at apartment costs downtown Salt Lake, they're not terribly affordable. And so you start seeing developers start doing things like working on some micro multifamily, these 300 to 400 square foot apartments to deliver affordable product downtown.

Ryan Jones:

The other thing that you'll start to see is developers really starting to push suburban areas because your land cost comes down, and now you can deliver a housing product that's a little more affordable. So I think the other thing that'll be super interesting is it's the work from home discussion. I mean, you're going to have to see multifamily developments grapple with that. Then do you provide that as an amenity or do you start building in work from home little closets or whatever that can be multifunctional work from home spaces. So I think there's some fun things to watch there too. The other one is that dog ownership is way, way up. And historically, apartments were like, "No pets."

Stan Sorensen:

Exactly.

Ryan Jones:

And you're starting to see these apartment projects become pet friendly and put up pet amenities, and it's necessary in order to attract the top clients. So anyway, a few trends that we're seeing.

Stan Sorensen:

Yeah. Well, and that latter one in particular, of course, near and dear to my heart. But with the number of dog adoptions that took place for pet adoptions in general, right? Dogs and cats with the occasional rabbit or Guinea pig that took place over the last year. And there was a fear that a lot of those animals would be returned and most of the adoption organizations are not seeing that. Which is great for the pets, but yeah, it is going to change the types of dwellings that people are going to be looking for. And for the landlords and the owners to think differently about how they're going to be able to provide for the folks that are the animal lovers.

Ryan Jones:

Yes. No, we've seen two or three year multifamily projects with very specific, particularly dogs seem to be the big one where you're seeing the most growth. But very targeted dog focused amenities.

Stan Sorensen:

Yeah. little awfully the off leash area and everything.

Ryan Jones:

Yeah. Really, really interesting stuff.

Stan Sorensen:

Yeah. It is. It definitely is. You talk about the locations as well, and some of these suburban counties. And it's interesting, I think most people think about that growth happening north south. The corridors heading from, you'd almost say really as far north as Leighton all the way down to Provo. But there is this desire to or for people, especially that work in Salt Lake County to be able to push east, or I'm sorry, west and Tula County. And that's one that we keep hearing about as poised for explosive growth, or you hear about smaller towns like Price that have made a real investment in infrastructure. And they could become a protocol bedroom community for Lehigh, right? Because there's only an hour or so away. So it'll be interesting to see how that growth ends up getting spread about.

Ryan Jones:

Yeah. I mean, I'd still say that your primary and I'd go north of Leighton, I'd go Ogden. Some really amazing development. [crosstalk 00:37:20].

Stan Sorensen:

That's true.

Ryan Jones:

But Ogden into Spanish Fork is the core. But you are seeing that push further north and south, and then as your point west. East, obviously there's a geographic boundary with the mountains, but then you look at the Wasatch Back and you're experiencing very similar growth rates. And a lot of this out of state, immigration is moving to the Wasatch Back. So you're just seeing really high spikes in growth there as well. So I do think those Western communities, whether it's Tooele, whether it's Eagle Mountain in Utah County, whether it's the Syracuse area in Davis County. Those communities have been around for a long, long time. They provide a great outlet and resource.

Ryan Jones:

I think you do see at times where prices start to escalate, people move further and from the west. Again, it's just economics driving down land costs. And so I think right now you're going to see that quite a bit. I do think you'll see a lot of growth in those Western communities because prices are so high. And there's a group in town that provides us a lot of this data. Am I allowed to say the names?

Stan Sorensen:

Mm-hmm (affirmative). Yeah. Of course.

Ryan Jones:

Okay. It used to be Metrostudy. Now I believe they go by Zonda and they provide it. And so I'm stealing this line from them, but they talk about those communities is just that, "Drive till you qualify," right?

Stan Sorensen:

Mm-hmm (affirmative).

Ryan Jones:

So you want to buy a home and you keep driving west and the price has come down and eventually you get to where there's a point that works well for you and your situation. And so I think we will see a lot of demand there. The more rural ones, again, we're getting a lot of reports. Places like you mentioned Price, Sanpete County, are seeing a ton of immigration. And again, as people feel comfortable working from home. So if you were to work and say, a Lehigh or a Provo area, and you only had to be in the office one day a week, you could easily facilitate that from Price, from Mount Pleasant or some of these places. And so we are starting to see some pressure in those more rural communities, more growth, more construction because I do think the work from home magic is starting to show there.

Stan Sorensen:

Yeah. And then of course the thing that comes along with that conversation, and it's a little beyond our scope for today. But then we have to start to think about, "Well, then how do we manage the infrastructure? How do we manage the roads? How do we manage the light rail? How do we keep the commuters from going crazy? How do you prevent a Seattle," right? Which I've said on this podcast before, right? "How do we prevent Utah from becoming Seattle in that regard?"

Ryan Jones:

And I don't know that you do. I mean, that's actually the comparison I make is I think if you look forward, and Natalie and her team again, have great data on this. But I don't know that I see us becoming a San Francisco, but I could see Utah starting to look a lot like Seattle in the next 30 years. Now, to your point, there are smart people thinking about things and from an infrastructure standpoint, "Can we be proactive if we know that growth is coming? Can we invest in infrastructure? Can we be thoughtful about pollution and these types of things and create a really workable large metro area?" Certainly I believe it's possible. I really think we have great leadership in this state that's a pretty forward-thinking and looking at a lot of these and how do we tackle. I mean, it's a great problem. People want to be here, right?

Stan Sorensen:

Yeah.

Ryan Jones:

But one of the jokes that we've had, we may have even talked about this, "They can't build new canyons." And so you're seeing more pressure on the canyons. And a lot of the reason people move here is the outdoor recreation experiences, right? So how do we be thoughtful there? There's pretty low cost infrastructure things you can do in the canyons to make them usable for more people. But we're going to have to be thoughtful about a lot of those things and how do we best use our natural resources and provide the best experience that we can for our residents.

Stan Sorensen:

Yeah. Definitely. What are the interesting insights have you picked up with respect to commercial building, commercial lending and just the overall environment over the course of the last few months?

Ryan Jones:

Yeah. I don't know. Maybe the last few months, or maybe even just the last several years of doing this.

Stan Sorensen:

True. Yeah.

Ryan Jones:

I think there are... Again, I think it's really fascinating to sit down and work with a business and this is where a great banker can be a resource to you. But one of the things I've really learned is how valuable that can be. And if you're really thoughtful and deliberate about, "I need to build a building. Well, why do I need to build a building?" And again, if you have a business that is growing really quickly and every dollar of equity in your business, you're getting a 50% return on, well, maybe pulling some of that equity out and buying real estate that you're going to get an 8% to 12% return is not a great idea, right?

Stan Sorensen:

Mm-hmm (affirmative).

Ryan Jones:

And so I think to me, one of the things that's been powerful to me is just seeing really great bankers sit down with clients, and really smart clients sit down with good bankers and just work through some of these things. And in my experience, if you are thoughtful and deliberate about that, you end up with a great situation almost all the time, right? And where we tend to get in a little bit of trouble is where we start to get hurried or not very thoughtful about this process. So to me it's always, you always want to be thinking about your capital position in your business.

Ryan Jones:

Equity is thing that solves so many problems, that helps you through downturns, that helps you grow in good times, and it helps you survive in bad times. And just being really thoughtful about how you deploy that equity in it. And if you get spread too thin and there's a challenging time, that's where folks can get hurt. So that'd be an insight over a long period of time. But I've seen really great companies and really great bankers sit down and make a lot of really great decisions that benefit everybody.

Stan Sorensen:

Yeah. One of the... Just to build on that for a second and in the form of a question. But I know that we do have bankers that work with some of our clients as their equity position might start to slip a little bit. And talk about things like recapitalization or shift from an equipment ownership model to an equipment leasing model and things like that. So how do those conversations begin to come up? If I'm the banker, how may I start to broach that discussion?

Ryan Jones:

Yeah. That's a great question. And that's... I think the big thing is just helping. A lot of times I love and hate the phrase, "The customer is always right," right? I mean, I get where it comes from, and there's a lot of truth to it. But I think there's a lot of times it's like, "Well, the customer is always right if you're certain that they've considered all the variables," right?

Stan Sorensen:

Mm-hmm (affirmative).

Ryan Jones:

And I think that's where we can be pretty confident to have some of these conversations to sit down with somebody and say, "Hey, we're noticing that, yeah, your sales are way up, but your margins are actually down." Which is actually compressing net profit, and actually maybe causing your equity position to slip at least as a percentage of your assets, right? And so those are great conversations to sit down and say, "Okay. What's going on? Let's talk through this. Is this a short-term issue? Did you have to lower prices because you entered a new market and you kind of have a teaser program going on and you're expecting those margins to increase over time? A lot of times I think people can be a little bit afraid to sit down and ask those questions. What I find is businesses love to answer those questions. Businesses love to talk about it. And a lot of times when you help them uncover something they hadn't thought of, they're extremely grateful and appreciative. So just really having the confidence that you know your business, you know what you're talking about and realizing that those conversations are value additive. That sitting down and asking hard questions and talking through what's going on in a business is a great way to add value.

Ryan Jones:

That's really how we encourage it is, you can sometimes look at these as, "Oh, our credit people that make decisions have this question, and we just ..." It's like, no, something's going on. Let's have the conversation, let's just chat about it. And a lot of times there's a great explanation. A lot of times there's a great solution. But let's just have the conversation. That's how we-

Stan Sorensen:

No judgment, just-

Ryan Jones:

Yeah. That's how we fix things and solve things. So in my mind, I love it. I love to sit and look at a company's financial statements and say, "Okay, what's the story?"

Stan Sorensen:

Yeah. It is interesting isn't it?

Ryan Jones:

Yeah. And so if you're always looking at it from, okay, how do I just get this deal done? I think that's less fulfilling and less value added than, let's sit down and figure out the story. Because then we can actually make sure we're putting this together the very best way we can. And we might uncover some things and make some things known to the client that help them make better decisions. And everyone wants to make the best decision that they can.

Stan Sorensen:

Awesome. Any other parting shots before we go to the piece of the podcast that I didn't tell you we were going to do?

Ryan Jones:

I don't know if there are any other parting shots. As we prepared for this, I sit and laugh because I'm like, are folks going to listen to a podcast about commercial real estate? I love it. I could talk about it for three days, but I do think it's a topic that really does touch more people than you think of. Most people's jobs tie into this topic somehow. And so I just would say, the parting shot is, be mindful and thoughtful of the spaces around you. As an employee, I bet your boss would be pretty excited if you were to come in and say, "Hey, I have some ideas about our space and how we could better utilize this or how we could work with employees that want to flex schedule." So I just say, hey be mindful of this stuff. It might sound like something that doesn't touch your life, but as you really start to think about it, it probably touches your life more than you might think.

Stan Sorensen:

Yeah, I agree with that. And not only that, but it has impact across the entire state. There's a ripple effect here that, one way or another, every individual in the state's going to get touched by it in some way shape or form.

Ryan Jones:

Yeah, absolutely.

Stan Sorensen:

Yeah so awareness is important.

Ryan Jones:

And even if it doesn't directly, again real estate tends to drive the economy. And where it goes it just has such a multiplying effect on jobs and services that are needed and the economy as a whole.

Stan Sorensen:

All right, so lightning round. Just a set of questions, answer off the top of your head and we'll see where it goes. Sometimes it gets really interesting. So question number one, what books are currently sitting on your nightstand?

Ryan Jones:

I'm embarrassed to say, I haven't been reading a lot lately. I used to read primarily via Audible, the audio book, and I used to commute from American Fork to Draper and it was awesome. So I had about an hour every day. I now commute from American Fork to American Fork. I don't work from home, my office is just in American Fork. And so my commute is like five minutes, sometimes if I miss the light it's six minutes.

Stan Sorensen:

It's tough.

Ryan Jones:

So I actually probably do podcasts more than books right now. I'm way into Bloomberg's Masters of Business podcast, the Accidental Creative, I really enjoy. I like Gladwell's podcast. But I would say that's probably filling the niche right now that reading has traditionally filled.

Stan Sorensen:

Well and more and more podcasts do that too. Yeah, there's some awesome... Too much.

Ryan Jones:

Yeah, almost where do you start.

Stan Sorensen:

Too much.

Ryan Jones:

Yeah, there's so much great content.

Stan Sorensen:

Exactly. All right. Generally we ask what book would you recommend for a really good escapist fare, but let's actually shift that a little bit, knowing that the podcasts are more of a focus for you right now. What escapist podcasts would you recommend to everybody listening?

Ryan Jones:

Yeah. So Broken Record by Gladwell is probably my favorite. Because he's got the history one, I can't think of the name of it right now, but...

Stan Sorensen:

I know the one you're talking about.

Ryan Jones:

It's a little more... I mean, it's good too, it's kind of an escapist one. But I love music. I've alluded to it a couple of times, we're in this cool space with guitars and drums and bases. And so to have them talk about bands and different albums and kind of go deep, is pretty amazing. I remember just recently, or within the last year, they did one on Tom Petty's Wildflowers albums, and just went really, really deep. And so typically something involving music and that's probably the most common one right now.

Stan Sorensen:

Awesome. That's really awesome. Bingeable TV shows, everybody talks about the last year, diving in and bingeing like crazy. What did you and the family discover?

Ryan Jones:

Yeah so a couple of shows we've gotten into. One, you've probably heard this idea of habit bundling?

Stan Sorensen:

Mm-hmm (affirmative)

Ryan Jones:

And I've done that in my life, by when I work out in the mornings, I allow myself to watch old sitcoms. I just think old sitcoms are great. So I'm almost done with Seinfeld and I've been watching that the last few months. I've seen it before, but just was fun to revisit it.

Stan Sorensen:

But you can never watch it too many times.

Ryan Jones:

Never watch it too many times. A couple of ones that we really got into family-wise, Cobra Kai, I've got three sons that just loved Cobra Kai. My wife and I really got into Convenience Kim, Kim's Convenience?

Stan Sorensen:

Yeah, Kim's Convenience, yep.

Ryan Jones:

So funny. So we like that. One I didn't watch with the family and I struggled to sometimes recommend it because the language is a little tough, but Ted Lasso was probably the favorite show that I found.

Stan Sorensen:

Oh yeah.

Ryan Jones:

Just so good and so heartwarming and I just love that story and I love the characters. So there's three that we watched during the pandemic.

Stan Sorensen:

Nice. So I will recommend you to, to go and find in Entertainment Week online or Entertainment Magazine, whatever it is. They do a whole... It's like a three or four page spread on how Ted Lasso came to be.

Ryan Jones:

Oh really?

Stan Sorensen:

And it's really... Yeah. And it goes way beyond the TV commercials that they did-

Ryan Jones:

Because I remember the commercials when NBC started broadcasting soccer-

Stan Sorensen:

Yeah broadcasting soccer. Yeah no, it started before that. It's kind of an interesting story-

Ryan Jones:

Was it all Sudeikis to start or?

Stan Sorensen:

No. So the short story, and I hope this doesn't... I don't think it'll offend anybody because I'm just paraphrasing from the article. So what happened is, the guy that plays Coach Beard, I hope everybody has seen Ted Lasso. So the guy that plays coach beard was living in Amsterdam and was working with an improv troupe in Amsterdam. Sudeikis came and visited him and this was 2002, 2003. And did some work with them and all, and as the guy that plays Beard says, "One day we didn't have anything to do so we went and took mushrooms as one does in Amsterdam, when you don't have anything to do." And they started brainstorming this idea for a soccer TV show or movie. Because the guy that plays Beard really got into soccer and one thing led to another and they ended up creating and Ted Lasso and some of the rest of the characters.

Ryan Jones:

Nice concept. How cool.

Stan Sorensen:

Yeah. It's kind of like, wow. And it just kind of sat there for a while and then eventually got developed in the commercials and the show. It's a cool article. If I can find a link, I'll send it to you.

Ryan Jones:

Yeah, text it to me.

Stan Sorensen:

Cool. You already mentioned one of these, but I'll ask anyway, any new hobbies that you all picked up last year?

Ryan Jones:

Yeah, a couple of them. And again, we mentioned that in migration to Utah, one of the things that attracts people is the natural resources and the outdoor recreation. So I did buy a mountain bike about three months ago and one of my sons and I are getting into that. I went for a mountain bike ride this morning. I think it's just ridiculously fun. It is so fun to be up there and navigate those trails. And so yeah, I've picked that up. I've been an amateur guitarist for a long, long time, and I'm still very much an amateur guitarist. But I do think the pandemic did probably allow a little more time to maybe practice that. So one quirky one, we happen to live right by a disc golf course, and I'd never even heard of it. And we got a neighbor that was way into it. And again, last March, April was just, how do you keep kids entertained? And I got a 17 year old boy that caught onto that and has become really, really good at it. So we'll wander out and do that once in a while.

Stan Sorensen:

That's cool yeah. And a lot less expensive than regular golf.

Ryan Jones:

That's the great thing about it, right. I mean, you can get started with like a $25 investment. But if you're way into it, you can spend maybe a couple hundred bucks and then it's free from that point forward.

Stan Sorensen:

Because you need special frisbees or how...

Ryan Jones:

Yeah, there's a whole craft around it. You can get as fancy as you want to with it. But yeah, just like golf, there's different disks for distance and mid-range and short range and ones that have different flight patterns and do different things. So, yeah.

Stan Sorensen:

That's cool. I had no idea.

Ryan Jones:

Oh yeah, you could totally geek out.

Stan Sorensen:

All right now I might have to go and do some more reading because we all know how I love to geek out. Awesome. Any final parting thoughts? Not on the business front or anything else you want to share before we-

Ryan Jones:

I was really hoping when we filmed this, I could say go Jazz, but I guess I'll leave it with go Utes.

Stan Sorensen:

Yeah, I guess so. All right, Ryan thank you. It's always a pleasure. I said to my wife yesterday, it's actually one of the highlights of my week is we do and I get to do our touch bases. Just because we do tend to wander off in all kinds of different topics. It's always a lot of fun. So thank you very much for the time today.

Ryan Jones:

No, the feeling's mutual and with your Seattle background, I've got a water bottle, that's got Eddie Vedder and Pearl jam stickers all over it.

Stan Sorensen:

I've seen that.

Ryan Jones:

You and I can get lost in the weeds talking about Seattle grunge rock.

Stan Sorensen:

And it's a fun time and it's totally worth it. And there we have it. It's been great looking into all things commercial real estate and the commercial lending climate here in Utah. Ryan, thank you again, really appreciate it.

Ryan Jones:

Thanks for having me Stan, it's been a blast.

Stan Sorensen:

All right. For everyone else, I want to thank you for listening to Alta Banking and until next time, make sure to subscribe to the show on Apple podcast, Spotify, Stitcher, Pandora, or Google podcast. We'll talk to you next time.