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Fordham University hosts expert panel - "Capital Market Transformations"

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(L to R) Lou Mirando (moderator), Bob Knakal, Paul Massey, and Blair Welch

Hundreds of business and industry professionals attended “Capital Market Transformations,” a panel discussion and networking event at Lincoln Center that was offered both in person and virtually. The panel was moderated by Lou Mirando, founder and principal of Streamline CRE Funding Group LLC, member of REI’s Executive Advisory Council (EAC) and its immediate past chair. The panel featured Bob Knakal, senior managing director and head of New York Private Capital Group, JLL Capital Markets; Paul Massey, CEO, B6 Real Estate Advisors; and Blair Welch, co-founding partner, Slate Asset Management.

“We pride ourselves on the many unique events we have throughout the year that are designed to help real estate students and other business professionals learn about the industry and grow within the industry,” said Dr. Anthony Davidson, dean, Fordham School of Professional and Continuing Studies.

Mirando set the stage for an economic analysis by looking back at recent downturns, including the Global Financial Crisis (GFC) of 2008 that resulted in the collapse of the housing market and investment banks, and the savings and loan (S&L) crisis of the 1980s when numerous banks failed amid the housing-bubble burst.

“Every time there’s a train wreck, the question becomes severity. Is it a minor derailment, or a gamechanger?” Mirando said. “Today, with rising interest rates and effects on valuations, there’s a lot of speculation as to what this means. When deals are closing – loans, acquisitions, construction loans – things are happening, people are being paid and life is good. Now, deal closings are way down … the longer that velocity stays low, the more the train wreck begins to affect most people in this room.”

Referring to the current crisis as “the great revaluation,” Mirando asked the panel how it compares with other downturns.

“It’s closest to the financial crisis, which was a liquidity crisis for the banking system but they lowered the rates to zero to save it,” said Welch. “I don’t think that’s going to happen this time. You always get through the crisis … it’s just how you get through it. 4.5% overnight rates is normal, it’s actually a little bit less than the historical average. What wasn’t normal was zero interest rates … and we are now just dealing with that. It’s going to take longer to unwind the low interest rates.”

“Looking back at these transformative times is interesting,” said Massey. “This one is more like the ‘90s, when there was major stress on the office market. In 2008, 2009, the market, especially in Manhattan, rebounded within a year. Yes, it was a Great Recession, yes, the boroughs took a huge hit, but geographically the recovery started probably faster than this one is or will.”

Knakal pointed to two key differences between now and the S&L, Great Recession and GFC: the way lenders are dealing with problems and the way different asset classes are performing.

“During the S&L crisis, over 1,400 banks failed in the U.S., the RTC (Resolution Trust Corp.) was formed, and banks were foreclosing on everything,” Knakal said. “Very few of those banks sold debt … the RTC made them dump properties.”

“With those three corrections, all asset classes and all product types were moving in unison,” Knackal added. “They were going down by different percentages, but all going down. Today, in New York, we have a multifamily sector that’s robust …. residential rents are going to go up by 10 or 15 percent by the end of the year … supply is constrained ... retail is a bright spot and leasing is picking up … hotel land is not selling because you can buy existing hotels for less ... the office sector will have more challenges … this time around different asset classes are moving in different ways.”

The panel also discussed social changes and said NYC government is not doing enough to encourage efforts to expand affordable housing. They touched on other trends, including using AI in commercial real estate, as well as work-from-home, and how that is influencing an economic recovery.

“Work-from-home is a fad. There will always be a place for certain alternative working styles, but two years from now we’ll all be feeling very differently about office occupancy,” Massey said. “If you had a bucket of cash and went out and bought an office building right now you’d look like a genius in two years.”

Mirando wrapped the conversation with expectations for the health and stability of the U.S. banking system.

“The U.S. system is unique and there’s a lot of entrepreneurial capital,” Welch said. “It creates ups and downs with the government trying to regulate that, so it can be dangerous because it can constrain entrepreneurial capital, but we’re a long way away from that. There will be fewer banks, because that’s what they want, but you’ve got a lot of banks to go through before that happens.”

“I think it’s the best time ever to start a bank,” said Knackal. “If you’re looking for a business to get into, start a bank. Times are good, it’s as profitable as the business has ever been… they’ll have no legacy issues to deal with. I’m surprised new banks haven’t popped up already.”