

'Stay Alive Until '25': LA Capital Markets Pros Trying To Hang On In Market Minefield

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“How many of you think that there will be another bank failure in the next six months?”

Most of the hands at the *Bisnow* Capital Markets & Deal-Making Conference in the ballroom at the JW Marriott at LA Live went up.



Ervin Cohen & Jessup LLP partner Elizabeth Dryden polled the room again, asking this time who thought there would not be another major bank failure in the next six months, and not a single hand went up among the roughly 130 attendees.

In the wake of a handful of troubling bank failures (<https://www.bisnow.com/national/news/capital-markets/carmels-ron-zeff-dekels-shlomi-ronen-talk-how-the-banking-crisis-will-makes-its-mark-on-commercial-real-estate-118844>), concerns about what the rest of the year holds for commercial real estate permeated every panel at the event, as speakers confirmed that slowed transactions, rising interest rates and uncertainty about the future have made business more challenging and in many cases is altering how and whether deals are done.

“What we're seeing is, there's not a very big sample size of transactions — there's a real bid-ask gap between buyer and seller,” CIM Group Managing Director of Investments Bruce Lowrey said.

The small sample size makes it hard to figure out where values are, which makes it hard to figure out how much things are worth, Lowrey said.

It's undoubtedly a national problem. In the U.S., investment volume in the first three months of the year fell by 57% year-over-year to about \$78B, according to CBRE

(<https://cbre.vo.llnwd.net/grgservices/secure/Q1%202023%20U.S.%20Capital%20Ie=1683654284&h=596a9f2d7e6f8d84509c040ea415758d>). Although Los Angeles was the top market for investment in the four quarters ending in the first quarter of 2023 with \$51B, that was a more than 22% drop compared to the same period the previous year, CBRE found.

Not knowing the worth of assets is only one of many of the uncertainties that the CRE community has to weather.

“We invest for a living, we do deals that come into committee, they have big presentations, everyone spends a lot of time, [but] we have no section in our investment committee memo talking about where we think rates are going to be in a year,” AECOM Chief Investment Officer Josh Katzin said. “We have no idea and honestly, if it was our job to do that, if we were particularly good at it ... we'd be in a whole different business.”

The uncertainty of where rates will be in a year has meant that some commonplace tools that developers have in their toolbox are now becoming prohibitively expensive.

“It's expensive to hedge,” Meridian Capital Senior Managing Director Seth Grossman said. Buying an interest-rate cap — a product that, once purchased, gives cap holders a payment

(https://www.wsj.com/articles/property-owners-may-soon-get-a-new-reason-to-sell-a44fa154?mod=rss_markets_main) every time the interest rate rises so they are more likely to be able to afford the debt service on their variable-rate loans — used to cost about \$100K on a \$100M transaction. Now, that same cap would cost “millions of dollars, potentially,” Grossman said. “It’s blowing entire budgets.”

All of these costs add up as the uncertainty surrounding them mounts.

“Our business is to build stuff for less than it's worth,” Katzin said. “It’s harder than it looks to figure out how much [things] are really going to cost.”

With so many unknowns, many industry veterans are simply trying to batten down the hatches and weather the storm, despite not knowing how much longer it will last.

"I remember my dad saying that in [1993] the theme was 'Stay alive until '95,'" Rising Realty Partners CEO Christopher Rising said, referring to his father and RRP co-founder Nelson Rising, who died earlier this year (<https://www.bisnow.com/los-angeles/news/commercial-real-estate/nelson-rising-obituary-117620>). "I think what he would say today, in '23, is 'Stay alive until '25'."

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See Also: Nuveen Acquires Former MLB Star's Affordable Housing Firm And Its 12,000-Unit Portfolio (</national/news/affordable-housing/nuveen-acquires-omni-adding-12000-affordable-units-to-portfolio-118897>)

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