

Bracing For A Recession: Industry Experts Weigh In On What Preventive Measures They Are Taking

January 29, 2019 | Joseph Pimentel, Bisnow Southern California

When is the commercial real estate property bubble going to burst?

Depending on whom you speak to, a market correction or even a recession is already happening or could occur later this year or next year or 2021 or 2022.

No one is quite certain the date. No one is quite certain of the impact. But what experts do know is a downturn is bound to happen.



December ended with a shaky stock market. Interest rates are rising. The trade war with China continues. Other geopolitical forces are causing investor concerns.

Real estate advisement group **RCLCO's sentiment survey** found that 20% of respondents believe the downturn has already begun. **Nearly half (46%) believe** either the downturn has begun or will start sometime this year.

However, while almost one-half of the survey respondents believe that the downturn is here or coming, nearly all of the respondents said they were not concerned.

Banks are more guarded and conservative with the loans they hand out. The unemployment rate is low. And mostly, investors are smarter with their money. Many investors learned a hard lesson from the last recession that they don't want to repeat.

We spoke to industry insiders across sectors and got their take on what they see in the economy and what they are doing — if anything — to soften the blow if the market crashes this year.

Mixed-Use/ Hospitality/ Retail



American National Investments Chair and CEO



Gina Champion-Cain

What is your market outlook? Are we in a recession or do you see a market correction happening soon? What are your market

concerns?

We're pretty focused on areas that have high demand. No one is recession-proof. But we have weathered the storm before in the last recession.

I don't see the correction that we saw earlier this decade. I think it's going to be a lot softer landing. ... There have been systems put in place. Banks are scrutinizing loans more.

I think people have learned a big lesson. No one wants to see that ever happen again. I don't think we'll see that again. There's always going to be a correction. That's what markets do, they go up and down. You have to be able to weather that storm. I just don't see it happening.

What kind of preventive actions are you taking to ensure your company won't be hit hard if a downturn occurs?

I hedge my bets. I always own real estate where I put a restaurant or coffee shop in a building with apartments up top.

Where a downturn will affect us the most would be our hospitality arm — our hotels and restaurants. It is a combination of higher wages [because] California pays one of the highest wages in the nation. We've been working on that knowing that was coming and before any signs of [a turning] economy.

We're trying to restructure the flow and operations of our restaurants. We want our operations to be efficient and manage our labor and cost of goods more effectively.

We are very strategic. We are very finicky with what we buy. We are not overpaying for stuff.

Capital Investment



Dekel Capital Managing Principal Shlomi Ronen



What is your market outlook? Are we in a recession or do you see a market correction happening soon? What are your concerns?

It's tough to forecast these things. I anticipate a slowdown in growth maybe in the next year or two. The wild card is the political climate that could trigger instability in the market.

Overall, the economy is doing pretty good right now. In the financing side, you are not seeing excess from the banks. You don't see the same type of telltale signs in the previous downturns. Money was plentiful but without constraints and limits.

What kind of preventive actions are you taking to ensure your company won't be hit hard if a downturn occurs?

When we invest in projects using our own capital, we've been realistic with leverage. We're not as active. We examine the risk and return of the deal.

Some of the returns [we've seen from projects] don't justify the risk. A lot of ground-up deals we've been looking to invest in just haven't been rich enough to justify the risk.

At the end of the day in real estate, we're just not taking in a lot of debt.

Student Housing



Pierce Education founder and CEO Fred Pierce

What is your market outlook? Are we in a recession or do you see a market correction happening soon? What are your concerns?

I think a recession is coming. There are several factors. It's more expensive to borrow money for one year than it is for 10 years. We all saw what happened last month with the stock market, the interest rates are rising, you see what's going on in China and that we're in the longest expansion since post-World War II.

Economies are cyclical and we're due.

For student housing, deliveries are down next fall. I think capital is cautious everywhere.

I think this could be a right time for institutional investors to move away from the four main food groups — office, retail, industrial and multifamily — and invest in the niche sectors of real estate, such as student housing, senior housing and self-storage.

What kind of preventive actions are you taking to ensure your company won't be hit hard if a downturn occurs?

First, if we're smart and managing a portfolio, we are aware of the investment markets and the capital markets. We can be available to be a conduit for investments in our space at a time when more capital wants to be in this space.

We can actually see an increase in our investment activity because of an increase in available investment capital.

We would see no slowdown in investment appetite but rather a growing appetite. Therefore, we would be active in investments in the coming years.

Industrial



Caprock Partners President Jonathan Pharris

What is your market outlook? Are we in a recession or do you see a market correction happening soon? What are your concerns?

I can only tell you from an industrial perspective. I can't speak about the other markets. Industrial has a lot of great demands around it. We're currently under construction on 4M SF of industrial projects in the Inland Empire. We have 3M SF in the western United States that will be ready sometime this year. We are cognizant of the demand drivers and what's going on in the economy. We're still very bullish on industrial.

Generally, a recession for real estate is brought on by an oversupply of products and having a glut of space. Right now, I don't see that occurring. You have traditional lenders that are still really conservative on construction loans.

Recessions don't just happen. There has to be a catalyst. A black swan event, global slowdown of trades. No one knows.

We look at the horizon and don't see a glaring red flag.

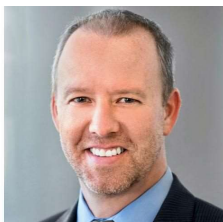
What kind of preventive actions are you taking to ensure your company won't be hit hard if a downturn occurs?

I don't want to say I'm not concerned [about the economy]. I am concerned. We are worried and taking steps. I just don't see any major red flags.

We're managing our cash flow. Today industrial is still a strong market.

As a whole we are still looking to buy value-add deals in strategic markets and evaluating geographic expansion despite the economic uncertainties.

Multifamily



TruAmerica Chief Administrative Officer Mark Enfield

What is your market outlook? Are we in a recession or do you see a market correction happening soon? What are your concerns?

We are not expecting a recession to happen in the near term. We don't see signs of an economic slowdown but you could have an unanticipated geopolitical situation that could impact the U.S. credit markets.

The fundamentals in the Class-B multifamily space remain strong as there continues to be a housing supply shortage nationwide, especially for our tenants who are often teachers, police officers, service workers and firemen.

What kind of preventive actions are you taking to ensure your company won't be hit hard if a downturn occurs?

We have remained disciplined in our underwriting and keep modest leverage on our properties.

We have a model that works even in a slowdown, where you could dial back the

renovation plan, and are thoughtful about investing in markets that exhibit strong multifamily fundamentals for the long term.

See Also: [How Real Estate Execs Are Soldiering On As Pandemic Takes Hold](#)

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