# The Weekly Take

## Float On: Hedging interest rate risk in a volatile debt market

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**Spencer Levy**
The Board of the Federal Reserve meets eight times per year. And for a long time, the monetary policy news coming out of their sessions wasn't very dramatic. Interest rates near zero for most of the past decade and a half. Lately however, during this time of post-pandemic recovery, global inflation, and yes, possible recession. the Fed's announcements have drawn a spotlight comparable to that of a Hollywood awards show, with announcement after announcement of interest rate increases in an effort to tame inflation. And the winner is… Who knows? And what does it mean for borrowers and investors in commercial real estate and beyond? On this episode, we welcome two voices of experience who share their expertise on interest rates and hedging investments during times like these.

**JP Conklin**
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**Spencer Levy**
That's JP Conklin, founder and president of Pensford Capital. The Charlotte, North Carolina based firm is a leading specialist on interest rate hedging. He's also the founder of LoanBoss, a transaction management platform for commercial real estate. And hosts his own podcast known as *The Rate Guy.*

**Kelli Carhart**
So I think the inflection point for people to want to transact is probably right around 5%. And today we're getting closer to that, which makes me optimistic that this freeze will maybe thaw a bit.

**Spencer Levy**
And that's Kelli Carhart, who joined CBRE last year after a long career at Freddie Mac and now serves as executive managing director and head of CBRE’s Multifamily Capital Markets. Coming up, a conversation we recorded on May the fourth, just a day after the Fed's most recent meeting. We unpack the latest developments and try to get behind the numbers and trends. Managing risk in this potentially volatile interest rate environment. Perspectives on Hedging Strategies. I'm Spencer Levy and that's right now on The Weekly Take.

**Spencer Levy**
Welcome to The Weekly Take. And this week we are talking to JP Conklin, the president and founder of Pensford Capital. JP, thank you for joining the show.

**JP Conklin**
Thank you for having me.

**Spencer Levy**
And we're also here with Kelli Carhart, executive managing director and head of CBRE’s Multifamily Capital Markets. Kelli, thanks for joining the show.

**Kelli Carhart**
Excited to be on my first Weekly Take ever, Spencer.

**Spencer Levy**
Great, well thanks Kelli. So, JP and Kelli, I can't think of a more timely topic in the debt capital markets than hedging. We're recording the shortly after the Fed's most recent meeting when it raised rates another quarter point. So, JP, what does the recent Fed decision mean for the typical commercial real estate borrower?

**JP Conklin**
The most recent Fed decision likely means - the Fed has done hiking rates. We have probably seen the last hike and the next Fed move will probably be a rate cut. It's basically the clarity we've been looking for for the last 12 plus months once the Fed embarked on the second most aggressive tightening cycle in history. So I think we've seen a peak with floating rates. They'll probably level off for some time and then the Fed will start cutting - some point later on this year or the beginning of next year.

**Spencer Levy**
Before we get specifically into the hedging aspect of this, let's just talk big picture about what's going on out there. And overall, it's been the most rapid rise ever. So in your point of view, just starting very big picture JP. What's going on in the debt capital markets right now?

**JP Conklin**
Right now there is a general overall freeze in the tech capital markets. I think lenders are struggling with how to underwrite interest rate exposure. I think borrowers are struggling with how to underwrite a deal with so much uncertainty around this Fed tightening cycle. If you go back to November 2021, the Feds said they weren't hiking at all and then they hiked 5% in a year. So there's just a lot of uncertainty. I think everyone's really just waiting for a Fed pause so that they can start dipping their toes back in the water.

**Spencer Levy**
Kelli, what's your perspective?

**Kelli Carhart**
Yeah, I mean it's certainly challenging. I mean, interest rates have doubled from where they were a year ago, which means we have a serious cramp on transactional volume. Not only on debt, but on investment sales transactions nationally. If you think about five plus percent rates, I think the inflection point for people to want to transact is probably right around 5%. And today we're getting closer to that, which makes me optimistic that this freeze will maybe thaw a bit.

**Spencer Levy**
So Kelli, we're going to be spending a good amount of today talking about the debt capital markets: interest rates, mechanism, different types of lenders. Now we've got a lot of

sophisticated listeners on this show, but some aren't in the financing side of the business or the capital markets business. So just in very general terms, can you tell them what does the finance side of commercial real estate mean for the commercial real estate business as a whole?

**Kelli Carhart**
Sure. Well, so there's two types of financing you can pursue if you have a transaction, which is fixed-rate debt or floating rate debt. Most debt - the last couple of years has been done via floating rate because the rates are very low and they provide a lot of flexibility. Fixed-rate debt is exactly that. It's fixed for a period of time. In a low interest rate environment that can be advantageous, but you don't have flexibility.

**Spencer Levy**
Got it. And today's episode has a subtitle of hedging and what hedging really is, Kelli, is changing that floating rate debt into fixed for some period of time. Is that a fair way to put it.

**Kelli Carhart**
Yes, absolutely.

**Spencer Levy**
And why would you do that?

**Kelli Carhart**
Well, floating rate has gotten increasingly expensive and cap costs are increasingly expensive. So we're seeing borrowers migrate to shorter term fixed-rate loans to get some near-term flexibility versus ten-year fixed-rate loan, which has been the predominant term with the likelihood of interest rates going down. Most people think that it's not advantageous to lock in a ten-year loan today because most likely in two years that rate would be significantly lower.

**JP Conklin**
Kelli, are you hearing from clients that they are looking to get away from floating rate debt because of the experience over the last 12 months? How many of your clients are saying, ‘Hey, listen, I want out of these floating rates, I don't want to be dealing with this for the foreseeable future. Get me over to fixed. I'm done’?

**Kelli Carhart**
So that's a great question. I think for the most part, if you're a believer in floating rate debt, you continue to be a believer in floating rate debt and want to utilize it due to its flexibility. However, you may have interest in exploring the cost comparison of an alternative. Such as a shorter term fixed-rate loan, which may have a higher rate today, but you'll get some prepay flexibility that will allow you to refinance when interest rates are at a low point, specifically Fed funds, which we think, Spencer, you tell me the forecast is 2024 where we see significant easing on that rate. So I think that there is an analysis. It may make sense, especially if you have a lot of properties with some sort of pressure, maybe value add and you to finalize your plan and you need some cash flow and you may need to supplement that with something like - Spencer, we may be too early in the conversation to discuss this, but preferred equity.

**Spencer Levy**

So JP, let's go now into Hedging 101. Since you've been in the derivatives hedging and advisory business for a very long time, just walk us through the beginning. So let's assume you are a borrower. You take a floating rate loan, you want to hedge your floating rate into fixed. Walk us through the beginning to the end, what you do, who the parties are, what do you pay, other details, JP?

**JP Conklin**
Two primary ways that people will hedge their floating rate risk; Number one is through a swap. Those are not common on agency loans, but if you have a loan with a balance sheet lender, they are a common option. That's just swapping to a fixed rate. And you're essentially saying, here's what I am paying floating today, what does the market think that floating rate is going to average over the term of the loan, and I'm going to convert it to a fixed rate and they work great. They're a great alternative to other fixed-rate options. The more common scenario, especially with agencies, is an interest rate cap,which is just buying an insurance policy on floating rates. And so the price of that is paid upfront with cash usually at a closing. And it's really driven by two things: the time – so three years is more expensive than one year – and the strike or the ceiling rate. Two percent strike is much more expensive than a 5% strike. And so you have these different levers that you can pull, but a lot of times the lenders will require that essentially backs into a worst-case scenario 125 DSCR when they say, here's the strike that you have to buy this at or lower.

**Spencer Levy**
Got it ao just for a benefit of our listeners, DSCR stands for Debt Service Coverage Ratio. So let's let's stay on that for just a moment because there were a few little terms there I'd like to unpack for just a moment. So you're a borrower, you are swapping floating into fixed number one or you're getting a cap. And you said that a 2% cap is more expensive than 5%. if I heard you correctly. So let's talk about those two different types of structures. One is a swap structure – floating into fixed – and the other is just a cap. What's the difference?

**JP Conklin**
If you swap to fix, you're just going to pay a fixed rate for the term of the hedge. So generally speaking, it might be five years and you usually will pursue that as an alternative to like a five-year fixed rate that you might get through Lifeco. Totally different animal than a cap, which is really just meant to say I don't want my rate to run away from me and I don't want to have a worst case scenario, but I also want to be able to float below that and have prepayment flexibility. Caps can be terminated without any penalty and usually have a residual value left over to you, whereas swaps might have a prepayment pretty similar to like a defeasance or yield maintenance that you would see on other fixed-rate products. So I view them as two different hedging strategies that really don't you don't usually see somebody compare, I'm choosing swap versus cap. There is a business decision that would lead you down the path of choosing one versus the other in the first place.

**Spencer Levy**
And just for the benefit of our listeners, defeasance basically means you are paying off a type of loan or derivative early. And typically when you defease a loan or you defease a swap. Correct me if I'm wrong, JP, you typically need to buy treasury securities, or treasuries at the same duration of the remaining term of that loan or swap. Is that a fair summary?

**JP Conklin**
That's exactly right. The concept is called “make whole”, which is you had agreed to pay me a certain interest rate over a certain amount of time. If rates are lower than that, when

you go to prepay I'm not happy as the lender. I now have to redeploy those funds at a lower rate. You need to make me whole on the difference between the two. If rates are higher, then I might pay you back the difference between those two and we make each other whole and just get back to that interest rate that we agreed at at the closing table.

**Spencer Levy**
Let me just make this super simple, if I can. The reason why we go through this process of getting a floater into fixed or getting a cap is so that the borrower can make – they may be paying the same amount as a fixed-rate loan, but they have much more flexibility to prepay that loan than they would in a fixed environment. Is that the essential rationale between - by doing it this way, JP.

**JP Conklin**
Particularly with an interest rate cap, yes. Swap may have some of the same limitations that you would see on other fixed-rate instruments, but a cap gives you a lot of flexibility and I think to Kelli's point earlier - where people who like floating rate debt still like floating rate debt even though it's more expensive and she used the key word there which is flexibility. They all say the same thing. I want to retain flexibility. If I like something for ten years, I'm going to have a pretty large prepayment penalty in all likelihood, and I won't have a lot of flexibility three or four or five years from now if I want to do something else with this property.

**Spencer Levy**
Now let's talk about a very specific situation we're in right now, which is we're in one where interest rates have run away from us. Kelli, turning to you, what are we seeing in the marketplace today in terms of the ability to assume debt or alternatively, seller financing to help make a transaction?

**Kelli Carhart**
Yeah. So assumable debt certainly has been more attractive from those buying transactions today. The spread or the yield is about 50 basis points – 50 basis points tighter than a deal without accretive financing. And that really just guarantees your cash flow, right? I mean, investors are looking for yield. Today, we're in an environment where interest rates are north of 5% and some of these cap rates are inside of 5%. So that means they have negative leverage, which means that - they don't have the cash flow. You know, you’re one from the loan to - or from the property to cover the loan amount. So those deals are getting a premium in today's marketplace and are - and they take out the uncertainty of what's happening in the capital markets. And we talked about the uncertainty earlier. I mean, that is really important, especially as you're buying a transaction. What is your cost of debt. When you know your cost of debt, that's probably the biggest variable right now in any transaction. So taking that out of the equation is a certain path to closing. And that's why those deals are not only do they have record low interest rate financing like some 4% and you know, some are in the threes, that's that's pretty helpful too and accretive.

**Spencer Levy**
Got it. So JP, Kelli asked me a question earlier about what our house forecast is on the forward expectations for interest rates. And she was generally correct, which is that we think that the Fed is going to at or near peak at the moment. They're going to start to reduce rates at the end of this year, but then it will be reduced a lot by 2025. But I think there's a big group out there that disagrees with us, and that's a group I might generically call Wall Street. When you take a look at the forward curves and we take a look at the

forward curve of where expectations are for interest rates, they all are substantially higher than perhaps what we are forecasting. But this is by no means unique because Wall Street always has these high forward curve expectations and how the Fed always undershoot them and having interest rates drop faster. So first of all, do you agree with me? Second of all, tell the audience what the forward curve is, why it matters, and where is it today?

**JP Conklin**
So is that a leading question? When the host asked, Do you agree with me? Because–

**Spencer Levy**
100%.

**JP Conklin**
I've been on panels with Kelli and the very last thing she says to me before we walk up on stage is you better agree with everything I say. So I do agree with you. And I think that there is a growing consensus that agrees with you. Wells and Goldman have both recently come out and said they think that Fed funds will finish next year at two and a half percent. I would say that the market has changed its tune since the most recent FOMC meeting because it came out of that meeting saying the Fed is done hiking. And if they're done hiking, that means they're going to be cutting soon. And so if you go back a few weeks ago or a month ago, it probably wasn't the case that the markets still thought the Fed would largely be on hold all year. That has changed dramatically in short order, because as soon as the Fed pauses, they're now on the clock to start cutting. On average, it usually takes about nine months before they start cutting. Markets are saying you're not even going to be able to make it that long, especially when you factor in the credit tightening from the regional banks. So if you look at the forward curve, which is the market's expectation for Fed funds or SOFR or any other floating rates, it's actually a much more aggressive decline than existed maybe a month or two ago. So the market says, hey, we see SOFR finishing 2023, somewhere around four and a quarter, and then we see the end of 2024 somewhere sub 3%. So still probably overestimating where the path of rates will go, but much lower than it was, say a month or so ago. So I think the market is waking up to the realization that there is going to be an aggressive cutting cycle, particularly in 2024.

**Spencer Levy**
And what I find remarkable about this just from a, I guess, somewhat academic point of view is we've had an expectation like this for a long time. Our house view hasn't materially changed as relates to the interest rate path for about a year. We know where it's going to be in 2024/2025, but the two year Treasury didn't agree. Wall Street didn't agree until this last meeting. JP, why does the market whipsaw so quickly between their point of view on the path of interest rates?

**JP Conklin**
Because nobody has any clue what they're talking about when it comes to the path of interest rates? Since we don't know where interest rates are going to be tomorrow, let alone two years from now. And I think the market tends to have a very knee jerk reaction to every piece of data that comes out and a jobs report comes out or an inflation report comes out and it sends ripple effects through expectations for the next ten years. Where I think a more prudent investor might step back and just say, big picture, we know that the tightening cycle is going to end within 12 to 18 months, and then that means that we will be cutting 24 to 36 months from now. And those sort of economists tend not to react or overreact to every single piece of data that comes out. So I think that's why you tend to see the whipsawing. And it's better if you can just step back and kind of ignore the noise

as much as possible to take a more macro view. If you're a real estate owner, just say, where do I think it's going to be a year from now, two years from now, three years from now? And is that going to fundamentally change? Or am I just looking at knee jerk volatile swings day to day?

**Spencer Levy**
Got it. So Kelli, let's boil all of this down into transactions, transaction volume, both in the debt and the sale side. It's no mystery. Transaction volumes are down on both debt and sales because interest rates are high and because they are uncertain. What is it going to take for those volumes to materially increase again?

**Kelli Carhart**
Well, I think there's a couple of things. First is just confidence in the market rate and the Fed saying no future increases is a huge start, right, for confidence. I think fundamentals – there was some question around fundamentals in multifamily and if they would hold up with record supply happening in ‘23 and ‘24, they are holding up. First quarter came back positive. I think another quarter of stabilizing, as Matt Vans in Multifamily Research likes to say, results will instill further confidence. I think capital comes back as interest rates start to hover around that 5% mark. And then if you look at this year, the maturity numbers - and it's a forced maturities, right – are are fairly low, but next year they increase by almost 70%. So I do believe there'll be a lot of transactional volume in 2024. And one, because there's a little pent up demand from 2023 with this first half year being very volatile and uncertain. And I think confidence builds through the rest of this year and into next year. And then we're going to be hitting, as JP said, a reduction in Fed funds. And ultimately we most likely are in a recession. The ten-year will probably hover around where it is today, maybe reduce. And so I think people will transact. That's a long answer, Spencer. Wow.

**JP Conklin**
Kelli, Can I ask a question, a follow up question to that, because you touched briefly on the fundamentals. And I think about Spencer, You mentioned the office space and the struggles that we're seeing in the office space. Are you hearing anecdotal evidence of struggles from the, like, the underlying tenants themselves, the occupancy? There's fundamentals around multifamily that we're hearing with, you know, 70% vacancies in office.

**Kelli Carhart**
Vacancy is still below the long run average, which is right around 45%. We don't anticipate that will expand too much just because there's still very strong demand. And we're undersupplied on housing overall. In this environment, we're not building new single family homes with the cost of the mortgage today, renting is still much more attractive. So while most of the stock being produced is fairly high rent levels, I think there's still going to be a lot of demand for multifamily, which will keep vacancy fairly manageable and around historical averages.

**Spencer Levy**
And to add a longer-term perspective on that, if I were to magically drop four or five million new units on the market today, we still have a shortage of units. And now this is across the board on multifamily. This is not just market rate, it’s going all the way down to capital-A Affordable. Because of the long term shortage of housing, even if we are seeing a slowing in rent growth, which we are, even if we are seeing modest increases in vacancy, which we are, there’s still, as Kelli points out, below historic averages and the long term outlook is still excellent.

**JP Conklin**
Do you see any one particular risk that you think might be underappreciated by investors or the market?

**Spencer Levy**
Kelli, you want to take that?

**Kelli Carhart**
Yeah, sure, I'll take it. Well, I think the big question that everyone has today is just how does the supply get absorbed? And the question keeps coming up, all the supplies in the Sunbelt. Well, if you look at where all the job growth is, it's in the Sunbelt. And if you look at the top forecasted employment markets, they're all in the same boat. So while they are getting the most supply, they have the best demand drivers. And I think ultimately those deals will take care of themselves and settle in. But certainly I think all eyes are on what's going to happen with the Sunbelt, with all the supply. I think there is some question around some of these gateway markets and urban centers and what the role office will play. But I think those rents are so depressed, we are starting to see some rebound there with return to work really coming to play and some concerns around unemployment for those that are not in the office, I think those markets are going to fare much better than they have and the outlook should be better than it was.

**Spencer Levy**
Got it. So JP, this is the moment where we ask you, how do we work with you? What - Tell us who your clients are, what you do for them, and then I know you have a specific product called LoanBoss. Why don't you tell us about all that?

**JP Conklin**
Sure. So on the Pensford side, the interest rate advisory side, we help clients think strategically about how to best manage their interest rate exposure, and then we help them place the hedges. So working with Kelli and her team, that usually involves helping to place an interest rate cap on an agency loan. That makes up a vast majority of our volume year in and year out. And we love just talking about interest rates. We do webinars. My wife has twisted my arm into a podcast that we do weekly called *The Rate Guy*, where we just get on and talk about interest rates, which is kind of shocking to me that anybody would tune in to that but we have listeners. On the LoanBoss side, it is a software company that I started a few years ago because I saw this huge gap in technology with the workflows that real estate professionals were using. And I think about Kelli and her team as an example. Here you have some of the smartest, most hardworking people in the country, and they spend a lot of time doing things that should have been automated a long time ago. And so LoanBoss says, we're going to take all the loan documents, we're and take all the live interest rates calculations and automate all of that for you. Let you focus on the last mile where you really add value. And so LoanBoss primarily works with borrowers. Although this year we started working more and more with brokers, and it's really just intended to help bring the industry forward from a technology standpoint because I think debt is the most expensive cost center that people don't usually think about, and yet all of it is done in Excel or PDFs. And it's time to automate that and have a more intelligent way of approaching that.

**Spencer Levy**
So, JP and Kelli, let's try to just go back to earlier in our careers; what we've read, what we think a lot of people are comparing where we are today – and I hesitate to say this

because this is not what I'm comparing, but people are concerned – are we in the new global financial crisis? So JP, maybe we'll start with you.

**JP Conklin**
I was at Wachovia on the trading desk during the financial crisis and had a front row seat in how all of that transpired. And I can distinctly remember in Summer of ‘07, little more than a year before most people would say the financial crisis started. Bear Stearns started going under and our head swap trader said to us, a credit crisis is the worst kind of crisis. This is a big deal. And it just took about a year or so to work its way through the system. And during that entire process, I saw how we had built up a house of cards, particularly in real estate, but also in the derivatives sector. And as you started pulling on the thread, it all just came undone. This does not feel at all like that to me. I think maybe the fear and the potential contagion from SVB, that initial knee jerk reaction felt a lot like some of those crazy days in 2007 and 2008 where things changed so dramatically. Wachovia went out of business in a couple of days, and I went from having a company that I worked for to not having the company I worked for almost overnight. And so there was some of that early on. But I don't feel like it's a house of cards. I think banks are, generally speaking, much more well-capitalized. I think that our borrowers are far more disciplined than they used to be. And I also think that the Fed and the government learned its lessons from 2008/2009 and said we will intervene aggressively. We are not going to pick and choose and base our decisions on potential moral hazard. We're going all in. We're ending it right now. We're going to stop the fear. We’re going to stop the contagion. There will be some banks like we're seeing that have mismanaged the risk and they are going to pay a price for it. This is not a systemic risk. And I think we just need to get to the other side of this so everybody can exhale and will come out of it okay.

**Kelli Carhart**
I was at Freddie Mac, and while all my friends were at lucrative, high-paying jobs on Wall Street, selling CMBS loans. And those CMBS loans were impossible to compete with because they were 1.0, IO and double digit spreads, 90 basis points--

**Spencer Levy**
So let's pause there for a second just for the purposes of our audience. 1.0 means the coverage – the debt service coverage ratio, and IO means interest only. And if you have an interest-only loan at a 1.0 cover means that you do not have to advertise your loan. It is about as cheap as you could possibly get. Is that a fair way to put it, Kelli?

**Kelli Carhart**
Very cheap money with very thin margin. If there was something that occurred at the property and maybe you had an expense or an occupancy issue, you don't have any margin to pay your mortgage and we couldn't compete, right? I mean, so that's a long winded way of saying, look, the underlying credit fundamentals were a lot weaker. Leverage was much higher. There was preferred equity, I used those words earlier, and mezz, behind these loans. So they were effectively financed at like almost 100% leverage. Today – the last two years, it was 50 to 60% leverage. The fundamentals in multifamily and the underwriting are much more disciplined. And so just from the multifamily perspective – JP went macro, I'm going to go micro – much different environment. Oh, and by the way, we had subprime mortgages and shadow investors, all those things that don't exist today on the residential side.

**Spencer Levy**

Got it. Got it. So I think you're both saying this isn't then for two reasons. Number one, the institutions themselves were not nearly as aggressive and certainly some of the Wall Street firms, you mentioned Bear Stearns which went down. You didn't mention Lehman, which you could have. But then the borrowers are being a little bit more disciplined today, maybe a lot more with lower LTVs, in part because of the discipline that's put upon them by the agencies and the other lenders. But there's something that, again, getting very deep into the weeds here. We heard about Covenant Light was a term you heard a lot back in 2007, 2008. And we had heard that the covenants, meaning the other restrictions that borrowers need to put upon themselves in order to get a loan have become much more stringent. Is that a fair statement, Kelli and JP that the borrowers are put through the covenant test much more seriously today than they were back then?

**Kelli Carhart**
Yeah, no, I think that that's fair. I just think that there was so much money in the system, the underwriting discipline, you could sell it. You had the bond agencies that would rate it; triple-A and then they'd repackage it triple-A and even the the B-minus became triple-A, right? So it's just that's not happening. There was a crackdown on the ratings agencies, right? I mean, there are a lot of things that happened post financial crisis on restructuring, so this wouldn't happen again. So, I mean, none of that funny business is really around today.

**Spencer Levy**
So here we are. It is the second quarter of 2023. One year from now. What do you think is going to be the environment then, Kelli?

**Kelli Carhart**
Wow, crystal ball conversation. I'm not an economist. I was a finance major, but I think it can only get better. So I'm just going to say that right? Like, we were higher for longer. We peaked. Fingers crossed and I think that we'll have more confidence. I think you're going to see a rebound in transactional activity. And what does that mean? I think that you see spreads in that environment also compress. Right now, there's still some uncertainty. There's less buyers in the market, and that means that the spreads are still on the tendency to either widen or stay stable. So I think that we'll probably see some spread compression next year. We'll see some overall rate compression and we'll see higher transactional volume.

**JP Conklin**
I think that the underlying economy will probably be struggling more than it is today. I think we will probably be at a point in the cycle where we are experiencing job losses or have been experiencing job losses and that GDP is probably bottoming out or starting to come out of that. I would expect a recession in the second half of this year and then next year start the recovery. But we probably don't feel great about the overall economy itself. But I agree with Kelli that I think transaction volume will be up considerably this time next year for all the reasons that she highlighted. And it can't get much worse than it is right now. So I think when we have some clarity around the path of interest rates and Kelli has said before, like next year's debt wall is 2x this year’s. There will be a lot more activity to be had next year. And we're just weathering the storm. And I think that we're probably at the peak of the interest rate cycle. I think we're probably done, leveled off and we'll only go the next Fed move will be a cut. And we're probably at the peak credit tightness. We're probably going to see banks pull back because of SVB and the regional bank fallout. This time next year will be on the other side and banks will be lending again. So I'm far more optimistic about where we'll be seated a year from now.

**Spencer Levy**
Well, I think that Sam Zell said it best. And Sam Zell, shameless plug was one of our great guests on this very show. He used to give out music boxes, and I think he still does to many of his friends, every year where he had an annual song. And the song that he sang back in the early 1990s was "Survive 'til '95". So I think we're still hearing echoes of this today. But that was very different back then because back in the early 1990s we did have a tremendous amount of overbuilding that we were still trying to get through because of the 1987 change in tax law. And then of course, we had the S&L crisis in the early 1990s, which was dealt with very differently than what we're dealing with today.

**JP Conklin**
My main takeaway from that was you've had Sam Zell on this and now you have *The Rate Guy*. How how the mighty have fallen.

**Spencer Levy**
Well, I'll tell you, Rate Guy, I don't know that Sam's got his own podcast. So you've got that going for you, Rate Guy. In any event, Sam was a great guest. And you, JP and Kelli, you were great guests, too. And to wrap it up, I would ask each of you to put on your advisory hat. There's a lot of borrowers out there that are nervous and not quite sure what to do. We've given a lot of advice on this call. What's the most optimistic thing you could say for borrowers right now in the market, notwithstanding all of the challenges that we've laid out, JP?

**JP Conklin**
That interest rates have very likely peaked. Credit tightness has very likely peaked, and over the last 12 months you've probably gotten really good insight into who your most valuable relationships are. When I think about speaking to the two of you today, and I think these are the sort of relationships that develop during challenging times and they're the sort of relationships that get you through those times. It's easy to facilitate a transaction when money's flowing easily and everybody's willing to pay any price. I think we have learned who friends are over the last year and using you two as an example, like putting out unique content, offering unique advice and unique insight to people during this time is the sort of thing that's going to get us through and then we'll remember that when we're on another side. So I have a feeling that next year for the people who have invested in relationships the last 12 months, they're going to see the payoff from that a year from now. So I appreciate all the things that you guys have done for me. It's been a great partnership.

**Spencer Levy**
Great. Well, we appreciate you, too, JP. And I would say just to our younger professionals or professionals that are rising. This applies to everybody. I think that relationships that we have formed, that I personally have formed 30 years ago in this business still exist to this day, and perhaps some of the strongest ones are during downturns. So Kelli, recognizing we've given some straight talk on some of the challenges in the market today, what some of the most optimistic things you could say to some of the some of our listeners out there who certainly were a little nervous?

**Kelli Carhart**
Sure, it's always hard to follow JP. He just nails it. But I will say that there's a lot of tools in the tool kit, right, that we have today to help you manage the uncertainty. That includes buying the money caps. It - it includes doing the rate buy down to get your interest rate

below 5%. There is still a lot of liquidity in the market, right? And so that's a good thing. The bandwidths of quotes are not as tight as they used to be, and the depth of quotes are not as deep. But there's still plenty of opportunities for multifamily owners. And I think as far as we look, if we're looking ahead where liquidity flows, and multifamily is a preferred asset class. So I feel really good sitting in the seat today, right, knowing that I think ‘24 and ‘25 are going to be really, really good years.

**Spencer Levy**
Terrif*ic. Well, that's a go*od way to end it. And on behalf of The Weekly Take, I want to thank our friend JP Conklin, President and Founder of Pensford Capital, a podcaster himself, and did a terrific job today. JP, thank you so much.

**JP Conklin**
Thank you so much for having me, guys.

**Spencer Levy**
And then I want to thank Kelli Carhart, Executive Managing Director, Head of Multifamily Capital Markets. Terrific discussion today. Thank you, Kelli.

**Kelli Carhart**
Thanks, it's been fun.

**Spencer Levy**
For more on our show, please visit our website, CBRE.com/TheWeeklyTake. If you found this episode useful and interesting or think we could make it better, remember to send our team a note or ask us a question using the new *Talk to Us* feature on the landing page. We might follow up on a future episode. You can also subscribe, rate, and review us wherever you listen. We'll be back next week with something big. That is an episode with professor and author Bent Flyvbjerg, whose book is called *How Big Things Get Done*. We hope you'll tune in then. For now, I'm Spencer Levy. Be smart. Be safe. Be well.