Guest editorial

Three wise men: what would they have to say about the financial economic crisis?

In this second issue of the *Journal of Property Investment & Finance*, we continue to examine the great recession and to reap lessons for the real estate profession from the financial economic crisis. As an Academic Researcher that has been in the field for the last three decades, I have been very fortunate to have had many mentors over a time when the world of real estate research, particularly on the institutional investment side, has literally come of age.

In 1987, I returned to the University of Wisconsin-Madison to study under one of the "grandfathers" of institutional real estate research and graduate real estate education, Dr James A. Graaskamp, CRE. In 1993, I took a leave of absence and moved to Storrs, CT where I met and worked with Dr William N. Kinnard, MAI. And, sometime in there I met an incredible individual who always had the latest technology, Dr Marc Louargand, CRE. When I joined Clemson University, I brought him out to be my Counselor in Residence and with his help and a few others, I was nominated for and became a Counselor of Real Estate. We started the Counselors in the Classroom program, a program designed to bring top real estate professionals into the university classrooms which can often be difficult on campuses that are in small university towns. This is a practice that is becoming more and more common and, in my view of real estate education, an extremely important way for students our to learn not only from academics but also from our "real-world" professionals.

All three of these individuals worked tirelessly to improve the fields of real estate research and real estate education. They influenced me profoundly and I know they have touched many thousands of real estate professionals around the world through their research and professional practice. I also know that they would have some strong insights today to help guide our industry. They would feel like many of us here in the USA, ashamed and appalled at how our current leadership is apparently thumbing their nose at the rest of the world. When the Trump Administration refused to sign the Paris Accord, it was the last straw for me. I was hoping that he was just grandstanding and on that terrible day in the Rose Garden he would say, "JK, of course we want to do our part to stop global warming and to try to reverse the climate chaos that now plagues so many of us." I was deeply embarrassed and wanted to hide in a cave from my international friends as we all know that our industry has and can help in so many ways to reverse the current course which most scientists agree is a very dangerous one. The USA has always been behind in this area but as one of the papers in this issue highlights (Christensen), we have been trying to make up for the past sins and many US-based real estate companies, as well as, researchers are actively engaged in trying to make a difference in the area of sustainability.

If these three mentors of mine had been alive in 2008 (actually Marc was alive at that point but died shortly after) and they were also alive today, they would have most certainly been asked to contribute to this issue. And, I think they would have a lot to say about the current climate in the USA. I would like to take this opportunity to recognize them and highlight how they might have reacted and/or responded.

James Graaskamp, the Chief, would have certainly tried to call the crash before it had happened. One of my favorite quotes of his was "When you buy a piece of real estate, all you are buying is a set of assumptions." He would have pointed out early that our analysts were not using market fundamentals to underwrite the deals. That they had rose-colored glasses on

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and were just trying to "do the deal" and "push the money out." Another of his quotes was "Who signed the check?" Again, he would have asked those that were buying the CMBS and CDO securities, "Who is ultimately responsible if these loan goes bad?" If you do not know, you should not buy the investment. With the securities, the bundling removed the responsibility, so as we have found as we try to unravel the bundles, they are no longer tied to the one who originally signed the check for the loan and so it is very difficult to lay blame and/ or collect on the debt. When I was in the classroom studying under Graaskamp many years ago, syndications were very big, that was right before the big crash of 1986. He actually called them "sindications" and I think that is basically what the financial markets were doing with their "creative financing," they were misleading their investors and stealing from them. Raised as a Catholic, this would certainly have been considered a sin.

Bill Kinnard was an Appraiser and was always interested in the issues that "vex and perplex" the valuation industry and the investment community. He worked a lot in the area of stigma and particularly in contaminated properties. We also worked together on a project to try to stem the "Made as Instructed" acronym for the MAI designation of the Appraisal Institute. Being a Practitioner, he understood the pressure that this profession was under. In fact, he and Graaskamp were on a crusade to tighten the rules for loans and requiring the underwriters/lenders to sign off personally on the appraisals that they ordered. But, unfortunately, the two most powerful lobbying organizations in the USA, the American Bankers Association and the National Association of Realtors fought hard against what was being proposed by the Barnard Committee. In addition, Graaskamp's untimely death in 1988, a year before FIRREA of 1989 took effect left Kinnard only a few voices amongst a large number of self-interested, self-serving professionals who 20 years later would become the story line of an award-winning book and then blockbuster movie, *The Big Short*. Who knows, if the R41 Regulations that Kinnard and Graaskamp had been promoting would have passed instead of FIRREA, we may never have had the severe financial crisis that is the subject of this issue.

As for Dr Louargand, I remember vividly how he would marvel at the newest technology of the day. He was always an early adopter and I remember he was the first person to ever text me. I became concerned about the use of e-mail on phones when he voted for something I knew he did not want to vote for. He had read too quickly on his phone, as many of us do today. He would be super excited about the increased availability of data, he and I were constantly working to "free the data" but he, like both Graaskamp and Kinnard, would be warning that you need to be careful with the technology. You need to avoid the "black box" syndrome and you need to understand what is "behind the numbers." A product like ARGUS or CoStar is useful but you cannot just rely on the data provided or the model results. You need to analyze the numbers that have been inputted into the system and you need to understand that just because you are projecting that a particular opportunity fund might make a 12 percent internal rate of return, that return is not guaranteed. It is an expected return and you will only know your true return when the portfolio is closed out and the properties are sold, which could be five, ten or even 15 years from when the investments are made. He would have counseled professionals to be cautious and would probably have advised the pension fund community to stay within their investment parameters and to not "chase the yield" of opportunity funds invested in India or China. He was a proponent of international diversification, as I was, but he would likely have kept his institutional investors in the safer markets, where your returns are practically guaranteed. They may be low but they will do the job to maintain the capital that will be needed in the future. The opportunity funds are just that, an opportunity that may provide the 12 percent return but could just as easily lose the investor money. Development is risky and international investment is risky so why on earth would pension funds want to invest in this type of fund with no proven return or track record?

I as one of wanted to take this opportunity to highlight these three real estate professionals, as all three of them would have been focused on doing the right thing over the last 15 years and they may have been able to help our industry avoid the global financial crisis. And, they would also add their voices to those of us that are trying to show we are not all "ugly Americans" and that many of us actively promote a continued interest in having our country do our part in the area of global warming, in creating a responsible tax reform or a health care system that works for all Americans, and most importantly a country that supports free trade, globalization and keeping our countries as safe as possible in this increasingly dangerous world.

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