

## **Spring in New York – Positive news from the financial sector promotes fears of a “Blackthorn Winter”?**

There is an old superstition in England that when the blackthorn plants come out in blossom in early spring it is a sign that any warm weather is premature and that there will be a further cold winter spell, “a Blackthorn Winter,” before summer comes.

Over the last two weeks in New York we witnessed a raft of positive press from some of the world’s biggest financial institutions pursuant to the publication of positive first quarter results. Although tempered by some significant negative news (Chapter 11 filing by GGP, further losses and jobs cuts at UBS etc) it was perhaps the longest unbroken stream of good news we’ve seen in the last 12 months and undoubtedly a welcome relief.

As a diversified global real estate advisor with a broad international client base we are very aware of the substantial problems that are still to be tackled by governments, investors and lenders both in the United States and abroad. We are aware that resolving these problems is going to take considerable time and resources, and while we do not want to be premature like the blackthorn, we are cautiously optimistic that the recent news is an early sign that things are beginning to normalize and will hopefully soon start to move in the right direction. Let us briefly consider the key evidence:

- **Lenders:** The ‘work out’ process by governments and their financial regulators is now well underway. Big bank and small banks alike have already made significant progress in cleaning their balance sheets and, although we unexpectedly lost some of the conservative insurance-related lenders at the start of the year, we have recently seen a significant increase in activity by some smaller regional US banks. We were particularly encouraged by the decision by some of these banks to return TARP money, and move that is seemingly soon to be copied by Goldman Sachs and perhaps several others.
- **Investors:** We have and are continuing to work with several large foreign institutions looking to place capital in the United States. While all the recent metrics have seemingly contradicted their rationale of acquiring assets outright (rather than debt), our clients have consistently reaffirmed their intentions citing that this approach is justified by their long term investment horizons. Without exception all of these clients have struggled to invest over the last 12 months due to the recent market turmoil and they are now becoming increasingly eager to place their allocations, driven amongst other things by the simple desire and need to remain active.
- **Price discovery:** Frozen credit markets and massively reduced investment turnover have collectively resulted in a very occluded picture of investment values. Even when the underlying fundamentals such as supply, demand, rent, vacancy etc are all clear (a rare occurrence

nowadays) it has often remained almost impossible to accurately predict what the market will pay. We are optimistic that the proposals introduced by the US Treasury through its PPIP recovery package will provide the catalyst for price discovery that the market so badly needs. We believe that in order to price 'healthy' assets the market must first price 'toxic' assets and thereby (with the Treasury's help) generate liquidity. Although it is clear we will continue to witness worsening real estate fundamentals across almost all sectors as the effects of the crisis play out, we strongly believe that the trading of distressed assets (as ugly as it might be) is the first step to returning towards a normalized and rational investment market.

The risk of writing a positive article predicting improved market conditions is of course that it later transpires to be premature. As indicated we are aware that there remain numerous significant hurdles to overcome and it is by no means clear as to how long it will be before this is achieved. We, like you, have not forgotten the overly positive initial predictions made at the start of this crisis and while we want to avoid being too bearish, we also need to remain as cautious as ever and continue to be 100% focused on fundamentals in order to avoid a repeat of past mistakes.

What is certain is that people will still need buildings and will pay money to rent or own them – the key question that still remains is how much? There is another saying in England that "One sparrow does not make Spring," however having reviewed the main evidence we remain cautiously optimistic that we will soon start to find out. If for reasons not referred to above you disagree, perhaps you can find alternative comfort in fact that the blackthorn blossomed uncharacteristically late in England this year, a good a sign as any that we are not going to experience any more literal or metaphorical 'cold spells' in the near future....

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