Right now

The time to invest in New York City

by Nicholas Bienstock

As the COVID crisis continues, I believe we are entering a period that may provide some of the most compelling opportunities in decades to invest in the City of New York.

Savanna is a firm that specializes in investing in, owning and operating real estate in New York City. Our current portfolio comprises about 7 million square feet of space in the city. Over the past 30 years, some of the most profitable investments in New York have been made at the worst of times. Over the summer, we closed two new office building investments in midtown Manhattan, and we continue to seek out new opportunities.

New York City has been through and has been at the heart of multiple shocks over the past 30 years — and it has come back every time. We lived through the explosion of the dot-com bubble in 2000 and were attacked directly by terrorists in 2001. We were at the heart of the global financial crisis in 2008–2009, and Manhattan's Financial District was under four feet of water during Hurricane Sandy in 2012.

With each shock over the past three decades, New York City has grown and its business base has diversified, allowing it to recover from each crisis faster. When New York hit a recession in the late 1980s/early 1990s, it took nine years for the economy to reach prior employment levels. After the terrorist attacks of Sept. 11, 2001, it took six years to get to that point. Following the global financial crisis — a crisis that centered around the major banks that formerly dominated NYC's economy — it only took three years for New York to recover prior employment levels because the city was able to rely on other sectors of the economy to drive job growth. And in the years since the global financial crisis, the city's continued growth and business diversification have been astonishing.

Why has New York recovered from each crisis faster than the one before? It's because of the unbelievable scale and diversity of the market.

First, scale. The city's $1.8 trillion economy would have the 10th largest GDP in the world if it were a country. New York City's GDP is larger than that of either Russia or Canada. This extraordinary scale provides the city's economy with a fundamental resilience that no other market has.

Second, diversity. In the past 30 years, New York has developed the most diverse business base of any major city in the United States. When I was growing up in New York in the 1970s, it was a one-trick town. It was all about the banks, and the law firms that provided services to those financial institutions. If the banks got hit, New York took a dive. That is absolutely not true today. The past 20 years have seen unbelievable growth in every other major sector, including technology, media, venture capital, healthcare, advertising, biotech, tourism, professional services, etc. In fact, employment in financial services is about the same today in New York as it was 10 years ago. The astounding business and employment growth we have seen has been driven by every other industry. Many of the most profitable companies in the world — including Alphabet Inc.'s Google, Facebook, Apple, Amazon.com Inc. and The Walt Disney Co. — have established multibillion-dollar, multi-decade, long-term commitments to New York City. And, during the heart of the current pandemic, many of those companies have made enormous commitments to continue to expand their presence in New York. Amazon bought the Lord & Taylor building for more than $1 billion this

With each shock over the past three decades, New York City has grown and its business base has diversified, allowing it to recover from each crisis faster.

Nicholas Bienstock
Savanna

past spring, and Facebook recently signed a nearly 750,000-square-foot lease at The Farley Building, expansion space above and beyond the 1.5 million square feet Facebook signed in Hudson Yards at the end of 2019. In May, ByteDance's TikTok executed a big lease in Times Square.

Why are these companies expanding in New York at this moment of crisis? Because they are now the fastest-growing and most profitable companies in the world; they need to be here to tap into the depth of talent New York City uniquely can provide. And New York offers them the infrastructure of global business. Despite their rapid growth, San Francisco and Seattle are comparatively small towns that can't accommodate the growing needs of these massive companies. New York can deliver infrastructure, resources and talent in a way that no other city in the United States can. Houston is a great market, but if energy gets hit, Houston plummets. San Francisco is a terrific town, but when the tech industry suffers, the city's economy is toast. New York's uniquely broad business base and scale give it a kind of multidimensional appeal and stability that create a long-term advantage over all the other major markets in the country.

But, having worked from home for the past six months, do companies really need to return to the office? The answer is a resounding yes. Gensler, the largest architecture firm in the world, recently surveyed 2,000 of its clients — 88 percent of their respondents wanted to return to the office. Our firm has about 55 people. While I was initially surprised at how well we were able to manage our business remotely at the beginning of the pandemic, over time I have become more convinced that remote working has significant flaws. Working from home has an exhaustive, never-ending quality that challenges an individual's ability to maintain focus, motivation and morale. There's not much difference between Thursday, Sunday or Tuesday. The working day extends to all hours and doesn't have any formal start or finish. Our employees with children at home are getting run down by trying to essentially manage daycare and homeschooling out of their apartments, while simultaneously trying to work a full, productive day at an adjacent desk.

Although our younger employees dearly love their extended families, after six months of living at home with their moms and dads, they are dying to get back to work. Or, after being alone in a studio apartment for the past six months, they can't wait to return to a productive, collegial work environment surrounded by their peers. And how does a firm bring in new people and establish the kinds of critical interpersonal relationships required for effective business, remotely? How does a firm mentor its new and up-and-coming employees, teach them how to do business, and incorporate them in the corporate culture and esprit de corps of the firm on Zoom? It's impossible. The simple truth is in-person interaction is critical to the management of successful businesses, which depend on interpersonal relationships and ongoing interaction to be effective. This is true both within

(continued on page 50)

closer to where it was pre-COVID or at least back in that general direction.

Outlook as we close out 2020, and final parting thoughts

From a pipeline perspective, the expectation is the fund finance market will finish strong in 2020 due to the overall resiliency of the market. Lenders will have multimillion-dollar or multibillion-dollar facilities going out in the market in the fourth quarter. A lot is dependent on investment deal flow, which had taken a pause for many of these funds in the second quarter. Conversation for transactions picked up in the third quarter and, notwithstanding an election year in the United States, people are generally motivated to transact and close out their deals before the end of the year.

The number of defaults in the subscription financing market has been so small that whenever an unexpected event arises, like COVID-19, the question is, at what point did defaults really happen? What we've seen so far is the marketplace is very resilient. Sponsors, lenders, investors and market participants all acted responsibly. Sponsors are generally pleased that they have subscription financings in place with strong lending relationships. The investors generally appreciate that their sponsors have subscription financing in place to help facilitate investment opportunities that might not have been otherwise available.

Based on what we have observed in the subscription financing market in 2020, it appears subscription financing remains (i) a resilient, safe and stable product for lenders to lend in; (ii) an effective and efficient financing tool for sponsors that permits them to act in a timely manner; and (iii) a benefit to investors to help manage their liquidity. In sum, COVID-19 has had limited adverse impact on subscription financing, and it remained a robust financing product in 2020. ❖

Jeff Johnston is managing director – head of asset management at **Wells Fargo Corporate & Investment Banking. Jon Peiper** is managing director – head of subscription finance at **Mizuho Americas. Albert Tan** is partner and co-head of fund finance practice group **Haynes and Boone.** In addition, **Charles Zang,** counsel and member of fund finance group of **Haynes and Boone,** provided editorial support.

Market Perspective

(continued from page 6)

firms and with respect to collaboration with critical trusted colleagues at other firms. Post-pandemic, will many firms allow a somewhat more flexible format that incorporates a portion of working from home for some of their employees? Yes, but that won't fundamentally change the imperative for the overwhelming majority of their employees to return to the office environment.

I have a 22-year-old son who just graduated from college. He, like all of his 2020 classmates, is looking for a job, despite the fact that nobody is hiring at the moment. But ALL of his recently graduated friends want to work in New York City. That is where the intellectual talent pool is located and where their entire peer group wants to be. If companies want to tap into that talent pool, they need to be in New York.

Will it take somewhat longer for New York to recover than other major markets? Yes, because of its density and its reliance on public transportation. As we go through this difficult period, New York City's government needs to properly address the real issues of safety, security and quality of life that are so important to residents and businesses alike. In doing so, the city must also recognize that profitable businesses and wealthy residents are not New York's enemies; they are an integral part of the engine that provides the tax base and prosperity that facilitate all of the important social programs the progressives in New York want to advance. We have been through extraordinarily difficult challenges and shocks in the past, and I am confident the New York City government and New Yorkers will recognize these issues and rise to address them.

In my experience of living through many past shocks in New York, savvy investors, companies and tenants that have the courage, confidence, conviction and fortitude to invest in and commit to New York during this period of crisis will be very handsomely rewarded for those investments and commitments when the market recovers. And as New Yorkers return to the office, go back to school, shop in stores, meet friends and colleagues in restaurants, attend the theater, and return to museums, New York City will once again attain new heights of success and prosperity. ❖

Nicholas Bienstock is co-managing partner of **Savanna,** a firm that specializes in investing in, owning and operating real estate in New York City.