Jakeman: 'What doesn't break you makes you stronger'

James Jakeman
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THE LEHMAN CHRONICLES: Today, James Jakeman, partner at Benson Elliot and former executive director at Lehman Brothers, gives his take on the events leading up to the crash.

Looking back

Did you sense there was a crash coming?

There's no doubt that the market was highly competitive at the time, but up until the end of 2006, liquidity was pretty robust across the board. Not many foresaw the sheer scale and depth of contagion which subsequently took place across global credit markets and even less took advantage of it.

My enduring memory is late June 2007 when spreads on AAA credit pretty much doubled in a matter of weeks. This was the start. We had billions of loans ready for a CMBS issue and suddenly the buyers wanted 20% off established market pricing. Things snowballed from there.

What are your abiding memories of the time around the collapse of Lehman itself?

Very difficult – I had grown up there, nine years of my 20s and then this mega crash. Managing and motivating our team while redundancies are taking place across the board, and trying to stay calm and confident while being a forced seller, is not a position I want to repeat.

How has it shaped things for you since?

What doesn't break you makes you stronger. Lehman was an unbelievable experience for me on so many levels – good and bad. Immediately after Lehman Brothers' collapse I found it tough.

I did some distressed CMBS deals with some friends in the industry which helped rebuild confidence. I'm now entering my seventh year at Benson Elliot.

We are a market leading house in the pan-European value add space and are in the process of raising our fifth discretionary fund. It's a risk adjusted business model I believe in and we are planning for the long term.

Looking forward

What do you think is the likelihood of another crash in the short to medium term (and why)?

James Jakeman

I think the scale and speed of the last crash is unlikely to be repeated. We will experience pricing corrections and pockets of severe illiquidity (shopping centres are there now), but this time around there is much less leverage in the system and much more risk control.

While there will be equity owners unhappy with performance they won't have the structural means to drive defaults in quite the same way. I think the majority of the lending market is also much less liberal in terms of who it lends to and on what basis – back in 2006, 95% LTV was commonplace.

What things should investors look out for that might signal another crash?

Reckless leverage and overly bullish underwriting, which can't be backed up save for a growth assumption.

What sector or geography do you think looks most susceptible to a downturn?

Emerging and non-core markets I think are likely to suffer with political and currency volatility impacting long term occupational decision making and investor confidence.

Closer to home in the UK I worry that the proven CVA process can be applied to other operationally rich real estate sectors impacting the weak performers in co-working or hotels, for example.

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