

Positioning for recovery

The only thing all downturns have in common, is that they come to an end

Interest rates up 5,000%, inflation sticky, asset valuations down, ESG and sustainability regulations, the office market teetering, WFH & AI, US tensions with China increasing and a European land war with no end in sight. The challenges facing the real estate investment market are many and varied. Whilst we don't know how the current slowdown, correction or possibly even crisis is going to play out, (no one does), if there's one thing history has taught us it is that it's going to end.

The investor and philanthropist Sir John Templeton [famously] said: "The four most dangerous words in investing are 'This time it's different.' The reality is that cycles are inevitable and invincible. No matter how extended a rally may be, no matter how perennial prosperity appears, no matter how exotic the new model is, the truth is that cycles always prevail eventually."

So as counter-intuitive as it may seem at a time when many lenders are grappling with credit issues in their portfolio, waiting for a sign that rates may have peaked or just old-fashioned waiting for price discovery so they know the value of what they're actually lending against, this may be the ideal opportunity to position for a recovery.

So, what does that actually mean? At Mount Street we think it boils down to two main aspects:

Strategy:

When the term sheets are flying and deals closing, it's easy to lose sight of the bigger picture. However, a slowdown period provides an opportunity to reassess and refine a strategic approach:

1. **Product-Market Fit:** What is our exact product market fit and are we meeting the needs of our borrowers in current and future market conditions?
2. **High Conviction Areas:** Where can we best apply our expertise and how can ensure exposure to the sectors we have the highest confidence in? What are the best routes available to re-balancing our portfolio if required?
3. **Learning from Past Deals:** Is now the best time to take a deep dive into all our past deals and explore what worked and what didn't? How can lessons learned be applied to future deals in the next cycle?



Platform:

Costs control and efficiency is crucial to all lenders, especially in times of market dislocation. It's important to ensure that every aspect of your platform is operating efficiently and effectively.

1. **Resource Allocation:** Are resources allocating as efficiently as possible between revenue and cost centres? Can we break down all our costs on a typical deal and identify areas where we can reduce costs without compromising on quality of service?
2. **Efficiency through Automation/Outsourcing:** Automation and outsourcing can significantly improve efficiency and allow more time for the core aim of meeting new potential clients, growing specific expertise and ultimately writing more business.
3. **Data Management:** Data is an increasingly valuable resource. Are we capturing all the data we could be and in a way in which we can gain actionable insight?

Although Sir John's quote was aimed as a counter to irrational exuberance, the cycle re-asserting itself applies equally to bear markets as it does to bull. Now could be the ideal time for laying the strategic and product groundwork to ensure your platform is best placed to take advantage of the inevitable change in market conditions.

About Mount Street:

Mount Street manages over **€130bn** in CRE, Infrastructure, Shipping, Aviation, Structured Finance and Corporate loans with a team of over 200 professionals across 10 offices in EMEA, the USA, and Australia. We offer expertise across the debt life cycle with our core loan servicing business, Mount Street Mortgage Servicing, Europe's largest 3rd party servicer with **€78bn** under management and a further **\$26.5bn** under management in the USA. Our regulated portfolio management and advisory business, Mount Street Portfolio Advisers manages **€24.8bn** of debt instruments across EMEA and the USA for institutional investors. Our business is powered by our proprietary loan management platform, CreditHub.

