Unprecedented times yet a bit familiar....

BAYHEAD

CAPITAL & REAL ESTATE ADVISERS

Navigating the current economic downturn is no easy task for any size of business.

However, many of us have been here before.

The shape of the market fall and recovery may differ from the Global Financial Crisis in 2008, but the issues and solutions will be broadly the same.

What is starkly different right now, is that the financial markets remain open, there's a larger universe of non-bank lenders and there's liquidity in the debt market.

Be alert to the signals:

• World economies are pumping a range of fiscal stimuli to minimise the risk of market failures

• Repeated proclamations from economists and the UK Chancellor that a severe recession may occur

• Increased global political and economic uncertainties, with the UK on its way to Brexit

• UK real estate volumes low and valuations in many sectors expected to fall

• Banks are cautious and loan impairments are sharply rising, alternative lenders are seeking opportunities yielding higher returns

So what to do? Here are our tips:

Face the danger -– model your 'base case' and 'upside case' financial projections. Do the 'downside case' - you'll then have your two 'book end' outcomes for the future to work with

Test covenants for each scenario — foresee if and by how much your loans may default

Prepare your story — back up your financial modelled-scenarios with a clear management strategy that see your assets back to normal or a 'new normal'. This may require a 3—5 year plan

Approach your existing lender— there's a higher chance of achieving covenant waivers, or additional funding, whilst the banking community is 'sympathetic' and are busy assessing their own issues

Test the market— engage with other lenders to assess what refinancing loan terms are available

Set your game plan— focus on the controllable factors. You know your 'book-ends', the remedial management actions and financing outlook. Whilst you don't know what will happen in the future, you can set out 'trigger' events or tell-tail signs that will move the dial. Prioritising each trigger event in terms of impact, place the remedial actions against each—lines of attack and defence

Implementing the game plan— this is likely a staged process as trigger events are becoming closer or being reached. Instead of waiting, be dynamic and proactive by preparing information for attracting potential new equity and/or loans, and start the search process. This remains within your control and you stay ahead of the game

Get in touch with us We are happy to provide an initial view or take on all or some of the above work

Learnings from the Global Financial Crisis

Looking back at 10 years of bank and private equity work-out across thousands of loans and properties, over more than £50 billion of exposure, then adding the intensive experience of turning around an insolvent global real estate business, there is a wealth of advice we can give to investors concerned about their financial position, as they navigate through this difficult period. Our advice comes with the benefit of the team having been in the shoes of the CEO and the CFO of a borrower and the lender of a bank, through the good and the very tough times.

From a lender's viewpoint, the borrowers they are more likely to support (hence, what you want to be) have the following characteristics:

A management team the lender wants to back—this can be further broken down further into:

Trusted—that you are who and what you say you are, and you're transparent in the relationship

Competent—you know your business better than anyone and have the resource to manage it through difficult times

Committed—you act like you care about maximising the lender's loan recovery, as much as your do own investment

Track record—you have the track record to back up how important you are to delivering a recovery plan

You have a credible recovery plan— this can be assessed by considering the following:

Recovery of most or all of the loan principal is achievable—this should be reflected in a strategy document showing the cash flow and valuation projections over a 3—5 year period

It doesn't over rely on a market recovery — some improvement in yield might be tolerated but most value should be driven by asset management initiatives

It is practical and deliverable—proposed resolutions and initiatives and their impact need to be believable i.e. realistic and simple

It is the best of all options—you may wish to get 'buy-in' to the plan by putting it alongside the options you have considered. This demonstrates you have done the hard thinking for them

Collaborative and communicative—at the start, your lender relationship team wants to back your recovery, and report its progress and eventual success. Good communication reduces the chances of serving up nasty surprises—another event to avoid at all costs

Move at a pace—the lender will be keen to repair the impact that your loan is having on its balance sheet, so it will be biased to short termism and favour options that deliver results quickly and regularly. Be proactive and dynamic, and make sure your lender sees this

Too big to fail—be careful not to be complacent about being protected due to the scale of your exposure to the lender. Banks can and will find ways around dealing with their exposure, the simplest being taking an impairment on the loan and selling it on

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