Commercial Real Estate Direct
ACORE Capital Sees Originating Another $4Bln Next Year
By Orest Mandzy
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ACORE Capital, which recently lined up an additional capital commitment from its financial backer, will likely originate another $4 billion of financing over the next year or so.

The San Francisco finance company has funded or agreed to fund $2.9 billion of loans since its founding roughly a year ago. Its four founders - Boyd Fellows, Warren de Haan, Stew Ward and Chris Tokarski - previously developed and ran the conduit-lending operation at Starwood Property Trust. Before that, they built Countrywide Financial Corp.'s commercial mortgage origination platform, and during the 1990s ran Nomura Securities' commercial mortgage business.

They formed ACORE, which stands for Alpha Commercial Real Estate, with backing from Delphi Financial Group, a unit of Tokio Marine Group. The insurer initially had committed $1.6 billion to ACORE, which the company is expected to have fully deployed by May. So Delphi earlier this year increased its commitment by another $1.2 billion. ACORE also has access to a warehouse credit facility with a capacity of up to $800 million that it can tap to fund loans.

It'll be able to reach the $4 billion threshold with perhaps $2 billion of capital because it often will sell an A-note of its financings, while retaining a junior 25-35 percent piece.

ACORE, like other non-traditional lenders, has found the market ripe with opportunities, thanks to the massive volume of mortgages that were written roughly 10 years ago and are now coming due. The collateral properties for many of those often are in need of capital improvements, or should be redeveloped or upgraded in order to qualify for more permanent financing - putting them in ACORE's cross-hairs.

In the CMBS universe alone, more than $170 billion of loans are coming due this year and next. Many of those are backed by properties that might not be able to support the amount of financing that's maturing. Morningstar Credit Ratings recently estimated that only 66.5 percent of the $71 billion of loans maturing this year could be taken out without some sort of gap equity or other capital infusion.

The owners of some of the remaining 33.5 percent of the maturing loans could turn to a bridge loan from a lender such as ACORE to fund upgrades, redevelopments or renovations. Or they could sell their properties. The buyer then could turn to a bridge lender to fund its purchase and subsequent upgrades.

"Loan maturities typically stimulate asset sales," Fellows explained. "And what we do is value-add real estate projects."

ACORE focuses on providing sizable loans, typically of $100 million or more, against substantial properties in major markets. Its loans typically have three-year terms, with options that could extend them by up to two additional one-year terms.

Earlier this year, for instance, it funded a $97 million mortgage against a portfolio of eight office buildings in New Jersey and New York owned by RNY Property Trust that used proceeds of the financing to retire nearly $79 million of debt, some of which was securitized. The remainder was used to fund property and tenant improvements, as well as leasing commissions. The collateral properties were all constructed in the 1970s and 1980s and were 70 percent occupied as of last August.

And last year, ACORE provided $97.6 million of acquisition financing for the Village Lake Apartments, a 208-unit apartment property in Mountain View, Calif., that a Colony Capital venture had purchased for $145 million. The property was constructed some 55 years ago and is in an extremely supply-constrained housing market. The Colony venture that bought the property includes FortBay LLC, a Silicon Valley opportunistic investor that could add units, possibly more than doubling the property's size.