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### Q&A with Mark McClure of A10 Capital

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**Mark McClure**, executive vice president and new head of the Texas office and its markets for **A10 Capital**, Dallas, spoke with *MBA NewsLink* about the Texas markets and his outlook on commercial real estate.

**MBA NEWSLINK:** *When you mention the Texas market, at least the Dallas market does not seem to be as hard by the recession. Is that a good thing or are you concerned about more room for property values to fall in Dallas?*

**MARK McCLURE:** There may be some additional drop. The Texas markets are faring much better than the rest of the country, but we have not been immune to the downturn. There may be some additional drop in values, rental rates...but not as extreme as you are going to see across the country. That does not concern us because our lending program--we are focusing nearly bankable loans.

**NewsLink:** *What does 'nearly bankable loans' mean?*

**McClure:** Right now, predominantly, sources of commercial real estate financing come in the form of traditional lenders, which include life companies, commercial banks that are in the market and hard money, which is very high interest money that is out there. Our game plan is to fill the void between those two—in our rate structure and our underwriting.

There are a number of loans shown to traditional sources—life companies and commercial banks—that just do not fit the current underwriting guidelines of institutions or lenders we are using. That does not necessarily mean that they are bad real estate investments. Some lenders have minimum occupancy requirements and a good solid real estate investment that has good underlying real estate fundamentals but only 80 percent occupied would not satisfy the minimum occupancy threshold.

A property with 80 percent occupancy is not going to scare A10 [Capital] off. We will take a look at properties that need some repositioning, that need some lease up, that need some capital dollars that are still good, solid real estate investments with upside potential and sound real estate fundamentals.

**NewsLink:** *Part of your job is origination, but A10 Capital also resolves distressed assets. Is your job twofold—origination while resolving distressed assets?*

**McClure:** My responsibility is twofold. Primarily, it is to source new opportunities for A10's lending program and then also to cross sell the other product lines we have—including loan advisory services and workout services.

As I am out originating new loan opportunities and when talking to the local real estate professionals, I will run across situations where a borrower may need some advisory services on a distressed situation. That would be a good segway into cross selling.

**NewsLink:** *Going back to those loans that do not necessarily fit those underwriting guidelines, are you going to try to originate those, or will those show up in cross sales or both?*

**McClure:** Those are the type I am going to try and originate. That is going to be my primary focus because, once again,

the criteria that may not be satisfied even though it is a good real estate investment, there are a lot of lenders that still have a fairly high minimum loan requirement. They are actively lending on a select basis, but their minimum loans may be **\$10 million** and up. A10 Capital's loans are going to range from **\$500,000 to \$10 million**.

We feel that we are going to fill a huge void there as far as loan size. There are a lot of transactions that fall in that range that I just mentioned—we are going to be seeking loan amounts from \$500,000 to \$10 million.

**NewsLink:** *You worked for Morgan Stanley, Goldman Sachs and the Resolution Trust Corp. during the 1980s and 1990s, and certainly the Texas area was completely different then than it is now. How do you compare that period in Texas from now?*

**McClure:** During the S&L crisis, Texas was hit extremely hard—especially Dallas and Houston. I do not think they are being hit quite as hard this time around. [Texas] is not experiencing severe overbuilding this time around as it did during the S&L crisis.

But, once again, we are not immune to the downturn. There are various sectors that are seeing occupancy and value declines. One area of concern to a number of lenders is retail. At A10 Capital, we will look at financing retail properties.

**NewsLink:** *What areas of Texas will you finance?*

**McClure:** We are going to try and stick with the primary markets—Dallas/Fort Worth and surrounding areas, Houston, Austin and San Antonio. We think there are going to be plenty of opportunities for our program. We have raised initially \$100 million to loan. From \$500,000 to \$10 million, we can be somewhat selective and still deploy that capital. Once we do that, there will be some additional monies to loan as well.

**NewsLink:** *You have been through good and bad cycles during your career. Is this a cycle or is it more than a cycle?*

**McClure:** I think it is a cycle, but in some areas of the country the recovery is going to be prolonged. We feel strongly, once again, about Texas and we feel that the primary markets in Texas are going to lead the recovery.

**NewsLink:** *Why is that?*

**McClure:** Texas is just a very diverse and dynamic economy. There is still population growth in some cities, and Texas is still faring better than the rest of the country. No state income tax—there are a number of reasons why it is very attractive to do business in Texas—cost of living, the housing inventory, as far as getting into a house, home prices are not as they are in other parts of the country.

**NewsLink:** *But if the rest of the country is in a recession, doesn't that trickle into Texas as well?*

**McClure:** It does. Once again, we have not been immune. But the severity of the recession is what we focus on. Texas has not been hit quite as hard as some areas of the country in relation to declining values and declining occupancy in commercial real estate.

**NewsLink:** *Do you see a return of the commercial mortgage-backed securities market for liquidity in the near or long term?*

**McClure:** Definitely in the long term. Securitized lending and the CMBS lending programs and platform is an extremely important source of capital for commercial real estate, and it is an extremely efficient source of capital.

There is probably demand out there on an annual, sustainable origination basis for the return of CMBS lending platforms—probably **\$35 billion to \$50 billion** a year provided by a handful of prudent and disciplined forces versus where we were during the frenzy. There were maybe 30 to 35 sources in CMBS financing and the record year was about \$240 billion of originations. That is not sustainable.

In the late 1990s, when there were a handful of sources, and the sustainable level appeared to be about \$35 billion to \$50 billion a year in new loan originations. That product is critical.

**NewsLink:** *Do you think it will look similar to when it first started?*

**McClure:** I think it is going to look similar to the early years—the number of players, who is originating the business and the volume. Once again, very disciplined and prudent underwriting.

**NewsLink:** *There has been talk about issuers having 'skin in the game.' Do you see that?*

**McClure:** I think time will tell.

**NewsLink:** *Many banks are holding capital reserves and not lending because of toxic assets still on the balance sheets. Is that going to have an impact on commercial real estate for a longer period of time than it did during the S&L crisis?*

**McClure:** That is why it is going to be prolonged. But, as the holders of the loans start writing down systematically and the marketplace is able to deleverage all the way down to the asset, the sooner we can do that the better, and the sooner those assets get back into the private sector's hands—meaning private investors and off institution balance sheets—that is going to expedite the recovery as well.

We have to see the bottom, and one way to see the bottom is for these assets to start changing hands—either performing notes being sold based on the determined price, REO assets changing hands and going into the private sectors. Once that occurs, and the bottom is established, investor confidence will once again return.

We are going to be providing financing to the investors to acquire REO assets, hard assets and we will also do note acquisition financing whereby we are financing an investor's purchase of a performing, subperforming or non-performing note. We are in a position to take advantage of when assets start changing hands, and we are more than willing to provide financing on a select basis for borrowers refinancing a loan that is maturing or to provide acquisition financing for a hard asset or note.