



You are here: [Home](#) > [Daily News](#) > [Leveling the Playing Field for Smaller Investors](#)

Last Updated: October 27, 2014 11:57am ET

EXCLUSIVE

Leveling the Playing Field for Smaller Investors

By [Natalie Dolce](#) | National

Start your day well-informed with *GlobeSt.com's National AM Alert. Sign Up Today!*



Online auction platforms are fundamentally changing the way commercial real estate is acquired and sold, leveling the playing field for smaller investors, says Hill.

Part 1 of 2

BOISE, ID—Online auction platforms are fundamentally changing the way **commercial real estate** is acquired and sold, leveling the playing field for smaller investors. So says Alisha Hill, SVP of auction finance at A10 Capital in this exclusive two-part Q&A.

GlobeSt.com: Some are saying that the demand for commercial real estate auction finance has long been overdue. What is the impact of auction platforms on the Commercial Real Estate market?

Alisha Hill:Online auction platforms are fundamentally changing the way commercial real estate is acquired and sold, leveling the playing field for smaller investors. With over \$5 billion of commercial real estate assets trading through these platforms in 2013, special servicers and an increasing number of private sellers are relying heavily on online auction platforms to expedite swift dispositions and target a national and local buyer base. Auction platforms are creating an ideal location to acquire quality assets often with a hefty value-add component.

Auctions have traditionally lent themselves to all-cash buyers limited to investors who can execute a speedy equity raise or write a check for the full purchase price in thirty days or less. Constrained by lenders' ability to meet the tight closing deadlines, auction finance has left little room for anyone but expensive and hard money lenders. Auctions bring with them an added level of complexity that can put strain on the most sophisticated investor. Very few mid-level investors have the ability to raise expensive equity in time to close all cash, exposing them to some rather onerous recourse terms with hard money lenders in lieu of leaving 10 percent earnest money behind should the deadline not be met. As leverage fundamentally increases buying power, the demand for competitively priced auction finance has been long overdue in this space.

GlobeSt.com: Why is now a good time for this type of an alternative funding platform and who is the best type of partner for this type of transaction?

Hill:Though banks have seen a small rise in commercial lending, many are still encumbered by toxic assets resulting in an existing constraint in commercial lending. An asset-based, value-add lender is a perfect partner for financing dispositions by special servicers because they have the ability to staple a pre-underwritten debt quote to the asset before it is marketed for sale. When a few days can make a crucial difference in completing the proper amount of due diligence on an asset, a 30-day or less close takes a lending team that is experienced in expedited closes. An asset-based lender may be the optimal choice for an auction finance endeavor, mainly because the asset means as much to the credit-worthiness of the transaction as the sponsor.

Free from regulatory burden, an asset-based lender had the flexibility to complete their due diligence within the required timeframe to determine market risk and understand the story associated with the asset being auctioned. Any issues in the deal are identified and addressed before bidding starts, making for a smoother process. Having a high level of lender due diligence completed prior to marketing ensures the right questions are being asked and has the added benefit of acting as an extension of the due diligence process.

GlobeSt.com: How can investors mitigate risk?

Hill:A recent development in the auction finance space is competitively priced, non-recourse funding from nonbank lenders like A10 Capital. A multitude of risks are involved in acquiring a commercial asset, particularly in a value-add transaction with minimal in-place cash flow. Mitigating and insuring against lease-up, roll risk and interest rate risk necessitates prudence and focus. Taking even more risk by personally signing on the loan does not make sense to most savvy value-add investors. In the event things don't go as planned, a first mortgage secured only by the asset limits the liability to the asset, not a sponsor's personal wealth. Signing recourse is a risk for which investors are not being compensated. Non-recourse leverage is a

prudent way to increase buying power, truly leveling the playing field for non-institutional, high-quality investors.

GlobeSt.com: How should a lender be involved in the online auction process?

Hill:In this type of transaction a lender can run parallel through the process. This provides the borrower a valuable second layer of due diligence on the property before acquisition. The lender ordered appraisal can provide not only an as-is value of the real estate, but in the case of an un-stabilized property, would also include a stabilized valuation incorporating the borrower's vetted business plan. This is extremely important information for a buyer to have prior to closing the transaction so that it can fully understand whether or not future equity dollars in the project will result in an incremental lift in value. Without this value accretion buyers could have issues refinancing the project or may not be able to hit their target disposition values, both of which would be very helpful to know prior to closing.

Check back in the next day or so for part two of this exclusive Q&A, where Hill talks about what questions should an investor ask in evaluating a lender and what has been A10 Capital's experience with the auction marketplace.

Is networking important to you? Join RealShare Conferences to hear from prominent speakers and meet the commercial real estate elite. [Check out the schedule of events!](#)

Related Topics: [Midwest](#)

About Our Columnist



Natalie Dolce, national executive editor of GlobeSt.com, is responsible for working with editorial staff, freelancers and senior management to help plan the overarching vision that encompasses GlobeSt.com, including short-term and long-term goals for the website, how content integrates through the company's other product lines and the overall quality of content. Previously she served as editor of the West Coast region for GlobeSt.com and *Real Estate Forum*, and was responsible for coverage of news and information pertaining to that vital real estate region. Prior to moving out to the Southern California office, Natalie was Northeast bureau chief, covering New York City for GlobeSt. Dolce's background includes a stint at *InStyle Magazine*, and as managing editor with *New York Press*, an alternative weekly New York City paper. In her career, she has also covered a variety of beats for *M* magazine, *Arthur Frommer's Budget Travel*, *FashionLedge.com*, *Co-Ed* magazine and the *Daily Orange* newspaper. Dolce has also freelanced for a number of publications, including *MSNBC.com* and *Museums New York* magazine.

[Bio](#)

[About ALM | Customer Support](#)

Copyright © 2014 ALM Media Properties, LLC. All rights reserved.

