

KEYNOTE INTERVIEW

A year of work



Warren de Haan, co-CEO of ACORE Capital, winner of Alternative Lender of the Year, discusses how the firm expanded through the pandemic, bringing on senior staff and upgrading technology

Q What were ACORE's biggest milestones in 2021?

ACORE has spent the last five or six years growing quickly and methodically. Part of the process has been building out our infrastructure and expanding our team. We are in perpetual capital raising mode because we believe the market is putting forth many interesting financing opportunities and we like the tenor of the investment opportunities in the market today.

As part of this, we hired Michael Romo to spearhead our capital raising efforts. At ACORE, what we've proven is that to be able to access highly attractive financing opportunities, we need to continue to grow our investor base. Bringing Mike on board helped us super-charge that effort.

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We have also bolstered our operations. We appointed Autumn Gibson as our head of ESG and Jamie Fullbright as our new chief people officer, coming from a company that ran a department that oversaw 200-plus employees. It brought a higher degree of institutionalization to ACORE. Additionally, we continue to focus on growing our compliance department as the scale of ACORE grows.

Q What are some other areas in which you're expanding the company?

We continue to invest systematically in asset management, where we now have

more than 30 people. That continues to be an incredibly important function for our company because we are a full service origination-through-credit underwriting business, and that includes in-house asset management and reporting for our clients, who view this as a hyper-attractive aspect of investing with us.

The other area we continue to invest heavily in is technology. We're making sure that our systems are homegrown and built from scratch. Those systems help us monitor, track and report on our \$19 billion portfolio in real time.

I describe it as "a year of work."

Q What are some of the ways you're working to grow your investor base?

Chris Tokarski and I took over as the

co-CEOs of the company in January 2021 and we've been heavily focused on increasing the institutional attractiveness of ACORE as a company as it has grown.

We elected Tony Fineman and Kyle Jeffers to co-head of originations. Kyle on the West Coast and Tony on the East Coast have made wonderful strides, deepening our origination bench. They've also been able to move more quickly to rebalance the portfolio and pursue opportunities in real time that we believe represent very good risk-adjusted returns.

There has been a lot of institutionalization, a lot of reorganization and, at the same time, we did in excess of \$7 billion of new originations last year. I'd say it was a highly successful year.

Q Have you observed any sector-specific trends?

There has been an appropriate level of caution around the office sector. Some of our borrowers are truly office experts and they take a hyper-measured approach to those investments.

We haven't seen a lot of strategy drift toward the hospitality sector. We continue to see hotel experts invest in hospitality – not so much on the ground-up side, but on the renovation and repositioning side with an expectation that the markets are going to rebound.

We've also done a tremendous amount of self-storage over the last 12 months. We are seeing our borrowers want to get more of that asset class because it's performed very well, but it's difficult to aggregate because these units are so small.

Generally speaking, our clients have large amounts of capital to deploy. So, for them, they really need to buy portfolios, and we are seeing some of those transact and we are seeing our borrowers actively look for those opportunities. The asset classes that are in favor like multifamily, industrial, life sciences and data centers continue to gain momentum and are active sectors for us.

Q What is your outlook for 2022?

That's a question I think we're all contemplating right now. Before the Russian invasion of Ukraine – and our thoughts and prayers go out to the people of Ukraine – it was looking like it could be our strongest year yet. And this still could be the case, but only time will tell.

The framework going into this year was tremendously positive. Investment sales were at record high volumes. Add to that ACORE's increasing market share, plus the increasing market share of the non-bank lenders and you could

see why I'm saying that 2022 was setting up to be our best year ever.

The impact of Russia's invasion of Ukraine continues to play out. The early indicators, though, and the risks on the front end of the economic equation, are continued escalation of inflation. A number of economists are now calling for 10 percent inflation, which starts to get us into sort of scary territory.

There are also some economists talking about stagflation. We've seen sell-offs in the stock market that are pretty significant, and so we have to wait and see to see what happens here with liquidity.

I don't think it's going to result – at least in the short term – in any credit related problems. But it could result in a liquidity problem where investors scale back on their acquisitions and lenders like us decide to scale back, or we widen our pricing to account for increased risk.

If we start to see sustained high inflation, and overly aggressive ratcheting up of interest rates, or more of a recessionary or stagflationary environment, then that could result in medium to longer term credit related problems. That would give us all in the commercial real estate space concern, but it's too early to tell.

What we try to think about to get ahead is the 'what might be' without catastrophizing anything. We're certainly thinking about asset classes that could get impacted by rising energy prices, certainly hospitality would come to mind as one of the first assets that would be impacted.

On the other hand, however, we like assets that have inelastic demand characteristics that should perform very well in this higher inflation environment.

You have to be a good asset selector. And I think ACORE can say based on our track record that while we do this at scale, we've been very good asset selectors and fiduciaries for our investors' money. ■

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