



HotSeat with

By *Erika Morphy*
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Madison Capital's Brett Ellen

By now, every investment management firm has retooled its strategy to reflect what is happening in the credit markets. Madison Capital Management is no different – although as an alternative investment management firm specializing in niche distressed real estate, natural resources and special situation financial assets, it has not had to make as big an adjustment as other firms. Credit environment opportunities exist in most of these areas right now, says VP and co-head of the Real Estate group, Brett Ellen.

GlobeSt.com: Tell me about your buying strategy for loans right now.

Ellen: We are seeing a lot of opportunity in loan acquisitions right now -- either whole loan or participations of loans being put out to market. These are typically performing loans that banks had originated 12 to 18 months ago with the idea that they would go into a conduit. Now, of course, they find themselves continuing to have to hold them on the balance sheet and so are looking for ways to sell some of that paper and create balance sheet liquidity.

GlobeSt.com: Is this proving more lucrative than actually originating loans right now?

Ellen: When we acquire a loan we are capturing yields that are acceptable to us and that, yes, would be the same yield as we would get if we were originating the paper.

GlobeSt.com: Can you give me an example?

Ellen: We recently bought a loan in which we are the junior participant. The bank will continue to hold the senior position but that loan has been structured to push the higher yield to the bottom part of the loan, so we are getting compensated for being in the risky part. In return the bank gets the liquidity

we are providing and by buying this loan from them it reflects favorably on its balance sheet.

GlobeSt.com: Can you tell me what is the yield and loan size?

Ellen: We don't disclose yields but it is a \$30 million loan and we are buying the bottom \$8 million to \$10 million.

GlobeSt.com: Where else do you see opportunities now?

Ellen: Private REITs. Some of these have been operating from two to six years, and the investors that have made an investment in them don't have a lot of liquidity options. We have a number of REIT programs where we go out to investors and see if they want to purchase their shares.

GlobeSt.com: Are these trading at a bigger discount than usual now?

Ellen: Well, typically when they have traded, they trade at a discount to the perceived net asset value. That continues to be the case. Whether it is more so than usual depends on the REIT program. Certain REITs have lower leverage and higher quality assets than others – the ones that are more secure have less leverage.

GlobeSt.com: Are you still providing capital to developers?

Ellen: Oh yes. We continue to be a capital provider to owners and developers of property that need financing or need to fill in the gap in their financing. The proceeds that property owners are able to get from senior lenders has come down in recent months, of course, and senior lenders haven't been as aggressive. This is another area of opportunity for us.

