PERE

ACORE Capital closes largest debt fund of 2024 to date

At a size of $1.4bn, ACORE Credit Partners II is also the joint fourth-largest private real estate fund closed globally so far this year.

By Charlotte D'Souza

April 23, 2024

https://www.perenews.com/acore-capital-closes-largest-debt-fund-of-2024-to-date/

San Francisco-based real estate credit manager ACORE Capital has closed its largest commingled fund with approximately $1.4 billion in commitments from investors, PERE can reveal.

US-focused ACORE Credit Partners II was launched in early 2022 and was oversubscribed against a target size of $1 billion. According to PERE data, the fund is the largest private real estate debt fund and the joint fourth-largest private real estate fund overall to reach a final close so far this year.

The prior fund in ACORE's flagship series, ACORE Credit Partners I, formerly known as ACORE Credit IV and the firm's first discretionary commingled fund, closed with $556 million in 2019. Since then, the firm has also raised $254 million via another vehicle, ACORE Opportunistic Credit I, which closed in 2022. While ACORE originates value-add financing to institutional borrowers with the flagship fund series, it originates value-add, opportunistic and special situations financing to middle-market and institutional borrowers via the latter vehicle.

Warren de Haan, the firm's chief executive officer, said ACORE Credit Partners II received commitments from a large number of new investors in line with the growing appeal of real estate credit in today's higher interest rate environment. "Historically, the banks have been the majority of the capital in commercial real estate finance, but with their behavior changing, the increase in regulatory scrutiny as well as balance sheet-related issues, it has given rise to this tremendous opportunity for non-bank lenders like ACORE to fill the financing void," he said.

ACP II attracted commitments from a diverse group of investors, including pension funds, sovereign wealth funds, insurance companies and high-net-worth individuals, and from across the globe – including Asia, the Middle East and Europe. "We received interest from pockets of the world we had been calling on for years, but all of a sudden they were very interested," he said.

"Today, we're able to make loans that have yield rates that are as much as double what they were 18 months ago. For investors in our funds, that represents a very good risk-adjusted return relative to other asset types."

According to PERE data, investors in ACP II include US sovereign wealth fund New Mexico State Investment Council and public pension fund Virginia Retirement System, which each committed $250 million. In addition, public pension funds West Virginia Investment Management Board and Los Angeles Water & Power Employees Retirement Plan committed $75 million and $60 million, respectively.

Active in originations

Through the fund, ACORE will originate floating rate loans, at SOFR plus a spread, against "buildings in transition." This encompasses ground-up construction projects through to assets that are being renovated, repositioned or rebranded, said de Haan. When the borrower achieves the business plan and stabilizes the asset, they either sell the building or replace the loan with permanent financing.

ACORE has an $80 million average loan size and a loan-to-cost range of between 55 percent and 75 percent. So far, the firm has made 18 investments from ACP II, representing approximately $375 million of fund equity capital committed. The largest concentration of these loans is secured against industrial, multifamily and hotel properties.

Financing new acquisitions will be a core part of ACP II's strategy, and has typically constituted around 75 percent of ACORE's lending activity as a transitional or bridge lender, but de Haan noted the transaction market is slower at present. In addition, the scale of the opportunity to refinance maturing loans means the latest fund will likely invest more in refinancing opportunities than the predecessor fund.

"There is a $2.5 trillion wall of commercial real estate loans coming due in the next five years. Our opportunity is to refinance those loans where the basis has been reset lower and our borrower brings fresh capital to the table to make sure the business plan gets executed properly," he said.

CREDIT CAPITALIZED

ACORE Credit Partners II is in joint-fourth position among the largest private real estate funds closed so far in 2024

Fund	Manager	Final close size ($bn)	Strategy	Region focus	Sector focus
Blue Owl Real Estate Capital Fund VI	Blue Owl Capital	5.2	Opportunistic	North America	Diversified
Crow Holdings Realty Partners X	Crow Holdings Capital	3.1	Value-add	North America	Diversified
Cabot Industrial Value Fund VII	Cabot Properties	1.6	Value-add	North America, Western Europe, Asia-Pacific	Industrial
ACORE Credit Partners II	ACORE Capital	1.4	Debt	North America	Diversified
China Income Fund XII	GLP Capital Partners	1.4	Core-plus	Asia-Pacific	Industrial

Source: PERE

'Sizable opportunity' for loan purchases

Another avenue open to the fund, and one which de Haan expected to be a "sizable opportunity" for the vehicle's capital, is to acquire performing loans at a discount from regional banks and other loan sellers needing liquidity.

Regional banks in the US are under pressure from regulators to hold more capital against their commercial real estate loan books, and with the latest signal from the Fed that rate cuts may not be as aggressive as previously indicated, the need for liquidity is likely to grow, he said. “We believe they will start selling performing loans in the second half of this year and, in all likelihood, will need to sell these loans at a discount.”

De Haan noted there have been some significant, discounted commercial real estate loan sales in recent months from distressed sellers. These include the purchase of a 20 percent stake in Signature Bank’s real estate loan book by a Blackstone-led venture, and the sale of $2.6 billion-worth of real estate construction loans from PacWest Bancorp to investment firm Kennedy Wilson.

However, “what we haven’t seen yet is the real flow of $100 million-400 million packages of loans, other than a few that are all office,” he explained. “If you’re a bank and you’ve got office loans, those are the ones you really want to sell first. But the market doesn’t want to buy office loans solely.”

De Haan said ACORE will only lend “very selectively” on offices. Instead, he expected to see attractive loan sales and new origination opportunities ahead on the multifamily side in particular, owing to the large volume of loans made against multifamily assets two years ago that will be facing expiring rate caps in the coming months. “The spike in interest rates will put a tremendous amount of pressure on the capital structure, which will create a very interesting opportunity for us to lend against good real estate with broken capital structures,” he explained.

ACORE Capital was established in 2015 by four Starwood Property Trust alumni. It has originated $38 billion across more than 500 loans since inception, with capital from both commingled funds and separately managed accounts. The firm originates and acquires first mortgages, B-notes, mezzanine debt and preferred equity, and has approximately $20 billion in assets under management. ACORE Capital was ranked in 16th position in PERE’s 2023 Real Estate Debt 50 ranking of the largest real estate debt fund managers by capital raised in the past five years.