

RATING ACTION COMMENTARY

Fitch Upgrades ACORE Capital's Commercial Servicer Ratings

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Fitch Ratings - New York - 07 Aug 2024: Fitch Ratings has upgraded ACORE Capital, LP's (ACORE) commercial special and primary servicer ratings as follows:

--Commercial special servicer rating to 'CSS2-' from 'CSS3+';

--Commercial primary servicer rating to 'CPS3+' from 'CPS3'.

Both ratings have been assigned a Stable Rating Outlook.

RATING ACTIONS

| ENTITY / DEBT ⚡                        |                             | RATING ⚡ |                               | PRIOR ⚡ |
|----------------------------------------|-----------------------------|----------|-------------------------------|---------|
| ACORE Capital, LP - CMBS Servicer 2022 |                             |          |                               |         |
| CMBS Primary Servicer                  | CPS3+ Rating Outlook Stable | Upgrade  | CPS3 Rating Outlook Stable    |         |
| CMBS Special Servicer                  | CSS2- Rating Outlook Stable | Upgrade  | CSS3+ Rating Outlook Positive |         |

[VIEW ADDITIONAL RATING DETAILS](#)

KEY RATING DRIVERS

The upgrade of ACORE's commercial primary and special servicer ratings reflects various factors: increased management and staff allocations to servicing, additional demonstrated servicing performance, continuous technology enhancements, significant performing loan oversight, internalization of property inspections, creation of a dedicated real estate owned (REO) team, and proactive engagement with borrowers to mitigate defaults.

The ratings also reflect the crucial role of primary and special servicing in supporting ACORE's investment management platform and its dedicated asset management resources. Servicing also supports the company's financial condition and its governance infrastructure, which is comprised of sufficient policies and procedures, management oversight, and multiple compliance-focused committees.

ACORE is an originator and servicer of commercial real estate (CRE) debt investments and a registered investment advisor with a demonstrated history of fundraising for multiple investment vehicles to originate loans secured by transitional CRE assets. The company has originated more than 500 loans totaling approximately \$38.0 billion since inception. Primary and special servicing functions are key to supporting the investment management platform and are backed by dedicated asset management resources. The company's CEO and three other managing partners have worked together for over 25 years.

Sixty-nine of ACORE's approximately 120 employees are allocated to supporting primary and special servicing functions. The number of employees supporting primary servicing increased to 67 employees from 37 at since Fitch's last review. Fifty-two of these also share responsibility for special servicing functions. Senior managers within primary servicing average 21 years of industry experience and seven years of tenure, while middle managers average 15 and four years, respectively.

Turnover among the senior management team overseeing primary servicing was elevated in 2023 due to the internal transfer of two senior managers, resulting in 13% turnover. Another senior manager also departed the special servicing group, resulting in 19% senior manager turnover within special servicing.

Fitch identified 10 employees as special servicing asset managers (up from three) who average 12 years of industry experience and four years of tenure. The assets to asset manager ratio is 2:1. Fitch believes there is sufficient depth of CRE workout experience among the special servicing employees and that additional employees would be assigned assets if defaults increase.

ACORE's servicing system of record consists of a customized version of Backshop, a third-party asset management system, and a proprietary financial accounting system, M61. M61 provides primary loan servicing accounting, future loan funding spreading, support for highly complex loans, and supports accounting and reporting functions for the company's various investment funds. The company also continues to transition legacy reports to its new data warehouse and expects to introduce a borrower portal in 2025.

ACORE's governance infrastructure comprises comprehensive policies and procedures, management oversight, and exception reporting to monitor compliance, delegations of authority for key decisions, and oversight by multiple compliance-focused committees. As a balance sheet lender on behalf of multiple funds, the company is not subject to external operational audits, and there is less formal compliance with policies and procedures outside of servicing. However, the senior management team is actively engaged in all aspects of default resolution.

Resolution history is limited by ACORE's short operating history and limited number of historical loan defaults. However, the company maintains experienced asset managers, robust asset management technology, strong surveillance capabilities and sufficient policies and procedures. It requires assets to be formally reviewed by the credit committee each quarter.

During discussions with ACORE's asset management team, Fitch noted the company's business plans were comprehensive and timely and contained a net present value analysis when appropriate. Asset managers were extremely knowledgeable about asset performance, loan sponsors, local markets, and disposition strategies. Through December 2023, ACORE resolved 16 defaulted CRE loans totaling \$1.0 billion, two of which occurred in 2023.

The special servicing portfolio increased materially as 14 loans totaling \$1.4 billion and seven REO assets totaling \$479.6 million transferred to special servicing in 2023. ACORE proactively addressed the increase in loans through additional staffing, increased surveillance, continuous technology enhancements, and the establishment of a dedicated REO team.

Primary servicing focuses on non-cashiering activity or activity done in parallel with its cashiering primary servicers. This includes initial property tax and insurance escrow sizing; loan balance adjustments; note reconciliations for fractional ownership interest; draw request reviews and approvals; loan advancing; consent requests; covenant testing; covenant waiver analyses and approvals; loan modifications; debt service coverage ratio

and debt yield analyses; partial and full payoffs; collateral releases; monthly payment collection; remittance; and reporting to ACORE.

The company internalized property inspections for the majority of loans in 2023 in response to market conditions and increased performing loan surveillance oversight. As of year-end 2023, ACORE's primary servicing portfolio comprised 244 loans totaling \$17.4 billion unpaid principal balance, secured by 563 CRE properties

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[Criteria for Rating Loan Servicers \(pub. 15 Dec 2022\)](#)

[Criteria for Rating North American Commercial Mortgage Servicers \(pub. 15 Dec 2022\)](#)

## ADDITIONAL DISCLOSURES

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ACORE Capital, LP

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