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By: Samantha Rowan
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NEWS & ANALYSIS

ACORE closes second opportunistic credit fund on $1.1bn

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ACORE Capital has closed its second opportunistic credit fund on $1.1 billion, exceeding its $1 billion target, PERE can reveal.

The New York-based manager has committed more than $400 million of ACORE Opportunistic Credit II, making investments across 14 deals, Warren de Haan, CEO and co-founder, told PERE. The fund is four times the size of its predecessor, which reflects what the firm sees as an investment case for opportunistic real estate credit and the firm's platform.

ACORE is tracking significant dislocation across commercial real estate and sees room to work with good sponsors on high-quality properties, de Haan added.

"The market has presented a real opportunity in opportunistic credit, and we are well-positioned to act on it," de Haan said. "We have unique visibility into nearly 600 borrowers' businesses, and a high percentage are repeat clients. That means borrowers tend to come to us first with their capital needs."

This, in turn, led ACORE to think about how it can work with borrowers that have bridge capital, special situations, capital structure needs or that are seeking to close a loan more quickly than usual, de Haan added.

"The first part is that we have a business infrastructure that is supportive of deploying high-yield capital or various types of capital to satisfy their needs," he said. "The second part is what is going on in the market today."

The fund has an eight-year life and de Haan noted the immediate opportunity set is around providing shorter-term solutions.

"We are seeing interest rate volatility, across the curve, from the short end to the 10- and 30-year Treasury," he said. "As rates move higher, that puts pressure on capital structures and valuations. Add the maturity wall, and there will be tremendous number of financing opportunities that will come to bear."

There will be additional opportunities around valuations and capital structures, he added.

"Many owners bought high-quality properties in 2021 and 2022 at valuations that no longer hold." he said. "If you fast forward to today, with where we are with interest rate pressure, cap rate expansions and other issues, sponsors need additional capital to right size their capital structures, particularly given commercial real estate fundamentals remain strong."

Mike Romo, partner and head of the global investor group, said he believes the firm's investors recognized ACORE's ability to access opportunistic transactions from its extensive borrower network and offer the potential to deliver meaningful risk-adjusted returns.

"LPs are seeking cycle-tested managers. We launched AOC I in 2020, when opportunistic deals were scarce, and fully deployed it across 24 transactions. In the same period, ACORE Hospitality Partners raised $1 billion for hotel rescue capital, including a $330 million preferred equity investment in the 35-hotel Graduate portfolio," Romo noted.

Many AOC I investors came back to AOC II, Romo noted, along with a number of new relationships

"In AOC I, many of the deals were sourced directly, and repeat sponsors brought us new business. The most interesting opportunistic deals rarely go through a broad marketing process," Romo added. "In opportunistic transactions, sponsors are often working through problems they would rather not broadcast. They call a trusted lender to close on agreed terms and to stay constructive if the plan changes."

Despite near-term volatility, there is a substantial amount of private equity capital sitting on the sidelines that wants to enter the commercial real estate market because fundamentals are good.

"For equity buying at a reset basis, especially below replacement cost, this could be a strong vintage," de Haan added. "Many of the financing requests we're seeing come at a 10 to 25 percent lower basis. That makes this an excellent entry point for a lender like ACORE for both our value-add and lending strategy and ACORE opportunistic credit."

The firm will focus on high-quality sponsors and compelling real estate with broken capital structures, he added. Asset selection will be critical.

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"The differentiators in a world where there is a lot of capital are discipline and selectivity," de Haan added. "In order to do that at scale, you need the right team and access to opportunities."

Matt Drummond, senior managing director and head of high-yield strategies, said the firm will seek deals of $50 million to $300 million. The firm's average loan is about $80 million.

"We tend to play in the mid-market, but we can flex up. Given the size of our fund, we can transact on the higher level," he added. "We want to raise enough capital to be there for our borrowers and take advantage of the market opportunity but not so much that we will stray from our credit-first approach."

The fund focuses on investments in the top 25 MSAs or seek sponsors with portfolios of assets that are more broadly distributed.

"We won't shut off any one asset type," de Haan added. "Our focus stays the same: building diversified portfolios with the right basis, strong sponsors and high-quality real estate that aim to deliver compelling risk-adjusted returns to our investors."

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