Morning Calm Launches $500m Real Estate Credit Vehicle

The Boca Raton-based manager has hired Ian Russell from Singerman Real Estate as part of the initiative.

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PERE Credit
By: Samantha Rowan

Morning Calm Management, a Boca Raton-based investment management company, has rolled out a targeted $500 million vehicle through which it will originate, acquire and manage real mezzanine loans and preferred equity in commercial real estate transactions throughout the US.

As part of this effort, the firm has also brought on Ian Russell, from Singerman Real Estate, as a senior managing director to lead Morning Calm's investment strategy as it seeks to step into the void which has been created as banks and other capital sources have pulled back, Mukang Cho, founder and chief executive, told PERE Credit.

Morning Calm Strategic Credit, the firm's second real estate credit fund, will make investments of $10 million to $50 million with a focus on the 50 largest metropolitan statistical areas. It will target acquisitions, developments and recapitalizations across all property types apart from office and can consider larger transactions on an individual basis.

As an investment manager that focuses on real estate special situations and private credit, the firm believes there is a space for Morning Calm to step in as the market faces what is estimated to be roughly $3 trillion of maturities over the next five years.

"This is something that has been on our dashboard for a few months," Cho said. "We had begun to source opportunities across all asset classes with a focus on the middle market with sponsors with whom we believe there would be repeat business."

Morning Calm has been very active this year, despite a broader slowdown in transaction activity, Cho said.

"Our activity includes a preferred equity investment on a large office asset in Washington, DC, and we are hopefully getting very close on transacting on another acquisition in Miami," Cho added. "We are obviously very active looking at opportunities in different parts of the capital stack and across all asset classes."

The firm is observing an increase in banks that are motivated to focus on their existing portfolios, and a greater willingness to dispose of loans than Morning Calm was seeing a year ago.

“There is a lot more activity from banks and life insurance companies on selling loans and to the extent they have REO, getting rid of assets,” Cho said. “For a lot of institutional investors looking to balance their portfolio, they are also willing to free up dry powder by disposing of assets that they feel they’re overweight in.”

In addition to the capital markets side, Morning Calm is also seeing sustained activity in leasing. The firm owns about 10 million square feet of office and industrial space and maintains a separate multifamily portfolio.

“The general consensus that we have developed across our portfolio is that activity, even post-covid, has actually been okay,” Cho said. “Office in particular has been in the headlines the most but, in our experience, the activity on the ground has not dissipated.”

While there are clearly discussions around the use of space, a substantial number of the conversations around space contraction have already taken place.

“Of course there are leases expiring, but for the most part we have seen in the past several quarters a decent pickup in activity. Rental rate growth has been there,” Cho said. “There is an opportunity to trade up into a better asset. People are taking advantage of the supply that exists today more than they were a couple of years ago.”

On the industrial side, the firm’s portfolio is about 96-97 percent leased to a wide swath of smaller and larger tenants. “We have been able to increase rents and that hasn’t changed much at all.” Cho added. “On the multifamily side, gone are the days where you could push rents 10 percent year after year. But rent growth is still there and we are not seeing a lot of concessions.”

Outlook

One of the key factors affecting the market today is that a higher cost of debt has meant the valuation of all assets is down and bank lenders are less willing to originate whole loans because of the need to reduce leverage, Cho added.

“You’re seeing a lot of lenders being a lot more conservative on LTVs and LTCs if they choose to finance something. That is the opportunity for us to provide gap capital where there is a hole in the capital stack,” Cho said.

Russell has observed an important psychological shift in the market over the past six to eight months which he believes bodes well.

“On the equity side, investors feel like they have some stability to what the Federal Reserve will do with policy given where the inflation numbers are coming out. In their view, investors can project out what the future may look like from the capital markets side with some level of increased confidence,”
Russell said. “It is enough that people want to continue to transact.”

At the time, lenders need to be able to originate new loans. “That is driven in part by effectuating loan sales. But the easing of the 10-year Treasury [yield] is giving them confidence to re-size and refinance the loans on recapped values and, in doing so, this will create more opportunity for this gap product,” Russell added.

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