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Morgan Stanley's Mesa West targets $5bn originations spree in 2022

In 2021 the firm originated $3bn in loans, with three-quarters of the pie going to multifamily and industrial

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Morgan Stanley-owned commercial real estate lender Mesa West Capital will continue to favour multifamily assets, with an aim to pace lending between $4bn and $5bn in the new year.

Speaking to With Intelligence, co-founder Jeff Friedman said the firm entered the Covid period with a defensive portfolio and prefers multifamily and industrial assets in job-heavy markets in the US.

“We generally favour the markets where there’s job creation, which is really the tech markets and some of the sun belt areas,” Friedman says.

Despite going remote for an uncertain period of time, big tech firms are still actively leasing in markets they want to grow in, according to Mesa West.

“We’ve been active in Austin, Texas, and we’re seeing recovery in Silicon Valley and west Los Angeles. Boston is doing well, and in New York City, in the areas where the tech tenants are, there has been some great leasing activity,” he adds.

Over the past year, firm has been actively lending, and originated $3bn in loans, with three-quarters of the pie going to multifamily and industrial.

“Financial markets froze for a second, but as liquidity returned, transaction volumes returned; at a little bit of a slower pace for real estate lenders initially, but now they are actually very high,” said Mark Zytko, who co-founded the firm with Friedman in 2004.

The firm also capitalized on the opportunity to land at scale over the past year due to a secular change in lending moving away from banks, as they deal with heavy regulation due to uncertainties in the economic environment.

"Our pacing over the past two quarters is above the volumes that we were lending before Covid," he said.

The Los Angeles-headquartered lender managed to get through the pandemic unscathed, as their $8bn lending portfolio only had a 5% allocation to hotel and retail, which were both negatively impacted; however lower leverage and better nature of the properties ensured they continued to pay interest.

"The beginning was all about asset management and making sure that our portfolio was secure. Fortunately, there wasn't a story there because of our defensive nature," Friedman says.

"Very few fires on the portfolio, and it was a calm period of time."

In the long term, Mesa West's approach is to go after what the market gives them and go where the capital needs are instead of artificially try to create something.

"We've been doing this for almost two decades. Part of it is to continue doing what we've been doing. We've moved up and down in terms of capital stack in terms of risk and reward, and we'll continue to do that with different products in the market," Zytko says.

"In times good and bad, our focus will be on the core strategy of achieving premium return while preserving capital."

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