



Parkmerced Spotlights the Critical Impact of Structure on Loan Outcomes

Bondholder cashflows on the upcoming maturity of the \$1.5 billion Parkmerced loan (MRCD 2019- PARK, PRKC, and seven 2020-vintage conduits), will hinge on several structural aspects that proved influential on recent liquidations or modifications of large loans with similar characteristics. Parkmerced, backed by 3,165 units in the largest multifamily complex in San Francisco, CA, will mature in December (Figure 1). The loan transferred to special servicing back in April 2024, at the borrower’s request. The servicer issued a default notice and is working on resolving the situation.

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Figure 1. Parkmerced Loan and Property Parameters

Asset	Parkmerced		
Deal	MRCD 2019-PARK, MRCD 2019-PRKC, BBCMS 2020-C6, BMARK 2020-IG1, BBCMS 2020-C7, CGCMT 2020-GC46, WFCM 2020-C56, CF 2020-P1, GSMS 2020-GC45		
Loan Balance (\$psf)	\$1,500,000,000 (\$474k per unit) mortgage loan and \$275,000,000 (\$561k per unit) mezzanine loan		
Maturity	December 2024		
Coupon / Amortization	3.25% fixed (mortgage loan) / Interest-only	<u>Appraisal History</u>	<u>Total Advancing (as of 8/2024)</u>
Loan Status	Performing - Specially Serviced	\$1,390.0 MM (Jul-2024)	Principal & Interest: \$0.0 MM
	(DQ 90+ days on MRCD 2019-PRKC)	\$2,110.0 MM (Sep-2019)	Taxes & Insurance: \$0.0 MM
Property Size / Occupancy	3,165 units / 83% occ. (Sep 2023)		<u>Other Advances & Interest:</u> \$1.1 MM
Property Type / Location	Multifamily / San Francisco, CA		Total Advances & Interest: \$1.1 MM

Source: Morningstar Credit and Academy Securities

Assessment of the recovering San Francisco multifamily market is obviously relevant to Parkmerced resolution projections. The market has seen occupancy increase over the past year to 95.4%, according to RealPage. Parkmerced’s occupancy also improved to 83% as of Q3 2023, compared to 73% in 2021. There is a long-term redevelopment plan at the complex, that may impact the sponsor’s commitment to a loan modification.

But structural issues such as payment waterfalls, note seniority, and servicer decisions should critically impact cash allocations investors will see across the various deals Parkmerced backs. The liquidation of [Veritas Multifamily Portfolio Pool](#), backed by another large multifamily complex in San Fran, or the modification of [CXP Office Portfolio](#), a large loan with complex senior/subordinate capital structure, spotlighted some of the angles Parkmerced investors should consider.¹ The liquidation of the borrower’s swaption in Parkmerced adds another unique angle to the situation. Deal commentary mentioned the swaption liquidation for the first time in the most recent remittance report.

¹ “Non-Trust Debt: Check the Seniority of Your CMBS Collateral,” CMBS Credit Focus, Academy Securities, June 3, 2024, and “Holdbacks: RENT in the Limelight, as Other Cases are Brewing,” CMBS Credit Focus, Academy Securities, January 25, 2024

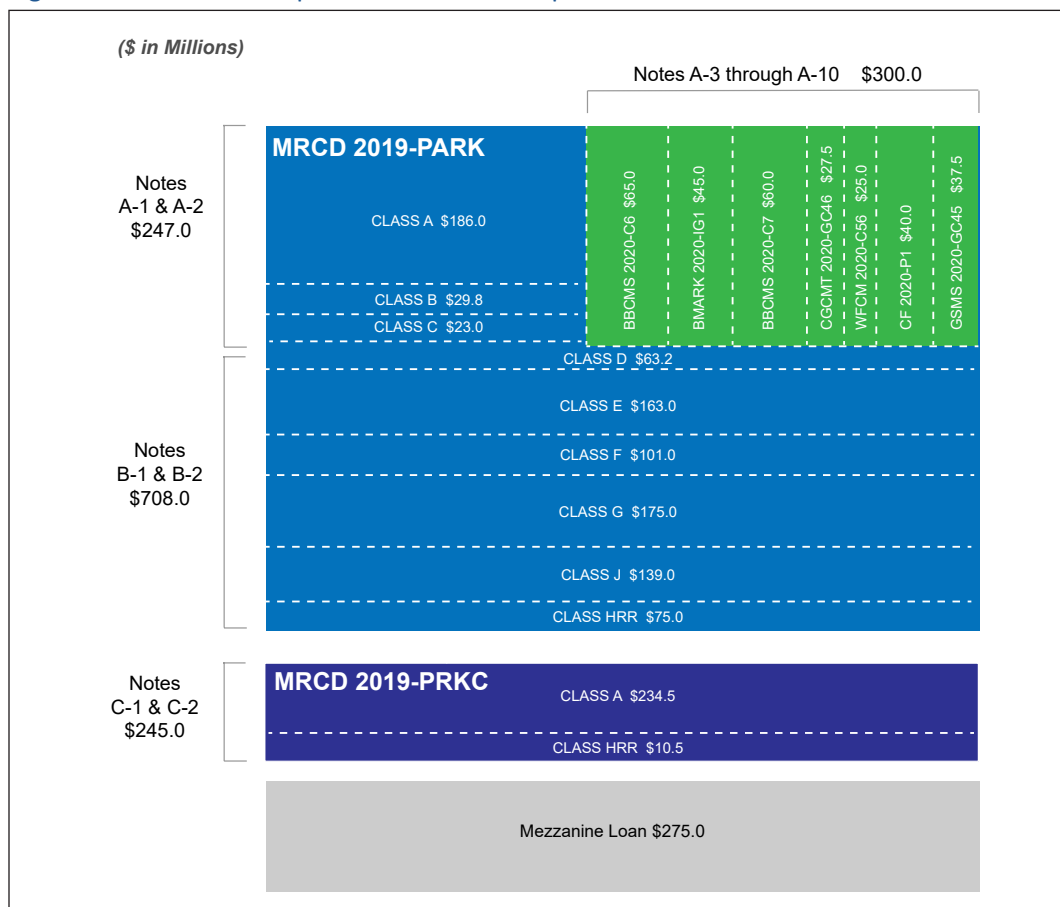
Parkmerced: Abundance of Structural Angles to Determine Bond Cashflows

Check Loan Seniority, Servicer Decisions, and also the Swaption

We see the following structural aspects influencing bond payments in Parkmerced:

- **Underlying note seniority.** Parkmerced’s loan A/B/C note structure has implications for the immediate payment allocations across the exposed CMBS deals. The loan’s event of default triggered a so-called “sequential pay event”, which should now prioritize principal payments to the pari-passu A notes, and then to the B notes. Specifically, MRCD 2019- PARK is backed by both A and B notes (Figure 2). The exposed conduit deals are backed by A notes. The \$245 million C notes back MRCD 2019-PRKC.

Figure 2. Parkmerced Capital Structure and Exposed CMBS Deals



Source: Deal Documents, Morningstar Credit, and Academy Securities

Beyond the immediate default-driven switch to sequential payments, the senior/subordinate underlying notes could also see different treatment in a potential loan modification. Notably, the recent CXP Office Portfolio modification dramatically reduced the coupons of two subordinate notes backing CXP 2022-CXP1 to a fixed rate of 0.019% (from 4.6% and 5.5% over SOFR), turning the forgone payments into “hope amounts”. Meanwhile, the senior notes in CXP structure continue to receive regular payments. All told, Parkmerced notes may see a similar treatment if the servicer adopts the CXP playbook in a loan modification.

Parkmerced: Abundance of Structural Angles to Determine Bond Cashflows

- **Servicer advancing and non-recoverability.** A non-recoverability decision in MRCD 2019-PRKC is already generating interest shortfalls in that deal. It appears the servicer has not yet made a similar non-recoverability decision on the other exposed deals. This is not the first time we see a servicer selectively triggering non-recoverability across deals backed by the same property. We have seen cases where the servicer triggered non-recoverability on SASB exposures but not conduit ones. Typically, the rationale has been that SASB deals have no other performing loans to recover from. In Parkmerced, the non-recoverability in PRKC on any P&I advances may be related to the subordination of the deal's underlying C loans. Still, we would not be surprised to see a non-recoverability decision on PARK as well, as the situation drags on. Separately, the servicer is now advancing property protective advances for critical operating expenses, according to servicer commentary. The accumulation of such PPA, usually not clearly disclosed, could significantly depress the eventual liquidation proceeds, as the market recently saw on [1740 Broadway](#).²
- **Swaption liquidation.** Parkmerced swaption liquidation could provide a healthy bump to bond payments, though its application remains to be seen. At origination, the borrower purchased a European-style swaption with a \$1.5 billion notional amount, 2.7815% strike price, and an effective date of December 9, 2024, according to deal documents. The borrower assigned the swaption to the lender, and the proceeds should be applied per the trust and servicing agreement (TSA), according to fresh servicer commentary. Interestingly, the Parkmerced mezzanine lender referenced a swaption liquidation as far back as February 2023. It reported the monetization of the contract in several subsequent financial disclosures. The mezz lender cited \$54 million proceeds, and noted it invested them in a short-term treasury instrument as an ongoing hedge of its "Parkmerced mezzanine loan investment." As such, there seems to be some ambiguity around the precise swaption proceeds allocation and timing to the CMBS trusts, amid what appears to be a bit confusing reporting. Upcoming servicer commentary may clarify the situation.
- **Holdbacks.** The massive holdbacks on the liquidation of Veritas earlier this year confirmed that investors should consider the possibility of holdbacks in any liquidation scenario. To be sure, the Veritas servicer released some of the original \$164.1 million Veritas holdbacks a few months after the loan's liquidation. This wrote up previously written off [bonds](#).³ Still, any holdbacks on Parkmerced could impact cashflow timing and bond returns. We see a possibility of holdbacks in Parkmerced not necessarily because it is a giant rent-controlled multifamily complex in San Francisco, just like Veritas. Rather, we see reports about brewing legal battles around Parkmerced, including a lawsuit from a maintenance firm against Parkmerced's owner. The reported \$2.9 million claim is small. But holdback amounts in the past did not appear to be directly tied to specific lawsuits, and Parkmerced is reportedly hobbled by other complaints, that could turn into legal battles. All told, investors could see non-negligible holdbacks if the loan ends up liquidated in the near future.

² "Recovering Shortfalls: Credit IO Value in Distressed Office," CMBS Credit Focus, Academy Securities, May 21, 2024

³ "Releasing Holdbacks: RENT is Writing Up Bonds," CMBS Credit Focus, Academy Securities, April 29, 2024

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