



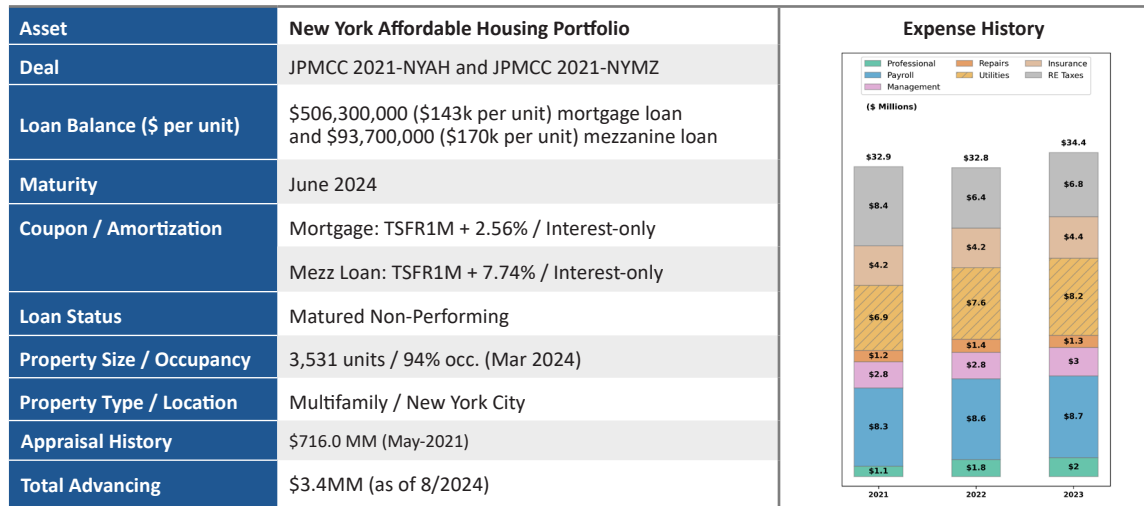
NYAH Portfolio Delinquency Spotlights Expense Variability

The recent delinquency of the \$506.3 million JPMCC 2021-NYAH Portfolio (in JPMCC 2021-NYAH) puts a focus on the variability and volatility of multifamily property expenses. The 31-property portfolio in New York saw relatively wild swings in its expense items since issuance. Some expenses, such as professional fees, nearly doubled YOY. Others, such as real estate taxes, materially declined. Total operating expenses rose 13% compared to underwritten levels, echoing a broader trend of rising multifamily expenses. But the variability that NYAH’s total expenses mask suggests implications for multifamily loan underwriting, the sizing of reserve accounts, and cashflow projections across other situations.

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Figure 1. JPMCC 2021-NYAH Loan and Property Parameters



Source: Morningstar Credit and Academy Securities

NYAH Predicament Not Just About Rent Regulation Headwinds

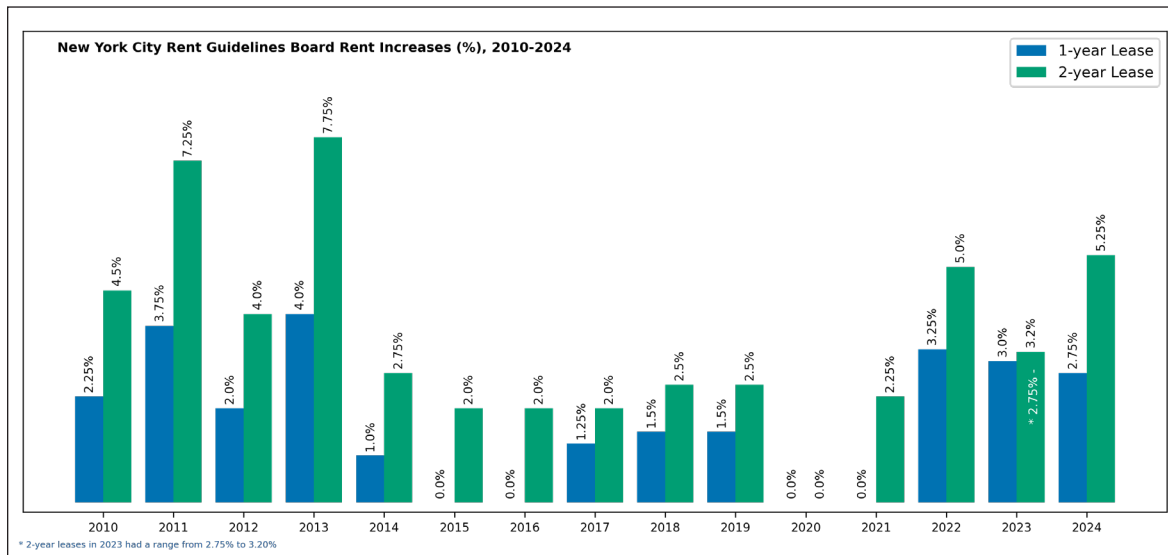
While rising expenses clearly contributed to the performance deterioration in NYAH, we don’t see this as the main delinquency driver. Rather, the sharp rise in debt service on the three-year floating loan, and the requirement to get a new, expensive interest rate cap to exercise a contractual extension, are the key challenges that led NYAH to its maturity default.

Multifamily Expenses: Broad Increases Mask the Fluctuations

We also don't see the NYAH situation as just reflecting the struggles that NYC's rent regulated properties are facing following the passage of the Housing Stability and Tenant Protection Act of 2019. The NYAH portfolio mostly comprises of rent stabilized units, including the 1,229-unit Riverton Square, which famously imploded in a legacy CMBS deal after an aggressive deregulation business plan did not pan out. In contrast, the sponsor of the NYAH deal, issued after the 2019 Act, explicitly noted in deal documents that it does not plan for meaningful unit deregulation, and investors should not expect any regulated-to-market [conversions](#).¹

To be sure, NYC's Rent Guidelines Board (RGB) does limit the rent increases landlords can charge on rent regulated properties. This prevents landlords from passing to tenants expense growth that exceeds approved rent [increases](#).² But RGB's approved increases in recent years should have supported NYAH's cashflows if the portfolio's expenses had not ballooned compared to the underwritten levels (Figure 2).

Figure 2. New York City Guidelines Board Rent Increases 2010-2024



Source: Rent Guidelines Board and Academy Securities

New York Regulated Apartment Universe Shows Expense Item Volatility

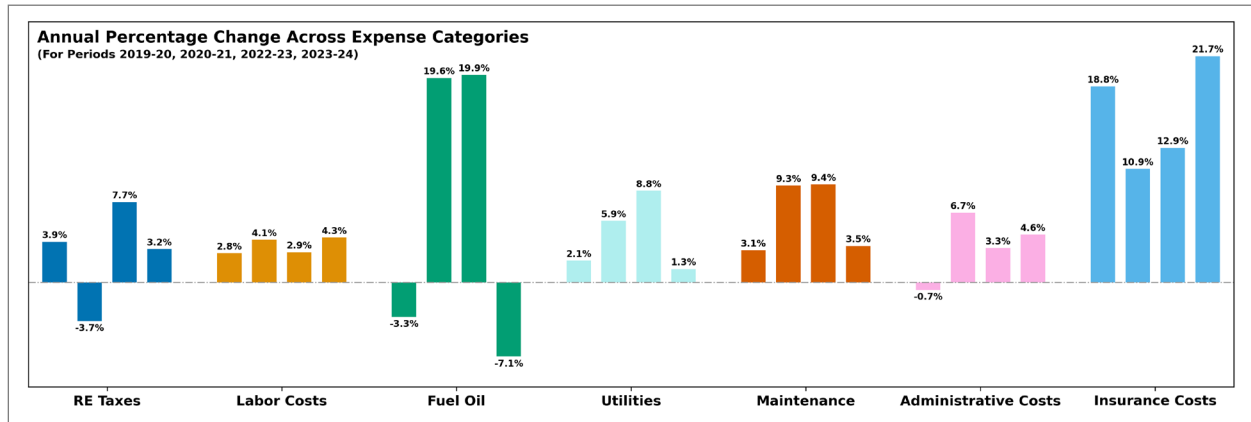
The operating cost volatility in NYAH also shows up in the broader rent stabilized universe in New York. For example, apartment buildings' fuel oil cost saw nearly 20% increase in 2021-2023, but dropped >7% this year, based on the annual Price Index of Operating Costs that RGB discloses. Taxes, by far the largest expense item, also fluctuated quite a bit in recent years. Insurance costs is the one item that saw consistent double-digit increases in recent years. But it is also a relatively small expenditure item across the universe.

¹ "NYC Multifamily: Rent Increases to Support Cashflows Amid Regulatory Restrictions," Securitized Products Special Topics, Academy Securities, July 7, 2022

² "Small Balance Multifamily: Value in Concentrated Exposure Ahead of Slower Prepays," Securitized Products Special Topics, Academy Securities, September 13, 2022

Multifamily Expenses: Broad Increases Mask the Fluctuations

Figure 3. Costs Change for Buildings with Rent Stabilized Apartments



Source: Rent Guidelines Board and Academy Securities

Track Property Taxes, Variable Expenses, and Reserves

We identify a few implications of the expense trends we see:

- Property tax underwriting.** Stabilizing, or even declining property taxes, can offset the consistent increases other expense items show, especially insurance cost. The future path of property taxes should have a significant impact on property NOIs given the outsize weight of taxes in overall expenses. For example, taxes comprised 29.4% to 36.1% of all expense items in New York rental buildings in recent years. Declining property valuations should lead to lower assessments. Properties in municipalities that assess properties on an annual basis, such as New York, could more meaningfully benefit from declining assessments. Tellingly, NYC’s Department of Finance determined in its FY 2024/25 Final Assessment Roll that the overall market value of regulated rental properties dropped by 1.07%. The overall taxable assessed value for the so-called Class Two properties, mostly multifamily, increased by a muted 3.73% YOY. All told, quite a few securitized multifamily properties can potentially see their property taxes decreasing in the coming year, echoing the sharp drop NYAH saw in 2022.
- Beyond fixed expenses.** We expect greater focus on non-fixed expenses such as maintenance and repairs, payroll and benefits, and management and professional fees. Such expense items appear prone to sharp and unexpected increases. Compounding the concern is the fact it is not always clear what is driving such sharp increases. In NYAH, professional fees rose 431.6% as of Q1 2024 compared to the underwritten level (albeit from a relatively low base), according to the deal’s operating statement analysis report (OSAR). Management fees rose 42.5%.
- Sizing of reserves.** Typical reserve accounts we see on multifamily loans include tax and insurance reserves, and perhaps others such as repair and deferred maintenance reserves, which are also part of IRP’s standard reserve reporting. The variability we see across expense items, and the unexpected jumps in some of them, suggest investors may be looking for broader availability of reserves. NYAH included only an upfront “replacement” reserve for any replacement or renovations of units, according to deal documents.

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