



Multi PC Recent Prepayments Inform Bond Analysis

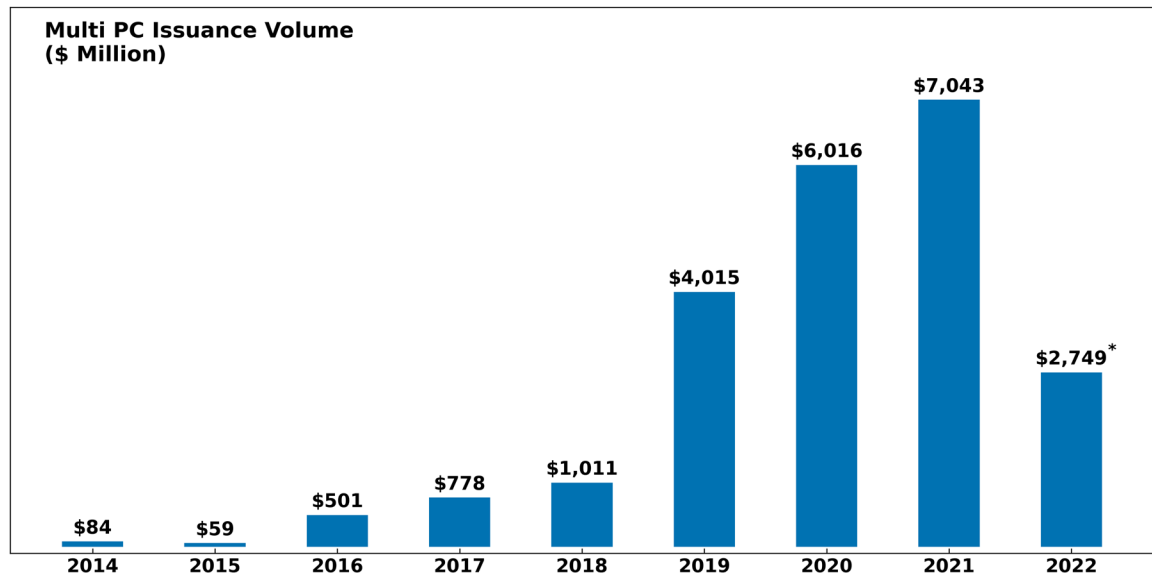
Recent prepayments of multifamily loans suggest property change-of-ownership plays a key role in the sector's prepay activity. Borrowers may prepay even shortly after mortgage origination and bond issuance, and amid prepayment premium penalties. A full listing of prepaying loans in Multifamily Participation Certificates (Multi PC) that Freddie Mac has been disclosing on a monthly basis this year sheds light on multifamily prepay dynamics on mortgages without lockouts.

Multi PC pool prepayments still account for a small percentage of the outstanding universe. 28 pools (\$520 million) fully prepaid since December 2021 (another eight pools had small partial prepayments). This compares to 999 outstanding PC pools, and \$22.8 billion overall issuance, as of June 2022 (Figure 1).

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Figure 1. Multi PC Issuance Volume (\$ million)



* as of Q1 2022
Source: Freddie Mac and Academy Securities

Multifamily Prepays: Property Sales Trigger Paydowns

Borrowers Leverage Prepayment Flexibility

Property transactions stand behind several of the large PC pool prepays. For example, the prepay last month of the \$70 million Boardwalk at Westlake (WN3093) followed the acquisition of the 1381-unit garden-style property in Indianapolis, IN. Boardwalk at Westlake is Indianapolis area's largest apartment complex, according to press releases. The Boardwalk PC pool was issued only a year ago. It was slated to mature in June 2032. In turn, the prepay of Oakstone Apartments (\$24 million, WN3121) also came shortly after the June sale of the 210-unit property in Clearfield, UT. The Oakstone borrower prepaid seven months after the issuance of the PC pool.

Although PC prospectuses can allow for loan assumptions, borrowers appear to take advantage of the relative flexibility of the pools' prepayment provisions. The vast majority of pools do not have lockout periods. The pools do feature prepayment penalty provisions designed to protect investors from prepayment risks, similar to [Fannie Mae DUS pools](#).¹ The typical prepayment penalty payment ("PPP") in PC pools is via yield maintenance or penalty points. With a yield maintenance provision, the PPP investors receive as borrowers prepay will be a function of (1) the difference between the PC coupon and the prevailing reinvestment rate (typically Treasury) and (2) the pool's time to the end of the YM period.

Some recent prepayments resulted in no penalties. This happened as the PC coupons were lower than the matching rates on the Treasury curve. Oakstone Apartments is one example of a recent prepay that did not include a penalty (Figure 2). But prepayment amounts or the type of prepayment provisions do not appear to drive borrower prepay behavior. For example, the Boardwalk at Westlake involved a \$2.8 million PPP (4% of the prepaid amount). The largest 15 PC prepays feature a wide range of PPP amounts, and various prepay provisions.

Figure 2. Multi PC Large Recent Prepayments

Loan Name	Location	Pool	Prepayment				Loan Characteristics					
			Prepay Date	Prepay Amt (\$ MM)	PPP (\$ MM)	PPP (% Bal)	Issue Date	Mat. Date	Rem. Term (mos)	PC Cpn	Loan Cpn	Prepay Provisions
Palomar Station	San Marcos, CA	WN3080	Jan-22	75.98	0.26	0.3%	Jun-20	Sep-25	38	1.10%	3.32%	YM1(119) 1(3) 0(4)
Boardwalk At Westlake	Indianapolis, IN	WN3093	Jul-22	70.00	2.80	4.0%	Jul-20	Jun-32	118	1.63%	3.27%	5(47) 4(24) 3(24) 2(24) 1(21) 0(4)
The Darby	Holly Springs, GA	WN2113	Jun-22	44.17	0.00	0.0%	Sep-21	Aug-28	72	1.43%	3.26%	YM1(59) 1(21) 0(4)
Kings Villages	Pasadena, CA	WA2503	Dec-21	29.02	4.93	17.0%	Nov-17	Nov-45	280	3.43%	4.27%	YM1(179) 1(177) 0(4)
40Fifty Lofts	Tampa, FL	WV0004	May-22	28.95	0.00	0.0%	Sep-20	Jan-30	89	0.49%	2.64%	4(11) 3(12) 2(12) 1(81) 0(4)
29Fifty	Grapevine, TX	WN2040	Mar-22	25.11	0.00	0.0%	Mar-20	Jan-27	54	1.60%	3.85%	YM1(59) 0(25)
Oakstone Apartments	Clearfield, UT	WN3121	Jul-22	24.00	0.00	0.0%	Nov-20	Sep-32	121	1.61%	2.95%	YM1(137) 1(3) 0(4)
Alexander Crossing	Loganville, GA	WN2073	Jul-22	23.28	0.93	4.0%	Nov-20	Nov-30	99	1.53%	3.20%	5(24) 4(24) 3(23) 2(25) 1(20) 0(4)
Galleria Courtyards	Smyrna, GA	WN1044	Jan-22	21.00	0.07	0.4%	Jul-20	May-27	57	1.14%	3.23%	YM1(59) 0(25)
Orchard Springs	Fairburn, GA	WN2075	Jul-22	20.25	0.81	4.0%	Nov-20	Oct-30	98	1.55%	3.25%	5(24) 4(24) 3(23) 2(25) 1(20) 0(4)
Alexander At Stonecrest	Lithonia, GA	WN3111	Jan-22	17.15	0.08	0.4%	Oct-20	Aug-32	120	1.51%	3.26%	YM1(137) 1(3) 0(4)
Copper Creek Apartments	Fort Worth, TX	WN1034	Jul-22	16.76	0.00	0.0%	May-20	Apr-32	116	1.54%	3.58%	YM1(137) 1(3) 0(4)
Kings Villages Apartments	Pasadena, CA	WA4801	Dec-21	15.07	1.45	9.6%	May-21	Nov-45	279	2.56%	5.67%	YM1(136) 1(177) 0(4)
Wymore Apartments	Altamonte Spr, FL	WN2044	Jul-22	14.00	0.00	0.0%	Mar-20	Feb-27	54	1.64%	4.07%	YM1(59) 1%(21) 0(4)
Renaissance Uptown	Tulsa, OK	WN3064	Jun-22	13.50	0.00	0.0%	Mar-20	Jan-32	114	1.94%	4.21%	YM1(137) 1%(3) 0(4)

Source: Freddie Mac and Academy Securities

1 See "Manufactured Housing: Resilient Segment Amid Potential Multifamily Softness," Securitized Products Special Topics, Academy Securities, July 27, 2022

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From CMBS to Multi PC

Refinancing into lower coupons should remain a muted prepay driver in the coming months. The prepaying PC loans feature mortgage coupons ranging from 2.64-5.67%. In comparison, PC pools issued in July had mortgage rates between 3.25-5.01%. Interestingly, a newly issued PC pool just refinanced a large CMBS property at a higher mortgage rate. The Woods (\$235 million, WN1146) issued last week following the prepayment at open of a \$200 million CMBS loan (in MSC 2017-HR2, BMARK 2018-B1, and B2) backed by the San Jose, CA, property (Figure 3).

Figure 3. The Woods Multi PC vs. CMBS Parameters

Property	The Woods	
Location	4300 The Woods Drive, San Jose, CA	
Property Type	Multifamily / Garden	
Total Units	1,841	
Year Built / Renovated	1977 / 2019	
Sponsor	Arcadia Development Co.	
	2022 Freddie Multi PC	2017 CMBS Conduit
Deal	WN1146	MSC 2017-HR2, BMARK 2018-B1, BMARK 2018-B1
Original Balance	\$235,000,000	\$200,000,000
Cut-Off Date Balance / Unit (\$)	127,648	108,637
Loan Maturity	July 2032	December 2022
Mortgage Rate	3.63%	2.94%
Loan Amortization Type	Interest Only	Interest Only
Appraised Value	\$712,000,000	\$675,500,000
Appraisal Valuation Date	March 2022	October 2017
Cut-Off Date LTV	33.0%	29.6%
UW NCF DSCR	3.40x	5.01x
UW EGI	\$48,005,030	\$45,252,611
UW Expenses	\$18,139,572	\$14,939,344
UW NOI	\$29,865,457	\$30,313,267
UW NOI Debt Yield	12.7%	15.2%
UW Occupancy	97.0%	92.0%
Prepayment Provision	YM1%(113) 1%(3) 0(4)	LO (24) DEF/YM1(29) 0(7)
Prepayment Date	NA	6/13/2022

Source: MCIA, Freddie Mac and Academy Securities

Subdued transaction activity in the coming months should decrease prepays across PC pools. Multifamily buyers may stay on the sidelines amid rising interest rates and a period of price discovery, according to both Fannie and Freddie recent multifamily outlooks. Multifamily sales volume did rise in the first five months of 2022 compared to the same period last year, according to Fannie citing Real Capital Analytics. But the agency does not expect sales volume to reach the peak in 2021 of \$360 billion for properties valued at \$2.5 million or higher.

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