



Takeaways from Multi PC Recent Prepay Activity

Prepayments of multifamily loans are becoming less common, and perhaps more idiosyncratic amid a sharp decline in multifamily property sales activity. Property change-of-ownership played a key role in the sector’s prepay activity until a few months ago.¹ Borrowers prepaid following cash-out property sales even while facing steep prepayment penalties. Prepays sometimes happened shortly after mortgage origination and bond issuance. This is now changing. The fading of sale-driven prepays has a significant impact on the overall prepay volume because refinancing into lower coupons remains a muted prepay driver in the elevated rate environment.

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Multi PCs illustrate the recent decline in prepay activity. We view PC pools as a good barometer for borrower prepay incentives as the vast majority of pools do not have lockout periods. The overall PC prepayment amount YTD decreased to \$335.8 million (30 PC pools) compared to \$776.2 million in 2022 (68 pools) (Figure 1). In turn, a much larger percentage of the prepays this year are partial prepays, rather than full prepayments of the pool’s outstanding balance. Partial prepays represented 60% of the overall number of prepays, compared to only 30.9% last year. The prepayment penalty payment (PPP) amounts also sharply dropped, to \$845K this year, versus \$8.9 million in 2022. Only six prepays in 2023 involved PPP. Many PC coupons were lower than the matching rates on the Treasury curve, resulting in no yield maintenance payments.

Figure 1. Multi PC Prepayment Activity 2022-2023

Year	2023 YTD	2022
Prepayment Amount	\$335,766,291	\$776,227,435
# Prepaying Pools	30	68
# Partial Prepayments	18	21
Partial Prepayments (%)	60.0%	30.9%
PPP Amount	\$845,036	\$8,957,877
# Prepayment with PPP	6	22
PPP (%)	20.0%	32.4%

Source: Freddie Mac and Academy Securities

¹ “Multifamily Prepays: Property Sales Trigger Paydowns,” Securitized Products Special Topics, Academy Securities, August 10, 2022

Multifamily Prepays: Becoming Less Common, as Property Sales Drop

Sales Still Drive the Few Large Recent Prepays

Property transactions continue to stand behind the few large PC prepays in recent months. For example, the \$22.8 million prepay of Reagan at Bear Creek (WN2041) in late September followed the sale of the 216-unit community in Euless, TX, to the tune of \$34 million. The seller purchased the garden-style community in September 2017, and executed a renovation and repositioning strategy, according to press reports. The PC pool priced in March 2020, and was scheduled to mature in January 2027. The prepay included PPP amount of \$227.7K (Figure 2).

Figure 2. Multi PC Recent Prepayments

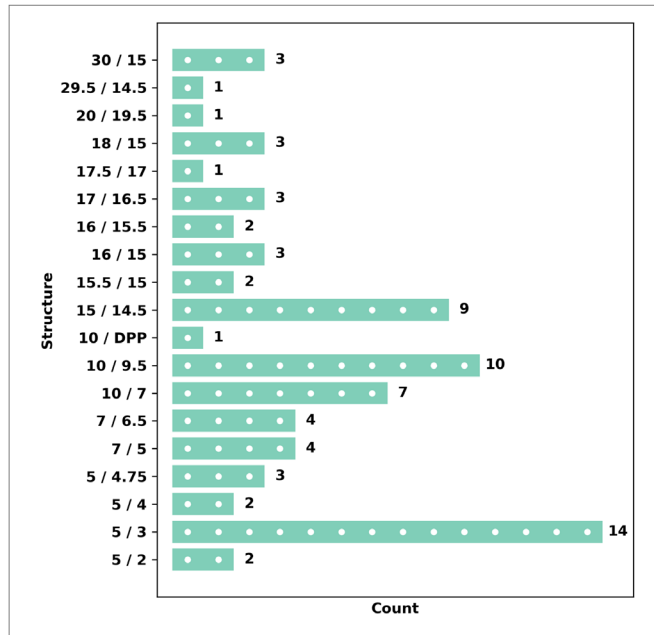
Loan Name	Location	Pool	Prepayment				Loan Characteristics				
			Prepay Date	Prepay Amt (\$ MM)	PPP (\$ MM)	PPP (% Bal)	Issue Date	Mat. Date	Rem. Term (mos)	Loan Cpn	Prepay Provisions
The Ridge Apartments	Ridgecrest, CA	WA4406	Oct-23	2.10	0.06	3.0%	Nov-20	Sep-27	81	1.16%	5(23) 4(24) 3(12) 2(12) 1(9) O(4)
Scioto	Various	WR4001	Oct-23	3.27	0.00	0.0%	Jun-21	Jul-28	85	4.20%	YM1(113) O(7)
Riverwoods at Tollgate	Abingdon, MD	WR8531	Oct-23	2.80	0.00	0.0%	Aug-21	Jan-39	208	3.55%	YM1(179) 1(33) O(4)
Reagan at Bear Creek	Euless, TX	WN2041	Sep-23	22.77	0.23	1.0%	Mar-20	Jan-27	81	1.61%	YM1(59) O(25)
Scioto 2	Various	WR4002	Sep-23	1.89	0.00	0.0%	Jun-21	Jan-30	103	2.97%	YM1(116) O(4)
Summercrest Villas	San Jose, CA	WN3193	Jul-23	1.03	0.00	0.0%	Feb-22	Dec-33	142	2.65%	YM1(137) 1(3) O(4)
CapGrow 6	Various	WR2002	Jul-23	0.30	0.00	1.0%	Jun-21	Jan-31	115	2.35%	YM1(116) O(4)
CapGrow 3	Various	WR4000	Jul-23	0.10	0.00	1.0%	Jun-21	Apr-28	82	4.29%	YM1(59) 1(54) O(7)
Sage Meadows Apartments	Tyler, TX	WA0339	Jun-23	2.09	0.38	18.0%	Apr-19	Aug-34	184	5.89%	YM1(180) 1(33) O(3)
Abby Ridge Apartments	Atlanta, GA	WN2088	Jun-23	5.83	0.17	3.0%	Jan-21	Nov-30	118	1.58%	5(23) 4(24) 3(24) 2(24) 1(21) O(4)
Red Bank Terrace	Red Bank, NJ	WA0502	May-23	2.88	0.00	0.0%	Apr-18	May-34	192	3.52%	YM1(239) 1(117) O(4)

Source: Freddie Mac and Academy Securities

Prepayment amounts, or the type of prepayment provisions did not appear to drive borrower prepay behavior. We find a variety of provisions and structures across the pools that recently prepaid, consistent with previous experience. Multi PC pools feature various structures that reflect the pool's tenor and yield maintenance period. Some recent prepaying pools, such as the 80-unit Ridge Apartments in Ridgecrest, CA (WA4406) or the 112-unit Abby Ridge Apartments in Atlanta, GA (WN2088), had Declining Prepayment Premium (DPP) as their prepayment provision. Recent PC trading lists also featured the multitude of PC structures. The so-called 5/3 and 10/9.5 structures frequently popped up, but we also observed less common 10/DPP or 16/15.5 structures in recent lists (Figure 3).

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Figure 3. Multi PC Recent Bid Lists by Structure

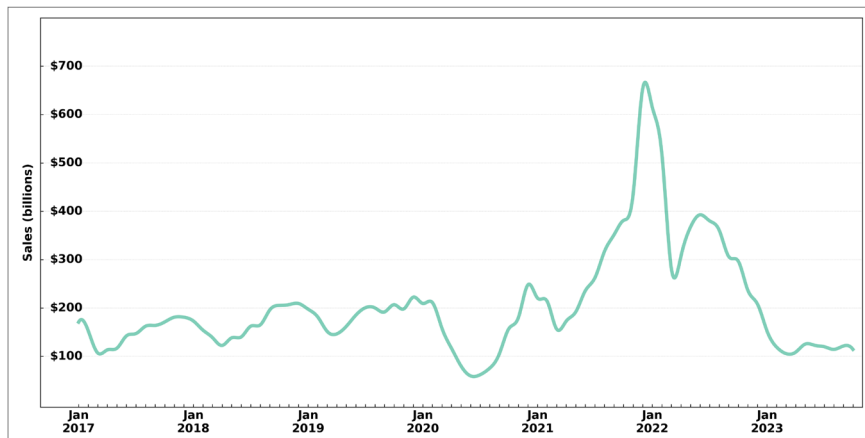


Source: Academy Securities

Prepays to Remain Spotty Until Property Sales Reverse Course

We expect multifamily prepays to remain spotty until the pace of property sales reverses course. The overall sales volume significantly dropped after peaking in early 2022, based on RCA data (Figure 4). Annualized sales volume stood at \$114 billion as of October 2023, compared to \$296.8 billion last year, a 62% drop. Interestingly, the multifamily prepay dynamics echo those we observe in the single-family market. Most recent prepayments appear to have been related to housing turnover. But amid the ongoing decline in existing home sales, the overall prepayment activity has dropped. Aggregate MBS prepayments are down 17% YoY in October (November factor data) based on Bloomberg data.

Figure 4. Apartment National Sales Volume



Source: RCA, Bloomberg, and Academy Securities

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