MORGAN PROPERTIES

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By Steve Lubetkin | Dec. 18, 2018 | 4:00 a.m. ET

Morgan Properties Sees Opportunity in Freddie Mac K-Series Securitization

Jason Morgan, Senior Vice President of Acquisitions and Investment Management at Morgan Properties

KING OF PRUSSIA, PA — Morgan Properties, a real estate investment and management company, has acquired its fourth "B-Piece" from Freddie Mac through its K-Series Program. The issuance, K-W07, is supported by a pool of 36 multifamily mortgage loans.

"Since launching our credit platform in September 2017, we have been extremely active closing on four K-Series Deals across $3.2 billion in loans," says Jason Morgan, senior vice president of acquisitions and investment management at Morgan Properties. "Looking ahead to the new year, we'll continue to invest in multifamily credit through Freddie Mac's K-Series Program and expand upon both our debt and equity businesses to uphold our position as one of the fastest-growing companies in the country."

Morgan is bullish on the performance of multifamily assets, says Morgan.

"Multifamily has been a very resilient asset class through multiple market cycles," he tells GlobeSt.com. "Last year, we were extremely active on the equity side. We bought $1.2 billion in acquisition volume. This year we're probably acquiring around $400 million to close out the year. And that's been very deliberate. We have been selective in our opportunities, pursuing new markets like Nashville and Alexandria, VA."

At closing, the total loan balance represented by the K-W07 Multifamily Mortgage Pass-Through Certificates was approximately $683 million and the B-Piece that Morgan Properties acquired had a face amount of approximately $51 million. K-W07 is represented by a well-diversified group of multifamily properties located across 20 states including: Maryland, Massachusetts, Texas, Washington, and Virginia (in order of geographic concentration), among other states. The loan metrics underlying the Pass-Through Certificates included: LTV of 68.5 percent at closing, which is anticipated to amortize down to 63.8 percent by maturity; and a weighted average net cash flow debt service coverage ratio of 1.47x.

Freddie Mac Multifamily is a leading issuer of agency-guaranteed structured multifamily securities. K-Series Deals are part of the company's business strategy to transfer a portion of the risk of losses away from taxpayers to private investors who purchase the unguaranteed subordinate bonds, such as the "B-Piece." K Certificates typically feature a wide range of investor options with stable cash flows and structured credit enhancement.

"We are a multifamily specialist," says Morgan. "We have a great knowledge base in the sector and we want to have multiple buckets of capital, be it on the equity side, on the debt side, and leverage off our existing platform, and we think being in the debt position, having that subordination, makes a ton of sense."

Morgan says the firm targets class B properties built between 1960s and 2000, what he calls "vintage assets."

"There's been more investors in this sector, for the Class B space, and capital really has become a commodity where a lot of groups are chasing deal flow," he says. "There's a lot of demand coming in to the class B multifamily sector that is leading pricing to get out of whack. What's good about the Freddie Mac K-Series program is you are at a lower cost basis for 65 to 70 percent of the capital stack, and there is a ceiling to how much financing a borrower can put on. So, if people continue to chase deal flow, we will be capped at a lower basis, which is exactly where we want to play."