FREMF 2013-K31 Mortgage Trust, Multifamily Mortgage Pass-Through Certificates, Series 2013-K31

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PRELIMINARY RATINGS (AS OF: 08/05/13)

Class	Balance/ Notional Amt	Preliminary Ratings	Morningstar DSCR	Morningstar BLTV	Morningstar ELTV	Credit Support Levels
FREMF 2013-K31 Multifamily Mortgage Pass-Through Certificates						
Class A-1	$260,708,000	AAA	1.72 x	69.6%	54.0%	16.375%
Class A-2	1,051,000,000	AAA	1.72 x	69.6%	54.0%	16.375%
Class X1	1,311,708,000	AAA	n/a	n/a	n/a	n/a
Class X2-A	1,311,708,000	AAA	n/a	n/a	n/a	n/a
Class X2-B	256,852,278	AAA	n/a	n/a	n/a	n/a
Class X3	256,852,278	NR	n/a	n/a	n/a	n/a
Class B	99,996,000	A+	1.60 x	74.9%	59.3%	10.000%
Class C	39,214,000	BBB+	1.56 x	77.0%	61.4%	7.500%
Class D	117,642,278	NR	n/a	n/a	n/a	n/a
Total Issuance	$1,568,560,278					
Freddie Mac Structured Pass-Through Certificates, Series K-31 (SPC K-31)						
Class A-1	260,708,000	AAA	1.72 x	69.6%	54.0%	16.375%
Class A-2	1,051,000,000	AAA	1.72 x	69.6%	54.0%	16.375%
Class X1	1,311,708,000	AAA	n/a	n/a	n/a	n/a
Class X3	256,852,278	NR	n/a	n/a	n/a	n/a
Total Issuance	$1,568,560,278					

In determining the preliminary ratings on each class of securities issued by the Trust, Morningstar analyzed the properties securing each loan as enumerated herein to determine their stabilized as-is net cash flow (NCF) and value based primarily on the direct capitalization approach. The loans along with their corresponding as-is NCF and property value were then subjected to a series of economic and lending environment stresses in our proprietary CMBS Subordination Model to estimate their expected loss at each rating category. A description of this model is attached as Appendix A to this report. Note (1): The principal and interest payments on the Class A-1 and Class A-2 certificates and interest payments on the Class X1, and Class X3 certificates are guaranteed by Freddie Mac. Note (2): The Class X1, Class X2-A, Class X2-B, and Class X3 certificates will not have a Certificate Principal Amount and will not be entitled to receive distributions of principal. Interest will accrue at the respective pass-through rates based upon the corresponding Notional Amount. Note: (3): The Class D certificates are principal only and will not bear interest. NR – Not Rated; n/a – Not applicable; PR – Private Rating Issued

Estimated Closing Date: August 27, 2013

*Solely to the extent and subject to the scope of review enumerated herein, this report and the preliminary ratings noted above address certain credit risks and the extent to which the payment stream of the collateral is adequate to make payments required under the certificates based on information identified as subject to review herein and to the extent provided to Morningstar Credit Ratings, LLC ("Morningstar") on the arranger's website for this transaction as of **August 5, 2013** The below analysis, as well as Morningstar's ratings characteristics as described in Appendix C, further reflect the ratings analysis related to these preliminary ratings. Investors should be aware that the proposed transaction and certain documents related thereto are not finalized. Following Morningstar's receipt of final information and documentation, and the completion of Morningstar's review of such information and documentation, Morningstar may issue final ratings to certain subscribers. Such final ratings may differ from the preliminary ratings enumerated herein. Any final ratings will solely be available to Morningstar subscribers on a subscription basis. The preliminary ratings are provided on an arranger pay basis while any related surveillance and analysis is provided to subscribers on a subscription pay basis. For the avoidance of doubt, your receipt of this report does not, in and of itself, make recipient a subscriber of Morningstar. For further information on Morningstar's subscription service, please contact Joe Petro pursuant to the contact information above.*

Ongoing Surveillance Statement

Morningstar will monitor the ratings assigned to each Class of certificates on an on-going basis and publish monthly surveillance reports, Morningstar Dealviews, with respect to the trust on a subscription basis solely for subscribers. In addition, changes to ratings and related analysis with respect to each Class of certificates will be provided to subscribers on a subscription basis. Appendix B to this report provides details on our surveillance approach. Morningstar's ability to continually monitor this transaction is contingent on Morningstar's continued timely receipt of certain information and data regarding the collateral and transaction.

TRANSACTION SPOTLIGHT

Collateral	88 loans secured by 88 properties	**Mortgage Loan Seller**	Federal Home Loan Mortgage Corporation (Freddie Mac)
Notional Balance	$1,568,560,278	**Guarantor**	Federal Home Loan Mortgage Corporation
Structure	Sequential	**Depositor**	Barclays Commercial Mortgage Securities LLC
Morningstar U/W Current DSCR (1)	1.81 x	**Placement Agents**	Barclays Capital Inc. and Wells Fargo Securities, LLC
Morningstar U/W Amortizing DSCR (1)	1.44 x	**Trustee**	U.S. Bank National Association
Morningstar Trust U/W BLTV	89.2%	**Custodian**	U.S. Bank National Association
Morningstar Trust U/W ELTV	72.5%	**Master Servicer**	Wells Fargo Bank, National Association
Morningstar All-In DSCR (2)	1.44 x	**Special Servicer**	KeyCorp Real Estate Capital Markets, Inc.
Morningstar All-In UW BLTV(2)	89.2%	**Certificate Administrator**	U.S. Bank National Association

Note:

(1) Current debt service coverage reflects interest only payments for loans which are interest only or which have a partial interest only period. Amortizing debt service coverage includes full amortization payments for amortizing and partial interest only loans and interest only for full term interest only loans.

(2) All in Current Debt Service and BLTV represents the total debt on the asset or portfolio including both the trust loan balance and any subordinated financing such as B-notes, participation certificates, or mezzanine debt.

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Transaction Overview

The FREMF 2013-K31 Mortgage Trust, Multifamily Mortgage Pass Through Certificates (FREMF 2013-K31) are supported by the payment streams from 88 mortgage loans on 88 multifamily properties. The properties are distributed across 24 states; however, 56.6% of the cut-off portfolio balance is located in five states including California, Texas, Florida, New Jersey and Maryland. The largest loan exposure, The Park at Irvine Spectrum, Phase 2, represents 10.3% of the overall trust portfolio. The 10 largest loans represent 31.0% of the cut-off portfolio balance; no other loans represent more than 1.7% of the portfolio balance. The priority of payments on the certificates is generally based on a sequential pay structure.

The Freddie Mac Structured Pass-Through Certificates, Series K-031 (SPC K-031) represent the pass-through of the entire beneficial interest of certain underlying securities shown on the table above issued by FREMF 2013-K31 including all principal, interest, guarantee and other payments. Each SPC K-031 security corresponds to its underlying FREMF 2013-K31 certificate of the same name.

Morningstar determined the preliminary ratings for each class of FREMF 2013-K31 certificates by analyzing all of the loans and subjecting the aggregate net cash flow and capitalization rates to a variety of stresses in our proprietary CMBS Subordination Model. Morningstar analysts visited 44 properties backing 44 loans (65.7% by cut-off portfolio balance) and assigned property quality scores to each. Morningstar will perform on-going monitoring of the rating on each class of certificates on a subscription basis in accordance with Morningstar's policies and procedures.

The Morningstar operational risk assessment ("ORA") ranking for Wells Fargo Bank, National Association, which is acting as Master Servicer, is 'MOR CS2'. The ORA ranking for KeyCorp Real Estate Capital Markets, Inc., which is acting as Special Servicer, is 'MOR CS1'. For the full assessment reports and additional information, please access https://ratingagency.morningstar.com.

Asset Summary Reports detailing Morningstar's analysis of the top 20 loans as well as a Loan Analysis Summary Table that provides our final net cash flow, capitalization rate and value for each property, along with key loan and property characteristics for all loans, are distributed along with this pre-sale report on Morningstar's website at http://ratingagency.morningstar.com. Asset Summary Reports for the top 10 loans are included in this pre-sale report.

Morningstar Perspective

Morningstar's analysis of the 88 loans, based on information provided on the arranger's website as of August 5, 2013, yielded an aggregate net cash flow of approximately $128.04 million; this was 2.1% lower than the most recent reported net cash flow and 3.1% lower than the Freddie Mac's underwritten net cash flow. The Morningstar net cash flow resulted in a weighted-average current DSCR and amortizing DSCR of 1.81x and 1.44x, respectively, based on the loan payment terms. The net cash flow and DSCR for each loan are provided in the Loan Analysis Summary Table and are distributed along with this pre-sale report posted on Morningstar's website at http://ratingagency.morningstar.com.

Morningstar valued each of the properties using the direct capitalization method. Our final aggregate value of approximately $2.5 billion, which was 24.6% lower than the reported aggregate appraised value, was calculated separately for each asset by dividing the Morningstar net cash flow by a capitalization rate that is determined based on asset location, type, quality, and other characteristics. The capitalized value is then further adjusted to reflect the additional value contributed by upfront reserves, escrows, and other miscellaneous items. Based upon the Morningstar valuation, the derived weighted-average capitalization rate was 6.80%. The Morningstar valuation resulted in a beginning weighted-average loan-to-value ratio of 89.2% and a weighted-average ending loan to value of 72.5%. The capitalization rate, value, and loan to value ratio for each loan are provided in the Loan Analysis Summary Table.

The Bears Say

- The portfolio has high initial leverage, with Morningstar's underwritten loan-to-value ratio at 89.2%. Over 72% of the portfolio has a loan-to-value greater than 90% while 17 loans, representing 23.6% of the portfolio, have a loan-to-value greater than 100%.

- Full and partial interest-only loans make up 67.2% of the portfolio, which is a significantly higher percentage than prior transactions. There are two full-term, interest-only loans and 57 partial interest-only loans with a weighted average IO period of 20.6 months. A higher percentage of interest-only loans will reduce the amortization over the life of the loans, resulting in higher leverage at maturity.

- Property age is a concern with loans comprising 25.8% of the portfolio secured by properties that were built more than 30 years ago. The age of the properties may affect their competitive standing and potentially impact their ability to sustain existing cash flow levels.

- Most of the borrowers and their owners do not have an independent director whose consent would be required to file a voluntary bankruptcy petition on behalf of the borrower.

The Bulls Say

- The average debt service coverage ratio for the pool is 1.44x on an amortizing basis. We consider this to be relatively healthy and offers some downside protection in the event that cash flows decrease. The average DSCR is consistent with prior transactions of this type.
- Morningstar views multifamily as a property type that exhibits less cash flow volatility compared to hospitality, office, or retail.
- Stable or improving performance of the largest properties: On the basis of occupancy rates and NOI trends, most of the 10 largest properties exhibit stable or improving performance.

Loans of Particular Interest

- The largest loan in the pool is The Park at Irvine Spectrum – Phase 2, at 10.3% of the pool. The property was built in 2012 and is part of a larger community known as the Park at Irvine Spectrum, totaling 1,456 units, that is controlled by the same sponsor. The property is located in an affluent area near Irvine Spectrum Center, near the junction of two of the busiest freeways in Southern California. The initial leverage is high at over 94%; however, the loan will amortize over the full term, reducing the loan-to-value to just under 73% by maturity. We are concerned about the relatively low debt service coverage ratio of 1.19 and the lack of downside protection, which is a consideration, given the recent volatility in Orange County rents. We consider the property to be a high-quality asset with a strong amenity package.
- Emerald Point is the second largest loan at 4.5% of the portfolio. The collateral is an 863-unit multifamily property in Virginia Beach, Virginia. The property was built in 1968 and has a large contingent of tenants employed at the nearby Naval Air Station Oceana. This military installation has previously appeared on the Base Closure and Realignment (BRAC) list for closure. While NAS Oceana remained open through this BRAC round, its fortunes over the long term may be more ominous. As a result, Morningstar's underwriting reflected a great deal more uncertainty. Our underwritten loan-to-value ratio is 103.1% as a result. Should force reductions change the level of staffing at the base, cash flow could decrease and it may be difficult to refinance the loan.
- The Estates, which is 1.6% of the total loan portfolio, is secured by a 208-unit multifamily property in Pikesville, Maryland, part of the Baltimore metropolitan area. Morningstar underwrote an initial loan-to-value ratio of 102.6% based on a value that was 23.4% below the appraisal. Our underwritten cash flow of $1.6 million was consistent with the trailing 12-month cash flow for the period ending March 2013 and the net operating income was, in fact, 2.9% greater than the trailing 12-month period. The property was recently acquired and the new ownership has assumed certain cost savings that the appraiser has underwritten but Morningstar has not.
- The Hills at Fair Oaks (also known as Fairmarc Apartments) is secured by a newly-built, 288-unit multifamily property in San Antonio, Texas. Morningstar's initial loan-to-value is 103.2%, the highest initial leverage of the 20 largest loans. The property was built in 2011 and only recently achieved stabilization. On an amortizing basis, the debt service coverage ratio was only 1.21. We underwrote the property somewhat more conservatively given the lack of history at stabilization.

Property Site Visits

Morningstar visited 44 properties securing 44 loans (65.7% by cut-off portfolio balance) and assigned property quality scores to all 88 properties in the trust. Morningstar uses a scale of 1 to 5, with "1" being the highest quality. Factors including the property's age, location, and condition are considered in assigning the quality score. After assigning a quality score to each property, Morningstar then factors each score into the assignment of our capitalization rates. There are a total of two assets (12.7% of the portfolio) that were awarded a property score of "2" which rates the asset as good. A total of 85 assets were given a property score of "3", which is considered to be average or comparable to the competitive market. The remaining asset was assigned a property score of "4" which is considered "fair". This analysis resulted in an overall weighted-average property score of 2.89 based on the cut-off portfolio balance. We provide our findings from the site visits in the individual asset summary reports of those properties we toured. We have also identified those properties we visited in the Loan Analysis Summary Table.

Credit Support Stresses

Morningstar's final net cash flow and capitalization rates for each property are matched with the corresponding loan characteristics and subjected to various stresses, including net cash flow declines, capitalization rate deterioration and default timing, in Morningstar's CMBS Subordination Model at each rating category. Additional stresses are applied to the cash flow of those properties contributing to portfolio level concentration risks. This is done separately to gauge the credit-worthiness of each loan during its term and at the balloon date. In the case of the latter, Morningstar additionally stresses the ability of the borrower to refinance the loan at higher loan constants. For instance, at the AAA level, Morningstar's analysis utilizes a stressed refinance loan constant of 12.0%.

The metrics shown below highlight the magnitude of cash flow and value decline after applying all of the stresses at each rating category. These are provided separately for the term default and balloon default analyses. By way of example, in assigning a rating of "AAA" to the Class A-1 certificates, we subjected our concluded net cash flows to a weighted-average 19.7% decline in the term default analysis. We should note that the balloon declines reflect the post-extension period improvement in those instances the stressed loan metrics allow for an extension at the balloon date. It should also be noted that these declines are applied to Morningstar's concluded net cash flow which in the overwhelming majority of cases is lower than the in-place net cash flow. These declines are weighted-average statistics. The declines applied to the individual properties differ and are a function of factors such as property type and concentration risks.

The resultant credit support levels based on these stresses are then compared to the levels of the actual capital structure to determine the appropriate rating level for each class of securities.

	AAA	AA	A	BBB
Morningstar NCF Decline (Term)	19.7%	18.0%	16.8%	15.1%
Morningstar Value Decline (Term)	41.4%	36.8%	33.9%	26.1%
Morningstar NCF Decline (Balloon)	9.3%	8.5%	7.9%	7.1%
Morningstar Value Decline (Balloon)	31.7%	27.6%	25.0%	19.1%

Morningstar Rating Characteristics

Appendix C of this pre-sale report contains general characteristics of Morningstar's rating of CMBS transactions as well as characteristics specific to this transaction.

Transaction Comparison

The following table presents a summary of the characteristics and metrics of the subject transaction and compares this to the average of Freddie Mac transactions rated by Morningstar from January 2011 through June 2013. The subject deal is not included in the average presented.

	FREMF 2013-K31	FREMF K10 Year Series Average 2010-2013
Portfolio Characteristics		
Portfolio Balance (in $ millions)	$1,568.6	$1,375.7
Loan Count	88	78
Property Count	88	79
Number of Portfolio Loans	0	0
Top Loan (% of Portfolio)	10.3%	8.2%
Top 5 Loans (% of Portfolio)	21.7%	22.7%
Top 10 Loans (% of Portfolio)	31.0%	35.5%
Weighted Average Mortgage Rate	3.807%	4.439%
Loans With B-Notes (% of Portfolio)	0.0%	0.0%
Loans With Mezzanine Financing (% of Portfolio)	0.0%	0.0%
Loans Allowing for Future Mezzanine (% of Portfolio)	100.0%	100.0%
Full Term Interest Only Loans (% of Portfolio)	2.2%	5.7%
Partial Interest Only Loans (% of Portfolio)	65.0%	53.2%
Leverage Metrics		
Morningstar Cash Flow Variance (%)	3.1%	3.7%
Morningstar Weighted Average Capitalization Rate	6.80%	7.32%
Morningstar Value Variance (%)	24.6%	20.2%
Issuer Weighted Average DSCR	1.49x	1.48x
Morningstar WA DSCR	1.44x	1.42x
Issuer Weighted Average BLTV	70.3%	64.4%
Issuer Weighted Average ELTV	58.0%	54.3%
Morningstar Weighted Average BLTV	89.2%	89.2%
Morningstar Weighted Average ELTV	72.5%	75.3%
Capital Structure		
"AAA" Credit Support %	16.375%	14.159%
Class B Rating (10% Credit Support)	A+	AA to A
Class C Rating (7.5% Credit Support)	BBB+	A+ to A-

Note: Average statistics are based upon nine FREMF K-Series 10-year transactions rated by Morningstar during calendar years 2010 through 2013.

The leverage and debt service coverage on the FREMF 2013-K31 deal are similar to those of prior Freddie Mac K10 series deals which Morningstar has rated. This portfolio of loans, however, has lower loan concentration risk that of prior deals: the top 10 loans comprise 31.0% of the total cut-off portfolio balance compared the average of past deals which was 35.5% of total. This portfolio has a lower percentage of amortizing loans that in past portfolios: partial interest-only loans represent 65% of the cut-off portfolio balance compared that that of past deals which averaged 51.7%. Only 2.2% of the portfolio is full term interest-only loans, less than the 6.1% average of prior deals.

Loan Portfolio Summary

General Loan Portfolio Characteristics

The primary assets of the trust are 88 fixed-rate loans secured by first liens on 88 multifamily properties. The loans are generally non-recourse and all were originated within the past 11 months.

Loan Concentration

The portfolio consists of 88 mortgage loans. The largest loan exposure, The Park at Irvine Spectrum – Phase 2, accounts for 10.3% of the cut-off portfolio balance and the second largest loan, Emerald Point Apartments, represents 4.5%. All other loans represent less than 2.5% of the cut-off portfolio balance. The top ten loans, shown in the table below, make up approximately 31.0% of the portfolio by loan balance. The cut-off balance of each loan is shown below.

Loan Name	City	State	Cut-off Balance	% of Cut-off Portfolio Balance	MSTAR Debt Yield	MSTAR Current DSCR	MSTAR Amortizing DSCR	MSTAR BLTV	MSTAR ELTV
The Park at Irvine Spectrum – Phase 2	Irvine	CA	$162,198,939	10.3%	6.36%	1.19x	1.19x	94.3%	72.9%
Emerald Point Apartments	Virginia Beach	VA	70,000,000	4.5%	7.08%	1.88x	1.27x	103.1%	86.3%
The Mews at Annandale	Annandale	NJ	37,927,000	2.4%	6.95%	1.85x	1.25x	98.6%	84.7%
Nantucket Apartments	Loveland	OH	36,880,000	2.4%	7.51%	1.94x	1.33x	99.8%	83.8%
Sterling Village Apartments	South Jordan	UT	33,218,000	2.1%	6.84%	1.76x	1.21x	96.4%	83.1%
Aston Woods	Silver Spring	MD	32,800,000	2.1%	6.97%	1.71x	1.21x	96.1%	83.2%
Park Colony Apartments	Hollywood	FL	31,794,000	2.0%	7.16%	1.70x	1.22x	94.9%	80.3%
Broadwater Apartments	Orlando	FL	28,360,000	1.8%	7.04%	1.75x	1.23x	100.1%	84.3%
Vairo Village Apartments	State College	PA	26,849,615	1.7%	7.98%	1.38x	1.38x	92.7%	74.1%
Waterford on Westheimer	Houston	TX	26,588,000	1.7%	7.86%	2.12 x	1.42x	87.8%	73.2%
Subtotal Top 10 Loans			$486,615,554	31.0%	6.93%	1.56x	1.25x	96.4%	78.5%

Original Loan Terms

All loans in the portfolio have ten-year terms.

Amortization Characteristics

All the trust loans are balloon loans. Four loans are interest only for the loan term, none of which are among the 50-largest loans. Amortizing balloon loans account for 27 loans (32.8% of the cut-off portfolio balance) and 57 loans (65.0% of the cut-off portfolio balance) are interest only for a portion of the loan term. These partial interest only loans include: five loans that have 12 months of interest only payments, 27 loans that provide for a 24-month interest only period and 25 loans that provide for a 36 month interest only period. All but seven loans amortize based upon a 30-year schedule throughout the loan term. Three loans amortize on a 15-year schedule and four amortize on a 25-year schedule.

Amortization Type	% of Cut-off Portfolio Balance	# of Loans	Morningstar Debt Yield	Morningstar Current DSCR	Morningstar Amortizing DSCR	Morningstar BLTV	Morningstar ELTV
Full Interest Only	2.2%	4	10.3%	2.90 x	2.90 x	64.1%	64.1%
Partial Interest Only	65.0%	57	7.3%	1.88 x	1.29 x	95.2%	79.8%
Amortizing	32.8%	27	9.8%	1.67 x	1.67 x	67.7%	50.8%

Originators

There were a total of 12 entities which contributed loans to the portfolio. The following table highlights the contributions of the top five originators in the portfolio.

Originator	# of Mortgage Loans	% of Cut-off Portfolio Balance
CBRE Capital Markets, Inc.	14	24.5%
Berkadia Commercial Mortgage	22	20.1%
KeyCorp Real Estate Capital Markets, Inc.	10	9.8%
Walker & Dunlop, Inc.	7	8.0%
Prudential Affordable Mortgage Company, LLC	3	6.9%

Loan Purpose

Fifty-one loans, representing 54.9% of the cut-off portfolio balance, were funded to refinance existing debt; the remaining 37 loans provided the related borrowers acquisition financing.

Related Borrowers

Certain groups of the underlying mortgage loans were made to the same borrower or to borrowers under common ownership. Mortgage loans with the same borrower or related borrower pose additional risks. For example, (i) financial difficulty at one property could cause the owner to defer maintenance at another property in order to cover expenses at the troubled property or (ii) the owner could attempt to avert foreclosure on one mortgaged property by filing a bankruptcy petition that might have the effect of interrupting monthly payments for an indefinite period on all related mortgage loans. Mortgage loans for the five largest related borrower relationships are shown in the following table:

Loans with Common Borrower Ownership	Cut-off Balance	% of Cut-off Portfolio Balance
The Mews at Annandale	$37,927,000	2.4%
Horizons at Franklin Lakes	$25,986,000	1.7%
Fairways Apartments – Blackwood	$24,328,000	1.6%
Glen Ridge Apartments	$24,000,000	1.5%
Glen Mar Apartments	$16,575,000	1.1%
Westminster Towers	$14,999,000	1.0%
Ross Ridge Apartments	$14,261,000	0.9%
Rolling Gardens	$10,275,000	0.7%
Squires Manor	$8,775,000	0.6%
Burnt Mill Apartments	$7,425,000	0.5%
Glen Ellen Apartments	$7,393,000	0.5%
Westview Apartments	$5,850,000	0.4%
Tory Estates Apartments	$5,810,000	0.4%
Edgewater Apartments	$5,407,000	0.3%
Ocean Terrace Apartments	$3,012,000	0.2%
Total	**$212,023,000**	**13.5%**
Middlebrook Farms	$23,760,000	1.5%
The Lakes of Stone Glen	$15,841,000	1.0%
Stonecastle Apartments	$15,500,000	1.0%
Waterford Lakes	$15,375,000	1.0%
Total	**$70,476,000**	**4.5%**
Westgate Village Apartments – Frazer	$23,470,910	1.5%
Fairways Townhomes – Thorndale	$21,435,310	1.4%
Fairways Apartments - Thorndale	$19,468,158	1.2%
Total	**$64,374,377**	**4.1%**
Waterford on Westheimer	$26,588,000	1.7%
Villas at Westheimer	$26,029,000	1.7%
Total	**$52,617,000**	**3.4%**
Landmark at Vista Grande	$18,150,000	1.2%
Landmark at Autumn Cove	$17,475,000	1.1%
Total	**$35,625,000**	**2.3%**

Loan Portfolio Metrics

Portfolio Debt Service Coverage

The portfolio reflects a current coverage (which includes some interest-only payments) of 1.81x and an amortizing coverage of 1.44x based upon Morningstar's adjusted net cash flow estimate. The following table summarizes the portfolio's DSCR stratification. As illustrated, only four loans exhibit an amortizing coverage below 1.20x; 67 loans have a debt service coverage between 1.21x and 1.50x; 10.1% of the portfolio had current debt service coverage of 1.50x or higher.

DSCR on Morningstar NCF	% of Cut-off Portfolio Balance	# Loans	Morningstar Debt Yield	Morningstar BLTV	Morningstar ELTV
Less than 1.00 x	0.0%	0	00.0%	00.0%	00.0%
1.01 x – 1.10 x	0.0%	0	00.0%	00.0%	00.0%
1.11 x – 1.20 x	14.4%	4	6.5%	96.5%	76.2%
1.21 – 1.30 x	48.7%	43	7.1%	96.4%	79.8%
131 x – 1.40 x	19.3%	16	7.7%	91.2%	74.1%
1.41 x – 1.50 x	7.5%	8	8.1%	91.8%	75.8%
>1.50 x	10.1%	17	11.9%	57.1%	43.4%

Portfolio Leverage

Overall the portfolio leverage is 89.2% based upon Morningstar's estimate of value. The following table summarizes the portfolio stratification by leverage. As illustrated, 17 loans have a loan to value higher than 100%; 76.5% of the portfolio balance consists of loans that have leverage of 100% or lower.

Leverage on Morningstar Value	% of Cut-off Portfolio Balance	# Loans	Morningstar Debt Yield	Morningstar Current DSCR	Morningstar Amortizing DSCR
Less than 70% LTV	5.0%	10	24.4%	3.73x	3.73x
70% - 75%	2.0%	3	9.5%	2.24x	1.93x
76% - 80%	2.3%	2	8.2%	1.55x	1.55x
81% - 85%	7.5%	8	7.9%	1.55x	1.34x
86% - 90%	11.0%	11	7.5%	1.85x	1.33x
91% - 95%	27.9%	20	7.1%	1.49x	1.27x
96% - 100%	20.7%	17	7.2%	1.79x	1.27x
101% - 105%	20.7%	14	7.2%	1.75x	1.27x
Greater than 105% LTV	2.8%	3	7.2%	1.40x	1.25x

Loan Structural Components

SPE and Bankruptcy Remoteness

The borrowers for most of the loans are structured as a single-purpose borrowing entity whose organizational documents or the terms of the loan documents limit their activities to the ownership of only the related mortgaged real property or properties and, subject to exceptions, including relating to subordinate debt secured by the related mortgaged real properties, generally limit the borrowers' ability to incur additional indebtedness other than trade payables and equipment financing relating to the mortgaged real properties in the ordinary course of business. The borrower(s) for Crimson Court Apartments and River Terrace Apartments are single asset entities whose only assets are the related mortgage properties; however, additional debt may be incurred by such borrower(s) which may increase the risk of bankruptcy and/or consolidation.

Although a borrower may currently be a single purpose entity, in certain cases, the borrowers were not originally formed as single purpose entities. Such borrowers may have previously owned property other than the related mortgaged property and may not have observed all covenants that typically are required to consider a borrower a "single purpose entity". Also, nonconsolidation opinions which provide certain legal comfort over consolidation risks were not delivered for certain loans including for certain loans in the Large Loan Group (defined below).

All of the borrowers and their owners, including the borrowers for The Park at Irvine Spectrum – Phase 2 loan, the Emerald Point Apartments loan and the loans that are under common ownership and/or control by related borrowers that exceed 5% of the balance of the pool on an aggregate basis by loan group (the "Large Loan Group"), do not have an independent director whose consent would be required to file a voluntary bankruptcy petition on behalf of the borrower. One of the purposes of an independent director of the borrower is to avoid a bankruptcy petition filing which is intended solely to benefit an affiliate and is not justified by the borrower's own economic circumstances. Borrowers that do not have an independent director may be more likely to file a voluntary bankruptcy petition and therefore less likely to repay the related mortgage loan in full. Other than as specifically noted in the Scope of Analysis section of this pre-sale report, Morningstar has not received verification that nonconsolidation opinions were delivered for the mortgage loans, which opinions provide certain legal comfort over consolidation risk.

Voluntary Prepayment

All of the loans provide for a prepayment lock-out and a defeasance period during which voluntary prepayments are prohibited; however, after a certain period, the related mortgage loan may be defeased without the payment of a yield maintenance or prepayment premium. For the assets in the mortgage portfolio, the lockout period ranges between 26 and 30 months. Thereafter, the loans provide for a defeasance period ranging between 81 and 90 months. Defeasance is a process whereby highly rated government securities replace the mortgage in a sufficient amount to continue the monthly payments. The defeasance period is typically followed by a short period during which voluntary prepayments may be made without any restriction or prepayment premium.

None of the loans provide for a prepayment period during which time voluntary prepayments must be accompanied by the payment of a yield maintenance charge or prepayment premium, and thereafter, a short period where voluntary principal prepayments may be made without any restriction or prepayment premium.

Property Releases/Substitutions

None of the properties provide for collateral release provisions or allow for substitutions.

Subordinated Debt

With respect to two of the underlying mortgage loans, secured by the mortgaged real properties identified on Exhibit A-1 of this information circular as Crimson Court Apartments and River Terrace Apartments, collectively representing 0.4% of the initial mortgage pool balance, the related borrowers are single asset entities whose only assets are the related mortgaged real properties. However, additional debt may be undertaken by such borrowers which may increase the possibility that the borrower may become bankrupt or insolvent. Each such borrower is not permitted to (i) own any real or personal property other than the mortgaged real property and personal property related to the operation and maintenance of the mortgaged real property, (ii) operate any business other than the management and operation of the mortgaged real property or (iii) maintain its assets in a way that is difficult to segregate and identify.

All loans are permitted to incur a limited amount of subordinate debt beginning 12 months after the mortgage loan origination date, subject to certain DSCR and LTV thresholds, and in some cases, EGI thresholds. The permitted second mortgage debt includes indebtedness secured by the property. The rights of the trust mortgage lender and junior lender will be governed by an intercreditor agreement, pursuant to which the holders of the junior interests will have certain rights including rights to cure defaults and rights to purchase the mortgage loan. Though the payments on the second mortgage debt are subordinated to the mortgage loan held by the trust, the presence of additional debt introduces risks to the senior debt including:

- Reduced borrower skin-in-the-game thereby removing incentives to maintain or improve the competitiveness of the property resulting in lower rental revenue. We believe limiting the combined LTV to the original senior loan LTV helps mitigate this concern.
- The presence of additional debt increases the difficulty of refinancing a mortgage loan at the maturity date; the LTV ceiling helps mitigate this risk.
- The filing of a petition in a bankruptcy by the borrower may stay the senior lienholder from taking enforcement action and/or receiving cash flows on the loan. This may expose the senior loan to higher losses. We believe this risk is partially mitigated by Freddie Mac serving as both the intended junior lender and as the guarantor of the Class A-1, Class A-2, Class X1, and Class X3 securities.

In the case of loans with subordinate debt, there may be an increase in the likelihood of default on the corresponding trust loan. Furthermore, while the subordinate debt holders typically enter into a co-lender agreement or intercreditor agreement with the holder of the senior debt to subordinate payments and allocate certain rights, it is not certain, upon a borrower bankruptcy, the impact of such subordinate debt (in particular, a two note structure) on the senior lender's rights in such bankruptcy. This may expose the trust loan to higher losses.

There is presently no existing subordinated debt in place on any of the loans securing the portfolio; however, all of the loans are permitted to incur an additional limited amount of subordinated debt beginning 12 months after the mortgage loan origination date subject to certain conditions including:

- Combined DSCR at 1.25x (subject to more stringent requirement in accordance with Freddie Mac's then current policies); and
- Maximum combined LTV generally equal to, or nominally higher than, the original senior loan LTV.

The borrower for 1010 Fifth Avenue, representing 0.6% of the cut-off portfolio balance, is permitted to obtain an unsecured line of credit in the amount of $1,000,000 from HSBC Bank USA, National Association.

Preferred Equity

One loan, secured by the Ashbrook Run Apartments and representing 0.9% of the pool, is subject to a preferred equity interest of $1,000,000 in the borrower. The preferred equity investor is entitled to a preferred return of 10% to 12% and has the right to purchase the managing interest in the borrower, replace the manager or force the sale of the underlying property.

Loan Features / Concerns

Based solely on a review of the documents enumerated herein, the following reflect highlights of certain material loan features and/or concerns.

Loans with a Morningstar LTV Greater than 100%

Based upon our Morningstar valuation, 17 loans have a loan to value higher than 100%; 76.4% of the cut-off portfolio balance have leverage of 100% or lower.

Loans with a Morningstar DSCR Less than 1.00 x

Based upon our Morningstar valuation, no loans have a DSCR lower than 1.00x and four loans have a DSCR between 1.00x and 1.20x.

Crossed Loans

Two loans, Cottington Road Apartments and Durban Road Apartments, representing 1.0% of the pool, are cross-collateralized and cross-defaulted.

Purchase Options and Rights of First Refusal

With respect to certain loans, certain parties, such as tenants, mezzanine holders and adjacent owners, may have a purchase option, right of first refusal and/or right of first offer to purchase all or a portion of the related property. In addition, the controlling class has a right to purchase a defaulted loan under certain circumstances. Such rights may impede a refinance, foreclosure, sale and/or marketability of the loan and/or property.

Repurchase Obligation

The mortgage loan seller may be required to repurchase its mortgage loans from the trust due to a material breach of a representation or warranty or a document defect. However, there is no assurance that the holder of such repurchase obligation will have sufficient assets at such time to fulfill its obligation to repurchase the loan.

Sponsors with Past Bankruptcy, Foreclosure, or Default

The key principals or sponsors of the borrowers on certain loans in this portfolio have defaulted on one or more obligations in the past, which may mean they are more likely to declare default again in the future. The sponsors of two assets, which collectively represent 4.2% of the cut-off portfolio balance, report at least one current or recent default. The assets associated with these sponsors include Nantucket Apartments and Broadwater Apartments. There can be no assurance that such circumstances will not impact the sponsor's or borrower's ability to maintain the property or pay amounts due on the loan.

Sponsor or Borrower Litigation

There are 10 properties, comprising in aggregate 8.1% of the cut-off portfolio balance, for which the sponsors reported existing or past litigation. These assets include The Promenade at Beaver Creek, Cougar Village, Manhattan Promenade, Cedar Commons Apartments, Hamilton Village, Pennsylvania Place, Village Green on Franklin, 1010 Fifth Avenue, The Abell Building, and Sierra Vista Apartments. While mitigants were noted with respect to various claims such as insurance coverage or indication that the lawsuit will be dismissed, there is no assurance that such litigation will not impact the use, operation, value or cash flow of the property.

Properties with a Condominium Interest

There are three properties, collectively representing 2.4% of the cut-off portfolio balance, that are currently operated as apartment communities, but which have an existing condominium structure/association. These assets include Ashbrook, Run Apartments, Avanti Apartments and Village at Sunbury Mills Apartments. At the Ashbrook Run Apartments and The Village at Sunbury Mills, the borrower owns 100% of the condominium units. The borrower at Avanti Mills reports that it controls the decisions of the condominium association through ownership of 98.9% of the condominium units.

In the security instruments and/or loan agreements, each borrower generally agreed (i) that all condominium documents are subordinated or subject to the loan documents; (ii) that, so long as the loan is outstanding, the condominium documents will not be modified or amended without the prior written consent of the lender; (iii) that no portion of the condominium units and no portion of the common elements have been sold or encumbered and/or that it will not sell or encumber any such portions without the express written consent of the lender; (iv) that it will operate the property solely as a rental apartment project and (v) that it will indemnify the lender from and against any and all losses or damages arising out of the failure of the borrower to comply with any laws or regulations to the condominium.

Properties Secured by a Leasehold Interest

Two loans are secured by a leasehold interest under a ground lease for all or a portion of the land on which the asset is located.

- Cougar Village Apartments, representing 1.1% of the cut-off portfolio balance, is subject to a ground lease with the Development Authority of Georgia, as ground lessor, and the borrower, as ground lessee. The mortgage loan is secured by the borrower's leasehold interest and the ground lessor's fee interest. The ground lease agreement is scheduled to terminate on the earlier to occur of (i) the date on which the original revenue bonds are no longer outstanding or (ii) March 1, 2027. At that time, the borrower has the option to take fee simple ownership for a purchase price of one hundred dollars. This option has been assigned to the lender.

- Stonebridge Waterfront, representing 0.9% of the cut-off portfolio balance, is subject to ground lease agreements with the City of Cleveland on two parking parcels and a sublease from the sponsor to the borrower. The borrower is required to pay rent annually of one dollar. Both the ground lease and the sublease terminate on March 17, 2075. We note that the ground lease does not have customer lender protections such as a notice of default, right to cure or lender consent for lease amendments. We believe that the nominal rent payment and the long lease term are mitigants to these risks.

Rights of Subordinate Debtholders

Pursuant to the terms of intercreditor agreements, the applicable subordinate debt holder may have certain cure rights, purchase option rights and certain consent and/or consultation rights with respect to the applicable loan. These rights may impact the special servicer's workout strategy and/or the timing for modifications on the loan and a sale of the loan.

Lack of Guarantees

With respect to the underlying mortgage loans secured by Manhattan Promenade, Cottington Road Apartments, 1010 Fifth Avenue, Durban Road Apartments, Laguna Apartments, The Colony Apartments and Townhomes and River Terrace Apartments, collectively representing 3.9% of the initial mortgage pool balance, no guarantees of the nonrecourse carveout provisions of the related loan documents were obtained.

In addition, some of the loans may be guaranteed, in whole or in part, by sponsors or other parties that are funds or other entities the terms of which may be subject to expiration or other structural contingencies. In such cases, the loan documents may require such entities to extend their terms or to otherwise take action or provide additional security to the lender regarding the continued existence of such entities during the term of the underlying mortgage loans.

Tenants in Common

For The Pearl at Spring Creek (0.9 % of the portfolio balance), the borrower that owns the mortgaged real property is structured as tenants-in-common. Generally, in tenant-in-common ownership structures, each tenant-in-common owns an undivided share in the subject real property. If a tenant-in-common desires to sell its interest in the real property and is unable to find a buyer or otherwise desires to force a partition, the tenant-in-common has the ability to request that a court order a sale of the subject real property and distribute the proceeds to each tenant-in-common owner proportionally. According to the arranger, to reduce the likelihood of a partition action, each tenant-in-common borrower under the underlying mortgage loan referred to above has waived its partition right.

Property / Collateral Summary

This section provides a perspective on the properties backing the loans. Asset Summary Reports providing property details and Morningstar line item analysis are available for the top 20 loans. Asset Summary Reports for the top 10 loans are included in this pre-sale report. In addition, an overview of Morningstar's analysis for each property including the final NCF, capitalization rate and value is available in Excel format. This Loan Collateral Summary Table along with all of the Asset Summary Reports can be accessed through Morningstar's website at http://ratingagency.morningstar.com, by going to the Ratings Report section.

Geographic Composition

There is some risk associated with the geographic concentration of this portfolio. The following tables provide the geographic stratifications for the top five states and by region.

State	% of Cut-off Portfolio Balance	# of Properties
California	14.0%	5
Texas	12.5%	12
Florida	12.1%	9
New Jersey	9.5%	11
Maryland	8.5%	8

Morningstar Region	% of Cut-off Portfolio Balance	# of Properties
Mid-Atlantic Region	20.4%	22
Western, Northern Pacific	18.3%	11
Southern, East Coast Region	14.8%	12
Southern, Atlantic Region	14.7%	11
Southern, West Coast Region	12.5%	12
Western, Mountain Region	7.8%	7
Midwest, Eastern Region	7.2%	7
Midwest, Western Region	2.9%	4
New England Region	1.2%	2
Western, Southern Pacific	0.0%	0
Non-USA	0.0%	0

Property Quality

Morningstar visited 44 properties backing 44 loans (65.1% by cut-off portfolio balance) and assigned quality scores to each. Morningstar utilized a 1 to 5 quality score scale with "1" being the best rating and "5" the worst. Factors including age, location and condition are considered in assigning the quality score. The quality score is factored into the capitalization rate to derive our property valuation. The weighted-average quality score for the visited properties was 2.89.

Morningstar Property Score	Property Quality	# of Properties	% Cut-off Portfolio Balance
1	Excellent	0	0.0%
2	Good	2	12.7%
3	Average	85	86.3%
4	Fair	1	1.1%
5	Poor	0	0.0%

Two assets, The Park at Irvine Spectrum – Phase 2 and Nantucket Apartments, were assigned a property score of '2'. The Park at Irvine Spectrum – Phase 2 was recently completed and is part of a luxury complex with a strong amenity package. The property is superior to most of its competition. Nantucket Apartments is a strong asset that we consider to be superior to most of the competition. We assigned a property score of '4' to Glen Mar Apartments. Upon a visual inspection, we noted a lackluster appearance with the overall quality inferior to most of the competition.

Property Age

Fifty-two loans (68.8% of the portfolio) are secured by properties that were built in the past 30 years. Thirty-six of the loans (31.2% of the portfolio) are secured by real properties constructed prior to 1983. The age of the properties may affect their competitive standing and potentially impact their ability to sustain existing cash flow levels.

Age in Years	% of Cut-off Portfolio Balance	# of Properties
> 50	3.0%	5
40 - 50	22.8%	23
30 - 39	5.4%	8
20 - 29	24.6%	23
10 - 19	19.8%	16
< 10	24.4%	13

Ownership Interest

All but two of the portfolio loans are secured by fee simple interests in the mortgage properties. The two remaining assets both have partial leasehold interests held by public sector agencies. Cougar Village is subject to a ground lease with the Development Authority of Georgia. That ground lease terminates in March 2027 with a purchase option at a price of one hundred dollars. Stonebridge Waterfront is subject to two ground leases under the parking areas. The fee interest is owned by the city of Cleveland and ground leased to the loan sponsor through March 2075.

Ownership Interest	% of Cut-off Portfolio Balance	# of Properties
Fee Simple	98.0%	86
Leasehold	0.0%	0
Fee & Leasehold	2.0%	2
Leased Fee	0.0%	0

There are three properties (2.4% of the cut-off portfolio balance) that are currently operated as apartment communities, but which have an existing condominium structure/association. These assets include Ashbrook Run Apartments, Avanti Apartments and Village at Sunbury Mills Apartments. At the Ashbrook Run Apartments and The Village at Sunbury Mills, the borrower owns 100% of the condominium units. The borrower at Avanti Mills reports that it controls the decisions of the condominium association through ownership of 98.9% of the condominium units.

Collateral Features / Concerns

Based solely on a review of the materials enumerated herein, the following reflect highlights of certain material property features and/or concerns.

Risks Associated with Multifamily Properties

The short term nature of the rental leases in multifamily properties quickly and adversely affected their financial performance in the initial stages of the current deep recession. Renters are better able to relocate to another city or neighborhood upon the loss of a job. Renters can take on roommates, move to lower rent apartments or move in with family. The shadow supply of single-family houses for rent adds to the competition. These factors have led to lower rents and higher vacancy rates in this property sector. However, as the economy has begun to stabilize, multifamily properties have shown signs of recovery. Morningstar's net cash flow stresses in the CMBS Subordination Model are typically based on historically observed declines since the early 1980s. In the case of multifamily properties, however, such stresses are multiples of empirical findings and reflect Morningstar's view that the adverse effects of the recent deep recession exceed the experience of the past 30 years. Morningstar believes that multifamily properties exhibit lower net cash flow volatility than other property types such as offices, retail and hospitality. Accordingly, under our analytical approach multifamily properties are subjected to lower net cash flow stresses than those applied to other property types.

Risks Associated with Student Housing Properties

Six loans, comprising 5.6% of the cut-off portfolio balance, are secured by real properties that have a significant number of units leased to college students. Such properties may be reliant on the financial well-being of the nearby college or university and adversely affected by new on-campus housing. Student tenants also have a higher turnover rate than other types of multifamily tenants and student leases could run over terms shorter than 12 months. Furthermore, properties with student tenants may be more susceptible to damage and everyday wear and tear.

Risks Associated with Properties Leased to Military Tenants

Four loans, comprising 3.8% of the cut-off portfolio balance, are secured by an asset that has at least 20% of its units leased to military tenants. Base closings and the transient nature of military service may adversely affect the rental stream from these properties.

Risks Associated with Income-Restricted Properties

There are a total of four loans (3.4% of the cut-off portfolio balance) that have income restriction requirements or receive subsidies or tax credits in turn for providing affordable housing. Limitations associated with this sector may constrain the ability of the properties to increase rental rates to cover higher operating expenses or limit the potential tenant base.

An additional 12 properties have tenants that rely on rent subsidies under various government-funded programs, including Section 8. Over time, these programs are subject to change and the level of assistance may not be sufficient for the borrowers to meet their obligations under the underlying mortgage loans. Borrowers may fail to comply with requirements of the programs to enable the borrowers to receive the subsidies in the future.

Risks Associated with Older Properties

Fifty-two loans, collectively representing 68.8% of the portfolio by cut-off portfolio balance, are secured by properties that were built in the past 30 years. Thirty-six of the loans, collectively representing approximately 31.2% of the portfolio by cut-off portfolio balance are secured by real properties constructed prior to 1983. The age of the properties may affect their competitive standing and potentially impact their ability to sustain existing cash flow levels.

Environmental Concerns

Phase I environmental site assessments ("ESAs") were prepared by independent third-party environmental consultants. All of the environmental reports were prepared within the past 12 months. These reports were reviewed as part of Morningstar's analysis for each of the properties. For several of the properties, the ESAs and other assessments recommend minor repairs, further investigation, requesting agency "no further action" determinations or cleanups.   Significant environmental concerns raised by the ESAs, if any, for the top 20 loans are noted in the related Asset Summary Reports for each property.

Seismic

Thirteen of the properties (21.6% of the cut-off portfolio balance) are in an earthquake-prone area (seismic zone 3 or 4) including California and Oregon. Probable Maximum Loss (PML) is used to characterize building damageability during a 475 year earthquake; if an asset has a PML of less than 20.0%, additional mitigation is not considered necessary. Seismic studies, conducted for all of these properties, concluded that none of the properties have a probable maximum loss (PML) of 20.0% or greater. Earthquake insurance is not provided for the assets in this portfolio.

Flooding

There are six assets, representing 8.7% of the portfolio, that carry flood insurance, only one of which, Villas at Westheimer, is among the 20 largest loans in the portfolio.

Windstorm

All of the assets carry windstorm insurance.

Terrorism Insurance

The borrower for the largest loan, The Park at Irvine Spectrum – Phase 2, may deliver a Terrorism Coverage Guaranty in lieu of coverage for terrorist acts under its liability policy.

Notice of Insurance Termination

Seven of the loans, representing 6.5% of the mortgage portfolio, do not provide for prior notice to the lender of termination of insurance. Therefore, while the servicer is required to force-place insurance as required by the pooling and servicing agreement, there may be delays and/or a lapse in coverage if the servicer is not otherwise aware of such termination. Any such delays or lapse in coverage may adversely impact the loan, property and/or cash flow and ultimately, the ratings.

Securitization Trust Summary

Freddie Mac Series K-031 Structured Pass-Through Certificates (SPC K-031)

Upon issuance of the underlying certificates, the depositor will transfer the A-1, A-2, X1 and X3 classes into a trust created pursuant to a master trust agreement. The trust will then issue the SPC certificates corresponding to the related underlying certificates. The master trust agreement, together with the related supplement, is intended to provide pass-through payments to the SPC certificates of payments received on the underlying certificates. The trustee and administrator under such documentation are currently anticipated to be Freddie Mac. While the SPC certificates reflect the ratings of the underlying certificates, it is possible that risks or concerns present under the master trust agreement and/or the related supplement for the SPC certificates may result in an adverse impact on the SPC certificates with no impact on the underlying certificates. In addition, while Morningstar intends to monitor and perform surveillance on the SPC certificates, such monitoring and surveillance is dependent on Morningstar's receipt of sufficient information and notices to perform such activities.

The following are certain structural risks related to the SPC certificates:

- Morningstar's ability to perform surveillance and rate the SPC certificates is premised on Morningstar's receipt of information from both the underlying trust and the SPC trust. The trust agreement(s) may not provide for notices and/or reporting and other information to Morningstar on a timely basis to enable current and timely monitoring and surveillance of the SPC certificate ratings. Because the rating agency may obtain knowledge of these various items later, surveillance activities and any rating adjustments may occur later than if prior notice of such items was provided.
- While many CMBS conduit deals provide for rating agency confirmation over certain material amendments, modifications and other items, the SPC trust documents do not provide for rating agency confirmation. In addition to the lack of rating agency confirmation for amendments, modifications, removal of the trustee and other items, notice of such items may be provided to the rating agency after such items are effectuated. Because the rating agency may obtain knowledge of these various items later, surveillance activities and any related rating adjustments may occur later than if rating agency confirmation and/or prior notice of such items was provided.
- Funds collected from the underlying certificates are commingled under the master trust agreement with funds collected on various transactions. Morningstar generally prefers a segregated account.
- Freddie Mac is currently serving as administrator and trustee under the trust agreement. If Freddie Mac were removed or resigned from such roles, the ability to obtain a replacement trustee and/or administrator may be limited due to a lack of provision for payment of fees to such successor or replacement in the trust agreement.
- An indemnity may be payable from the SPC trust as provided in the SPC trust documents. Any costs, expenses, indemnities, or any other amounts payable under the master agreement could adversely impact the SPC certificates under circumstances where the rating on the underlying certificates is not impacted.

Priority of Payments on Trust Certificates

The priority of payments on the Trust Certificates generally follows a sequential-pay structure. The following is a quick synopsis of this priority.

The priority of payments on the FREMF 2013-K31 Mortgage Trust Certificates generally follows a sequential-pay structure, as outlined below.

(1) Interest on the Class A-1, Class A-2, Class X1, Class X2-A, and Class X2-B Certificates, pro-rata.
(2) Principal paydown of the Class A-1 Certificates until paid in full, up to the principal distribution amount (see footnote 1).
(3) Principal paydown of the Class A-2 Certificates until paid in full, up to the principal distribution amount (see footnote 1).
(4) Reimbursement of loss reimbursement amounts to the Class A-1 and Class A-2 Certificates, pro-rata.
(5) Guarantor Reimbursement amounts on Class A-1, Class A-2, and Class X1 Certificates.
(6) Guarantor Timing Reimbursement amounts on Class A-1 and Class A-2 Certificates, to the extent interest payable on Class B and Class C certificates is covered (see footnote 2).
(7) Interest on the Class B Certificates.
(8) Principal paydown of the Class B Certificates until paid in full, up to the principal distribution amount (see footnote 2).
(9) Reimbursements of loss reimbursement amounts to the Class B Certificates (see footnote 2).
(10) Interest on the Class C Certificates.
(11) Principal paydown of the Class C Certificates until paid in full, up to the principal distribution amount.
(12) Reimbursements of loss reimbursement amounts to the Class C Certificates.
(13) Interest on the Class X3 Certificates.
(14) Guarantor Reimbursement amounts on Class X3 Certificates.
(15) Guarantor Reimbursement Interest Amounts on Class A-1, Class A-2, Class X1, Class X2-A and Class X2-B Certificates
(16) Principal paydown of the Class D Certificates until paid in full, up to the principal distribution amount.
(17) Reimbursements of loss reimbursement amounts to the Class D Certificates.
(18) All remaining proceeds to the Class R Certificates.

Note 1: On or after the distribution date when the aggregate certificate balance of the Class B, Class C and Class D Certificates have been reduced to zero (after taking into account allocations of losses and unanticipated expenses), principal paydown of the Class A-1 and Class A-2 Certificates converts to a pro-rata basis.

Note 2: Guarantor Timing Reimbursement amounts payable in item (5) are limited to ensure adequate funds to cover the interest payment obligations on the Class B and Class C Certificates. These amounts are not applied to pay down principal nor reimburse loss amounts on the Class B Certificates.

Allocation of Losses on Trust Certificates

Losses on the Trust Certificates are generally allocated in a reverse sequential order:
(1) to the Class D Certificates,
(2) to the Class C Certificates,
(3) to the Class B Certificates, until the balance of those certificates have been reduced to zero,
(4) to the Class A-1 and Class A-2 Certificates, on a pro rata basis.

The Notional Amount of the Class X1 and Class X2-A Certificates will be reduced to reflect reductions in the Certificate Principal Amounts of the Class A-1 and Class A-2 Certificates resulting from allocations of realized losses. The Notional Amount of the Class X2-B Certificates will be reduced to reflect reductions in the Certificate Principal Amounts of the Class B, Class C and Class D Certificates resulting from allocations of realized losses.

Rated Final Distribution Date

The rated final distribution date of each class of certificates is the distribution date in July 2046. Morningstar's ratings on the certificates address the likelihood of the timely receipt by holders of all payments of interest to which they are entitled on each distribution date and the ultimate receipt by holders of all payments of principal to which they are entitled on or before the rated final distribution Securitization Trust Summary.

Trust Structural Features / Concerns

Based solely on a review of the documents enumerated herein, the following reflect highlights of certain material trust structural features and/or concerns.

Pooling and Servicing Agreement

While the pooling and servicing agreement provides that the certificate administrator and trustee shall not be responsible for the failure of realization in foreclosure resulting from the failure to properly file or record an assignment of mortgage, we assume that the certificate administrator, custodian, trustee and/or other party(ies) will comply with pooling and servicing agreement provisions requiring appropriate filings and/or related actions related to any foreclosure proceedings.

Directing Certificateholder

The directing certificateholder initially will be the holder of a majority interest in the Class D certificates until the outstanding principal balance of such certificates is less than 25% of the initial principal balance of such class. Thereafter, the directing certificateholder will be the holder of a majority interest in the Class C certificates until the outstanding principal balance of such certificates is less than 25% of the initial principal balance of such class. Thereafter, the directing certificateholder will the holder of a majority interest in the Class B certificates until the outstanding principal balance of such certificates is less than 25% of the initial principal balance of such class. Thereafter, Freddie Mac, the holder of the underlying A-1 and A-2 certificates, will act as the directing certificateholder. It is anticipated that Benefit Street Partners RE FR K-31 L.P. or an affiliate will serve as the initial directing certificateholder.

The directing certificateholder is granted certain rights and powers with respect to the mortgage pool including, but not limited to, the right to purchase defaulted loans, the right to replace the special servicer with or without cause, and consent rights with respect to various servicing matters.

Replacement of Special Servicer

The special servicer can be terminated and replaced by the directing certificateholder, with or without cause. This mechanism does not afford voting rights to other certificate holders as has been found in some other recent CMBS new issuances.

Limited Rating Agency Confirmation/Notice

While many CMBS conduit deals provide for rating agency confirmation over certain material loan amendments, modifications and/or borrower requests and rating agency confirmation over certain material amendments to the pooling and servicing agreement, rating agency confirmation over loan and pooling and servicing agreement amendments are very narrow in this transaction. In addition, notice of such items may be provided to the rating agency after such items are effectuated. Because the rating agency may obtain knowledge of these various items later, surveillance activities and any related rating adjustments may occur later than if rating agency confirmation and/or prior notice of such items was provided.

In addition to limited rating agency confirmation as noted above, prior notice of changes to the rating agencies and rating agency confirmation is not contemplated for any loans under $10 million. This could cause delays in receiving information and therefore, performing surveillance on such assets.

Repurchase Obligation

A mortgage loan seller may be required to cure or repurchase its mortgage loans from the trust due to a material breach of a representation or warranty or a document defect. Alternatively, in this transaction the mortgage loan sellers (and/or other parties responsible for repurchase) may either substitute a mortgage loan or make a loss of value payment to the trust to compensate for losses directly related to such material breach or document defect. However, there is no assurance that the holder of such repurchase obligation will have sufficient assets at such time to fulfill its obligation to cure, repurchase the loan, substitute a loan and/or provide such loss of value payment. In addition, a substitution or loss of value payment may not provide certificateholders with a remedy equivalent or comparable to such a repurchase.

Conflicts of Interest

There are various conflicts of interest among and between various parties to the transaction. For example, the special servicer may pay all or a portion of its compensation to any party, including, without limitation, the directing holder. However, the special servicer and master servicer are required to service the assets without regard to their respective compensation arrangements. Morningstar's analysis assumes the various parties comply with their duties.

Transfer of Rights

Pursuant to the offering documents, Freddie Mac may potentially transfer Freddie's consent, consultation, and other rights and various obligations and activities related to the transaction, except certain limited activities related to the SPC certificates, to another entity ("Entity") without rating agency confirmation or prior notice to the rating agencies or other consents. Any such transfer and resulting Entity may expose the transaction to various risks including, among others: (i) the Entity may not have the experience, capital and/or resources to undertake any obligations or exercise any rights of Freddie Mac, (ii) the Entity may have various conflicts due to various relationships including that such Entity is not precluded from being the borrower or a borrower affiliate of any loan in the transaction, and (iii) delays in approvals, consents and/or obligations by and of the Entity may result in connection with the transfer and transition by Freddie Mac to such Entity. Any such transfer may adversely impact the rated certificates and any related surveillance action on the rated certificates may be delayed in the event prior notice of such transfer and sufficient related information is not provided to Morningstar.

Freddie Servicing Guide

While the pooling and servicing agreement requires the servicers to comply with a typical CMBS servicing standard ("CMBS Servicing Standard"), the servicers are also required to comply with Freddie Mac's Multifamily Seller/Servicer Guide (the "Guide"). If the CMBS Servicing Standard and the Guide conflict, the servicers are required to comply with the Guide. Morningstar prefers servicers to be required to comply, at a minimum, with the CMBS Servicing Standard. As the Guide is not static and can vary over time, there is no assurance that this Guide will hold servicers to a standard equal to or higher than a CMBS Servicing Standard at all times. It is our understanding that the current Guide is commonly used by Freddie in servicing multifamily loans. In addition, we have assumed that the Guide is and will continue to be generally consistent with a CMBS Servicing Standard. However, if this assumption is not true and the Guide standards are at any time lower than a CMBS Servicing Standard, such reduced standards may result in delays, waivers, amendments, actions, inaction, consent or a lack thereof that produce different results and adversely impact the borrower, property and/or the loan and therefore, may impact the ratings.

Reserve Accounts

The following reserve and escrow accounts are funded at closing or on an-going basis.

Real Estate Tax Escrows

All but two of the loans, representing 10.9% of the cut-off portfolio balance, provide for monthly or upfront escrows to cover property taxes on the properties. In the case of monthly escrows, the related borrower is generally required to deposit on a monthly basis an amount equal to one-twelfth of the annual real estate taxes and assessments. The escrows are under the control of the master servicer. The current balance of reserves in the escrow account was $11.8 million as of August 1, 2013.

Insurance Escrows

Sixty-three loans, representing 66.5% of cut-off portfolio balance, provide for monthly or upfront escrows to cover insurance premiums on the properties. In the case of monthly escrows, the related borrower is generally required to deposit on a monthly basis an amount equal to one-twelfth of the annual premiums payable on the insurance policies that the borrower is required to maintain. The escrows are under the control of the master servicer. The current balance of reserves in the escrow account was $2.4 million as of August 1, 2013.

Recurring Replacement Reserves

These accounts cover the costs of capital replacements and repairs during the calendar year to keep each property in condition consistent with other properties in their respective market segment and locations. The borrowers on certain mortgage loans are required to deposit funds into this account. Eighty-four loans provide for monthly payments into reserve for replacement accounts. Disbursements from this account are made to the borrowers to cover the costs of replacements at the properties and are not for the costs of routine maintenance.

Engineering Reserves

These accounts cover the deferred maintenance items that were identified in the respective property condition assessment reports and required to be corrected within 12 months from loan origination. In a significant number of cases, the engineering reserve for a mortgaged property is less than the cost estimate in the related property condition report because the mortgage loan seller may not have considered various items cited in the report significant enough to require a reserve and/or various items have been corrected. In the case of several properties the engineering reserve was a significant amount and substantially in excess of the cost estimate set forth in the inspection report. Not all engineering reserves are required to be replenished. The current balance of reserves in the escrow account was $4.1 million as of August 1, 2013.

Third Party Reports

Appraisals

Appraisal reports, prepared by an independent third-party appraisal firm, were received and reviewed as part of Morningstar's analysis for all of the properties. Nine loans, representing 7.2% of the portfolio, do not have appraisals dated within 12 months of the Closing Date. The average age of the reports was seven months.

Property Condition

Property condition reports, prepared by an independent third-party engineer, were received and reviewed as part of Morningstar's analysis for all of the properties. All of the engineering reports were completed within 15 months of the date of securitization. These reports identified deferred maintenance items as well as quantified long-term capital expenditure needs. Up-front reserves of $4.1 million were required to be deposited into an Engineering Reserve Account on the loan origination date to cover any deferred maintenance items at the properties. In addition, 84 of the assets provide for a monthly reserve for replacement account which can be used to repair and renovate the properties as needed.

Environmental

Phase I environmental site assessments ("ESAs") were prepared by independent third-party environmental consultants. All of the environmental reports were prepared within the past 15 months. These reports were reviewed as part of Morningstar's analysis for each of the properties. For several of the properties, the ESAs and other assessments recommend minor repairs, further investigation, requesting agency "no further action" determinations or cleanups. Significant environmental concerns raised by the ESAs, if any, are noted in the related Asset Summary Reports for each property.

Scope of Analysis

In evaluating the properties and determining Morningstar cash flows and values, we reviewed the following materials to the extent we deemed necessary for our analysis and as provided on the arranger's website for this transaction as of August 1, 2013 for every property: the offering materials (as applicable), the historical financials (for the most recent three years unless the property did not have three years of operating history available), issuer's underwriting and supporting analysis and notes, most recent available rent rolls, Reis Reports (to the extent the property was within a covered market), appraisals, environmental site assessments, property condition assessments, and other market and property information as available. In certain cases, to the extent we deemed necessary for our analysis and as provided on the arranger's website for this transaction as of the date hereof, we also reviewed seismic reports, surveys, leasing brochures, photographs of the properties and maps of the surrounding areas. All of the third party reports were completed within 15 months of the securitization date.

Morningstar utilized external legal counsel to perform a legal review of certain items in the transaction relevant to Morningstar's ratings analysis. In this transaction, such counsel solely reviewed the following materials available on the arranger website as of August 1, 2013: (i) the July 31, 2013 posted draft information circular, (ii) the following for the Park Spectrum B loan: (a) loan summary for the Park Spectrum B loan, (b) limited liability company agreement of Park II Spectrum LLC dated as of May 7, 2013, (c) opinion of Sherry Meyerhoff Hanson & Crance LLP dated May 30, 2013 regarding enforceability and other matters, (d) opinion of DLA Piper LLP (US) dated May 30, 2013 regarding DE LLC matters and (e) opinion of DLA Piper LLP (US) dated May 30, 2013 regarding nonconsolidation, (iii) the following for the Emerald Point loan: (a) loan summary for the Emerald Point loan, (b) amended and restated limited liability company agreement of Emerald Point, LLC dated as of February 28, 2013, (c) opinion of Willcox & Savage, P.C. dated March 5, 2013 regarding enforceability and other matters and (d) opinion of Willcox & Savage, P.C. dated March 5, 2013 regarding nonconsolidation, (iv) the July 31, 2013 posted draft pooling and servicing agreement, (v) the July 11, 2013 posted form intercreditor agreement for supplemental financing, (vi) the August 1, 2013 posted draft offering circular supplement regarding the K-031 SPCs and (vii) the July 31, 2013 posted draft mortgage loan purchase agreement. Certain groups of loans are under common ownership and/or control by related borrowers and certain of such loan groups (the loan group including The Mews at Annandale) exceed 5% of the balance of the pool on an aggregate basis by loan group (the "Large Loan Group"). Our preference is for Large Loan Groups to have SPE borrowers and nonconsolidation opinions for each loan in such grouping. In this deal, other than The Mews at Annandale and Horizons at Franklin Lakes, the loans within the Large Loan Group do not have nonconsolidation opinions to provide certain legal comfort over consolidation risks. However, per information from the arranger, all loans in the Large Loan Group do have SPE borrowers. We have assumed that the organizational structure and organizational documents related to the loans within the Large Loan Group are on forms customary for a prudent lender.

In addition, legal counsel intends to review the following documents upon posting of such documents on the arranger website prior to issuance of the final ratings: (i) the K-031 SPC certificates terms supplement to pass-through certificates master trust agreement, (ii) the K-031 SPC master trust agreement (which we are assuming will be the same as the June 1, 2010 master trust agreement used in connection with the K-028 SPCs), (iii) true sale opinion(s) for the sale of the loans to the depositor and the securitization trust and relating to the transfer of the K-031 SPC certificates into the master trust, (iv) corporate and enforceability opinions of the servicer, special servicer, trustee, certificate administrator, custodian, depositor and loan seller and the general deal level opinion related to certain tax matters and (v) versions of the documents enumerated in the preceding paragraph posted as of the date of issuance of final ratings. Unless enumerated on the prior list, no external legal counsel review was performed with respect to such documents. Therefore, leases, hedges and related documents, contribution and/or allocation agreements, management agreements, estoppels, title reports, insurance contracts, environmental assessments, guarantees, indemnities, liens or related searches, financial statements, rent rolls, surveys, financing statements, easement agreements, intercreditor and subordination agreements (except as enumerated in the above paragraph), among others, were not reviewed by external legal counsel. As legal review of title policies was not performed, Morningstar has assumed such policies do not contain any judgments, tax liens, or other issues that would materially adversely affect any borrower, property owner, property or the mortgagee's lien and security interest in any collateral for the loans. In addition, as legal review of local law opinions for each property was not performed, Morningstar has assumed that local law opinions were (or will be) provided for all relevant jurisdictions, on customary forms and with rating agency reliance.

Morningstar Approach to Collateral Review

Morningstar utilizes a bottom-up analytical approach to rating CMBS issuances that begins with the review and analysis of the loan collateral in the trust based on information provided on the arranger's website as of the date thereof and subject to the review enumerated herein.

General Underwriting Approach

While the idiosyncrasies of commercial real estate require that each loan be treated separately, an overview of the Morningstar property analysis methodology should be helpful in understanding how Morningstar arrived at its final cash flows and values. The methodology overview in this section is general in nature and only applies to the relevant property types.

Third Party Data

Morningstar uses third-party data from leading industry research companies to supplement its own proprietary information and information provided to us on the arranger's website as of the date thereof.

Tenant Categorization

Rent rolls are analyzed to determine the proper breakdown of tenants into categories, such as anchor, in-line, junior anchor, outparcel and other categories based on the individual property. Categorizations are made based on the nature and terms of the lease, rather than solely on a typical categorization of the tenant.

Rents and Vacancies

Current rents and vacancies are reviewed along with market information from third-party providers, appraisals and Morningstar proprietary data. Morningstar analyzes rents and vacancies for each category of tenant to best define the market rent and vacancy for that category. For more information on our analysis for any particular property, please see the Asset Summary Report for such property.

Morningstar analyzes the current rents and vacancies alongside the our final market rents and vacancies, and compares the subject and market net rents based on the subject property's tenant category mix, to determine whether the property is outperforming or underperforming the market. If it is determined that the property is underperforming the market, rents and vacancies are underwritten as-is, unless otherwise noted in the Asset Summary Report for that asset.

In cases where we determine that the property is performing above the expected market levels, Morningstar analyzes the expected rollover for the property. It is then assumed that as the leases roll, the property's rent and vacancy will move toward market levels. If actual rollover is low, a minimum amount of roll is assumed.

This process culminates with five scenarios, each moving the property closer to market. A weighted average is then calculated with the result being the Morningstar rent and vacancy, as reported in the Asset Summary Report.

Historical Financial Statements

Historical financial statements are reviewed and adjusted for one-time charges and non-cash items, such as depreciation, extraordinary capital repairs and interest expense.

Fixed expenses (i.e., taxes, insurance, and ground rent) are underwritten to actual numbers whenever available, and to the most recent year with a 4% inflation factor, whenever actual numbers are not available.

Other Income and Variable Expenses are generally underwritten as a percentage of Effective Gross Income, based on three years of operating results, with more weight given to the most recent year.

Tenant Reimbursements are calculated based on the historical recovery ratio, grossed up to take into account lost reimbursements due to vacancy, with more weight given to the most recent years.

Capital Reserve

Capital reserves are generally underwritten to that recommended in the property condition assessment for each property with an additional 10% cushion. In the event a property condition report is unavailable, Morningstar generally underwrites multifamily capital expenditures at $250 per unit and $300 per unit for student housing properties. Independent living communities are underwritten to $300 per unit and assisted living facilities are estimated to be $350 per unit.

Capitalization Rates

Morningstar uses current market capitalization rates for each property in a transaction. The analysis begins with the analyst looking to Morningstar's current capitalization rate for a given property type within a given MSA. If the property is not in an MSA covered by Morningstar, Morningstar will look to either a higher regional capitalization rate or a proxy market that may better represent the market in which an individual property is located.

Morningstar then makes adjustments based on property sub-type and property score. In the case of retail properties, we rely on sales per square foot data, assuming a reliable number of tenants are reporting.

Morningstar compares this capitalization rate with the appraiser's capitalization rate and the capitalization rate of the sales comparables provided in the appraisal. Unless otherwise noted in the Asset Summary Report, Morningstar will use the highest of these three capitalization rates.

Other Items

Morningstar may consider reserves, legal issues and other special circumstances to determine whether additional adjustments are required. These adjustments will then be made and noted in the Asset Summary Report.

Morningstar Value

Morningstar applies the capitalization rate to the Net Cash Flow to determine the value of the property. Certain adjustments are made for upfront reserves and existing real estate tax abatements.

Morningstar considers the above collateral analysis and the legal analysis in conjunction with Morningstar's subordination model (described at www.Morningstar.com) to determine the preliminary ratings.

Morningstar Loan/Property Analysis Summaries

Asset summary reports (ASRs) are included with this pre-sale report for top 20 loans and are available by accessing Morningstar's website, by going to the Ratings Report section. These reports provide the line-item analysis along with the related assumptions used by Morningstar.

The Park At Irvine Spectrum – Phase 2

Analyst: Edward P. Dittmer 267-960-6043
Analytical Manager: Dave Sondesky 267-960-6042

Property Summary		
Property Type	Multifamily/Garden	
Location	Irvine, CA	
Year Built/Renovated	2011/N/A	
Multifamily Units	694	
Net Rentable Sq. Ft. (Other)	n/a	
Occupancy	95.10%	As of: 6/30/13
Ownership	Fee Simple	

Loan Summary		
Loan Amount (Original Balance)	$162,723,600	($234,472/unit)
Loan Amount (Cut-Off Balance)	$162,198,939	($233,716/unit)
Loan Term (months)	120	
I/O Period (months)	0	
Amortization Term (months)	360	
Loan Seasoning (months)	2	
Interest Rate	3.37000%	

Morningstar Analysis		
Current DSCR	1.19 x	
Amortizing DSCR	1.19 x	
Beginning LTV	94.30%	
Ending LTV	72.91%	
Capitalization Rate	6.00%	
Morningstar Occupancy	94.46%	
Net Operating Income	$10,471,135	
Net Cash Flow	$10,320,240	
Value	$172,004,004	($247,844/unit)
Debt Yield	6.36%	
Morningstar Site Visit	Yes	
Property Score	2 (Good)	

Capital Structure Table

Loan	Balance	Interest Rate	Current DSCR	DSCR Amtz	BLTV	ELTV
Mortgage Loan	$162,198,939	3.37000%	1.19 x	1.19 x	94.3%	72.9%
Total	**$162,198,939**	**3.37000%**	**1.19 x**	**1.19 x**	**94.3%**	**72.9%**

Morningstar Summary

Morningstar Perspective

The subject is a 694-unit multifamily property in Irvine, California that was completed in 2012. The property is part of a larger community known as the Park at Irvine Spectrum, totaling 1,456 units, that is controlled by the same sponsor. The first phase of the community, The Park at Irvine Spectrum – Phase 1, was securitized in a prior transaction. However, both phases share amenities, including the leasing office. The amenities are governed by reciprocal easement agreements that are renewable well beyond the loan term. It should be noted, however, that given the amenities and the shared leasing office, splitting the two properties into separate communities would be impractical.

The property is located at less than a mile from Irvine Spectrum Center, a 1.2 million-square foot regional mall in central Orange County at the junction of Interstate 5 and Interstate 405, two of the busiest freeways in Southern California. The immediate area is home to a relatively affluent population with a median household income of over $102,000 and a median home value of $970,000 within a one mile radius. The city of Irvine is generally affluent with a median income of over $86,000 and a median home value of $695,000. These statistics are a significant factor why the average Class A apartment rent in the submarket is $2,098 per month, over $200 greater than in Orange County as a whole.

The subject began leasing in November 2011 and utilized heavy concessions in order to achieve a stabilized occupancy. The property was 95.6% occupied in March 2013 and concessions were negligible by that point. Our underwriting includes a small collection loss and bad debt allowance of 0.5% to account for any concessions that may be required at renewal.

In general, Morningstar's underwriting was conservative with our net cash flow 3.5% below the net cash flow in the appraisal and a value that was 36.0% below the appraisal. Our underwritten loan-to-value of 94.3% is high, but amortization will reduce leverage to 72.8% by maturity. The underwritten debt service coverage ratio is 1.19 which is weak, given the lack of history at the property. A sensitivity analysis shows that a 10% decrease in base rent could result in the cash flow falling below breakeven. We do gain some comfort from the performance of the first phase remained relatively stable over the past three years with some incremental improvement.

Although we have some concerns over the lack of history, we consider the property to be an excellent asset with strong amenities and an enviable location. The property should be able to achieve the high rents given the affluent population and its desirability and the management company is one of the largest landlords in Orange County with over 35,000 units and many years of experience in the market.

The Bears Say

- Morningstar's underwritten debt service coverage ratio is 1.19, leaving little margin of safety in the event of a decrease in cash flow.
- The property was completed in May 2012 and required significant concessions for the initial leasing. Management reported that there are no concessions being offered at present.
- The subject represents the second phase of a 1,456 unit community with shared amenities. A mortgage on the first phase was securitized in a prior transaction. The amenities of the two phases are shared via reciprocal easement agreements and the leasing office for Phase 1 also handles leasing for the subject.
- Reis forecasted the construction of 1,751 multifamily units per year which is low compared to the pre-recession period, but could still increase competition for new Class A properties like the subject.

The Bulls Say

- The subject is a Class A property with a strong amenity package and an excellent location in central Orange County.
- The sponsor is experienced with over 35,000 units under management in Orange County.
- Amortization will result in a loan-to-value ratio of only 72.9% by loan maturity.

Property Description

The subject is a 694-unit multifamily property in Irvine, California, an affluent, densely populated city in Central Orange County. The immediate neighborhood is dominated by Irvine Spectrum Center, a 1.2 million-square foot regional mall that was built in 1995 at the junction of Interstate 5 and Interstate 405, two of the business freeways in Southern California. The property was built in 2011 and is part of a larger development called the Park at Irvine Spectrum that includes 1,456 units. Phase 1 was completed in 2010. The sections are fully integrated with one another and are operated as a single property. Both phases are parties to a reciprocal easement agreement relating to shared amenities as well as ingress and egress. The agreement has a 55-year term with extension options. The subject does not have an on-site leasing office.

The property occupies 11.1 acres for an average of 62.7 units per acre. The units and amenities surround a 2.4 acre park area that includes a dog park and refreshment stand. There are 1,192 parking spaces (1.7 spaces per unit) in a two-story, below-grade parking structure. The community amenities include a pool, spa, clubhouse with lounge, fitness center and internet café. The amenities at Phase 1, which include a movie theater, aerobics room are available to all tenants.

Morningstar visited the property on July 11, 2013. At the time if our visit, occupancy was about 94%. We found the property to be in excellent condition with attractive grounds and a good amenity package. Management reported that construction of Phase 2 was delayed somewhat due to weaker demand during the recession but resumed once demand increased. The phases are operated as one property in all respects including leasing. Units at Phase 1 are slightly smaller and Phase 2 has no studio units. Across the street is a similar property called the Village at Irvine Spectrum, which is owned and managed by the same sponsor. Leasing for that property is separate from the subject. Many of the tenants are employed within the Irvine Spectrum area and receive discounts as part of a marketing program within the Spectrum area. We assigned a property score of “2” or “above-average”.

A Property Condition Assessment performed by AES Due Diligence on March 15, 2013 identified no immediate repairs at the property. The recommended reserve with inflation was $198 per unit per year.

A Phase I Environmental Site Assessment performed by AES Due Diligence on March 15, 2013 identified no recognized environmental conditions. An operations & maintenance plan for asbestos and a moisture management plan to detect mold was recommended.

A seismic study reported that the property is in Seismic Zone 4. The property has a Probable Maximum Loss of 9.3%; therefore, earthquake insurance is not required.

Unit Type Mix

Property Unit Type Overview			
Unit Type	**# of Units**	**% Total**	**Avg. Unit Size (Sq. Ft.)**
One Bedroom	407	58.6%	739
Two Bedroom	287	41.4%	1,076
Total	**694**	**100.0%**	**878**

Market Overview

The property is in Orange County, a market that experienced extreme volatility in employment and incomes. The area had a large concentration of sub-prime lenders that fueled strong growth through 2007. The unemployment rate was below 4.0% in 2007 with apartment vacancy similarly tight at 3.7%. As sub-prime lenders began to falter in 2008, unemployment increased to 5.3%. The job market collapsed in 2009 with unemployment increasing by 2010 to 9.5%. Total employment decreased by more than 100,000 jobs from 2007 to 2010 with apartment vacancy increasing to 6.4%.

After 2010, the high foreclosure left many former homeowners in need of housing, boosting the multifamily sector. Multifamily vacancy rates decreased to 3.4% by the first quarter of 2013 and the average rent was $1,595 per month, 1.5% above the prior peak in 2008. The rent on Class A units was $1,860 per month. As multifamily fundamentals improve, we can expect an increase in construction as well. While the rate of new supply should be lower than in the past, given less developable land, Reis forecasted an increase of 1,751 per year in Orange County. This may not result in significant market disruption if the economy continues to improve.

The subject is in the Reis Irvine submarket of Orange County. Irvine is an affluent, master-planned community in Central Orange County. The city is a major employment and shopping hub with over 37 million square feet of office space and the 1.2 million-square foot Irvine Spectrum Center. The median household income was $86,501 in 2013, considerably more affluent that Orange County at $70,854 and the state at $57,920. As a result, the cost of housing is quite high, with a median home price of $695,000 in April 2013, according to Dataquick. Even with record low interest rates, housing affordability is low, resulting in many residents having little choice but to rent.

The average apartment rent was $2,024 per month in the Irvine submarket with a vacancy rate of 5.6%. Historically, the vacancy rate in the submarket has trended higher than in the county because of the much higher cost. With the weak economy during the recession, vacancy rates were 140 basis points higher at 7.8% as many residents were forced into less-expensive alternatives. The economic recovery has helped reduce vacancy rates, but the delivery of 2,402 new units in 2012, which includes the subject and its companion property, helped push vacancy back over 5%. Going forward, Reis is forecasting a lower rate of supply growth, with about 345 new units per year. This is about a 5.6% increase and could limit the upside for Class A assets as these new units compete for tenants.

Sponsorship/Management

The borrower is The Park II Spectrum, LLC, a Delaware limited-liability company.

The property manager is a borrower-affiliated management company with over 45,000 units under management, including 35,000 units in Orange County. The contractual management fee is $24.05 per unit per month which equates to $200,288 per year.

Morningstar Analysis

	Morningstar	TTM 6/30/12	2012	TTM 6/30/13	Issuer Underwriting
Income					
Gross Potential Rent	$16,645,027	$10,921,204	$16,492,932	$16,654,929	
or					
Base Rent	0	0	0	0	
Laundry/Vending	0	0	0	0	
Expense Reimbursement	113,600	0	0	142,460	
Percentage Rent	0	0	0	0	
Parking Income	0	0	0	0	
Other Income	194,957	52,662	164,499	210,661	
Less: Vacancy Loss	-930,337	-8,634,416	-9,274,807	-2,504,970	
Less: Concessions & Collection Loss	-39,308	-142,921	-456,498	-547,030	
Effective Gross Income	**$15,983,938**	**$2,196,529**	**$6,926,126**	**$13,956,050**	**$16,096,703**
Expenses					
Real Estate Taxes	$2,038,376	$230,584	$937,599	$1,688,231	
Property Insurance	207,055	210,859	282,563	207,055	
Utilities	620,224	132,542	404,113	444,450	
Repairs and Maintenance	547,904	63,969	155,968	418,247	
Janitorial	0	0	0	0	
Management Fees	479,518	184,905	199,937	196,212	
Payroll & Benefits	1,170,438	540,195	996,016	1,225,914	
Common Area Maintenance	0	0	0	0	
Advertising & Marketing	180,725	135,926	200,474	132,795	
Professional Fees	74,475	0	0	0	
General and Administrative	173,994	64,802	141,529	223,649	
Non-Reimbursable Expenses	0	0	0	0	
Other Expenses	20,094	7,454	18,507	20,094	
Ground Rent	0	0	0	0	
Market Expense Adjustment	0	0	0	0	
Total Operating Expenses	**$5,512,803**	**$1,571,236**	**$3,336,706**	**$4,556,647**	**$5,162,623**
Net Operating Income	**$10,471,135**	**$625,293**	**$3,589,420**	**$9,399,403**	**$10,934,080**
Capital Items					
Leasing Commissions	$0	$0	$0	$0	
Tenant Improvements	0	0	0	0	
Capital Expenditures	150,895	0	0	0	
Extraordinary Capital Expenditures	0	0	0	0	
Total Capital Items	**$150,895**	**$0**	**$0**	**$0**	**$138,800**
Net Cash Flow	**$10,320,240**	**$625,293**	**$3,589,420**	**$9,399,403**	**$10,795,280**

Analytical Assumptions

The following comments and footnotes provide additional details beyond the description of Morningstar's general analytical approach outlined at the end of this package.

Revenue Drivers

Rent Per Unit Per Month	$2,000
Vacancy (%)	5.00%

Morningstar's underwritten rent was based on an analysis of the in-place rent of $2,002 and the concluded market rent of $1,996. The vacancy rate is set at a minimum rate of 5.0% given the in-place 2.6% vacancy and a market rate of 5.6% in the Reis Irvine submarket.

Expenses

Expenses are underwritten in-line with historicals unless otherwise noted. A minimum market management fee of 3.0% of the effective gross income was underwritten which is greater than the actual fee in 2012 of 1.7% of the EGI and the appraisers estimate of 1.25%.

Capital Items

A reserve for future capital expenditures is underwritten at $217 per unit annually, an 8.7% increase over the engineer's recommended reserves.

Valuation Drivers

Morningstar's capitalization rate was based on a market multifamily capitalization rate of 6.20% for Orange County. We adjusted this lower 20 basis point to account for the quality.

Emerald Point Apartments

Analyst: Luke Trainer 267-960-6039
Analytical Manager: David Sondesky 267-960-6042

Photo #1 courtesy of Freddie Mac Asset Summary

Property Summary		
Property Type	Multifamily/Garden	
Location	Virginia Beach, VA	
Year Built/Renovated	1968/N/A	
Multifamily Units	863	
Net Rentable Sq. Ft. (Other)	n/a	
Occupancy	93.40%	As of: 6/30/13
Ownership	Fee Simple	

Loan Summary		
Loan Amount (Original Balance)	$70,000,000	($81,112/unit)
Loan Amount (Cut-Off Balance)	$70,000,000	($81,112/unit)
Loan Term (months)	120	
I/O Period (months)	24	
Amortization Term (months)	360	
Loan Seasoning (months)	4	
Interest Rate	3.77000%	

Morningstar Analysis		
Current DSCR	1.88 x	
Amortizing DSCR	1.27 x	
Beginning LTV	103.14%	
Ending LTV	86.32%	
Capitalization Rate	7.30%	
Morningstar Occupancy	90.00%	
Net Operating Income	$5,144,390	
Net Cash Flow	$4,954,530	
Value	$67,870,272	($78,645/unit)
Debt Yield	7.08%	
Morningstar Site Visit	Yes	
Property Score	3 (Average)	

Capital Structure Table

Loan	Balance	Interest Rate	Current DSCR	DSCR Amtz	BLTV	ELTV
Mortgage Loan	$70,000,000	3.77000%	1.88 x	1.27 x	103.1%	86.3%
Total	**$70,000,000**	**3.77000%**	**1.88 x**	**1.27 x**	**103.1%**	**86.3%**

Morningstar Summary

Morningstar Perspective

The subject transaction is a $70,000,000 ($81,112 / unit), ten-year, fixed rate loan secured by a first mortgage lien on an 863 garden-style apartment complex known as Emerald Point ("the Subject Property"). The property is located in Virginia Beach, Virginia, in the Norfolk / Hampton Roads metropolitan statistical area, approximately sixteen miles west of downtown Norfolk and 3.5 miles east of the oceanfront. The loan sponsor purchased the project in 2004 and has over fifty years of commercial real estate experience in this market. Loan proceeds were utilized to refinance existing debt of $66,630,000 and the borrower cashed out a reported $4.9 million as part of the transaction. However, as a condition of closing, the borrower was required to deposit $6,332,284 into a reserve at closing, as part of a scheduled two-year, $10.25 million ($11,877 per unit) renovation that is underway at the property. The improvements were constructed between 1968 and 1972 and are 93.3% occupied, as of March 31, 2013. The loan structure includes a fixed rate of interest at 3.77%, with twenty-four months of interest-only payments, followed by amortization on a 30-year schedule. The property is located in close proximity to the Naval Air Station Oceana and has strong access to major highways, including U.S. Route 58 and Interstate 264 and neighboring retail and employment centers.

The transaction was conservatively underwritten by Morningstar, as net cash flow was roughly 10.2% less than the trailing-12 month results. A higher vacancy loss was underwritten to account for a potential spike in available units, throughout the two-year renovation of the property. This was also consistent with the issuer's vacancy assumption and resulted in Morningstar's effective gross income falling 3.6% below trailing-12 operations. On a net operating income basis, our underwriting was 6.7% lower than trailing twelve month historicals. The property has experienced stable net operating income since 2009 and Morningstar believes that there is upside potential in the property cash flows, on the strength of the property-wide capital expenditure program that is currently in process. Current in-place rents at the subject are below market levels, as the Reis mean submarket rental rate is $1,016 per unit, versus an $839 per unit average lease rate at the property. For Class B assets, mean rents were reportedly $939 per unit, which is also substantially higher than the subject asset's current rents. The borrower's business plan calls for post-renovation rent premiums of $100 per unit, which appear to be supportable in the submarket, in light of comparable lease rates. The asset is situated in a strong multifamily market, with sub-5% vacancy rates, positive rent growth and absorption and relatively few completions scheduled for delivery in the next four years. From a value standpoint, Morningstar believes that the loan is highly levered, as our beginning loan-to-value was 103%. Coupled with twenty-four months of interest-only payments, we believe that there is moderate refinance risk attached to the subject transaction. Another key area of concern is the asset's proximity to the Naval Air Station Oceana and the general economic uncertainty surrounding the potential effects of the sequester and associated government furloughs. Approximately 17% of the project's tenancy is related to the neighboring Naval Air Station and the installation has previously been included on the Base Realignment and Closure (BRAC) list. While the military concentration may not seem substantial, government intervention could impact up to 146 units at a property of this size. Nevertheless, Morningstar believes that the property will benefit greatly from the extensive capital upgrade program that is presently underway. Given that the subject's below market rental rates and the strong submarket fundamentals, Morningstar believes that the project cash flows are sustainable in the near-term.

Morningstar visited the subject on July 15, 2013. The property is vast, with 198 buildings on nearly 55 acres of land. Most apartment exteriors show some minor signs of wear, but nothing beyond what is appropriate for a complex that is more than 40 years old. The grounds were adequately landscaped and appeared to be well-maintained and there seemed to be an ample mix of green space and on-site parking. Unit amenities include two fairly large swimming pools, with deck areas, which appear somewhat dated. The rental office and its entrance area are attractively decorated, and there is a sizable fitness center nearby. Per the property manager, all HVAC units are scheduled for replacement during the current two-year, $10.25 million renovation plan and all units are set to undergo kitchen and bathroom upgrades. Management seemed to downplay the property's military concentration, which is reportedly 17% of the tenant base. However, prior to The Breeden Company's acquisition of the property in 2004, military tenants accounted for 43% of the residents in occupancy. Most of the comparable local apartment properties are nearby, along the south side of Laskin Road (U.S. Route 58) and the competing projects are generally of the same vintage as that of the subject. Morningstar's overall property score was a three ("3"), which equates to a condition of average.

The Bears Say

- The loan collateral is an older property, constructed from 1968 to 1972 and an inspection of the subject confirmed that extensive capital upgrades are necessary. The borrower's renovation plan has a scheduled duration of twenty-four months, which may impact property operations.
- The Norfolk / Hampton Roads metro has the second largest concentration of naval installations in the United Sates and the government accounts for a reported 21.2% of total non-farm employment in the region. The Norfolk / Hampton Roads area is estimated to account for 17% of the defense cuts associated with the government sequester.[1] This reliance on military / government spending is a long-term uncertainty for the local economy.

[1] www.foxnews.com

- Due to the subject's proximity to Oceana Naval Air Station, approximately 17% of the property's tenant base is affiliated with the United States Military. The Oceana Station had previously been included on the Department of Defense's Base Realignment and Closure report, but was granted a reprieve. Any global decisions affecting the future of the base may directly impact property occupancy.
- Based on Morningstar's underwriting, the loan exhibits a high beginning loan-to-value ratio of 103% and a similarly elevated ending loan-to-value of 86%. The loan structure also includes two years of interest-only payments. Therefore, Morningstar believes that there is moderate refinance risk associated with the subject loan.

The Bulls Say

- As of May 2013, total non-farm employment for the Norfolk / Hampton Roads metropolitan area reflected an increase of 15,000 jobs over a 12-month period.
- Vacancy rates in the subject's Lynnhaven / Oceana submarket have been sub 5.0% since 2011 and this trend that is projected to continue, through 2017. Net absorption has also been positive and is anticipated to remain strong over the same timeframe, with minimal new completions.
- The property has averaged 93% occupancy over the past three years, which should improve upon completion of the capital upgrades.
- Per Reis, average submarket rent growth of 2.6% is projected through 2017.
- There appears to be upside in the project cash flow, post-renovation, as a result of the borrower's substantial capital expenditure plan. In-place rents at the subject appear to be below market and the borrower intends to raise rents accordingly, upon completion of the property rehabilitation.
- The asset is located in close proximity to major roadways, including US Route 58 and Interstate 264, which provide strong access to neighboring retail uses and employment centers, as well as nearby beaches.

Property Description

The asset is located in the Lynnhaven / Oceana submarket of the Norfolk / Hampton Roads metropolitan area of Princess Anne County, Virginia. The property is situated just north of Virginia Beach Boulevard (US Route 58) and Interstate 264. US Route 58 is a divided, six lane arterial, which is located less than one-half of a mile from the property and serves as the major east-west thoroughfare for both Virginia Beach and Norfolk. Interstate 264 is heavily improved with commercial uses and provides access to Interstate 64; the major north-south highway serving the region. In addition to the strong military presence, the City of Virginia Beach has deep economic ties to the tourism, trades and services and manufacturing industries. The property is located approximately 3.5 miles from the oceanfront attractions of Virginia Beach. Tourism plays a large role in the local economy and the city of Virginia Beach receives over 2.75 million visitors annually, with an estimated economic impact of $857 million. The Port of Virginia, which is the nation's third largest in terms of cargo handled, is also a major economic driver for the region. The Norfolk International Airport is located 16 miles west of the property and serves a reported three million travelers a year. Additional demand drivers in the local area include Sentara Virginia Beach General Hospital, a 276-bed acute care facility, situated within 1.5 miles of the subject and Virginia Beach Town Center, a mixed-used, "main street" style development, complete with 800,000 square feet of Class A office, 600 upscale apartment units, 832,500 square feet of retail space, two hotels and six national restaurant chains. Virginia Beach Town Center is located six miles east of the subject, along US Route 58.

Virginia Beach is home to several United States Military bases, including the aforementioned Naval Air Station Oceana, the United States Navy Little Creek Amphibious Base and the Joint Expeditionary Base East, located at Cape Henry. Situated six miles south of the property, the Naval Air Station Oceana is the largest employer in Virginia Beach, with more than 14,000 personnel. The estimated annual economic impact of the base is $1.35 billion. The Oceana Station was included on the Base Realignment Closure list in 2005; however, the installation survived that round of eliminations. The Pentagon has reinstituted at least one new initiative for base closings by 2015 and the future of the Naval Air Station Oceana remains uncertain.

The collateral is comprised of 863 units, which average 1,003 square feet in size. The improvements include 198, two- and three-story garden-style apartment buildings, which were constructed on 54.875 acres of land, between 1968 and 1972. The unit mix includes one-, two-and three-bedroom floor-plans and two-bedroom layouts comprise the majority of the apartments for rent. Surface parking is provided for 1,460 vehicles or 1.69 spaces per unit. Project amenities include multiple laundry facilities and a swimming pool. However, the tenants have access to additional common area amenities on an adjacent 3.58 acre parcel of land, which is not part of the loan collateral, via a perpetual easement. The contiguous land is owned by a borrower related entity and offers amenities that include children's playground, clubhouse, fitness center, three tennis courts, one outdoor swimming pool, maintenance building and a renovated leasing center. The easement provides for the future development of this parcel of land, provided there is no disruption of the use of the recreational, office and maintenance facilities to the tenants of Emerald Point.

Unit amenities include patios/ balconies, electric range / oven, refrigerator, disposal and dishwasher. Approximately 60% of the units have washers and dryers.

The borrower has scheduled a two-year, $10.25 million ($11,877 per unit) renovation of the subject property. All units are scheduled for new kitchens, bathrooms, interior finishes, interior doors, HVAC and interior lighting. Additionally, exterior lighting, common area entrances and exterior doors will be upgraded, as part of the borrower's capital plan.

A property condition report was prepared for the property by Nova Consulting, in which the engineer noted $465,658 for immediate repair needs at the property. These capital items included asphalt, concrete and brick repair, balcony and structural upgrades, various mechanical and electrical updates, additional fire suppression equipment and the renovation of five down units. The engineer's recommended ongoing capital reserves were $389 per unit, on an inflated basis. The lender escrowed 125% ($582,073) of the cost of immediate repair items and all repairs are required to be completed within 180 days of closing (90-days for anything deemed life safety.) The issuer has indicated that all of the deferred maintenance items would be addressed by the borrower's substantial capital expenditure program.

An Phase I environmental report of the property was completed by Nova Consulting and noted the presence of slight mold in the five down units at return air plenums within the unit. The engineer recommended remediation and repair within 180 days and the implementation of a mold maintenance program and asbestos and lead-based paint operations and maintenance programs, based on the property's age.

Per the issuer, a zoning report was completed in February 2013, which found the subject to be legal non-conforming, due to setback encroachments and deficient parking (1,523 spaces required versus 1,460 spots available.) Per the local ordinance, any non-conforming structure that is destroyed or damaged may be re-built to its prior, non-conforming status, provided reconstruction occurs within two years from the date of damage. Regardless, the lender required law and ordinance coverage and added a carveout loss to cover any damages related to the non-conformance of the property.

Unit Type Mix

Property Unit Type Overview			
Unit Type	**# of Units**	**% Total**	**Avg. Unit Size (Sq. Ft.)**
One Bedroom	274	31.7%	775
Two Bedroom	469	54.3%	1,022
Three Bedroom	120	13.9%	1,447
Total	**863**	**100.0%**	**1,003**

Market Overview

Per Reis data, the mean market rental rate for the subject's Lynnhaven / Oceana submarket was $1,016 per unit per month, with an average vacancy rate of 4.00%. The submarket is comprised of 48 multifamily properties, which total 9,591 units. There are minimal new completions scheduled for the submarket, which total 778 units, through 2017 (an 8.2% increase.) Market absorption is positive and is projected to remain favorable in the near-term. Class A properties in the submarket reflected an average rent of $1,073 per unit, with 5.60% vacancy and Class B/C projects reported mean rents of $939 per unit, with an availability rate of 1.90%. Projects in the subject's 1960 to 1969 vintage reflect average rents of $974, with vacancy of 3.20% and comprise 32% of the submarket inventory. Some concessions have been offered at the subject over the past 12 months; however concessions are not commonly offered by competing properties in the submarket. Underwritten concessions represented just 0.4% of gross potential rent and 2012's allowances were approximately 36% lower than 2011 historicals.

Military uses dominate the subject submarket and the property's surrounding area. The Norfolk / Hampton Roads metro includes numerous major Naval installations, namely the Norfolk Naval Shipyard, the Navy Public Works Center, the Fleet and Industrial Supply Center, Little Creek Amphibious Base, a U,.S. Marine base and the Naval Weapons Station. Headquartered in the region are the U.S. Atlantic Fleet, the Supreme Allied Command Atlantic and the Atlantic Area Command. The total military personnel, including active-duty and civilian employees, totals nearly 100,000 individuals. Additionally, the Norfolk Hampton Roads metro is home to three Army bases, Langley Air Force Base, the Coast Guard District Command and The US Joint Forces Command, which collectively account for another 30,000 active-duty and civilian employees. The US Joint Forces Command in the area was home to 2,600 service members and 3,000 contractors. However, due to budget-cuts, almost half of the Command's personnel have been eliminated. Going forward, an estimated 40,000 people in Norfolk / Hampton Roads are expected to be impacted by the proposed government furloughs.

The appraiser surveyed five comparable properties, which totaled 2,262 units and reflected an average vacancy rate of 5.98%, excluding the subject. The appraiser's concluded vacancy rate was 6.0%. Morningstar utilized a 10.0% vacancy rate, in order to account for potential increases in apartment availabilities during the prolonged rehabilitation of the property. Based on the analysis of rental rates for the comparable set, the appraiser concluded a market rental rate of $862 per unit. The appraiser noted that the comparable properties were generally superior to the subject, in terms of location, physical characteristics, and amenities. The appraiser did not complete a post-renovation rent analysis for the subject property. However, the mean submarket rents for Class B/C properties are $939 per unit and in-place rents at the subject are approximately $839 per unit. Per the issuer, the borrower plans to implement a post-renovation premium of $100 per unit, upon completion of the capital upgrades. These planned increases would bring the subject's rental rates in-line with the average rents in the local apartment market.

Sponsorship/Management

The borrowing entity is Emerald Point, LLC, a recycled, single purpose, Delaware limited liability company.

The subject property is managed a borrower related entity. The contractual management fee is 4.0% of effective gross income.

Morningstar Analysis

	Morningstar	2010	2011	TTM 03/31/13	Issuer Underwriting
Income					
Gross Potential Rent	$8,690,237	$8,639,095	$8,762,008	$8,837,741	
Laundry/Vending	67,244	74,730	70,373	66,931	
Expense Reimbursement	567,528	479,654	526,172	559,178	
Percentage Rent	0	0	0	0	
Parking Income	0	0	0	0	
Other Income	535,166	579,851	587,958	535,166	
Less: Vacancy Loss	-872,296	-540,358	-597,244	-679,919	
Less: Concessions & Collection Loss	-34,518	-153,238	-93,394	-34,518	
Effective Gross Income	**$8,953,361**	**$9,079,733**	**$9,255,873**	**$9,284,579**	**$9,047,242**
Expenses					
Real Estate Taxes	$547,213	$512,755	$495,278	$538,629	
Property Insurance	154,418	192,622	156,259	157,990	
Utilities	673,324	550,229	618,906	652,349	
Repairs and Maintenance	581,497	499,934	562,259	584,574	
Janitorial	0	0	0	0	
Management Fees	357,830	364,891	369,678	370,545	
Payroll & Benefits	961,548	952,412	969,738	947,814	
Common Area Maintenance	0	0	0	0	
Advertising & Marketing	85,756	98,549	95,578	80,351	
Professional Fees	32,492	25,335	14,681	25,723	
General and Administrative	414,892	331,830	382,674	410,960	
Non-Reimbursable Expenses	0	0	0	0	
Other Expenses	0	0	0	0	
Ground Rent	0	0	0	0	
Market Expense Adjustment	0	0	0	0	
Total Operating Expenses	**$3,808,971**	**$3,528,556**	**$3,665,051**	**$3,768,935**	**$3,767,596**
Net Operating Income	**$5,144,390**	**$5,551,177**	**$5,590,822**	**$5,515,644**	**$5,279,646**
Capital Items					
Leasing Commissions	$0	$0	$0	$0	
Tenant Improvements	0	0	0	0	
Capital Expenditures	189,860	0	0	0	
Extraordinary Capital Expenditures	0	0	0	0	
Total Capital Items	**$189,860**	**$0**	**$0**	**$0**	**$172,600**
Net Cash Flow	**$4,954,530**	**$5,551,177**	**$5,590,822**	**$5,515,644**	**$5,107,046**

Analytical Assumptions

The following comments and footnotes provide additional details beyond the description of Morningstar's general analytical approach outlined at the end of this package.

Revenue Drivers

Rent Per Unit Per Month	$839
Vacancy (%)	10.00%

Morningstar's underwritten gross potential rent was based on in-place rents of $839 per unit per month, as of the March 31, 12013 rent roll, which is lower than both the issuer and appraiser's concluded rental rates. The issuer's underwriting used a market rental rate of $856 per unit, based on past performance of the property. This was slightly below the appraiser's concluded market rent of $862 per unit. Average rents for similar vintage properties in the submarket are $974 per unit. The subject is currently undergoing a $10.25 million renovation ($11,877 / unit) and the borrower anticipates a $100 per unit rent premium, post-rehabilitation, which would elevate the subject's average rents closer to market levels.

The average vacancy rate for property for the prior three years has been 7% and the subject is currently 93.3% occupied. The appraiser's concluded market vacancy rate was 6.0%. The borrower's budget includes a vacancy and concession loss of 7.0%. The current Reis mean vacancy rate for the submarket is 4.0%. Due to the planned renovation, the issuer utilized a higher than market vacancy rate of 10.4%, to account for potential increases in availabilities during the scheduled two-year rehabilitation of the asset. Morningstar applied a 10% vacancy rate in underwriting, which is slightly more favorable than the issuer and roughly 330 basis points above current, in-place vacancy.

Expenses

Expenses are underwritten in-line with historicals unless otherwise noted.

Management Fee: Underwritten at 4.0%, which is equal to the contractual rate with the borrower related management company and consistent with the property's recent operating history. The Issuer's underwritten Management Fee was 3.0%.

Capital Expenditures: The engineer concluded inflated reserves were $389 per unit per year, based upon the identification of $465,658 of immediate repairs at the property. The repairs include water / mold damage in five down units, concrete, brick and wall repairs, HVAC and electrical repairs. The issuer noted that the majority of these items are covered by the borrower's $10.25 million renovation budget. Additionally, the borrower made an initial, up-front deposit of $6,332,284 to the replacement reserve account. As a result, the issuer utilized a $200 reserve number in underwriting. Morningstar did not give credit for the up-front reserve; however, Morningstar did underwrite to a replace reserve number of $200 per unit, inflated 10%.

Capital Items

A reserve for future capital expenditures is underwritten at $220.00 / unit, a 10% increase over the issuer's recommended reserves. The engineer's inflated reserve figure was $389 per unit. However, the borrower posted an initial deposit of $6,332,284, as part of a $10.25 million renovation project at the property. As a result, Morningstar utilized a normalized replacement reserve number in underwriting.

Valuation Drivers

Morningstar utilized a 6.80% base capitalization rate in its valuation analysis, which was the concluded overall rate for the Norfolk, Virginia multifamily market. Capitalization rate assumptions are updated regularly and are compiled from a review of relevant market data, including numerous investor surveys and comparable sales data. The base capitalization rate was adjusted upward 50 basis points, to account for the extensive renovation that is ongoing at the project. Morningstar's final capitalization rate of 7.30% was higher than both the appraiser's estimate of 6.25% and recent comparable sales in the subject market, which reflected an average overall rate of 6.02%. Per Reis, the 12-month rolling mean cap rate for apartment sales in the Norfolk / Hampton Roads Metro, as of the first quarter 2013, was 7.50%.

The Mews At Annandale

Analyst: Rudolf Meckel 267-960-6052
Analytical Manager: David Sondesky 267-960-6042

Property Summary		
Property Type	Multifamily/Garden	
Location	Annandale, NJ	
Year Built/Renovated	2002/N/A	
Multifamily Units	221	
Net Rentable Sq. Ft. (Other)	n/a	
Occupancy	93.70%	As of: 6/30/13
Ownership	Fee Simple	

Loan Summary		
Loan Amount (Original Balance)	$37,927,000	($171,615/unit)
Loan Amount (Cut-Off Balance)	$37,927,000	($171,615/unit)
Loan Term (months)	120	
I/O Period (months)	36	
Amortization Term (months)	360	
Loan Seasoning (months)	4	
Interest Rate	3.70000%	

Morningstar Analysis		
Current DSCR	1.85 x	
Amortizing DSCR	1.25 x	
Beginning LTV	98.60%	
Ending LTV	84.65%	
Capitalization Rate	6.85%	
Morningstar Occupancy	95.00%	
Net Operating Income	$2,708,147	
Net Cash Flow	$2,634,800	
Value	$38,464,232	($174,046/unit)
Debt Yield	6.95%	
Morningstar Site Visit	Yes	
Property Score	3 (Average)	

Capital Structure Table

Capital Structure Table

Loan	Balance	Interest Rate	Current DSCR	DSCR Amtz	BLTV	ELTV
Mortgage Loan	$37,927,000	3.70000%	1.85 x	1.25 x	98.6%	84.7%
Total	**$37,927,000**	**3.70000%**	**1.85 x**	**1.25 x**	**98.6%**	**84.7%**

Morningstar Summary

Morningstar Perspective

The Mews At Annandale loan is secured by the fee simple interest in a 221-unit townhome and garden-style apartment complex located in Annandale, NJ. The ten year, $37.9 million ($171,615 per unit) loan provided proceeds to partially refinance an existing loan of $41.7 million. Based on the appraised value of $51.0 million, the original loan amount equated to a 74.4% loan-to-appraised value. Built in 2002 and 2003, the subject property was 93.7% occupied as of June 30, 2013.

The subject property is subject to Mount Laurel rent restrictions. Thirty-five of the subject's 221 units are affordable senior housing units. Twenty-two of the affordable senior housing units are for low-income tenants, and 13 are for moderate-income tenants. According to the property manager, the rent restriction expires in 2022. At that time, the 35 affordable senior housing units will revert back to market. We have not underwritten any increased rent as a result of the restrictions terminating.

Based on 2007 purchase price of $49.2 million plus $256,145 in capital improvements between 2012 and 2012, the borrower's cash equity in the transaction is $11.5 million representing approximately 23.3% of the total cost basis.

The property reported net cash flows of $2.74 million, $2.76 million, and $2.71 million in 2010, 2011 and the trailing twelve month period ended March 2013, respectively. The decline in the net cash flow from 2010 to the trailing twelve month period ended March 2013 is driven by an 18.5% increase in operating expenses (from $1.24 million in 2010 to $1.47 million), during the same timeframe. The increase in operating expenses from 2010 to the trailing twelve month period ended March 2013 is largely driven by an increase in payroll expense.

Morningstar is concerned about the lack of amortization for the first three years of the loan, which results in an increased refinance risk. This risk is somewhat mitigated by the current and amortizing DSCRs of 1.85x and 1.25x. Another concern is that the subject property is located in a semi-rural location. Notwithstanding the property's secondary market location, the subject's submarket is performing well. The four rent comparables identified by the appraiser have occupancy rates that range from 95.0% to 100% and average 96%. Morningstar's concluded value of the property is $38.5 million, which is 24.6% lower than the appraised value.

Morningstar visited the property on July 1, 2013. The property manager reported that at the time of our visit, the property was 94.2% occupied and they are not offering concessions. The borrower plans to invest $130,000 in capital improvements in 2013, which will include parking lot striping, deck replacement, new patio light fixtures, exterior pressure washing, painting of doors, and brick repairs. Dominant employers (among the tenants) include Merck and Exxon-Mobil. Morningstar inspected one of each unit type. The interior and exterior of the property appeared to be in good overall condition with no major items of deferred maintenance noted. Morningstar assigned the property a score of '3' (average).

The Bears Say

- Partial Interest-Only Loan: The loan is interest only for the first three years, which results in an increased refinance risk. This risk is somewhat mitigated by borrower-equity as well as current and amortizing DSCRs of 1.85x and 1.25x.
- Secondary Market: The subject property is located in a semi-rural location. Notwithstanding the property's secondary market location, the subject's multifamily submarket is performing well. The four rent comparables identified by the appraiser have occupancy rates that range from 95.0% to 100% and average 96%
- Rent Restrictions: Thirty-five of the subject's 221 units are affordable senior housing units. Twenty-two of the affordable senior housing units are for low-income tenants, and 13 are for moderate-income tenants. According to the property manager, the rent restriction expires in 2022. At that time, the 35 affordable senior housing units will revert back to market.

The Bulls Say

- Property Condition: Built in 2002 and 2003, the property is in excellent physical condition, with the inspecting engineer noting no deferred maintenance or immediate repair needs.
- High Market Occupancy: The four rent comparables identified by the appraiser have occupancy rates that range from 95.0% to 100% and average 96%

- Cash Equity: Based on 2007 purchase price of $49.2 million plus $256,145 in capital improvements between 2012 and 2012, the borrower's cash equity in the transaction is $11.5 million representing approximately 23.3% of the total cost basis.
- Excellent Highway Access: Access to Interstate 78, a major six lane highway running east and west, is available less than a quarter mile from the subject property.

Property Description

The Mews at Annandale is located in the city of Annandale, NJ. Annandale is located 40 miles west of Newark, NJ and 40 miles east of Allentown, PA. Built in 2002 and 2003, the 221-unit, townhome and garden-style apartment complex, is improved with 29, two and three-story apartment buildings situated on 42.97 acres of land. The property offers 263 parking spaces, which includes 168 garage spaces. Common area amenities include two playgrounds and garage parking. Unit amenities include a range/oven, refrigerator, dishwasher, microwave, washer and dryer and a patio area.

The borrower invested $256,145 ($1,159/unit) in capital improvements between 2010 and 2012, which included exterior repairs, plumbing repairs, asphalt repairs and resurfacing, sidewalk repairs, fence repairs, landscaping improvements, new signage, irrigation repairs, and electrical replacement. The borrower plans to invest $130,140 in capital improvements in 2013, which will include parking lot striping, deck replacement, new patio light fixtures, exterior pressure washing, painting of doors, and brick repairs.

The subject property is situated on the north side of Interstate 78 and east side of Route 31 in Annandale, NJ. Interstate 78 is a major six lane highway running east and west. Access to Interstate 78 is available less than a quarter mile from the subject property. Major highways in the MSA include the New Jersey Turnpike (I-95), Route 80, and the Garden State Parkway. Public transportation is provided by New Jersey Transit, which includes a light rail system, buses and the PATH train, which provides access to downtown Manhattan.

A Property Condition Assessment was completed by Nova Consulting Group on January 4, 2013 and recommended no immediate repairs. The property is located within Seismic Zone 2A. defined as an area of low probability of damaging ground motion. Therefore earthquake insurance was not required.

A Phase I Environmental Assessment was completed by Nova Consulting Group on January 23, 2013. No Recognized Environmental Conditions were identified and no further action was recommended by the consultant, with the exception of long-term radon testing. The consultant conducted short-term radon testing at the property and three units had radon levels above the EPA action level of 4.0 pCi/L. According to the Multifamily Loan and Security Agreement dated 3/27/2013, the borrower must conduct long-term radon testing in Building 1107 - Unit #7, Building 1435 - Unit #35 and Building 1812 - Unit #12. The results must be delivered within 150 days of closing (8/22/2013).

According to the zoning report, the property is considered legal non-conforming due to setbacks and parking deficiency. Per the rebuildability clause, if a non-conforming building is destroyed by 50.0% or less of its estimated true value, it can be restored to its previous use. If destroyed by more than 50.0%, it must be rebuilt in accordance with the applicable zoning regulations. Building law and ordinance insurance was required and a carve-out has been added for any losses related to the non-conformance.

Unit Type Mix

Property Unit Type Overview

Unit Type	# of Units	% Total	Avg. Unit Size (Sq. Ft.)
One Bedroom	17	7.7%	637
Two Bedroom	184	83.3%	1,193
Three Bedroom	20	9.0%	1,500
Total	**221**	**100.0%**	**1,178**

Market Overview

The Mews at Annandale is located in the city of Annandale, NJ. The subject property's submarket falls outside of Reis coverage area. However, the property is located near the Northern New Jersey MSA. Our market analysis has been based on the Northern New Jersey market statistics (provided by Reis) as well as the comparables provided by the appraiser.

According to Reis, as of first quarter 2013 the Northern New Jersey Apartment market contains 211,184 rental units. Average asking rents for the region have been trending upward, from an average of $1,519 per month in 2008 to an average of $1,580 per month in 2012. As of the first quarter 2013, average asking rents increased to $1,586 per month. Over the next five years, average asking rents are expected to increase to $1,829 per month in 2017. The vacancy rate for the Northern New Jersey region currently stands at 3.6 percent for first quarter 2013, which is down from 4.0 percent a year earlier.

Over the past few years, new construction within the region has outpaced absorption levels. Between 2007 and 2011, 8,204 new units were completed in the Northern New Jersey region, while 4,897 new units were absorbed. As of third quarter 2012, 386 new units were completed, while 511 new units were absorbed. Over the next five years, Reis projects that construction figures will trail absorption (new construction will total 8,753 units, and absorption will total 11,031 units).

The appraiser identified four comparable properties with a total of 502 units that compete with the subject. The comparable properties were built from 1998 to 2006. The appraiser did not mention if any of the rent comparables were subject to the rent-stabilization ordinances. The weighted average vacancy at the comparable properties was 4.0% according to the appraisal. The appraiser estimated the market rent at $1,610 per unit per month for the subject. Morningstar underwrote multifamily rents to the in-place rent of $1,559 with a 5.2% vacancy rate.

Annandale is located 40 miles west of Newark, NJ and 40 miles east of Allentown, PA, which provide a stable employment base. Allentown serves as the corporate headquarters for several large global companies, including Air Products & Chemicals and PPL. Newark is headquarters for numerous corporations, such as Prudential Financial, IDT Corporation, Manischewitz, and Horizon Blue Cross and Blue Shield of New Jersey.The property is located in a semi-rural location,

Sponsorship/Management

The borrowing entity is East Coast The Mews at Annandale LLC.

The property is managed a borrower-controlled management company. The contract management fee with a borrower-affiliated management company is 3.0%.

Morningstar Analysis

	Morningstar	2010	2011	TTM 3/31/2013	Issuer Underwriting
Income					
Gross Potential Rent	$4,134,468	$4,003,079	$4,088,085	$4,169,495	
or					
Base Rent	0	0	0	0	
Laundry/Vending	0	0	0	0	
Expense Reimbursement	80,600	75,525	77,175	87,162	
Percentage Rent	0	0	0	0	
Parking Income	25,693	26,780	25,162	26,162	
Other Income	174,470	139,130	180,261	174,470	
Less: Vacancy Loss	-215,587	-217,121	-244,735	-247,609	
Less: Concessions & Collection Loss	-22,892	-45,737	-65,609	-23,180	
Effective Gross Income	**$4,176,753**	**$3,981,657**	**$4,060,339**	**$4,186,500**	**$4,238,898**
Expenses					
Real Estate Taxes	$515,184	$434,699	$445,195	$495,761	
Property Insurance	65,136	47,556	51,469	62,933	
Utilities	144,911	136,908	130,488	143,676	
Repairs and Maintenance	230,306	223,041	222,920	230,284	
Janitorial	0	0	0	0	
Management Fees	125,303	119,363	119,283	125,964	
Payroll & Benefits	245,003	142,151	209,531	262,668	
Common Area Maintenance	0	0	0	0	
Advertising & Marketing	77,021	73,504	70,115	80,445	
Professional Fees	11,380	9,226	11,133	11,194	
General and Administrative	54,362	56,967	41,562	60,442	
Non-Reimbursable Expenses	0	0	0	0	
Other Expenses	0	0	0	0	
Ground Rent	0	0	0	0	
Market Expense Adjustment	0	0	0	0	
Total Operating Expenses	**$1,468,606**	**$1,243,417**	**$1,301,695**	**$1,473,367**	**$1,448,775**
Net Operating Income	**$2,708,147**	**$2,738,241**	**$2,758,643**	**$2,713,133**	**$2,790,123**
Capital Items					
Leasing Commissions	$0	$0	$0	$0	
Tenant Improvements	0	0	0	0	
Capital Expenditures	73,347	0	0	0	
Extraordinary Capital Expenditures	0	0	0	0	
Total Capital Items	**$73,347**	**$0**	**$0**	**$0**	**$66,742**
Net Cash Flow	**$2,634,800**	**$2,738,241**	**$2,758,643**	**$2,713,133**	**$2,723,381**

Analytical Assumptions

The following comments and footnotes provide additional details beyond the description of Morningstar's general analytical approach outlined at the end of this package.

Revenue Drivers

Rent Per Unit Per Month	$1,559
Vacancy (%)	5.2%

Morningstar has estimated rent at $1,559 per unit per month, which is based on the April 18, 2013 rent roll. The appraiser concluded a market rental rate of $1,610 per unit. We have underwritten vacancy at 5.2%. Per the April 18, 2013 rent roll, the subject property was 4.1% vacant.

Expenses

Expenses are underwritten in-line with historicals unless otherwise noted. Real estate taxes were underwritten based on the appraiser's estimated real estate tax expense inflated by 3.0%. The appraiser's estimate was based on the actual 2012 tax liability inflated by 3.0%.

Capital Items

A reserve for future capital expenditures is underwritten at $332 per unit per year, a 10% increase over the engineer's recommended reserves.

Valuation Drivers

Morningstar applied a capitalization rate of 6.60%, which is our market multifamily capitalization rate for Northern New Jersey. Morningstar made a 25 basis point upward adjustment for the properties secondary market location, resulting in the final Morningstar capitalization rate of 6.85%.

Nantucket Apartments

Analyst: Howard Peterson 267-960-6024
Analytical Manager: David Sondesky 267-960-6042

Property Summary		
Property Type	Multifamily/Garden	
Location	Loveland, OH	
Year Built/Renovated	2001/N/A	
Multifamily Units	394	
Net Rentable Sq. Ft. (Other)	n/a	
Occupancy	94.20%	As of: 6/30/13
Ownership	Fee Simple	

Loan Summary		
Loan Amount (Original Balance)	$36,880,000	($93,604/unit)
Loan Amount (Cut-Off Balance)	$36,880,000	($93,604/unit)
Loan Term (months)	120	
I/O Period (months)	24	
Amortization Term (months)	360	
Loan Seasoning (months)	4	
Interest Rate	3.88000%	

Morningstar Analysis		
Current DSCR	1.94 x	
Amortizing DSCR	1.33 x	
Beginning LTV	99.84%	
Ending LTV	83.82%	
Capitalization Rate	7.50%	
Morningstar Occupancy	93.00%	
Net Operating Income	$2,878,915	
Net Cash Flow	$2,770,565	
Value	$36,940,863	($93,759/unit)
Debt Yield	7.51%	
Morningstar Site Visit	Yes	
Property Score	2 (Good)	

Capital Structure Table

Capital Structure Table

Loan	Balance	Interest Rate	Current DSCR	DSCR Amtz	BLTV	ELTV
Mortgage Loan	$36,880,000	3.88000%	1.94 x	1.33 x	99.8%	83.8%
Total	**$36,880,000**	**3.88000%**	**1.94 x**	**1.33 x**	**99.8%**	**83.8%**

Morningstar Summary

Morningstar Perspective

The Nantucket Apartments loan is a ten-year, $36.88 million ($93,604 per unit) financing to assist the acquisition of the property with a purchase price of $46.1 million ($117,005 per unit). The loan pays interest only during the first two years, then amortizes over a 30-year term. The property was appraised for $46.62 million ($118,325 per unit) and the loan represents a 79.1% loan-to-appraised value ratio; based on the more conservative Morningstar value, leverage is much higher at 99.8%.

Morningstar's net operating income ("NOI") of $2.879 million is nearly $203,658, or 6.6% below the NOI in the trailing ten-month ("T-10") annualized period ending June 30, 2013. While Morningstar underwrote gross potential rent ("GPR") and vacancy based on the appraiser's estimates, the main sources of the NOI variance are our underwriting of higher vacancy losses and higher real estate taxes, repairs & maintenance and advertising expenses. Underwrote vacancy at 7.0% based on appraiser's estimate of market which was slightly higher than the vacancy loss of 5% as of the June 30, 2013 T-10 (annualized).

Vacancy has fluctuated only one percentage point over the past two years, ranging from 4.1% to 5.1%, with a slight increase in the current vacancy of 5.8% as of the June 30, 2013 rent roll. The more conservative view of vacancy with higher real estate taxes, combined with an amortizing DSCR of 1.33 provides some level of sustainable cash flow support.

Although the loan is an acquisition, the sponsors acquired 100% of the membership interest in the property with the intent to avoid a substantial increase in the real estate tax liability. According to the local county auditor's office, properties are re-appraised every six years with a property's assessed value of 35% of the value. In addition, the transfer does not appear to trigger a reassessment by the county according to the appraiser. However, Morningstar and the issuer have underwritten the potential real estate taxes at 80% of the purchase price with the current millage rate to be more conservative.

The property is subject to several easements. The complex is situated on two contiguous lots with public access which is partially located on the property and partially located on abutting lots that are owned by Deerfield Township. Although both ingress and egress easement areas are owned by Deerfield Township, the roads located in the easement area have not been dedicated to public use. Various reciprocal easement agreements, cost sharing agreements, a facilities and utilities maintenance and repair easement, a shared amenities easement and reciprocal easement agreement for parking, as well as various common utility easements have been executed to insure accessibility.

The Bears Say

- Highly leveraged with a beginning loan-to-value of 99.8% based on Morningstar's calculated Net Cash Flow ("NCF") of $2.77 million. The loan is also interest-only for the first two-years. The risk is mitigated by the Morningstar interest only DSCR of 1.94x on sustainable cash flow that is 10.1% less than the T-10 (annualized) ending June 30, 2013. The variance in NCF is attributable to our underwriting of higher vacancy loss, real estate taxes, and required capital expenditure reserves. However, Morningstar's amortizing DSCR of 1.33x provides a relatively low level of support in the event of a downturn.
- There is a sizable amount of new properties planned for completion over the next several years. According to Reis, there are 909 market-rate apartments under construction and been planned for delivery between 2014 and 2017. With the new supply estimated by Reis over the next several years (thru 2017), the submarket is estimated to absorb about 614 units increase by another 190 bps (on top of the mean vacancy). To account for this risk, Morningstar underwrote the multifamily vacancy to be 7.0%, higher than the current vacancy of 5.8%.

The Bulls Say

- Subject property is located in a high occupancy submarket with sub-4.0% vacancy rates according to Reis. Historical vacancy rates in the submarket were 5.7% in 2008, peaked at 7.7% in 2009 and has gradually improved to its current 2.4% mean vacancy rate. Properties with a similar vintage (2000-2009), representing 22% of the total submarket, are reporting average vacancy of 2.0%.
- According to Reis, average asking rents in the submarket are anticipated to increase on average 3.1% each year over the next five years from $840 per unit in 2013 to $951 per unit in 2017. This potential increase has not been considered in Morningstar's overall underwriting.
- Cincinnati is home to several Fortune 500 companies, including Proctor & Gamble, The Kroger Company, Macy's and American Financial Group. The area is home to the University of Cincinnati Medical Center. In addition, there is over two million square feet of corporate office facilities and Class A multi-tenant office space is located within three miles of the property. Major tenants include Proctor & Gamble, as well as GE Card Services, Federated Allied Credit Services, Anthem, Lens Crafters and Entex Information Services.

- The property condition report on the subject, indicated that the property was in good condition with no deferred maintenance or immediate repairs needed. Recent capital improvements totaling $478,408 between 2010 and 2012 included new appliances, clubhouse improvements, exterior painting and HVAC replacement.
- Established property management company. The borrower-controlled management company has been in the real estate industry for over 40 years and currently manages 7,550 units in Texas, Ohio and Kentucky with 4,200 units in the local area.

Property Description

The subject property is a 394-unit, townhome and garden-style apartment complex in Loveland, Ohio, within the Cincinnati metropolitan area. Loveland is located about 20 miles northeast of downtown Cincinnati. The property was built between 2001 and 2004 and consists of a 26 two- and three-story buildings situated on 28.66 acres. The property provides 792 parking spaces, including 121 garage spaces representing a 2.01 space per unit ratio.

The property was renovated between 2010 and 2012 at a total cost of $478,408, with new appliances, clubhouse improvements, exterior painting and HVAC replacement.

Common area amenities include gated access, clubhouse with lounge area and billiards and game room, fitness center with tanning room, business center, basketball court, heated resort style swimming pool and spa overlooking a lake, sand volleyball court, movie theater, laundry facility, jogging trails, nine-hole putting green, BBQ and picnic areas, sundeck and garage parking.

Unit amenities include fully equipped kitchens with range/oven with built-in microwaves, refrigerator, dishwasher, garbage disposal, nine-foot ceilings with crown molding and washer and dryer connections. Townhouse units feature an attached garage.

Nantucket Apartments is located about 20 miles northeast of Cincinnati. The property is located on the west side of Montgomery Road (Highway 3), which is less than two miles east of Interstate 71 access. Interstate 71 is a major thoroughfare that connects Cincinnati to Columbus on its way to Cleveland. It is also less than four miles north of Interstate 275, which encircles that Cincinnati area. Visibility to the subject is considered good.

Retail is primarily located near the Montgomery Road/Fields Ertel Road area, less than one mile to the south. There is a strong mix of large big box and smaller chain retailers in that immediate area. Just northwest of this intersection is Waterstone Crossing, a power center anchored by Barnes & Noble, Best Buy, Costco Wholesale, Michaels, Old Navy and Target. Nearby are Kohl's, Office Max, Sam's Club, and JC Penney. Kings Island, a 364-acre amusement park is located about five miles north of the subject along Interstate 71. The largest office user in the area is a 1.15 million square foot Proctor & Gamble Mason Business Center. Proctor & Gamble employs about 12,500 employees in the Cincinnati area.

The property was inspected on July 16, 2013 and was found to be well maintained with no signs of deferred maintenance. The property is well-located along Montgomery Road (US 22 / Highway 3) which provides strong access to Interstate 275 and Interstate 71, both located approximately 4 to 5 miles from the subject. The property manager noted several on-site projects that were scheduled for completion in the near term, including upgrades to the gym, all of the common area and several of the lakes (drainage and retaining walls) and fountains. Units are being upgraded as they turn and the updates include new carpet, new blinds, replacement brushed nickel fixtures throughout, new bathroom faucets and fixtures, and lighting upgrades. The property manager noted that there was a good mix of older and younger professionals, including a number of teachers at one of five schools within the immediate area. Major employers for the tenant base include Proctor & Gamble, Johnson & Johnson, Anthem (Blue Cross), Luvata (manufacturing) and a number of hospitals /healthcare uses located throughout the region.

Based upon our evaluation, Morningstar assigned a property quality score of 2 to the property which rates the property as average. Morningstar uses a scale of 1 to 5, with "1" being the highest quality. Factors including the property's age, location, and condition are considered in assigning the quality score. After assigning a quality score to each property, Morningstar then factors each score into the assignment of our capitalization rates.

Unit Type Mix

The property is comprised of 394 units among 26 two- and three-story townhome and garden-style apartment buildings, split between 160 one-bedroom units (40.6% of the total) and 206 two-bedroom units (52.3% of the total). The average unit is 993 square feet in size with one-bedroom units averaging 696 square feet and two-bedroom units averaging 1,144 square feet.

Property Unit Type Overview

Unit Type	# of Units	% Total	Avg. Unit Size (Sq. Ft.)
One Bedroom	160	40.6%	696
Two Bedroom	206	52.3%	1,144
Three Bedroom	28	7.1%	1,578
Total	**394**	**100.0%**	**993**

Market Overview

Nantucket Apartments is located in the city of Loveland, Ohio, Warren County, within the Cincinnati-Middletown MSA.

The collateral property is located in the Butler/Warren Counties multifamily submarket, within the larger Cincinnati metro market, according to Reis. According to Reis in the first quarter 2013, the mean per unit asking rent for the submarket was $816 per month and units of a similar vintage (1970 – 1979) was $1,088 per month. The mean vacancy for the submarket was 2.4% and units of a similar vintage age were 2.0%.

The appraisal identified six comparable properties, all located within three and one-half miles of Nantucket Apartments. Average comparable per unit rental rates ranged between $815 and $1,440 per unit per month, with an average of $1,127 per unit. The appraisal reported comparable property occupancy levels between 94% and 100%, with an average of 97.6%. The appraiser estimated market rent for this property to be $1,043 per month with market vacancy of 7.0%.

Morningstar conservatively adjusted market down from the subject's average $1,064 rent per month per unit based on the appraiser's estimate of $1,043 per unit and underwrote vacancy to the appraiser's estimate at 7.0%. Our estimate of market rent net of vacancy is less than in-place economics as of the most recent rent roll dated June 30, 2013 and as a conservative measure we therefore marked in-place rent gradually toward our estimate of market with rents of $1,056 per unit and economic vacancy of 7.0%.

Sponsorship/Management

The borrowing entity is a private single-purpose, Delaware limited liability company. The property management is a borrower controlled management company. The contract fee is 3.0% of effective gross income.

Morningstar Analysis

	Morningstar	2010	2011	T-10 (Ann) 6/30/13	Issuer Underwriting
Income					
Gross Potential Rent	$4,992,886	$0	$4,726,426	$4,959,620	
or					
Base Rent	0	0	0	0	
Laundry/Vending	4,019	0	6,515	8,197	
Expense Reimbursement	96,075	0	97,803	105,099	
Percentage Rent	0	0	0	0	
Parking Income	89,459	0	88,290	91,532	
Other Income	220,425	0	269,413	219,262	
Less: Vacancy Loss	-369,939	0	-197,731	-246,287	
Less: Concessions & Collection Loss	-21,939	0	-38,606	-13,676	
Effective Gross Income	**$5,010,985**	**$0**	**$4,952,110**	**$5,123,748**	**$5,004,627**
Expenses					
Real Estate Taxes	$844,012	$0	$615,166	$761,209	
Property Insurance	71,004	0	55,695	64,724	
Utilities	163,669	0	147,954	167,959	
Repairs and Maintenance	282,923	0	292,625	270,624	
Janitorial	0	0	0	0	
Management Fees	150,330	0	221,213	173,400	
Payroll & Benefits	445,721	0	436,095	439,507	
Common Area Maintenance	0	0	0	0	
Advertising & Marketing	96,031	0	116,230	80,933	
Professional Fees	1,264	0	1,145	1,346	
General and Administrative	76,687	0	65,409	81,472	
Non-Reimbursable Expenses	0	0	0	0	
Other Expenses	430	0	1,276	0	
Ground Rent	0	0	0	0	
Market Expense Adjustment	0	0	0	0	
Total Operating Expenses	**$2,132,070**	**$0**	**$1,952,808**	**$2,041,175**	**$2,130,013**
Net Operating Income	**$2,878,915**	**$0**	**$2,999,302**	**$3,082,573**	**$2,874,614**
Capital Items					
Leasing Commissions	$0	$0	$0	$0	
Tenant Improvements	0	0	0	0	
Capital Expenditures	108,350	0	0	213,336	
Extraordinary Capital Expenditures	0	0	0	0	
Total Capital Items	**$108,350**	**$0**	**$0**	**$213,336**	**$98,500**
Net Cash Flow	**$2,770,565**	**$0**	**$2,999,302**	**$2,869,237**	**$2,776,114**

Analytical Assumptions

The following comments and footnotes provide additional details beyond the description of Morningstar's general analytical approach outlined at the end of this package.

Revenue Drivers

Rent Per Unit Per Month	$1,056
Vacancy (%)	7.00%

As of the June 30, 2013 rent roll, average multifamily rents were $1,064 per unit and vacancy was 5.8%. Based on a review of the Reis submarket information, the appraiser's rent conclusion and the appraiser's rent comparables, Morningstar determined the market rent to be consistent with the appraiser's market assumptions with rents of $1,043 per unit along with an 7.0% vacancy rate.

Other income includes RUBS (Ratio Utility Billing System) program, laundry income, parking, cable and other miscellaneous fees.

Expenses

Expenses were underwritten based on either historical weighted averages or the most recent period, adjusted for inflation.

Real Estate Taxes were underwritten consistent with the issuer's underwriting at $844,012 based on 80% of the purchase price, using the current millage rate. The appraiser's estimate of $772,355 was based on the actual 2012 tax liability and the borrower's budget of $777,992. The sponsors were acquiring 100% of the membership interest in the property with the intent to avoid a substantial increase in the real estate tax liability.

Insurance was underwritten based on the borrower's budget at $71,004, which was greater than the appraiser's estimate of $59,100.

Management Fees were underwritten as a result of the acquisition, based on the property's current 3.0% contract rate of effective gross income ("EGI).

Overall, expenses were 42.6% of effective gross income, which was higher than the T-10 (annualized) dated June 30, 2013 of 39.8%, the borrower's budget of 39.2% and appraisal at 37.8%, but in-line with the issuer's estimate of 42.6%.

Capital Items

A reserve for future capital expenditures is underwritten at $209 per unit, a 10% increase over the engineer's recommended reserves.

Valuation Drivers

Morningstar's multifamily capitalization rate for Cincinnati is 8.0%. There was an adjustment of 50 bps for the property score with a final adjusted cap rate of 7.5%. This estimate is more conservative than the appraiser's capitalization rate of 6.5% and the capitalization rates from appraiser's sales comparables which averaged 6.66%.

Sterling Village Apartments

Analyst: Luke Trainer 267-960-6039
Analytical Manager: David Sondesky 267-960-6042

Property Summary		
Property Type	Multifamily/Garden	
Location	South Jordan, UT	
Year Built/Renovated	1997/N/A	
Multifamily Units	300	
Net Rentable Sq. Ft. (Other)	n/a	
Occupancy	99.00%	As of: 4/30/13
Ownership	Fee Simple	

Loan Summary		
Loan Amount (Original Balance)	$33,218,000	($110,727/unit)
Loan Amount (Cut-Off Balance)	$33,218,000	($110,727/unit)
Loan Term (months)	120	
I/O Period (months)	36	
Amortization Term (months)	360	
Loan Seasoning (months)	5	
Interest Rate	3.83000%	

Morningstar Analysis		
Current DSCR	1.76 x	
Amortizing DSCR	1.21 x	
Beginning LTV	96.42%	
Ending LTV	83.06%	
Capitalization Rate	6.60%	
Morningstar Occupancy	95.00%	
Net Operating Income	$2,385,224	
Net Cash Flow	$2,273,684	
Value	$34,449,753	($114,833/unit)
Debt Yield	6.84%	
Morningstar Site Visit	Yes	
Property Score	3 (Average)	

Capital Structure Table

Capital Structure Table						
Loan	**Balance**	**Interest Rate**	**Current DSCR**	**DSCR Amtz**	**BLTV**	**ELTV**
Mortgage Loan	$33,218,000	3.83000%	1.76 x	1.21 x	96.4%	83.1%
Total	**$33,218,000**	**3.83000%**	**1.76 x**	**1.21 x**	**96.4%**	**83.1%**

Morningstar Summary

Morningstar Perspective

The loan collateral is Sterling Village Apartments; a 300 unit, garden-style apartment complex, located in South Jordan, Salt Lake County, Utah, which secures a first-mortgage lien for a $33,218,000 ($110,727 / unit), 10-year, fixed rate loan. The loan proceeds were utilized to finance the acquisition of the subject by experienced multifamily sponsors, who are based in Salt Lake City, Utah. The reported purchase price was $44,750,000 ($149,167 / unit) and the borrower contributed an estimated $11,532,000 (26%) of cash equity into the transaction. The loan structure includes a fixed rate of interest at 3.83%, with thirty-six months of interest-only payments, followed by amortization on a 30-year schedule. The improvements were completed in 1997 and include 25, two- and three-story buildings, on 19.5 acres of land. As of April 30, 2013, the property was 99.0% occupied and the complex has averaged 95.3% occupancy over the past three years of operation. The project is located adjacent to Interstate 15, approximately fifteen miles south of the Salt Lake City central business and roughly 20 miles south of the Salt Lake City International Airport. The asset also benefits from its proximity to nearby retail developments, local schools and neighboring employment centers in both Sandy (four miles southwest) and Salt Lake City.

Morningstar's net operating income was conservatively underwritten and in-line with year-end 2012 levels. For the trailing 12-months ending April 30, 2013, net operating income was 9.8% higher than year-end 2012. The property reported stable cash flow from the period of 2010 to 2012 and there appears to be strong demand for this asset in the local market, based on the high historical occupancy trends. The Salt Lake City economy is diverse and recent job gains have pushed total employment above pre-recession levels. Salt Lake has continued to develop its reputation as both a financial and insurance hub and has also made significant recent strides in attracting talent in the high-technology and biomedical sectors. As a result of a growing population and strong employment gains, multifamily new construction has followed suit, in order to keep pace with demand.

Apartment inventory in the subject market has almost doubled since the year 2000 and the number of units is projected to increase almost 30% by 2017. The scheduled submarket deliveries are anticipated to drive vacancy rates up by 250 basis points over the same period. On a positive note, market rent growth of 3.2% is projected for this five-year period and absorption is also expected to remain positive. The subject property benefits from its large floorplans and resort-style amenity package and panoramic views of the Oquirrh and Wasatch mountain chains that surround the Salt Lake Valley. The average unit size at the subject is 1,159 square feet, which is significantly larger than any competitive properties in the local market. Based on Morningstar's underwriting, the subject transaction reflected a 1.21 x debt service coverage ratio and a 96% loan-to-value, with a 6.8% debt yield. Morningstar concluded a final, as-is value of $34,449,750 ($114,833 / unit), which is a 23.4% variance from the appraiser's final, as-is value of $45,000,000 ($150,000 / unit). These indicators, coupled with the three years of interest-only debt service payments, result in an increased refinance risk for the subject loan. Morningstar's overall view of this transaction is positive, on the strength of solid loan collateral and consistent property cash flows, which are projected to be sustainable in the near-term.

Morningstar visited the property on July 2, 2013 and found the collateral to be well-maintained, with no signs of deferred maintenance. Per the property manager, the subject is attractive to the local residents due to the asset's proximity to I-15, the primary north-south arterial in the state of Utah, located a half mile from the project. Interstate 15 provides ease of access to local employment centers in both Sandy and Salt Lake City. The lack of a cohesive public transportation system in the region makes driving a necessity. Additionally, due to both professional and educational opportunities afforded by the Salt Lake metropolitan area, the region has attracted a substantial number of transplant residents hailing from the state of California, who are accustomed to paying high rental rates and are not deterred by Sterling Village's rents. The property manager indicated that the current tenant mix consists largely of business professionals, graduate students and retirees, with minimal families in residence at the property. Morningstar assigned a property score of three ('3') to loan collateral, which equates to a condition of average.

The Bears Say

- Since 2000, 4,927 units have been added to the submarket inventory and another 2,749 units are planned for delivery, through 2017. This equates to a 27% scheduled increase in multifamily stock in the submarket, which is anticipated to have a negative impact on near-term vacancy. From 2000 to 2012, the number of apartment units in the submarket has increased roughly 93%.
- There is an abundance of land available for development west of the subject property and the local neighborhood is estimated to be only 80% built-out.
- The loan structure includes three years of interest-only payments and based on Morningstar's underwriting, going-in leverage is 96%. Additionally, underwritten debt service coverage on an amortizing basis is 1.21x. Therefore, Morningstar believes there is moderate refinance risk associated with this loan.

The Bulls Say

- The subject has the largest average unit size in the submarket. On a per square foot basis, the project's lease rates appear to be below market levels.
- The property is currently 99.0% occupied and has averaged sub-5% vacancy for the past three years.
- Reis projects healthy rent growth of 3.2% per annum, over the next five years.
- According to the U.S. Bureau of Labor Statistics, non-farm employment in the Salt Lake City metropolitan area was up 26,200 jobs (4.2%) over the past 12 months. This growth has largely been led by gains in the high-technology sector and total employment is now above the region's pre-recession peak.
- The subject has nearby access to Interstate 15, the primary north-south highway covering the state of Utah. The property manager reported that this convenience is a major draw for the asset, due to the lack of efficient public transportation in the area.
- Median owner occupied housing value within a one-mile radius of the subject is $338,494, as compared to $225,400 for the state of Utah as a whole. While the estimated median household income for the subject neighborhood is also higher than the state average, the increased cost of home ownership in the local market is a driver for apartment rentals.

Property Description

The subject is situated in the Salt Lake City metropolitan statistical area, approximately 15 miles south of the Salt Lake City central business district. Interstate 15, the primary north-south arterial through the Salt Lake Valley and the state of Utah, is located approximately 0.5 miles east of the subject. The property has frontage and access along both Jordan Gateway and Sterling View Drive. Jordan Gateway runs mainly north and south and provides access to 10600 South and 11400 South and these two roadways provide primary highway access to the area. The project is located 20 miles south of the Salt Lake City International Airport. The collateral is situated within a predominantly residential and commercial neighborhood in South Jordan, comprised of multi- and single family residential developments, with the majority of office and retail uses found along Interstate 15, 10600 South, and Redwood Road. A stand-alone Super Wal-Mart is positioned less than one mile southeast of the subject and a Sam's Club discount center is directly north of the Wal-Mart. Harmon's and Smith's, two of the major grocery chains in the area are found along Redwood Road, approximately two miles northwest of the project. The South Towne Center Mall, a regional shopping mall is at 10600 South, just east of Interstate 15, roughly one mile northeast of the property. Numerous national and local restaurants are also located in the area of the mall. Additionally, there are a number of smaller shopping centers found along State Street, a little more than one mile east of the subject asset, with national brands that include Staples, Bed, Bath & Beyond, Sports Authority, Ulta Beauty and Nordstrom Rack.

The State of Utah's current unemployment rate is 6.0%, which is below the national average of 7.6%. The Salt Lake economy is largely driven by transportation and utilities, high-technology firms, professional and business sectors and financial services. Major employers in the region include the University of Utah, Intermountain Health Care, State of Utah, Granite School District and Salt Lake County, to name a few. Major employment centers in the neighborhood include the River Park Office complex, the South Towne Center, and the South Towne Corporate Center, all of which are located within a 10 mile radius of the property. Key employers in these business parks include Mona Vie (health food) corporate offices, Neumont University, University of South Nevada, the Salt Lake Board of Realtors, Sandy City Offices, and a number of additional corporate uses, medical clinics, and retail shops. South Jordan's city offices are situated three miles west of the collateral. South Jordan elementary school is located roughly 2.5 miles west of the subject and the South Jordan Public library is approximately 2.5 miles west of the asset.

The property is improved with twenty-five, two- and three-story apartment buildings, which house 300 total apartment units. The improvements were constructed on a 19.5 acre parcel of land in 1997 and are well-maintained. Unit amenities include gourmet kitchens, floor-to-ceiling windows, patio / balcony, vaulted or nine-foot ceilings, washer / dryer hookups and a standard appliance package. The project was originally planned as a 1,500 unit community and the amenities were built to handle a large tenant base. When the property was scaled back to its current configuration, the amenities were left in place as if the owner was going to phase in development. However, the additional construction never occurred and there are no known plans for future development. The outdoor pool is a big draw for tenants and includes a year-round hot tub area. The recreation building is sizable and has a free weight area and a yoga studio, which recently underwent an audio / visual upgrade. There is also a steam room and sauna located in the recreation hall, along with a billiards table. The clubhouse includes a business center, complete with high-speed internet access. On-site parking includes 150 direct-access garages and 565 total vehicle spaces, which equates to a parking ratio of 1.88 per unit. The property offers no concessions and there are typically none available in the local marketplace.

A property condition report was prepared by GRS Group in November 2012, which noted that the property was well-maintained, with no evidence of deferred maintenance or immediate repair items identified.

A Phase I environmental summary was also completed by GRS Group in November 2012 and no recognized environmental conditions were identified at the property.

GRS Group prepared a seismic summary for the subject collateral, which concluded to a probable maximum loss of 12%; therefore no earthquake insurance coverage was required as a condition of the loan.

Unit Type Mix

Property Unit Type Overview			
Unit Type	**# of Units**	**% Total**	**Avg. Unit Size (Sq. Ft.)**
Studio/Efficiency	0	0.0%	0
One Bedroom	125	41.7%	938
Two Bedroom	151	50.3%	1,296
Three Bedroom	24	8.0%	1,443
Townhomes/Other	0	0.0%	0
Total	**300**	**100.0%**	**1,159**

Market Overview

The property is located in the West Jordan submarket of the Salt Lake City metropolitan area. The West Jordan submarket includes 54 multifamily projects, which total 10,239 apartment units. As of the first quarter 2013, the mean submarket rental rate for multifamily properties was $934 per unit and average vacancy was 5.6%. For the subject's 1990 to 1999 vintage, average rents reflected a rate of $919 per unit, with an overall availability of 4.1%. Properties built in the decade of the 1990's accounted for 22% of the submarket inventory. Class A apartment projects reported average lease rates of $1,015 per unit, with 6.4% vacancy, while Class B / C properties reported average lease rates of $792 per unit and 4.2% availability.

Since 2000, 4,927 units have been added to the submarket, which effectively doubled the apartment inventory for West Jordan. An additional 2,749 units are planned for delivery, through 2017, which equates to a 27% scheduled increase in multifamily inventory in the submarket. The new construction activity is anticipated to have a detrimental impact on near-term vacancy rates. Per Reis, by 2017 submarket availability rates are estimated to spike 250 basis points above current levels, to 8.1%. However, net absorption has been positive since 2007 and this trend is anticipated to continue through 2017. Submarket rent growth was 1.9% for year-end 2012 and is projected to average a healthy 3.2% per year, through 2017.

The appraiser identified five comparable properties, within a four-mile radius of the subject, which are in direct competition for local tenants. The weighted average occupancy for the comparable set was 95.0% and all of the properties were built in 1995 or later. Morningstar's underwritten market vacancy rate of 5.1% was substantively the minimum market vacancy rate for multifamily properties. The appraiser generally found the comparable set to be similar to the subject, with the exception of unit size and parking (due to the subject's garage feature.) The average rents indicated by the loan collateral are largely above the comparable set on a dollar-for-dollar basis. However, on a per square foot comparison, the subject property's average rental rate of $0.94 per foot appears to be relatively inexpensive, on the strength of the large unit sizes, which average 1,159 square feet. The competitive properties reflected a $1.18 per square foot average for one-bedroom units, $1.01 per square foot for two-bedroom apartments and $1.00 a foot for three-bedroom layouts, respectively. On a comparative basis, the subject's one-bedroom rents equate to $1.01 per square foot; $0.90 per foot for two-bedroom units and $0.97 per square foot for three-bedroom floorplans, respectively.

Sponsorship/Management

The borrowing entity is Sterling Village Partners, LLC, a Utah, single purpose, limited-liability company.

The subject property is managed a borrower affiliated entity.

Morningstar Analysis

	Morningstar	2011	2012	TTM 4/30/13	Issuer Underwriting
Income					
Gross Potential Rent	$3,933,504	$3,717,300	$3,864,329	$3,956,313	
Laundry/Vending	0	0	0	0	
Expense Reimbursement	123,550	85,233	113,049	121,384	
Percentage Rent	0	0	0	0	
Parking Income	6,322	5,536	6,361	6,383	
Other Income	139,455	131,307	136,562	161,860	
Less: Vacancy Loss	-201,882	-143,001	-155,475	-221,086	
Less: Concessions & Collection Loss	-41,636	-81,468	-66,016	-57,961	
Effective Gross Income	**$3,959,313**	**$3,714,907**	**$3,898,810**	**$3,966,893**	**$3,877,171**
Expenses					
Real Estate Taxes	$278,659	$234,026	$241,671	$247,133	
Property Insurance	46,429	115,075	119,415	46,429	
Utilities	209,205	175,668	198,898	203,588	
Repairs and Maintenance	294,380	225,993	242,611	250,539	
Janitorial	0	0	0	0	
Management Fees	158,373	147,467	154,926	138,900	
Payroll & Benefits	394,714	400,399	413,857	378,110	
Common Area Maintenance	0	0	0	0	
Advertising & Marketing	83,694	75,472	78,867	74,360	
Professional Fees	3,635	0	0	0	
General and Administrative	105,000	114,955	152,062	104,239	
Non-Reimbursable Expenses	0	0	0	0	
Other Expenses	0	0	0	0	
Ground Rent	0	0	0	0	
Market Expense Adjustment	0	0	0	0	
Total Operating Expenses	**$1,574,090**	**$1,489,055**	**$1,602,307**	**$1,443,297**	**$1,440,298**
Net Operating Income	**$2,385,224**	**$2,225,852**	**$2,296,503**	**$2,523,596**	**$2,436,873**
Capital Items					
Leasing Commissions	$0	$0	$0	$0	
Tenant Improvements	0	0	0	0	
Capital Expenditures	111,540	0	0	0	
Extraordinary Capital Expenditures	0	0	0	0	
Total Capital Items	**$111,540**	**$0**	**$0**	**$0**	**$101,400**
Net Cash Flow	**$2,273,684**	**$2,225,852**	**$2,296,503**	**$2,523,596**	**$2,335,473**

Analytical Assumptions

The following comments and footnotes provide additional details beyond the description of Morningstar's general analytical approach outlined at the end of this package.

Revenue Drivers

Rent Per Unit Per Month	$1,093
Vacancy (%)	5.00%

Gross potential rent: Morningstar's concluded market rent of $1,093 per unit per month was based on the in-place rents, as of the 4/30/13 rent roll. This figure was slightly higher than the issuer's underwritten rent of $1,090 and above the appraiser's concluded market rental rate of $1,091 for the subject, due to a slight uptick in rents at the property, since the initial underwriting. The issuer was reliant on the January 2013 rent roll and in-place rents have increased marginally since that time. The Reis mean rental rate for the subject's West Jordan submarket was $934 per unit, as of the first quarter of 2013. However, the loan collateral has the largest average unit size of any project in the submarket.

Vacancy loss: As of April 30, 2013, the asset is currently 99.0% and has averaged 95.3% occupancy for the past three years. Reis' mean submarket vacancy as of the first quarter of 2013 was 5.6%. Morningstar's underwritten vacancy rate of 5.1% was roughly equivalent to our minimum rate for multifamily projects. The issuer's underwritten vacancy was 6.8% and was derived from the property occupancy of 93.3%, as of January 2013.

Concessions and collection loss: No concessions are currently being offered at the subject property. Underwritten concessions and collection loss were underwritten at 1.1% of effective gross income, which is consistent with the issuer and slightly below the trailing 12-month results. A review of the property's historical collections shows that concessions have been trending downward over the last 12 months and the new owner does not intend to offer any rent incentives.

Expenses

Expenses are underwritten in-line with historicals unless otherwise noted.

Real Estate Taxes: Underwritten based on tax data for Salt Lake County for 2013, as confirmed by the county assessor's office. The subject's assessed value increased 15% in 2013, to $34.87 MM, from $30.33 MM in 2012. As a result, Morningstar used the updated value and 2012 tax rates (2013 rates are not yet available) in underwriting.

Management Fees: The actual contractual rate with the borrower related management company is 4%, which was underwritten. The issuer's underwritten management fee was 3.0%.

General and Administrative: The issuer's number was based on the borrower's budget and less than one-half of trailing 12-month historical expense. Morningstar placed greatest reliance on the trailing 12 results, which is consistent with the appraiser's projections for the property.

Capital Items

A reserve for future capital expenditures is underwritten at $372 / unit, a 10% increase over the engineer's recommended inflated reserves.

Valuation Drivers

Morningstar utilized a 6.60% base capitalization rate in its valuation analysis, which was based on the concluded overall rate for the Salt Lake City, Utah multifamily market. Capitalization rates are updated regularly and are compiled from a review of relevant market data, including numerous investor surveys and comparable sales data. No adjustments were required for property condition or alternative uses. Morningstar's final overall rate was higher than both the appraiser's estimate of 5.5% and recent comparable sales in the submarket, which reflected an average capitalization rate of 6.0%.

Aston Woods

Analyst: Mike Magerman 267-960-6022
Analytical Manager: David Sondesky 267-960-6042

Property Summary		
Property Type	Multifamily/Garden	
Location	Silver Spring, MD	
Year Built/Renovated	1986/2005	
Multifamily Units	261	
Net Rentable Sq. Ft. (Other)	n/a	
Occupancy	94.60%	As of: 5/31/13
Ownership	Fee Simple	

Loan Summary		
Loan Amount (Original Balance)	$32,800,000	($125,670/unit)
Loan Amount (Cut-Off Balance)	$32,800,000	($125,670/unit)
Loan Term (months)	120	
I/O Period (months)	36	
Amortization Term (months)	360	
Loan Seasoning (months)	4	
Interest Rate	4.02000%	

Morningstar Analysis		
Current DSCR	1.71 x	
Amortizing DSCR	1.21 x	
Beginning LTV	96.12%	
Ending LTV	83.18%	
Capitalization Rate	6.70%	
Morningstar Occupancy	94.63%	
Net Operating Income	$2,391,090	
Net Cash Flow	$2,286,285	
Value	$34,123,660	($130,742/unit)
Debt Yield	6.97%	
Morningstar Site Visit	Yes	
Property Score	3 (Average)	

Capital Structure Table

Capital Structure Table

Loan	Balance	Interest Rate	Current DSCR	DSCR Amtz	BLTV	ELTV
Mortgage Loan	$32,800,000	4.02000%	1.71 x	1.21 x	96.1%	83.2%
Total	**$32,800,000**	**4.02000%**	**1.71 x**	**1.21 x**	**96.1%**	**83.2%**

Morningstar Summary

Morningstar Perspective

The $32,800,000 ($125,671 per unit) 10-year loan facilitated the acquisition of the property in January 2013 at a purchase price of $40.75 million. The loan has an interest only period of 36 months followed by 30-year amortization. Aston Woods is a well-located garden apartment complex completed in 1986 and renovated in 2005 in Silver Spring, Maryland. The property's location is about 15 miles north northeast of Washington, D.C., 25 miles southwest of Baltimore, five miles north of the I-495 Capital Beltway and two miles west of I-95. The property is part of a grouping of apartment complexes on Silver Spring's north side, well outside the beltway, just east of Columbia Pike. All of the competitors have occupancy ranging from 94% to 97% according to the January 2013 appraisal, which is in line with the vacancy of 3% reported by Reis for the wider Northeast Montgomery submarket.

Located in Montgomery County just outside Washington, D.C.'s northern point, Silver Spring is an unincorporated area. It is a census-designated place, and had a 2010 population of 71,452. The 2010 figure is somewhat less than the 76,000+ reported in both the 1990 and 2000 censuses, though the decrease is likely related to the redrawing of the census map after 2000. The median value of a home or condominium unit in Silver Spring was $442,100 in 2009, up from $183,300 in 2000. While the Silver Spring median home price increased by 141% from 2000 to 2009, the average asking rent in the Northeast Montgomery submarket rose by just 34% over the same period, according to Reis statistics. The relative levels between the cost of buying versus renting should support continued rental demand at or near current occupancy rates, though recent low interest rates have aided home purchasing power and cut substantially into the differential.

There are several major agencies of the U.S. government in Montgomery County that provide employment. These agencies include the Food and Drug Administration, the National Institutes of Health and Walter Reed Army Institute of Research. Other agencies regulate science, technology, energy and consumer protection. The U.S. Department of Health and Human Services, the U.S. Department of Defense and the U.S. Department of Commerce are among the county's largest employers, collectively with 50,000 employees in the county.

Morningstar's net cash flow is 11.9% lower than for a nine-month annualized period ended May 31, 2013, due primarily to Morningstar's lower gross potential revenue, higher operating expenses and underwritten capital expenditures reserve. Morningstar's amortizing debt service coverage is 1.21 x, and beginning LTV is 96%.

The property appears to be well positioned to remain competitive in its local market, as occupancy has settled in a range of 94% to 95% over the last three years. The most recent reported occupancy was 94.6% as of May 2013. In a submarket where vacancy has been less than 5% since the third quarter of 2010, and given that the property's five closest similar-vintage competitors in Silver Spring have an average vacancy of 5.0%, it is likely that the property will continue to achieve occupancy levels in its recent range around 94% to 95%. There should be very little pressure on occupancy due to added supply, as fewer than 600 new units (a 6.3% increase to inventory) are expected to be delivered in the submarket through 2017, according to Reis. Consequently, Reis expects vacancy to remain below 3.5% through 2017.

The Bears Say

- The property is relatively old, having been completed in 1986. The age is mitigated somewhat by the generally old apartment inventory in the submarket, where 54% of all units were built before 1980 and only 4% were built in 1990 or later.
- The property's location outside the Capital Beltway is somewhat distant from Washington, D.C. compared to many other suburban areas in Maryland, requiring a 15-minute drive to get to the nearest Metro station, the Glenmont station at the end of the Red Line, or a 20-minute drive to the Greenbelt station at the end of the Green Line.
- The sponsor is new to the market with the purchase of the property in January 2013. This risk is offset by the sponsor's industry experience of more than 30 years, ownership of more than 2,200 apartment units and its history as a repeat Freddie Mac borrower.

The Bulls Say

- Local apartment development has been non-existent, with no new additions in the submarket reported since 1995. The forecast calls for the addition of 542 new units from 2015 through 2017, which would increase inventory by 6.3%. Vacancy dipped to 3.0% in the first quarter from 3.7% one year earlier.
- Occupancy has been at 94% or better since 2009.

- The property is in Silver Spring, a suburb of Washington, D.C. with excellent access by road and public transportation.
- The unemployment rate for Washington, D.C. and its suburbs was 5.6% as of May 2013, ranking it 68th among the 372 metro areas listed by the Bureau of Labor Statistics.
- The presence of the federal government and its various agencies in the local area makes Silver Spring and surrounding communities more able to withstand economic downturns.

Property Description

The property is a garden-style apartment complex with 261 units in 12 three-story buildings. The property was completed in 1986 on 14.21 acres, and contains 383 parking spaces in surface lots. The property is about 15 miles north northeast of the center of Washington, D.C., and eight miles northeast of downtown Silver Spring. Common amenities include a leasing office / clubhouse with a kitchen and fireplace, fitness center, business center with Wi-Fi, swimming pool, two playgrounds and a sports court. Units include frost-free refrigerators with ice makers, other standard kitchen appliances, washer and dryer, and balcony. Third floor units have gas fireplaces.

Despite the property's age and lack of any significant large-scale renovation, the property condition assessment had a relatively low total for identified immediate repairs of $22,650. The majority of the expense was related to repair and replacement of worn asphalt.

Morningstar visited Aston Woods on July 16, 2013. Located just off Briggs Chaney Road, near the junction of Columbia Pike and the Intercounty Connector Toll Road, the property is a well-maintained garden-style apartment complex that looks newer than its actual age. The grounds are attractively landscaped. The leasing office has a bright, open feeling with a lot of glass and natural light, and looks out onto the pool and deck area. Unit kitchens have been updated with new appliances, countertops and cabinets. Only a small number of kitchens have not been renovated due to long-time tenants who have chosen to decline the upgrades or avoid the disruption of a renovation. Third floor units have high ceilings and track lighting in the kitchen, in addition to gas fireplaces in the living room. Those units command a rent premium of $50 to $100 per month. Morningstar has assigned the property a score of 3 (average).

Management reports that concessions are used on occasion to boost occupancy when necessary. Though several government agencies are scattered throughout the area, there are no large tenant concentrations from any particular agency. The tenancy is reported to be fairly diverse in terms of age and occupation.

Unit Type Mix

Property Unit Type Overview

Unit Type	# of Units	% Total	Avg. Unit Size (Sq. Ft.)
One Bedroom	130	49.8%	763
Two Bedroom	131	50.2%	963
Total	**261**	**100.0%**	**863**

Market Overview

Aston Woods is in the Northeast Montgomery submarket of the Suburban Maryland apartment market, as defined by Reis. Within this submarket, the average asking rental rate was $1,351 per unit per month as of the first quarter of 2013, and was slightly lower at $1,318 per unit per month for properties completed from 1980 to 1989 which are comparable to the subject property. Nearly all of the submarket's units, 96%, were built before 1990, and 34% before 1970, making the local inventory fairly old. The overall submarket average asking rent has been rising at a slow pace; the most recent rate represents an increase of 0.1% from the prior quarter and 2.1% from one year earlier. Reis predicts that asking rents in the submarket will increase at an average annual compound rate of 2.4% from 2013 through 2017.

The January 2013 appraisal identified five comparable properties with a total of 1,814 units. The comparable properties are all in Silver Spring. The average vacancy for the comparables group was 5.1%, and ranged from 3% to 6%, including the subject property. Excluding the subject property, the average vacancy was 5.0%. The Reis overall vacancy for the submarket was 3.0% as of first quarter 2013, down from 3.2% the previous quarter and 3.7% one year earlier.

The most recent weighted average rent at the subject was $1,269 per unit per month as of May 2013, a 2.2% decrease from the previous reported average of $1,298. Both values are lower than the Reis submarket average for the 1980 to 1989 vintage of $1,318 per unit per month. The appraisal concluded a market rent of $1,585 per unit per month. Morningstar underwrote rents at $1,269 per unit per month, the same as the most recent reported in-place average.

The appraisal concluded a market vacancy of 5.5%, including 0.5% for collection loss. Morningstar underwrote vacancy at 5.4%, which is also the property's most recent reported vacancy. The average vacancy over the last three historical reporting periods is 5.4%.

Sponsorship/Management

The borrowing entity is a single-purpose Delaware limited partnership. The property manager is a third-party management company.

Morningstar Analysis

	Morningstar	2010	2011	T9 annualized 5/31/13	Issuer Underwriting
Income					
Gross Potential Rent	$3,974,508	$3,774,231	$3,864,365	$4,046,367	
or					
Base Rent	0	0	0	0	
Laundry/Vending	0	0	0	0	
Expense Reimbursement	56,856	44,523	47,772	57,036	
Percentage Rent	0	0	0	0	
Parking Income	0	0	0	0	
Other Income	55,391	55,522	53,967	61,079	
Less: Vacancy Loss	-215,219	-212,777	-197,037	-217,239	
Less: Concessions & Collection Loss	-18,806	-101,369	-19,655	-6,575	
Effective Gross Income	**$3,852,730**	**$3,560,130**	**$3,749,412**	**$3,940,668**	**$3,917,003**
Expenses					
Real Estate Taxes	$307,605	$315,199	$273,345	$270,445	
Property Insurance	83,107	35,297	31,332	38,597	
Utilities	121,864	110,726	116,247	111,748	
Repairs and Maintenance	289,017	274,688	263,704	305,107	
Janitorial	0	0	0	0	
Management Fees	115,582	132,583	139,323	139,519	
Payroll & Benefits	399,527	387,721	380,447	347,201	
Common Area Maintenance	0	0	0	0	
Advertising & Marketing	68,112	76,439	73,764	56,227	
Professional Fees	8,805	7,384	6,170	10,219	
General and Administrative	68,023	55,649	69,000	66,018	
Non-Reimbursable Expenses	0	0	0	0	
Other Expenses	0	0	0	0	
Ground Rent	0	0	0	0	
Market Expense Adjustment	0	0	0	0	
Total Operating Expenses	**$1,461,640**	**$1,395,686**	**$1,353,332**	**$1,345,081**	**$1,462,671**
Net Operating Income	**$2,391,090**	**$2,164,444**	**$2,396,080**	**$2,595,587**	**$2,454,331**
Capital Items					
Leasing Commissions	$0	$0	$0	$0	
Tenant Improvements	0	0	0	0	
Capital Expenditures	104,805	0	0	0	
Extraordinary Capital Expenditures	0	0	0	0	
Total Capital Items	**$104,805**	**$0**	**$0**	**$0**	**$79,344**
Net Cash Flow	**$2,286,285**	**$2,164,444**	**$2,396,080**	**$2,595,587**	**$2,374,987**

Analytical Assumptions

The following comments and footnotes provide additional details beyond the description of Morningstar's general analytical approach outlined at the end of this package.

Revenue Drivers

Rent Per Unit Per Month	$1,269
Vacancy (%)	5.4%

Rent was underwritten at $1,269 per unit per month, which is the most recent reported in-place average rent. Vacancy was underwritten at 5.4%, which is the most recent reported vacancy, and the same as the average of the three most recent historical periods. The underwritten vacancy is higher than the Reis overall submarket vacancy of 3.0%. The appraisal's comparable properties had a vacancy of 5.1% including the subject property.

Expenses

Expenses are underwritten in-line with historicals unless otherwise noted. Morningstar underwrote real estate taxes at the appraisal number, which is based on the estimated phase in of a higher future assessment. Morningstar underwrote management fees at 3% of effective gross income, which is the contract fee under the new ownership and management.

Capital Items

A reserve for future capital expenditures is underwritten at $402 per unit per year, a 10% increase over the engineer's recommended reserves.

Valuation Drivers

The appraisal's capitalization rate analysis is based on the rates of recent comparable apartment sales and market surveys. The appraisal concluded that the direct capitalization rate for the subject is 6.0%. The sales included in the appraisal's comparison resulted in an average 5.92% capitalization rate. Morningstar's base multifamily capitalization rate for Suburban Maryland is 6.6%. Morningstar added 10 basis points to the Suburban Maryland multifamily base capitalization rate for its distance from downtown Silver Spring, resulting in the final Morningstar capitalization rate of 6.7%.

Park Colony Apartments

Analyst: Min Qian 646-560-4510
Analytical Manager: Dave Sondesky 267-960-6042

Property Summary		
Property Type	Multifamily/Garden	
Location	Hollywood, FL	
Year Built/Renovated	1987/2012	
Multifamily Units	316	
Net Rentable Sq. Ft. (Other)	n/a	
Occupancy	95.90%	As of: 6/18/13
Ownership	Fee Simple	

Loan Summary		
Loan Amount (Original Balance)	$31,794,000	($100,614/unit)
Loan Amount (Cut-Off Balance)	$31,794,000	($100,614/unit)
Loan Term (months)	120	
I/O Period (months)	24	
Amortization Term (months)	360	
Loan Seasoning (months)	5	
Interest Rate	4.16000%	

Morningstar Analysis		
Current DSCR	1.70 x	
Amortizing DSCR	1.22 x	
Beginning LTV	94.93%	
Ending LTV	80.33%	
Capitalization Rate	6.80%	
Morningstar Occupancy	95.00%	
Net Operating Income	$2,373,831	
Net Cash Flow	$2,277,576	
Value	$33,493,764	($105,993/unit)
Debt Yield	7.16%	
Morningstar Site Visit	Yes	
Property Score	3 (Average)	

Capital Structure Table

Loan	Balance	Interest Rate	Current DSCR	DSCR Amtz	BLTV	ELTV
Mortgage Loan	$31,794,000	4.16000%	1.70 x	1.22 x	94.9%	80.3%
Total	**$31,794,000**	**4.16000%**	**1.70 x**	**1.22 x**	**94.9%**	**80.3%**

Morningstar Summary

Morningstar Perspective

Park Colony Apartments loan is secured by the fee simple interest in a 316-unit, garden style apartment complex located in Hollywood, Florida. The ten-year, $31.7 million ($100,614 per unit) loan provided proceeds to facilitate the acquisition of the property at a purchase price of $41.5 million ($131,329 per unit). The borrower contributed approximately $9.7 million of cash equity at the time of closing.

The subject is located in West Hollywood submarket,which is about 11 miles south of the Fort Lauderdale CBD. It is situated at the intersection of South Park Road and Washington St, close to Florida's Turnpike and Interstate 95. The neighborhood serves both residential and commercial uses. Properties adjacent to the subject are the Memorial Regional Hospital South and Orangebrook Gold & Country Club. Within a 20-minute drive, there are over 17.0 million square feet of office spaces surrounding the subject.

Built in 1987, the subject conducted major renovation between 2005 and 2012 with total cost of $6.0 million ($18,987 per unit). As a result, 242 units (77%) have been upgraded with new appliances, cabinets, countertops, flooring, hardware and light fixtures, and signages. The subject has been stably occupied during the past three years with an average vacancy rate of 4.8%. According to the updated rent roll as of 6/18/2013, the subject was 95.9% occupied. The market condition is favorable with limited new developments. Only 40 completions are expected to be added to the stock in the next four years according to Reis submarket report. The report projected an average vacancy rate of 3.8% for the submarket in next four years.

Morningstar underwrote NOI at $2.4 million ($1,193 per unit per month). Morningstar' Gross Potential Rent assumption of $1,193 per unit per month is based on the in-place rent of $1,197 per unit as per the June 18, 2013 rent roll and appraisal's estimate of $1,187 per unit. This average rent is substantially higher than the Reis reported mean rent of $958 per unit. The subject has been stably improving its performance and Morningstar's rent assumption is generally in line with historical reportings. The fact is that the subject has renovated 77% of the units and has received additional income ranging from $60 per unit per month to $120 per unit per month depending on the type of unit upgrades. The net cash flow is 1.9% lower than the issuer's underwriting and the valuation is 21.2% lower than the appraised value at $42.5 million. Based on our analysis, the loan is estimated to have a leverage of 95% at closing and a DSCR (Amortizing) of 1.22 times net cash flow during the loan term.

The Bears Say

- Morningstar's underwritten debt service coverage ratio is 1.22x, leaving little margin of safety in the event of a decrease in cash flow.
- The loan is interest-only for the first 24 months.
- The subject has a corporate tenant concentration of 10.4% with 33 units leased to Royal Caribben, the world's second-largest cruise line operator. Accroding to the T-12 ending 12/31/2012, Royal Caribben paid an average corporate rent premium of $236 per unit per month.
- The subject's average rent is higher than the market rent. According to the updated rent roll as of 6/18/2013, the inplace rent was $1,197 per unit per month. The number is higher than Reis submarket mean rent of $958 per unit and $1,011 per unit of similar vintage properties (Vintage 1980 -1989) due to the subject's renovation premiums.

The Bulls Say

- The borrower has a total amount of $9.7 million cash equity in the trasaction, representing about 23.4% of the cost basis.
- The subject is well located in the suburban area of Fort Lauderdale with convenient access to Interstate 95 and Florida's Turnpike. Over 17 illion square feet of office spaces are located within a 20-minute drive from the subject.
- Built in 1987, the subject conducted renovation between 2005 and 2012 with 242 units (77%) being upgraded. The remaining units will be renovated upon turnover. According to Reis submarket report, about 59% of the inventories were built earlier than the subject.

Property Description

Park Colony Apartments is a 316-unit garden style apartment community situated in Hollywood, Florida, approximately 11 miles south of Fort Lauderdale CBD. The immediate area serves both residential and commercial uses. Properties adjacent are Memorial Regional Hospital South and Orangebrook Gold & Country Club. There are two shopping centers and one Winn Dixie Stores within a two-mile radium from the subject. The beaches are approximately four miles to the east and are easily accessed by Hollywood Boulevard. The area is well served by public transportation including buses, Tri-Rail and Amtrak. The subject is close to Florida's Turnpike and Interstate 95. Interstate 95 connects major cities along the Atlantic Coast of Florida, heading north from Miami to Jacksonville.

Built in 1987, the property was renovated between 2005 and 2012 with total cost of $6.0 million ($18,987 per unit.) As a result, 242 units (77%) have been upgraded with new appliances. Common area amenities include gated access, a clubhouse with lounge area, fitness center, business center, two swimming pools, spa, tennis court, BBQ and picnic areas, laundry facilities and a car care center. Unit amenities include a range/oven, refrigerator, garbage disposal, dish washer, washer and dryer connections and a patio/balcony area. Renovated units feature a microwave. The property provides 486 open parking spaces (1.5 spaces per unit).

The subject has a corporate tenant concentration of 10.4%. Royal Caribben has been leasing 33 units since 2001. The lease terms are for 12 months and expirations are staggered throughout the year. Royal Caribben paid a premium of $236 per unit per month accroding to the T-12 ending 12/31/2012.

Morningstar visited the subject on July 8th, 2013. As the date of inspection, the subject was 95.0% occupied and no concessions are being offered. Major corporate tenants include Memorial Regional Hospital, which is located less than one-half mile from the subject and Seminole Hard Rock Casino. We found the property to be in good overall condition with no items of derred maintenance noted. Morningstar assigned a property score of "3" or "average".

Unit Type Mix

Property Unit Type Overview			
Unit Type	**# of Units**	**% Total**	**Avg. Unit Size (Sq. Ft.)**
One Bedroom	192	60.8%	723
Two Bedroom	92	29.1%	980
Three Bedroom	32	10.1%	1,353
Total	**316**	**100.0%**	**862**

The property consists of 316 total units with an average size of 862 square feet. The majority of the units (60.8%) are centered in one-bedroom floor plans. There are 192 units of one-bedroom with an average of 723 square feet, 92 units of two-bedroom with an average of 980 square feet, and 32 units of three-bedroom with an average of 1,353 square feet.

Market Overview

The subject is located in the West Hollywood submarket of Fort Lauderdale, Florida as defined by Reis. As the twelfth largest city in Florida, Hollywood had a population of 140,768 people based on the 2010 Census data. The median household income for the metropolitan area is $51,835, which is about 4.8% lower than the United States median household income. According to U.S. Bureau of Labor Statistics, the unemplyeement rate of Hollywood, Florida was 5.7% as of April 2013, stably dropped from five-year higest point at 10.3% in July 2010. Top employers include Memorial Healthcare System, the Continental Group and BrandsMart.

Port Everglades is located eight miles northeast of the subject. The port is the third busiest cruise port worldwide and is considered major economic powerhouse in the South Florida area, which provides 200,000 jobs statewide. It generates $18.0 billion worth of business activities and handles more than 3.6 million cruise passengers per year. The port is home to many famous cruise lines including Royal Caribbean Cruise Lines.

The submarket has a total inventory of 5,352 units. Reis reported that the mean asking rent was $958 per unit per month and the mean vacancy rate was 2.0% during the first quarter in 2013. Approximately 10.0% of the total inventory was built within the Reis identified 1980-1989 vintage tier. According to Reis submarket data, the asking rent was about $1,011 per unit per month and the average vacancy rate was 3.6% for the 1980-1989 vintage. Based on Reis report, 40 completions are expected to be added by 2017. Reis submarket report forecasted that the future vacancy rate will be stable at around 3.5%.

The appraiser identified six direct competitors situated close to the subject with a total of 1,828 units, built between 1974 and 2001. Average comparable rental rates for the one-bedroom, two-bedroom and three-bedroom units were $1,079 per unit, $1,330 per unit and $1,607 per unit, respectively. Based on the subject's unit mix, the appraisal concluded a 6.7% vacancy rate for the subject property with model units and apartment allowance included.

Sponsorship/Management

The borrower is Park Colony LLC, a single-purpose, Delaware limited liability company.

The property is managed a third-party management company. The contractual management fee is the greater of 3.0% of Effective Gross Income or $9,000 annually.

Morningstar Analysis

	Morningstar	2010	2011	T-10 3/31/2013	Issuer Underwriting
Income					
Gross Potential Rent	$4,524,044	$4,080,057	$4,146,114	$4,348,901	
or					
Base Rent	0	0	0	0	
Laundry/Vending	12,314	12,796	10,481	13,584	
Expense Reimbursement	237,957	280,960	276,824	138,676	
Percentage Rent	0	0	0	0	
Parking Income	0	0	0	0	
Other Income	272,349	209,275	238,633	367,602	
Less: Vacancy Loss	-239,053	-192,223	-215,713	-199,166	
Less: Concessions & Collection Loss	-27,642	-19,643	-34,839	-22,375	
Effective Gross Income	**$4,779,969**	**$4,371,222**	**$4,421,500**	**$4,647,221**	**$4,727,698**
Expenses					
Real Estate Taxes	$775,217	$614,046	$664,176	$641,656	
Property Insurance	225,725	244,050	219,239	232,085	
Utilities	290,884	267,114	267,456	283,544	
Repairs and Maintenance	235,813	226,582	231,067	216,323	
Janitorial	0	0	0	0	
Management Fees	143,399	165,046	166,971	180,154	
Payroll & Benefits	438,534	392,716	402,019	431,845	
Common Area Maintenance	0	0	0	0	
Advertising & Marketing	73,732	65,257	63,422	75,804	
Professional Fees	9,049	9,805	10,576	6,709	
General and Administrative	213,784	164,463	193,510	189,868	
Non-Reimbursable Expenses	0	0	0	0	
Other Expenses	0	0	0	0	
Ground Rent	0	0	0	0	
Market Expense Adjustment	0	0	0	0	
Total Operating Expenses	**$2,406,137**	**$2,149,079**	**$2,218,436**	**$2,257,987**	**$2,319,085**
Net Operating Income	**$2,373,831**	**$2,222,143**	**$2,203,064**	**$2,389,234**	**$2,408,613**
Capital Items					
Leasing Commissions	$0	$0	$0	$0	
Tenant Improvements	0	0	0	0	
Capital Expenditures	96,256	0	0	0	
Extraordinary Capital Expenditures	0	0	0	0	
Total Capital Items	**$96,256**	**$0**	**$0**	**$0**	**$87,532**
Net Cash Flow	**$2,277,576**	**$2,222,143**	**$2,203,064**	**$2,389,234**	**$2,321,081**

Analytical Assumptions

The following comments and footnotes provide additional details beyond the description of Morningstar's general analytical approach outlined at the end of this package.

Revenue Drivers

Rent Per Unit Per Month	$1,193
Vacancy (%)	5.00%

Morningstar's underwritten rent was based on an analysis of the in-place rent of $1,197 per unit and the concluded market rent of $1,187 per unit. The vacancy rate is underwritten at 5.0% which is supported by the in-place 4.6% vacancy and a market rate of 3.9% from Reis submarket report.

Expenses

Expenses are underwritten in-line with historicals except for Real Estate Taxes, Property Insurance, and Management Fee.

Real Estate Taxes was underwritten to issuer's estimate which was based on 80% of the purchase price, plus special assessment less Florida's 4% discount for early payment. Propery Insurance was underwritten to the actural insurance premium. Manangement Fee was underwritten to 3% of Effective Gross Income. The actual contract rate with a third-party management company is the greater of 3.0% or $9,000 per month.

Capital Items

A reserve for future capital expenditures is underwritten at $305 per unit annually, a 10.0% increase over the engineer's recommended reserves.

Valuation Drivers

Morningstar's capitalization rate was based on a market multifamily capitalization rate of 6.80% for Fort Lauderdale, Florida. The capitalization rate is 130 bps higher than the appraisal's estimate rate of 5.50%.

Broadwater Apartments

Analyst: Min Qian 646-560-4510
Analytical Manager: Dave Sondesky 267-960-6042

Property Summary		
Property Type	Multifamily/Garden	
Location	Orlando, FL	
Year Built/Renovated	1987/2012	
Multifamily Units	408	
Net Rentable Sq. Ft. (Other)	n/a	
Occupancy	92.40%	As of: 6/25/13
Ownership	Fee Simple	

Loan Summary		
Loan Amount (Original Balance)	$28,360,000	($69,510/unit)
Loan Amount (Cut-Off Balance)	$28,360,000	($69,510/unit)
Loan Term (months)	120	
I/O Period (months)	24	
Amortization Term (months)	360	
Loan Seasoning (months)	4	
Interest Rate	3.97000%	

Morningstar Analysis		
Current DSCR	1.75 x	
Amortizing DSCR	1.23 x	
Beginning LTV	100.12%	
Ending LTV	84.27%	
Capitalization Rate	7.05%	
Morningstar Occupancy	91.76%	
Net Operating Income	$2,111,785	
Net Cash Flow	$1,997,026	
Value	$28,326,612	($69,428/unit)
Debt Yield	7.04%	
Morningstar Site Visit	Yes	
Property Score	3 (Average)	

Capital Structure Table

Capital Structure Table

Loan	Balance	Interest Rate	Current DSCR	DSCR Amtz	BLTV	ELTV
Mortgage Loan	$28,360,000	3.97000%	1.75 x	1.23 x	100.1%	84.3%
Total	**$28,360,000**	**3.97000%**	**1.75 x**	**1.23 x**	**100.1%**	**84.3%**

Morningstar Summary

Morningstar Perspective

The Broadwater Apartments loan is secured by the fee simple interest in a 408-unit, garden style apartment complex located in Orlando, Florida. The ten-year, $28.4 million ($69,510 per unit) loan provided proceeds to facilitate the acquisition of the property at a purchase price of $37.0 million ($90,686 per unit). The borrower contributed approximately $10.1 million of cash equity in the transaction at the time of closing, representing 26.9% of the total cost basis.

The subject is located in the Far South/Lake Buena Vista submarket as defined by Reis,which is about 15 miles south of Orlando CBD. It is situated at the northwest corner of International Drive and Westwood Boulevard. Primary access to the neighborhoods is provided by Bee Line Expressway, the Central Flordia Greenway, I-4 and Florida's Turnpike. As one of the most popular tourist destination in the nation, the surrounding area consists retail, residential and entertainment facilities. The immediate neighborhood is dominated by Marriott's Grande Pines Golf Club. Disney World, Sea World and Universal Studios are all located less than 10-minute drive away from the subject.

Built in 1987, the subject conducted major renovation between 2009 and 2012, which impacted the occupancy rate to a certain extent during this period. The borrower has budgeted another $2.3 million capital improvements to upgrade amenities and unit interiors. We have seen that the subject improved its occupancy rate steadily from 87.7% in 2010 to 92.9% in 2012. According to the updated rent roll as of 6/25/2013, the subject was 92.4% occupied. However, according to Reis submarket report, about 264 units were added to the stock in 2013, followed by another 510 units projected to be added in the next four years. Morningstar's underwriting was conservative with a higher concluded vacancy rate at 8.2%, which was the four-year weighted average rate, compared to appraisal's estimate of 7.0%.

Morningstar underwrote NOI at $2.1 million ($920 monthly rent per unit). Morningstar underwrote Gross Potential Rent at the in place rent of $920 per unit per month as of June 25, 2013 rent roll. It generally matches the appraisal's weighted average market rent of $915 per unit and is higer than Reis Q1 2013 submarket mean rent of $895 per unit for similar vintage properties (Vintage 1980 – 1989). Morningstar used four-year weighted average vacancy rate for the subject, which is higher than the in place vacancy rate of 7.6% as of June 25, 2013 rent roll. The current market mean vacancy rate was about 5.5% based on Reis submarket report. However, with new completions being added to the market, the subject's vacancy rate could be adversely affected. The net cash flow is 2.9% lower than the issuer's underwriting and the valuation is 24.3% lower than the appraised value at $37.4 million. Based on our analysis, the loan is estimated to have a leverage of 100% at closing and a DSCR (Amortizing) of 1.23x.

The Bears Say

- Morningstar's underwritten amortizing debt service coverage ratio is 1.23x, leaving little margin of safety in the event of a decrease in cash flow.
- The loan is interest-only for the first 24 months.
- The Guarantor, Stephen Vecchitto, filed for Chpter 7 bankruptcy in 1993 due to the defaults of two loans. The risk is mitigated by the guarantor's strong net worth of $23.6 million and liquidity of $4.8 million.
- According to Reis report, 264 units are being added to the stock in 2013. Another 510 units are expected to be added in the next four years, representing a 7% increase in supply.

The Bulls Say

- The borrow has a total $10.1 million cash equity in the trasaction, representing approximately 26.9% of the cost basis.
- The subject is well located in the suburban area of Orlando with convenient access to major areas through I-4 and Florida's Turnpike.
- The subject was renovated between 2009 and 2012, followed by a future plan on upgrading amenities and unit interiors.

Property Description

Broadwater Apartments is a 408-unit garden style apartment community located approximately 15 miles south of Orlando, Florida. The property adjacent to the subject is the Marriott's Grande Pines Gold Club, credited on Golf Week's "100 Greatest Modern Courses" list. Orlando Premium Outlet, one of the most famous outlet malls in the state, is located less than two miles away. Disney World, Sea World and Universal Studios are all less than a 10-minute drive away from the property. The subject has good access through Bee Line Expressway to the north, The Central Florida Greenway to the south, I-4 to the west and Florida's Turnpike to the east.

Built in 1987, the property was renovated between 2009 and 2012. About 139 units (34%) have either received full or mid-level interior upgrades including over-the-range microwaves, light fixtures and plumbing fixtures, ceiling fans with light kits and door hardware. The borrower has budgeted another $2.3 million to improve the remaining units and to upgrade recreation amenities, and office and model redesign. Common area amenities include two swimming pools, a spa, fitness center, racquetball court, playground area, game room, business center BBQ and picnic area, car care center and gated acess. Units amenities include washer and dryer, range/oven, refrigerator, dishwasher, walk-in closets and a patio/balcony area. The property provides 720 open parking spaces. (1.8 spaces per unit)

Morningstar visited the subject on July 8th, 2013. As the date of inspection, the subject was 90.3% occupied. Concessions of half month free rent were offered on the 12 month lease. The subject features four floor plans ranging from one-bedroom to two-bedroom units. Unit amenities include a screened-in private patio/balcony, full-size washer/dryer, and select units offer premium golf course views. The comparables are all nearby complexes competing for tenants. Though the subject is physically older than the comparables, its relatively lower rent and recent renovation make it competent compared to nearby newer vintage properties. We found the property to be in good overall condition with no items of derred maintenance noted. Morningstar assigned a property score of “3” or “average”.

The property condition assessment identified $35,600 immediate capital repairs. Recommended repairs include replacing sidewalks, upgrading in front of leasing office and sod, repairing cracking at spa deck and replacing broken tiles, reconstructing ramp to meet ADA slope requirements, adding two van accessible parking spaces, installing handrails at office ramp, replacing damaged downspouts and eroded areas, replacing and repainting rotted siding, installing barriers under the stairwells for the visually impaired, selective testing of FPE “Stab-Lok” breaker panels, and replacing pedestal sink at leasing office with an ADA accessible sinkimprovements, fire suppression system re-testing and drywall repairs to correct minor mold growth.

Unit Type Mix

Property Unit Type Overview			
Unit Type	**# of Units**	**% Total**	**Avg. Unit Size (Sq. Ft.)**
One Bedroom	136	33.3%	685
Two Bedroom	272	66.7%	882
Total	**408**	**100.0%**	**816**

The property consists of 408 total units with an average size of 816 square feet. The majority of the units (66.7%) are centered in two-bedroom floor plans. There are 136 units of one-bedroom with an average of 685 square feet and 272 units of two-bedroom with an average of 882 square feet.

Market Overview

The subject is located in the Far South submarket of Orlando, Florida as defined by Reis. The area is famous for the theme park resorts, which represents a major source of employeement. Disney World, Sea World and Universal Studios, three of the six largest employers in the Orlando MSA, combine to employ over 78,000 people. Sea World along with its Aquatica and Discovery Cove parks are located approximately one-mile from the property and employ over 7,000 employees.

The submarket has a total inventory of 7,270 units. Reis reported that the mean asking rent was $1,084 per unit per month and the mean vacancy rate was 5.5% during the first quarter in 2013. Approximately 27.0% of the total inventory was built within the Reis identified 1980-1989 vintage tier. According to Reis submarket data, the asking rent was about $895 per unit per month and the average vacancy rate was 4.6% for the 1980-1989 vintage. Based on Reis report, 264 completions were added to the stock in 2013, and another 510 completions are expected to be added within the next four years. Reis submarket report forecasted that the future vacancy rate would be stable at around 5.4%.
The appraiser identified five direct competitors situated close to the subject with a total of 2,222 units, built between 1987 and 2008. Average comparable rental rates for one-bedroom and two-bedroom units were $932 per unit and $1,101 per unit, respectively. Based on the subject’s unit mix, the appraisal concluded a weighted average rental rate of $915 per unit.The appraisal reported a comparable property vacancy of 4.7% excluding the subject, and concluded a 7% vacancy rate for the subject property.

Sponsorship/Management

The borrower is Advenir at Broadwater, LLC, a single-purpose, Florida limited liability company.

The property manager is a borrower-controlled management company. The contractual management fee is 3% of Effective Gross Income.

Morningstar Analysis

	Morningstar	2010	2011	T-11 5/31/2013	Issuer Underwriting
Income					
Gross Potential Rent	$4,503,390	$4,514,956	$4,510,630	$4,491,361	
or					
Base Rent	0	0	0	0	
Laundry/Vending	0	0	0	0	
Expense Reimbursement	103,656	159,076	143,531	88,480	
Percentage Rent	0	0	0	0	
Parking Income	0	0	0	0	
Other Income	127,840	85,289	110,823	139,508	
Less: Vacancy Loss	-353,805	-448,181	-338,481	-302,520	
Less: Concessions & Collection Loss	-339,041	-874,057	-820,745	-372,368	
Effective Gross Income	**$4,042,039**	**$3,437,083**	**$3,605,758**	**$4,044,461**	**$4,103,092**
Expenses					
Real Estate Taxes	$510,853	$327,010	$323,559	$392,528	
Property Insurance	187,261	114,683	113,432	146,705	
Utilities	171,265	191,760	147,955	150,586	
Repairs and Maintenance	379,647	294,675	406,126	336,979	
Janitorial	0	0	0	0	
Management Fees	121,261	136,789	143,397	149,807	
Payroll & Benefits	423,434	387,349	369,036	419,486	
Common Area Maintenance	0	0	0	0	
Advertising & Marketing	49,810	55,293	41,576	38,292	
Professional Fees	11,975	9,231	5,248	9,815	
General and Administrative	74,748	95,462	51,158	73,886	
Non-Reimbursable Expenses	0	0	0	0	
Other Expenses	0	0	0	0	
Ground Rent	0	0	0	0	
Market Expense Adjustment	0	0	0	0	
Total Operating Expenses	**$1,930,254**	**$1,612,252**	**$1,601,487**	**$1,718,084**	**$1,941,445**
Net Operating Income	**$2,111,785**	**$1,824,831**	**$2,004,271**	**$2,326,378**	**$2,161,647**
Capital Items					
Leasing Commissions	$0	$0	$0	$0	
Tenant Improvements	0	0	0	0	
Capital Expenditures	114,759	0	0	0	
Extraordinary Capital Expenditures	0	0	0	0	
Total Capital Items	**$114,759**	**$0**	**$0**	**$0**	**$104,326**
Net Cash Flow	**$1,997,026**	**$1,824,831**	**$2,004,271**	**$2,326,378**	**$2,057,321**

Analytical Assumptions

The following comments and footnotes provide additional details beyond the description of Morningstar's general analytical approach outlined at the end of this package.

Revenue Drivers

Rent Per Unit Per Month	$920
Vacancy (%)	8.2%

Morningstar's underwritten rent was based on an analysis of the in-place rent of $920 and the appraisal's estimate rent of $915. The vacancy rate is set at weighted three-year average rate of 8.2% given the in-place vacancy rate of 7.6% and a market rate of 5.5% from Reis submarket report.

Expenses

Expenses are underwritten in-line with historicals expect for Real Estate Taxes, Property Insurance and Manangement Fee.

Real Estate Taxes was underwritten to issuer's estimate which was based on 80% of the purchase price with millage tax rate of 17.8%, including a sewer assessment of $6,312 and a 4% discount for early payment. Propery Insurance was underwritten to the actural insurance premium. Manangement Fee was underwritten to 3% of Effective Gross Income, which was the actual contract rate with a borrower-related management company.

Capital Items

A reserve for future capital expenditures is underwritten at $281 per unit annually, a 10.0% increase over the engineer's recommended reserves.

Valuation Drivers

Morningstar's capitalization rate was based on a market multifamily capitalization rate of 6.80% for Orlando, Florida. We adjusted this higher 25 basis point to account for location.

Vairo Village Apartments

Analyst: Eric Vogel 267-960-0531
Analytical Manager: David Sondesky 267-960-6042

Property Summary		
Property Type	Multifamily/Student Housing	
Location	State College, PA	
Year Built/Renovated	1969/2012	
Multifamily Units	410	
Net Rentable Sq. Ft. (Other)	n/a	
Occupancy	99.00%	As of: 7/18/13
Ownership	Fee Simple	

Loan Summary		
Loan Amount (Original Balance)	$27,000,000	($65,854/unit)
Loan Amount (Cut-Off Balance)	$26,849,615	($65,487/unit)
Loan Term (months)	120	
I/O Period (months)	0	
Amortization Term (months)	360	
Loan Seasoning (months)	4	
Interest Rate	4.00000%	

Morningstar Analysis		
Current DSCR	1.38 x	
Amortizing DSCR	1.38 x	
Beginning LTV	92.72%	
Ending LTV	74.06%	
Capitalization Rate	7.40%	
Morningstar Occupancy	95.00%	
Net Operating Income	$2,298,120	
Net Cash Flow	$2,142,966	
Value	$28,959,005	($70,632/unit)
Debt Yield	7.98%	
Morningstar Site Visit	Yes	
Property Score	3 (Average)	

Capital Structure Table

Capital Structure Table

Loan	Balance	Interest Rate	Current DSCR	DSCR Amtz	BLTV	ELTV
Mortgage Loan	$26,849,615	4.00000%	1.38 x	1.38 x	92.7%	74.1%
Total	**$26,849,615**	**4.00000%**	**1.38 x**	**1.38 x**	**92.7%**	**74.1%**

Morningstar Summary

Morningstar Perspective

The Vairo Village Apartments ("the Subject Property") is a ten-year, $27,000,000 ($65,854 per unit) loan which provided proceeds to refinance an existing loan of $11,848,958 and provided cash out to the borrower of $14,804,115 as part of this transaction. The subject property is a 410-unit student housing apartment complex located in State College, Pennsylvania, roughly 3.8 miles west of the Pennsylvania State University ("Penn State"). The loan represents a 73.5% loan-to-appraised value ratio.

The property benefits from the combination of being located only a short drive or bus ride from Penn State while being situated away from the congestion of being situated adjacent to campus. The property is surrounded by student housing apartment complexes to both the south and west and vacant land to the east. The concentration of student housing apartment complexes in this area is due to the amount of land that is available and the common area amenities that can be offered here to tenants which are not offered adjacent to campus. Morningstar visited the property the morning of July 15, 2013. Based upon our visual inspection, we have assigned this asset a property score of "3" (Average).

Morningstar's analysis of the property resulted in a net cash flow ("NCF") of $2.14 million, which is 11.0% lower than the trailing-twelve months ("TTM") ending March 31, 2013 figure of $2.4 million. The NCF decrease over the TTM statement is mainly based upon a three-year historical average of repairs and maintenance being higher than the TTM and our accounting for future capital expenditures. Morningstar's effective gross income ("EGI") is 0.6% lower than the TTM which is driven by a minimum vacancy rate of 5.0%. The property was 99.0% occupied as of 7/18/2013. We underwrote to an average rental rate of $827 per unit per month, which is in-line with the current in-place rent of $827 per unit per month. In comparing in-place rents to the overall submarket, those rents are at the upper end of the range of the competitive set, yet slightly lower than the Reis submarket asking rent data of $998 per unit per month.

We have underwritten to a vacancy rate of 5.0%, which exceeds the current vacancy rate of 1.0% (as of 7/18/2013), the Reis submarket vacancy rate of 1.2%, yet is equal to the appraiser's concluded vacancy rate of 5.0%. Morningstar's value for the property is $28.96 million ($70,632 per unit), a 20.8% variance from the appraised value of $36.6 million. The resulting Morningstar LTV and DSCR are 93% and 1.38x (amortizing), respectively. Penn State allocates only 13,500 beds on-campus for both graduate and undergraduate students for an enrollment of 44,679 students as of Fall 2012, which results in a shortage of on-campus living. Based upon the demand that is created due to the supply shortage, we believe that the underwritten cash flow is sustainable at the property.

The Bears Say

- ❖ Moderate leverage loan with the loan balance at cutoff representing a 93% based on Morningstar's concluded value (73.5% loan-to-appraised value). If credit standards tighten and wider spreads occur on financing alternatives in the future, a like-kind increase in capitalization rates will follow.
- ❖ The property was built in two phases in 1972 and 1974. The property, however, has been kept up to date over the years with the borrower investing $5.3 million ($12,927 per unit) between 2006 and 2012, which included unit and amenity upgrades.
- ❖ The property has a student tenant concentration of 50.0% with tenants, which require parental guarantees, are required to sign 12-month leases with the ability to sign shorter term leases after the 12-month lease. Mitigating this issue is the lack of on-campus housing that Penn State provides. Furthermore, short-term leases have required premiums ranging between $25 per month and $50 per month and make up a minimal concentration (1.5% of the unit mix).

The Bulls Say

- ❖ The property has operated with a historical vacancy of less than 1.0% for the past three years, which in comparison to the underwritten physical vacancy of 5.0% is more conservative. The property is 98.0% pre-leased for the 2013-2014 school year.
- ❖ The renovations that are ongoing at the property generate premiums between $40 per month and $125 per month, depending on the unit type and the extent of the renovation. On average, approximately eight to ten units are renovated annually and approximately $5,000 per unit is spent on unit upgrades.
- ❖ The property is located 3.8 miles east of Penn State. Penn State is one of the largest research institutions in the country and had an enrollment of 44,679 students as of Fall 2012 at the University Park campus. Penn State allocates only 13,500 beds on-campus for both graduate and undergraduate students, which results in a shortage of on-campus living.

Property Description

The property consists of a 410-unit student housing rental development situated on a 30.91-acre site in State College, PA built in 1972 and 1974. The property has a student tenant concentration from Penn State, which is located about 3.8 miles west of the property. Penn State had an enrollment of 44,679 students as of Fall 2012 at the main campus in University Park which is surrounded by State College. Common area amenities include a clubhouse with lounge area and game room, swimming pool, fitness center, picnic area, laundry facility, tennis court and a basketball court. Unit amenities include a range/oven, refrigerator, garbage disposal, and a patio/balcony. Select units feature washer and dryer connections and a dishwasher. In addition, each tenant receives a bus pass for the three bus stops that service the property.

A Property Condition Assessment performed by EFI Global, Inc. on January 17, 2013 identified no immediate repairs at the property. The recommended reserve with inflation was $344 per unit per year.

A Phase I Environmental Site Assessment performed by EFI Global, Inc. on January 18, 2013 conducted short-term radon testing at the property, and 12 units had radon levels above the EPA action level of 4.0 pCi/L. The borrower must conduct long-term radon testing to those units and the results must be delivered within 150 days of closing, according the Multifamily Loan and Security Agreement dated March 27, 2013. An operations & maintenance plan for asbestos and a moisture management plan to detect mold was recommended.

Unit Type Mix

Property Unit Type Overview			
Unit Type	**# of Units**	**% Total**	**Avg. Unit Size (Sq. Ft.)**
Studio/Efficiency	50	12.2%	410
One Bedroom	124	30.2%	737
Two Bedroom	136	33.2%	910
Three Bedroom	100	24.4%	1,100
Total	**410**	**100.0%**	**843**

Market Overview

The subject property is located in the city of State College, Pennsylvania, which is located about 80 miles northwest of Harrisburg, Pennsylvania and about 190 miles northwest of Philadelphia. Primary access to the neighborhoods is provided by I-99, which is located about one mile north of the property. The property is located within the North Atherton subdivision of the State College submarket along Oakwood Avenue and Vairo Boulevard. The surrounding area consists of retail, residential, and student housing apartment complexes. There is a Wal-Mart located about 1-mile south and a Wegmans grocery store located about 2-miles southwest of the property. The State College submarket's economy is driven by the presence of Penn State and the enrollment of almost 45,000 students as of Fall 2012 at the University Park Campus. The property is connected to the campus via local Centre Area Transportation Authority ("CATA") that supports Centre County, for which all tenants receive a bus pass for. The largest employers within the submarket include Penn State (14,949 employees), State Government (2,292 employees) and the State College Area School District (1,454 employees).

The appraisal identified four comparable properties, all student housing complexes with between 204 and 428 units, built between 1965 and 2001 and located within proximity to the property. Average comparable rental rates for studio, one-, two-, and three-bedroom units were $625, $725, $850, and $1,075 per unit per month, respectively. Reis concluded an average asking rent of $998 per unit per month as of the first quarter 2013. Based upon the property's unit mix, the comparable weighted average rental rate was $844 per unit per month. The appraisal reported a 2.6% vacancy level for comparable properties. The appraisal concluded a 5.0% vacancy rate for the property. According to Reis, the first quarter 2013 average vacancy for the State College submarket was 1.2%.

Sponsorship/Management

The borrowing entity is a single-purpose, Pennsylvania limited partnership.

The property is managed by a borrower-controlled management company. The management fee is 3.0% of the effective gross income.

Morningstar Analysis

	Morningstar	2011	2012	TTM March 31, 2013	Issuer Underwriting
Income					
Gross Potential Rent	$4,066,921	$3,740,034	$3,941,079	$3,991,960	
or					
Base Rent	0	0	0	0	
Laundry/Vending	29,876	29,970	30,482	23,017	
Expense Reimbursement	269,641	343,018	255,108	153,082	
Percentage Rent	0	0	0	0	
Parking Income	0	0	0	0	
Other Income	314,000	335,038	317,401	320,597	
Less: Vacancy Loss	-219,812	-7,563	-1,928	-3,766	
Less: Concessions & Collection Loss	-14,565	-17,840	-14,373	-14,168	
Effective Gross Income	**$4,446,061**	**$4,422,657**	**$4,527,769**	**$4,470,722**	**$4,480,456**
Expenses					
Real Estate Taxes	$252,389	$238,179	$243,194	$244,183	
Property Insurance	68,275	56,196	63,922	66,959	
Utilities	572,532	669,557	562,768	461,505	
Repairs and Maintenance	243,854	252,326	179,098	255,456	
Janitorial	0	0	0	0	
Management Fees	133,382	133,288	131,988	160,242	
Payroll & Benefits	496,739	473,198	503,660	371,445	
Common Area Maintenance	0	0	0	0	
Advertising & Marketing	38,578	35,742	39,973	77,234	
Professional Fees	24,505	11,531	26,993	61,961	
General and Administrative	109,902	117,148	102,870	106,763	
Non-Reimbursable Expenses	0	0	0	0	
Other Expenses	207,786	193,915	199,508	204,175	
Ground Rent	0	0	0	0	
Market Expense Adjustment	0	0	0	0	
Total Operating Expenses	**$2,147,941**	**$2,181,080**	**$2,053,974**	**$2,009,923**	**$2,160,528**
Net Operating Income	**$2,298,120**	**$2,241,577**	**$2,473,795**	**$2,460,799**	**$2,319,928**
Capital Items					
Leasing Commissions	$0	$0	$0	$0	
Tenant Improvements	0	0	0	0	
Capital Expenditures	155,154	0	0	52,300	
Extraordinary Capital Expenditures	0	0	0	0	
Total Capital Items	**$155,154**	**$0**	**$0**	**$52,300**	**$141,040**
Net Cash Flow	**$2,142,966**	**$2,241,577**	**$2,473,795**	**$2,408,499**	**$2,178,888**

Analytical Assumptions

The following comments and footnotes provide additional details beyond the description of Morningstar's general analytical approach outlined at the end of this package.

Revenue Drivers

Rent Per Unit Per Month	$827
Vacancy (%)	5.0%

Morningstar has estimated rent to be at $827 per unit per month, which is in-line with the in-place rents of $831 per unit per month as of the July 18, 2013 rent roll. The appraiser concluded an average market rental rate of $844 per unit per month. Average rents at the property are generally at the upper end of the range within the marketplace due to the amenities that properties have as you move further away from campus. With the ongoing renovations at the property there have been certain premiums placed on renovated units ranging from $40 per unit per month to $125 per unit per month.

The presence of Penn State and the shortage of on-campus beds keep vacancy rates for student housing complexes in the State College submarket low. The strong performance of student housing could create investment demand for multi-family projects as well as student housing as long as there is competitive mortgage financing available in the market.

Expenses

Expenses are underwritten in-line with historicals unless otherwise noted.

Capital Items

A reserve for future capital expenditures is underwritten at $378 per unit per year, a 9.1% increase over the engineer's recommended reserves.

Valuation Drivers

The Morningstar base multifamily capitalization rate for the Eastern Region is 6.90%. We have added 50 basis points to the base cap rate to account for the student housing aspect of the property. The resulting Morningstar capitalization rate of 7.40% is 90 basis points higher than the appraisal capitalization rate of 6.50%.

Waterford On Westheimer

Analyst: Molly Maghran 267-960-6044
Analytical Manager: David Sondesky 267-960-6042

Property Summary		
Property Type	Multifamily/Garden	
Location	Houston, TX	
Year Built/Renovated	2009/N/A	
Multifamily Units	330	
Net Rentable Sq. Ft. (Other)	n/a	
Occupancy	94.80%	As of: 5/31/13
Ownership	Fee Simple	

Loan Summary		
Loan Amount (Original Balance)	$26,588,000	($80,570/unit)
Loan Amount (Cut-Off Balance)	$26,588,000	($80,570/unit)
Loan Term (months)	120	
I/O Period (months)	24	
Amortization Term (months)	360	
Loan Seasoning (months)	4	
Interest Rate	3.65000%	

Morningstar Analysis		
Current DSCR	2.12 x	
Amortizing DSCR	1.42 x	
Beginning LTV	87.81%	
Ending LTV	73.23%	
Capitalization Rate	6.90%	
Morningstar Occupancy	94.80%	
Net Operating Income	$2,176,753	
Net Cash Flow	$2,089,315	
Value	$30,279,924	($91,757/unit)
Debt Yield	7.86%	
Morningstar Site Visit	No	
Property Score	3 (Average)	

Capital Structure Table

Loan	Balance	Interest Rate	Current DSCR	DSCR Amtz	BLTV	ELTV
Mortgage Loan	$26,588,000	3.65000%	2.12 x	1.42 x	87.8%	73.2%
Total	**$26,588,000**	**3.65000%**	**2.12 x**	**1.42 x**	**87.8%**	**73.2%**

Morningstar Summary

Morningstar Perspective

The Waterford On Westheimer loan is a ten-year, $26,588,000 ($80,570 per unit) first mortgage financing of the sponsor's February 2013 acquisition of a 330-unit, garden-style multifamily property in Houston, Texas. The subject is part of a two-property, uncrossed portfolio that had a sale price of $68,250,000. The subject and Villas at Westheimer are adjacent to each other. The allocated purchase price for Waterford On Westheimer was $35.1 million ($106,364 per unit). The loan represents 63.4% of the appraised value.

The property was 94.8% occupied as of May 31, 2013, and a rent roll dated June 30, 2013 also reflected 94.8% physical occupancy. The property was constructed in 2009, and lease-up was completed in 2010. Occupancy improved from 92.2% in 2011 to 95.7% in 2012 according to the issuer. Significant rental concessions were initially offered, averaging 7.2% in 2010 – 2011, but these were scaled back in 2012 to 5.3%, and continue to decrease to the current 3.5% evidenced in the trailing eleven month annualized period ended June 30, 2013. This is less than the submarket average of 6.75%.

The property reported net cash flows of $2.18 million, $2.43 million, and $2.49 million in 2011, 2012, and the annualized eleven months ended June 2013, respectively. The growth in the net cash flow from 2011 to the trailing eleven month annualized reporting period ended 6/30/13 is driven by 10.6% growth in revenue (from $4.20 million in 2011 to $4.64 million), in conjunction with an operating expense increase of 6.5% (from $2.02 milion in 2011 to $2.15 million) during the same timeframe.

The subject shares common sponsorship with Villas at Westheimer. The two assets have a combined loan balance of $52.62 million in the subject securitization. The loans are not cross-collateralized or cross defaulted, but are located adjacent to one another and share property management and leasing functions. The properties have together been renamed Arium Westheimer. Villas at Westheimer, being the older development, is called Phase I and the subject property, Waterford on Westheimer, is called Phase II. Although the two properties represent separate legal and financial entities, they present as one consolidated multifamily development. Residents in both properties have access to all of the amenities in both properties, and each property is easily accessible from the other through internal roads.

Morningstar's analysis of the property resulted in a net cash flow (NCF) of $2.18 million, which is 4.4% lower than the issuer's underwritten NCF. Morningstar underwrote rents based on the in place average rent, and vacancy based on the actual vacancy 5.2% at the property as of May 31, 2013. Morningstar's concluded value of the property is $30.28 million, which is 27.8% lower than the appraised value. The resulting Morningstar loan to value ratio and debt service coverage ratio (amortizing) are 88.0% and 1.42x, respectively.

Morningstar visited the site on July 19, 2013, met with the property manager and observed some of the typical residential units, vacant apartments and common areas and amenities available at the property. Based on the visual, external observations, the property seemed to be generally well maintained and Morningstar noted no obvious deferred maintenance issues. The property condition report (PCA) identified no immediate repairs and the phase I environmental report did not identify any issues of immediate concern. Renovations are currently underway in the clubhouses of properties and the main lounges, billiards rooms, fitness centers, and business centers are being upgraded. According to the property manager, the renovation work was expected to be completed by July 22, 2013. The property manager also said that the property uses the lease rent option (LRO) system with daily mark-to-market and the property is 94.8% leased. Based on the visual appeal, level of amenities and fit outs, and its location, Morningstar assigned the property a score of 3 (average).

The Bears Say

- High Leverage and Interest Only Period: Based on Morningstar's net cash flow and estimate of value, the loan has a loan to value ratio of 87.0% and an amortizing DSCR of 1.42x. In addition, the loan is payable on an interest-only basis for the first two years of its term and amortizes on a 30-year schedule thereafter. However, there has been year-on-year cash flow improvement since 2010 and NCF has increased by 14.4% from 2011 to the trailing eleven month period ending June 2013.
- Limited Barriers to Entry: The property is located in the far west of Houston in a rapidly developing part of the Houston metro area. Although, less than 1,000 units are expected to be added to the submarket's supply according to Reis, an additional 4,000 units are projected to be added to the supply by 2017, increasing competition for the subject property.
- The borrowing entity is involved in one slip and fall lawsuit that occurred at the subject property. The plaintiff is not a resident of the property, and the insurance company has been notified of the lawsuit.

The Bulls Say

- Property Condition: The property is generally well maintained and the property condition and environmental site assessments did not make any adverse recommendations. According to the property manager, a majority of the units have attached garages and during its site tour, Morningstar observed renovations being made to many of the common amenities. In addition, residents of the Waterford On Westheimer have access to the amenities in its sister property, Villas at Westheimer.
- Good Location: The property is located close to Houston's Energy Corridor, which is one of the largest employment centers in the region. The area is home to major employers such as ExxonMobil, BP America, ConocoPhillips, Cabot Oil & Gas, and Global Santa Fe. According to the property manager, the property has preferred employer relationships with these and other companies like Halliburton, Citgo and General Electric, which make them demand generators for the property. The property can be accessed from three major expressways, the Sam Houston Tollway, the Katy Freeway, and more recently the newly opened Westpark Tollway. The property is close to West Oaks Mall and Katy Mills Mall, which have a combined 2.5 million square feet of retail space as well as the West Houston Medical Center and Hospital.
- The sponsor also has contributed $8.51 million of equity in the transaction.
- Experienced Management: The property is managed by a borrower-related company with over 15,000 units under management, including 1,800 in the local area.

Property Description

Waterford On Westheimer is a 330-unit, garden-style apartment complex situated on 26.7 acres of land. Built in 2009, the property comprises of 31 two-story residential buildings, a leasing office/clubhouse, a pool house, and a maintenance building. The property offers 676 parking spaces, including 260 attached garage spaces. Common area amenities at the property include a clubhouse with lounge area, coffee bar and billiards, swimming pool, fitness center, business center with Wi-Fi, car care center, BBQ and picnic areas, and garage parking.

The property is located adjacent to Villas at Westheimer, and the two properties form an uncrossed two-property portfolio with the same sponsors. Since their acquisition by the sponsor, they have together been renamed as Arium Westheimer. Villas at Westheimer as the older property is referred to as Phase I and the subject, Waterford on Westheimer, is referred to as Phase II. Although the two properties are operated as separate legal entities, they share property management and the same leasing team. In addition, amenities in either property are available for use of residents of both and each property is easily accessible from the other.

The property is in generally good condition and the property condition assessment (PCA) report for the property identified *de minimis* immediate repairs. A phase-I environmental assessment (ESA) also did not find any recognized environmental concerns (RECs). During a visit to the property, Morningstar did not observe any significant deferred maintenance issues.

The property is located 20 miles west of the Houston CBD and 35 miles southwest of the Houston international airport. Land uses in the property neighborhood consist of a mixture of commercial and residential development. The immediate area surrounding the property consists of relatively new retail oriented developments, built during the late-1980s and throughout the 1990's. Other land uses in the immediate area include many multi-family developments of similar ages. Growth has generally expanded in a western direction from the major business districts, with the property's submarket being one of the beneficiaries of this growth pattern. Major employers in the area include ExxonMobil, BP America, ConocoPhillips, Cabot Oil & Gas, and Global Santa Fe. There are a number of major shopping centers in the area including Town & Country Village and West Oaks Mall, with anchors such as Dillard's and Macy's. Further west Katy Mills Mall offers over 1.3 million square feet of retail space and is one of the largest shopping centers in Houston. The West Houston Medical Center and Hospital is located near the property on Richmond Avenue.

The property can be accessed from the Sam Houston Tollway or the Katy Freeway, and more recently the newly opened Westpark Tollway. The Sam Houston Tollway forms a loop around the outer portions of the city, while the Katy Freeway extends through the city in an east/west direction. The Westpark Tollway extends from the 610 Loop westward to the Grand Parkway and the Cinco Ranch development on the western edge of the Houston metropolitan area. The primary local thoroughfare serving the neighborhood is Westheimer, which runs parallel and to the south of the Katy Freeway and to the north of the Westpark Tollway. Westheimer serves as the primary east/west thoroughfare through the city of Houston and is an extensively developed commercial corridor. Texas Highway 6 is a heavily developed arterial that intersects both of these thoroughfares.

Unit Type Mix

Property Unit Type Overview			
Unit Type	**# of Units**	**% Total**	**Avg. Unit Size (Sq. Ft.)**
One Bedroom	124	37.6%	875
Two Bedroom	170	51.5%	1,266
Three Bedroom	36	10.9%	1,485
Total	**330**	**100.0%**	**1,143**

Market Overview

The property is located in the Briar Forest/Ashford submarket of Houston metro according to Reis. According to the appraiser, the property is classified as class-A. The Briar Forest/ Ashford submarket has an apartment inventory of 44,354 units as of the first quarter of 2013, which is projected by Reis to increase to 48,500 units by 2017. Approximately 17% of the current inventory is of the same vintage as the property (built between 2000-09). Of the total inventory, approximately 8,850 units (54.8%) are classified as class A. Reis expects the submarket vacancy rate to increase to 6.3% by 2017 from the current 6.2% and asking rents to increase by of 2.7% annually over the same period annually.

The newest development in the immediate neighborhood of the property is the Royal Oaks Country Club community. Started four years ago by the Sunshine Colony Company, Royal Oaks is a 490-acre master planned community centered on the Royal Oaks Country Club golf course designed by Fred Couples and Brian Schmidt. It has approximately 900 single-family custom and semi-custom homes built within the gated community. However, these are for-sale homes and will not compete with the property or other multifamily assets.

According to Reis, 320 apartment units were added to the submarket supply in 2012. Another 320-unit project, Alliance Residential's Broadstone Energy Corridor is under construction and is expected to be completed in the spring of 2014. Construction is also expected to start on a 375-unit project, which is expected to be completed by the end of the year 2014.

The average asking rent in the submarket as of Q1 2013 was $894 per unit per month. This represents a 1.1% increase from the average rents at the end of 2012 and a 5.3% increase from Q1 2012. The average vacancy was 6.2%, reflecting a 20 basis point decrease from year end 2012 and a 40 basis point decrease from Q1 2012. Class A asking rents were higher than the submarket mean at $1,043 per unit and class A vacancy was lower than the submarket mean at 5.8%. For properties of similar vintage as the subject (2000-09), the average asking rent was $1,173 per unit and the vacancy was 4.6%.

The appraiser identified a competitive set of six properties, with a total of 1,704 units, based on their size and location characteristics. The weighted average occupancy of the comparables was 96.4% compared to 94.8% at the subject. The weighted average rent of the comparables was $1,302 per unit compared to $1,163 per unit at the subject per the May 31, 2013 rent roll. The appraiser concluded a market rent of $1,225 per unit and a vacancy rate of 5.0%.

Sponsorship/Management

The borrowing entity is Waterford Westheimer Owner, LLC, a single-purpose, single-member Delaware limited liability company.

The property is managed by a borrower-controlled management company. The contractual management fee is 3.0% of the effective gross income.

Morningstar Analysis

	Morningstar	2011	2012	T11M 6/30/2013, excl. 3/13/2013*	Issuer Underwriting
Income					
Gross Potential Rent	$4,604,688	$4,678,997	$4,715,517	$4,735,955	
or					
Base Rent	0	0	0	0	
Laundry/Vending	0	0	0	0	
Expense Reimbursement	113,717	101,921	112,625	105,473	
Percentage Rent	0	0	0	0	
Parking Income	0	0	0	0	
Other Income	198,317	151,814	185,738	198,317	
Less: Vacancy Loss	-238,407	-334,998	-192,234	-188,763	
Less: Concessions & Collection Loss	-218,262	-399,231	-283,502	-207,753	
Effective Gross Income	**$4,460,053**	**$4,198,504**	**$4,538,144**	**$4,643,230**	**$4,595,988**
Expenses					
Real Estate Taxes	$902,957	$730,268	$780,831	$831,058	
Property Insurance	137,107	85,390	77,171	137,107	
Utilities	217,155	271,617	215,134	218,155	
Repairs and Maintenance	285,756	190,921	287,502	257,801	
Janitorial	0	0	0	0	
Management Fees	133,802	125,168	134,896	137,046	
Payroll & Benefits	399,578	379,008	394,704	382,468	
Common Area Maintenance	0	0	0	0	
Advertising & Marketing	94,476	140,252	107,295	94,476	
Professional Fees	14,768	12,784	14,926	14,900	
General and Administrative	97,703	82,666	97,208	75,326	
Non-Reimbursable Expenses	0	0	0	0	
Other Expenses	0	0	0	0	
Ground Rent	0	0	0	0	
Market Expense Adjustment	0	0	0	0	
Total Operating Expenses	**$2,283,301**	**$2,018,075**	**$2,109,667**	**$2,148,336**	**$2,319,952**
Net Operating Income	**$2,176,753**	**$2,180,428**	**$2,428,477**	**$2,494,894**	**$2,276,036**
Capital Items					
Leasing Commissions	$0	$0	$0	$0	
Tenant Improvements	0	0	0	0	
Capital Expenditures	87,438	0	0	0	
Extraordinary Capital Expenditures	0	0	0	0	
Total Capital Items	**$87,438**	**$0**	**$0**	**$0**	**$82,500**
Net Cash Flow	**$2,089,315**	**$2,180,428**	**$2,428,477**	**$2,494,894**	**$2,193,536**

* The T-11 annualized cash flows exclude March 2013.

Analytical Assumptions

The following comments and footnotes provide additional details beyond the description of Morningstar's general analytical approach outlined at the end of this package.

Revenue Drivers

Rent Per Unit Per Month	$1,163
Vacancy (%)	5.20%

Morningstar underwrote market rent based on the average in place rent at the property as of May 31, 2013.

Morningstar's underwritten vacancy rate of 5.2% is based the actual vacancy per the May 31, 2013 rent roll.

Rental concessions were underwritten based on the appraiser's estimate at 5.0% of net rental income, which is higher than concessions in the trailing eleven month annualized period of 3.5%.

Morningstar underwrote expense reimbursements based upon the recovery ratio for the trailing eleven month annualized period ending June 30, 2013, and other income was underwritten based on actual collections for this period.

Expenses ($6,952 per unit)

Expenses are underwritten in-line with historicals unless otherwise noted.

Morningstar underwrote real estate taxes based upon 80% of the appraised value using the 2012 millage rate, which is higher than the appraiser's estimate.

Morningstar underwrote insurance expense in line with the issuer, based on the actual premium. The property is covered under a blanket insurance policy.

Morningstar underwrote advertising and marketing expenses based on the trailing twelve months actual cost, which is slightly higher than the borrower's budget. Theses expenses have continued to decline since lease-up in 2010.

Morningstar underwrote a management fee at 3.0% of effective gross income, which is based on the contractual management fees.

Capital Items

Morningstar underwrote reserves for future capital expenditures at $265 per unit, which represents a 10% premium to the replacement reserves of $241 per unit recommended by the PCA.

Valuation Drivers

Morningstar used a capitalization rate of 6.9% to value the subject property based upon the Morningstar multifamily capitalization rate for Houston. The average capitalization rate of the appraiser's sales comparables was 5.79%, and the appraiser's direct capitalization rate assumption was 5.75%.

Appendix A: Morningstar CMBS Subordination Model

This Appendix provides a brief description of Morningstar's proprietary CMBS Subordination Model. A publication entitled, "Guide to the Morningstar CMBS Subordination Model", provides a more comprehensive overview of the model's framework as well as details of the model's main features. It can be found on Morningstar's website at http://ratingagency.morningstar.com, by going to the Ratings Report Section.

Overview

Morningstar uses its CMBS Subordination Model to determine the required credit enhancement levels of both conduit and large-loan CMBS transactions. In addition to determining the initial enhancement levels, this model is an integral part of the on-going surveillance of such transactions. This approach allows Morningstar to maintain ratings consistency across CMBS transactions throughout their lives.

Morningstar's underwritten NCF and cap rate for each property, along with the corresponding loan characteristics, are subjected to defined sets of stresses in this CMBS model to arrive at the required credit enhancement levels at each rating category. Each set of stresses gauges the likelihood of each loan to default, as well as the loss severity given default, during the loan's term and at its balloon date.

Each set of stresses include:

- NCF declines during the term of the loan and at the balloon date that reflect worsening economic conditions,
- Cap rate increases that reflect deteriorating demand for CRE investments,
- Balloon loan constants to reflect more restrictive lending conditions when the existing loan needs to get re-financed,
- Time to default assumptions that limit the credit to loans which amortize,
- Loan liquidation time assumptions that impact the aggregate special servicer fees and accrued interest on P&I advances, and
- Interest rate assumptions on interest due the servicer for P&I advances.

These stresses are tiered by rating category with the most onerous commensurate with the highest rating category to reflect extremely stressed economic, CRE market and lending environments. The stresses associated with the lowest rating category, while substantially less dramatic than that at the highest rating level, still reflect declines. The model therefore fully discounts historically-observed positive performances. Many of these stresses also differ across property types.

The model also quantitatively accounts for portfolio-level concentration risks (loan size, property type and geography) by applying additional NCF stresses on those loans that contribute to each such risk.

Term Default Analysis

The model determines the likelihood of a term default for each loan by:

1. First subjecting Morningstar's underwritten NCF for the loan to an NCF haircut that simulates the potential decline in net effective rent over the term of the loan. The magnitude of this decline represents the maximum decline in NCF on the property during the term of the loan.
2. The Morningstar underwritten NCF is then further reduced by a series of additional NCF haircuts to address portfolio concentration risk concerns (loan size, property type and geography).
3. The resultant stressed NCF and the terms of the loan are then used to determine the loan's stressed DSCR.
4. The loan's probability of default during the term of the loan is then derived by translating this "low-point" DSCR into a probability of default ("PD") based on a Morningstar empirical study of the correlation between DSCR and PD.

The loss severity of the loan given a default event is then determined by looking at its two components -- lost principal and special servicer costs.

Lost principal is calculated as the difference between the outstanding loan balance at the time of default and the stressed property value. The model computes the loan balance based on empirically-based time-to-default assumptions and the terms of the loan. The stressed property value is arrived at using the stressed NCF and a ratings adjusted cap rate.

Special servicer costs include the fees earned by the special servicer while the loan is specially-serviced, interest on any P&I advances that the servicer makes, and the liquidation fees due the special servicer for selling the foreclosed property. The special servicer fee is dependent upon the period of time the loan is specially serviced. The model uses assumptions of this time period tiered by rating category.

Balloon Default

The overwhelming majority of loans backing CMBS deals to date do not fully amortize by the loan's maturity date. As such, most loans have a balloon balance that is due upon maturity. Borrowers are required to secure take-out financing for the remaining principal balance by this date. Failure to do so triggers a default event and the loan becomes specially-serviced. Balloon default is therefore a binary event.

The model tests the ability of each loan to be refinanced at its balloon date by comparing the loan's refinance DSCR and LTV ratios to assumed take-out financing threshold requirements. Morningstar stresses the underwritten NCF and cap rate, and then applies a stressed refinance loan constant to arrive at the loan's refinance DSCR and LTV ratios. If these DSCR and LTV metrics pass this test, the loan is taken out in whole (PD equals zero and there is no loss).

If either test is not met, the model assumes that the loan becomes specially serviced and the special servicer takes one of two actions. If the existing loan's DSCR[1] is greater than an assumed special servicer loan extension threshold, the model assumes that the special servicer extends the loan. Otherwise the model assumes the special servicer will initiate foreclosure proceedings and the property is eventually sold. An assumed timeframe, tiered by rating category, from the balloon date to the date of liquidation is used for calculating the special servicer fees incurred. The model also calculates any needed P&I advances and the liquidation fee. The liquidation price is the stressed value calculated for the property commensurate with the rating category.

In the loan extension scenario, the model typically assumes some limited growth in NCF generated by the property, better loan conditions and an improved CRE market as manifested in a lower refinance loan constant and cap rate during the extension period. At the conclusion of the extension period, the model again tests whether or not the loan gets refinanced. The improved DSCR and LTV ratios are once again compared to the assumed take-out financing threshold requirements. If both tests are passed, the loan is taken out in whole. There is no principal loss but losses are incurred in the form of special servicer costs (special servicer fee, interest on P&I advances and workout fee).

If the loan is still not able to be refinanced, the model assumes the special servicer initiates foreclosure proceedings and the property is eventually sold. Losses in this scenario include a likely principal loss along with special servicer costs (interest on P&I advances, special servicer fee, and liquidation fee).

[1] Note that the existing loan DSCR differs from the loan's refinance DSCR. The latter is calculated at an assumed stressed loan constant and the former is based on the actual terms of the existing loan.

Appendix B: Morningstar Rating Surveillance

Morningstar has historically performed and continues to perform ongoing monthly surveillance on publically-issued and outstanding US CMBS transactions on a subscription basis for investors. As a result of such, Morningstar publishes to its subscriber base a monthly credit analysis report for each CMBS trust entitled the "Morningstar Dealview", outlining the most recent performance trends for each.

Morningstar's analysis is best described as a bottom-up approach. At its core, it is driven by the performance of the underlying commercial real estate loan collateral. Analysts first evaluate, using qualitative and quantitative analysis, the credit risk characteristics of the collateral pool backing any given securitization trust. The credit protections are then evaluated as part of Morningstar's opinion of the risk profile of any given security. Morningstar applies a surveillance model described at http://ratingagency.morningstar.com, to produce suggested credit ratings and rating outlooks for each class of a given CMBS transaction.

Any surveillance activities described herein are conditioned on Morningstar's receipt of certain information to enable Morningstar to perform surveillance. The degree of surveillance performed depends largely on the scope of review performed by Morningstar and enumerated in the related surveillance report and the availability of information. The degree and scope of review and information considered is generally enumerated in the Morningstar surveillance report for the respective transaction and should be considered when evaluating and comparing ratings.

Any surveillance performed by Morningstar is available solely to Morningstar subscribers on a subscription basis under Morningstar's policies and procedures. Therefore, if recipient is not a subscriber, recipient will not have access to or receive any ratings information following Morningstar's issuance of a rating, including any information related to changes to the ratings post issuance.

For further information and a description of Morningstar's surveillance activities, please see http://ratingagency.morningstar.com, including "Morningstar CMBS Surveillance Rating Opinions: Procedures and Methodologies".

Appendix C: Morningstar Rating Characteristics

The preliminary ratings provided in this report address the likelihood of the timely receipt of distributions of interest by certificateholders to which they are entitled and, the ultimate distribution of principal by the Rated Final Distribution Date.

The preliminary ratings are based solely on the scope of review enumerated in this report and the information related thereto provided to Morningstar through the arranger website as of the date hereof or as expressly enumerated herein which we believe to be reliable. Unless otherwise in accordance with Morningstar's policies and procedures, Morningstar does not audit or verify the truth or accuracy of any such information.

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Morningstar's preliminary ratings take into consideration certain credit risks and the extent to which the payment stream of the collateral is adequate to make payments required under the certificates based on information identified as subject to review herein and to the extent provided to Morningstar on arranger's website for this transaction as of the date hereof. However, as noted above, the ratings do not represent an assessment of the likelihood, timing or frequency of principal prepayments (both voluntary and involuntary) by the mortgagors, or the degree to which such prepayments might differ from those originally anticipated. In general, the ratings address credit risk and not prepayment risk. In addition, the ratings do not represent an assessment of the yield to maturity that investors may experience or the possibility that the certificateholders of the Class X Certificates might not fully recover their initial investment in the event of delinquencies or defaults or rapid prepayments on the mortgage assets (including both voluntary and involuntary prepayments) or the application of any realized losses. In the event that holders of such certificates do not fully recover their investment as a result of rapid principal prepayments on the mortgage loan, all amounts "due" to such holders will nevertheless have been paid, and such result is consistent with the ratings assigned to such certificates.

As indicated herein, the Class X certificates consist only of interest. If the underlying mortgage loans were to prepay in the initial month, with the result that the holders of the Class X certificates receive only a single month's interest and therefore, suffer a nearly complete loss of their investment, all amounts "due" to such holders will nevertheless have been paid, and such result is consistent with the rating received on the Class X certificates. The notional amounts of the Class X certificates on which interest is calculated may be reduced by the allocation of realized losses and prepayments, whether voluntary or involuntary, to the classes of series 2013-K31principal balance certificates from which their respective notional amounts are derived. The ratings do not address the timing or magnitude of reductions of such notional amounts, but only the obligation to pay interest timely on the notional amounts as so reduced from time to time. Therefore, the ratings of the Class X certificates should be evaluated independently from similar ratings on other types of securities.

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In conjunction with evaluating any Morningstar ratings, please also see "Morningstar Definitions and Descriptions of CMBS (i) Letter-Grade Credit Ratings, (ii) Rating Outlooks and (iii) Surveillance" at http://ratingagency.morningstar.com.

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