Arbor Realty Trust – Slumlord Millionaires

Arbor's high-risk multifamily residential bridge loans, which comprise substantially all of its asset book, are going bad fast. They cannot be refinanced. The end is near.

November 16, 2023 – It's no secret that multifamily residential investments are, deservedly, in a world of hurt. Investors are coming to terms with the fact that the road to riches is not paved with debt, short memories, and real estate guru memberships.

Investors in bridge financing underwriters and their portfolios of loans appear to be similarly unprepared for the enormous wave of maturities which cannot be refinanced and are substantially all underwater. This is a bizarre deer in headlights situation we didn't ever expect to find.

Viceroy is short Arbor Realty Trust (**NYSE : ABR**). In this industry plagued with delusion and bad decisions, Arbor stands out **as the worst of the worst**. Viceroy's dive into Arbor's CLOs suggest its entire loan book is distressed and underlying collateral is vastly overstated. These loans do not qualify for refinancing anywhere, and substantially all mature within the next 18 months.

We believe Arbor is a donut. $0.00.

This report will analyze hundreds of individual loans from Arbor's CLOs to the tune of over $7b dollars. This sample is like-for-like with the remainder of Arbor's wholly owned loans. There is no rate cut large enough, no rate caps cheap enough, and no investors dumb enough to save Arbor.

The Background

"The government basically wants you to buy multifamily residential units". We don't entirely disagree.

- Geographically, sunbelt population growth has exploded due to a blend of favorable economic policies, affordability, and maybe better weather. This area has drawn in the perfect renter demographic and created opportunity for tens of billions of dollars in residential real estate investment.
- The multifamily residential investment is effectively to buy dilapidated, low-yielding units, rehabilitate them, increase the rent, and then refinance the investment via government agency loans.
- Non-bank financiers have entered the space to effectively "bridge" the financing of these investments from purchase, rehabilitation, to refinancing with the government (agency loans).
  - Agency loans are serviced by these underwriters, who can also effectively build a long-term "book" of cash flows.

It would indeed be very difficult botch this investment in a 0% cash rate environment. Unfortunately for everyone involved, the US policy rate climbed from about 0% in 2020-2021, to almost 5% in 2023. This unprecedented and enormous rate hike has derailed even the most bullish projects in the Arbor portfolio.

The MOST BLUE SKY multifamily residential investment scenario			
Cost value of property	1,000,000	**Loan-to-cost**	**75.00%**
NOI	40,000	Loan value	825,000
NOI %	4.00%	Bridge rate (	3.50%
Expected rehab NOI p.a. *	60,000	Expected NO	60,000
CAPEX required to rehabilitate	100,000	Interest	28,875
Cost Base incl. rehab budget	1,100,000		
Expected NOI yield	5.45%	**DSCR**	**2.08**

Refinance	2020	**2023**
Fixed rate long-term rate	3.00%	8.00%
DSCR	**2.42**	**0.91**
Floating rate bridge	3.50%	10.00%
DSCR	**2.08**	**0.73**

Figures 1 & 2 – Viceroy Analysis

- Not only have underlying cash rates exploded, but the spread on high-risk loans, such as multifamily bridge loans, has similarly ballooned from ~300bps to ~400bps.
- The required Debt Service Coverage Ratio (**DSCR** – Net Operating Income / Interest Expense) for a bridge loan at Arbor is ~1.2, as dictacted by the draft terms sheet on their website.
- The current underlying DSCR of Arbor's ~$7.6b CLOs is about 0.63x.

Even if these properties enjoyed bullish NOI increases post renovation (they're not) and moved to cheaper agency loans (which they can't), these investments would still be haemorrhaging cash and eating into equity.

There is no feasible rate cuts in the next 18 months that could salvage these projects.

Holding the Bag – Arbor's Business Model

Arbor's business model is to finance bridge loans for multifamily residential unit investments, typically through renovation periods. After renovation, Arbor can then refinance these bridge loans into agency loans.

In order to access liquidity against these floating rate bridge loans, Arbor established Collateralized Loan Obligation facilities (**CLO**s), in which it retains a junior/residual tranche (which is to say, it gets paid last in the waterfall).

Viceroy have pulled data of every single loan in Arbor's CLOs. We note the following:

- The current underlying weighted average LTV of the CLOs is ~77%
- Appraised values of underlying CLOs properties are valued at cap rates of ~3.8%. This is ludicrous. The current risk-free rate is ~4.6%.
- A bullish revaluation of underlying property values at a cap rate of ~7% (which is more than reasonable given these properties have NOT been fully rehabilitated) wipes out the LTV buffer and substantially all, if not all, of Arbors residual claim.
- A default of Arbor's CLOs will revert collateral (properties) to secured lenders, wiping out Arbor's equity/residual tranche. This alone will destroy half of Arbor's book value.

Residual Shortfall Analysis	
Outstanding Debt ($m)	**6,467.05**
Collateral ($m)	8,314.65
LTV	77.78%
NOI	317.96
Implied Cap Rate	3.82%
LTV buffer ($m)	1,848
Collateral @ 7% cap rate	**4,542**
Variance @ 7% cap rate	(3,772)
Net shortfall to $ABR	**(1,925)**

Figure 3 – Viceroy Analysis

CORRECTION – Jan 8, 2024 : this table has been corrected to eliminate double counting of property values and NOI for properties with multiple loans. This correction has INCREASED the estimated shortfall by ~$650m.

At a 7% cap rate, the recovery shortfall wipes out substantially all of Arbor's residual interest.

CLO		ABR Residual	Value ($m)
CLO 14	2021-FL1	Residual interest of $129.5m, of which $68.7m are below IG notes	129.5
CLO 15	2021-FL2	Residual interest of $140.6m, of which $73.4m are below IG notes	140.6
CLO 16	2021-FL3	Residual interest of $262.5m, of which $135.0m are below IG notes	262.5
CLO 17	2021-FL4	Residual interest of $385.9m, of which $194.3m are below IG notes	385.9
CLO 18	2022-FL1	Residual interest of $397.2m, of which $210.1m are below IG notes	397.2
CLO 19	2022-FL2	$177.2 million were below investment grade notes retained by us	177.2
Total			**1,492.9**

Figure 4 – Viceroy Analysis

As to how these loans got this bad, we are perplexed. Arbor's 10-K outline detail underwriting due diligence checks for structured products, including inspections and borrower investment histories, which are written into a report to be approved by a committee consisting only of the CEO, the CCO and the EVP of structured products:

- A significant portion of the properties underlying the CLOs have atrocious reviews, including pictures, and have not been rehabilitated. Some properties have already been condemned and labelled as slums. We expand on this in Section 3 below, where we examine a sample of properties from the CLOs.
- Billions of dollars of loans in CLOs were made to finfluencers and real estate "guru" syndicates who have zero real estate investment backgrounds. Rudimentary news searches show many are experiencing financial distress in rising rate environments.
- Arbor has scrambled to insinuate that borrowers must establish interest rate caps for their loans. Various documented interviews on Tegus and Alphasense claim this is not the case.
- The equity and other guarantees backing these investments are naturally other multifamily residential projects and real estate, which will be subject to the same deterioration as the underlying debt collateral. Further the non-recourse nature of these loans makes cutting losses a viable strategy.

This profile of loans are not eligible for refinancing anywhere without huge equity investments from borrowers (which are, undoubtedly, other multifamily residential units in distress).

The Underlying Assets

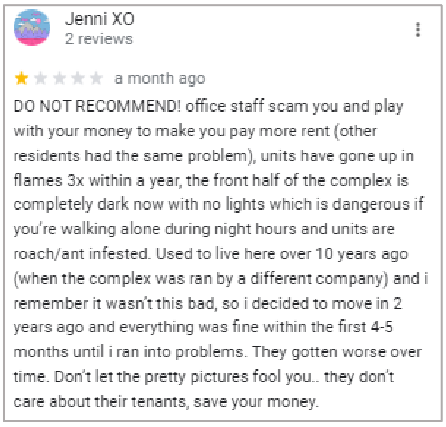
Cap rates aside, Viceroy has explored the underlying collateral supporting Arbor loans. The outlook is not good, and we do not believe there will be sufficient collateral to cover dues in the event of defaults.

- Most properties, even those with the best performing DSCR metrics, appear to be serially undermaintained. It is obvious that these properties have not been properly rehabilitated.
- Poor security, vandalism, theft, and shootings are widely reported among properties.
- Owners appear to pay for and fabricate substantially all good reviews. Some good reviews appear to be from prospective tenants, and form part of the lease application process.
- Management appears to be raising rents of properties without any actual rehabilitation.

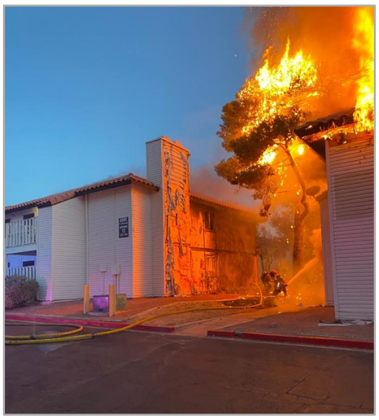
We have sampled various properties in this report at random, albeit at the larger value end. Don't believe us? We've posted the entire CLO underlying assets in a spreadsheet for you to channel check yourselves. Example:

Lantana Apartments	
Current Balance	99,500,000
Appraisal	110,000,000
LTV	90%
NOI	4,490,521
Implied Cap Rate	4.51%

Figure 5 – Viceroy Sample Analysis



Jenni XO
2 reviews
a month ago
DO NOT RECOMMEND! office staff scam you and play with your money to make you pay more rent (other residents had the same problem), units have gone up in flames 3x within a year, the front half of the complex is completely dark now with no lights which is dangerous if you're walking alone during night hours and units are roach/ant infested. Used to live here over 10 years ago (when the complex was ran by a different company) and i remember it wasn't this bad, so i decided to move in 2 years ago and everything was fine within the first 4-5 months until i ran into problems. They gotten worse over time. Don't let the pretty pictures fool you.. they don't care about their tenants, save your money.



Figures 6 & 7 – Lantana Apartments Review & picture of fire dated June 2023

The Borrowers

Viceroy has identified several lenders in Arbor's CLOs which are currently facing financial troubles as reported in the media. Loans attributed to these lenders also appear to be underperforming, in some cases already defaulting. Others we have included due to the high value of underperforming loans in Arbor's CLOs.

Several, though not all, of these lenders are personalities in the world of retail investing seminars where they pitch syndication of multifamily real estate deals to relatively unsophisticated investors. This report outlines several loans made to these finfluencers and gurus who have syndicated investments to unsophisticated investors. We highlight several severely distressed grifts to the value of hundreds of millions of dollars.

Elisa Zhang

Elisa Zhang is a real estate finfluencer, formerly a computer engineer, who markets herself through the Eliza Zhang Financial Independence University[39]. Somehow this qualified her for a $72.225m loan for 2 properties from Arbor in the 2021 FL3 and 2021 FL4 tranches. These properties are owned together with Lavatube Capital, a husband-and-wife team touting high-growth low risk returns and Lane Kawaoka, a real estate podcaster.

The two properties, the Kendall Manor Apartments in Houston and the Amara Apartments in Phoenix, have middling google reviews.

Porfolio Analysis - Viceroy Research	
Portfolio name	Elisa Zhang
Loans	2
Current balance	72,255,000
WA DSCR	0.59x
Total units	574
WA loan rate	8.78%
WA implied cap rate	3.58%

Figure 45 – Elisa Zhang portfolio analysis

Figure 8 – Viceroy Analysis

Undisclosed Related Party Dealings

The cherry on top: Viceroy have also identified an undisclosed related party transaction involving an EVP of structured finance and Hampshire Properties.

The Market

Without drawing attention away from our core thesis, there are a multitude of other reasons not to invest in multifamily residential:

- Trustee data reports that multifamily residential insurance is up, on average, 13% y/y in the Sunbelt. This has put immense pressure on NOI.
- Sunbelt multifamily transaction volumes have dried up amid a torrent of new constructions flooding the market over the next 12 months. The Wall Street Journal reports more than 950,000 units were under construction in June 2023, with many in the Sunbelt according to Green Street.

Conclusion

Arbor has a slowing stream of healthy new loans to breathe life into its dying portfolio. This is because the business of multifamily residential investments is no longer economically viable, and neither are Arbor's portfolio loans.

We have conducted a similar analysis across various competitors of Arbor and can comfortably say that this is not an issue isolated to Arbor.

We believe Arbor is uninvestable.

As a side note, we don't believe what has made the Sunbelt residential market attractive in the first place will disappear. It is an unfortunate consequence of being unprepared that many investments will fail. This will also create ample opportunities for distressed markets.

Attention: Whistleblowers

Viceroy encourages any parties with information pertaining to misconduct within Arbor, its affiliates, or any other entity to file a report with the appropriate regulatory body.

We also understand first-hand the retaliation whistleblowers sometimes face for championing these issues. Where possible, Viceroy is happy act as intermediaries in providing information to regulators and reporting information in the public interest in order to protect the identities of whistleblowers.

You can contact the Viceroy team via email on viceroy@viceroyresearch.com.

About Viceroy

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1. Background - Sunbelt Multifamily Residential Grifting

Sunbelt multifamily real estate guru grifters have many "rules" and "hacks" for investing (and you'll have to pay them $5000 to attend a members' seminar to learn these "rules" & "hacks"). "If it sounds too good to be true, it probably is" is not one those rules.

Many grifter gurus convinced themselves and/or their cult followers that the path to riches is paved with debt and multifamily residential slums in the Sunbelt. To those with short memories (only as far back as 2009), this is an easy investment sell:

- Sunbelt population growth has exploded since 2008 [source], vastly outpacing the national average. This has naturally drawn opportunity for multifamily residential unit investment/development.
- Sunbelt state and local taxes tend to be financially favorable to their northern counterparts. Strong job growth and wage growth has followed.
- Despite this growth, Sunbelt states have remained generally more affordable than northern counterparts (with obvious exceptions such as California).

…and most importantly of all

- Investing in low-vacancy, high-yield multifamily residential units in economically booming geographies can be achieved with close-to-zero loan rates… or at least, it *could*.

The Seminar – Cash Machine go "B.R.R.R.R."

A quick google of "Multifamily Residential Investing" is littered with paid-for articles, self-promotion, and pure nonsense. A naïve investor will really read these and think "I can do this", because risks are not adequately disclosed.

In its simplest form: the multifamily residential investment trajectory is simplified as "B.R.R.R.R.", likely to tap into the perception in online communities of a cash machine.

B. – **Buy** a unit property (with debt) whose current rent values fall below the geographical average

R. – **Renovate / Remodel** the property to justify an increase the tenured rent.

R. – **Rent** out the property at higher yield than when you purchased it.

R. – **Refinance** the debt to extract cash out of value you have created (which is to say, take more debt).

R. – **Repeat** the process with cash extracted from previous investment.

This model works, until it doesn't. BRRRR investors typically fail to consider the following:

- Interest rate volatility can massively impair ability to service floating-rate bridge loans.
    - Borrowers may hedge against bridge loan volatility, but these medium-term loans must inevitably be refinanced.
- The attractiveness of free money will draw significant capital to the market, and bloat supply. Yields / cap rates are susceptible to volatility. This ultimately impacts value.
- Significant execution risk.
- Assumed homogeneity of real estate markets.

All of the above can happen at the same time, in Arbor's case, it appears to have.

From B.R.R.R.R. to Brrrroke

Viceroy have modelled a multifamily residential investor's ideal scenario below for illustrative purposes. It assumes the following:

- An enormous 50% NOI uplift pos-rehabilitation (most grifters aim here, although ABR CLO data show it is never achieved in practice).
- A very cheap rehabilitation.
- Interest-only bridge financing at 3.5% (c. 2020)
- LTC of ~75%

Buy, Renovate & Rent	
Cost value of property	1,000,000
NOI	40,000
NOI %	4.00%
Expected rehab NOI p.a. *	60,000
CAPEX required to rehabilitate	100,000
Cost Base incl. rehab budget	1,100,000
Expected NOI yield	5.45%
Loan-to-cost	80.00%
Loan value	880,000
Bridge rate (c. 2020)	3.50%
Expected NOI	60,000
Interest	30,800
DSCR	**1.95**
*Very, very bullish	

Figure 9 – Viceroy Sample Analysis

If you took out a floating Arbor loan in 2020, refinancing options may have looked attractive. These investments are now burning cash (at least, on paper), and must be refinanced at economically unviable rates within the next 12-24 months.

Refinance	2020	**2023**
Fixed rate long-term rate	3.00%	8.00%
DSCR	**2.42**	**0.91**
Floating rate bridge	3.50%	10.00%
DSCR	**2.08**	**0.73**

Figure 10 – Viceroy Sample Analysis

Syndication – Multiplying Losses

Typically loan syndication involves a group of lenders funding a loan to a single borrower. However, in the context of multifamily investing detailed in this report it works the opposite way: a group of borrowers pool their resources to take out a loan from (typically) one lender through a property holding company. The loan sponsor is responsible for locating the deal, organizing funding, and managing the investment.

The benefit is obvious: unsophisticated investors lack the liquidity, experience or contacts required to execute the BRRRR strategy in a multifamily context. The strategy also allows investors to diversify their risk across multiple investments.

In the cases below, the loan sponsor is usually the one soliciting the investment in the first place, whether through seminars, free dinners, and other marketing efforts.

The reporting requirements for such deals are lax. When raising funds prospective investors may receive a private placement memorandum to be filed with the SEC, and a Form D must be filed but apart from that there is remarkably little reporting that needs to be done[1].

[1] https://www.sec.gov/oiea/investor-alerts-and-bulletins/private-placements-under-regulation-d-investor-bulletin

2. Arbor's business model – Holding the Bag

Arbor's business model is to finance bridge loans for multifamily residential unit investments, typically through renovation periods. After renovation, Arbor can then refinance these bridge loans into agency loans.

Expert
00:01:19

Sure. I was in the structured finance group for about five and a half years, from 2017 until January of this year. The structured finance group focused on bridge loans. Bridge loans were two to three years in term, typically, through a renovation period as part of an acquisition. After the borrowers' renovation of either a percentage or all of the units and a period of stabilization, the loan then would be mature for agency takeout, which Arbor also has an agency finance business. The business plan for Arbor is to bring a client in at the acquisition/renovation bridge side, and carry them through the bridge period, and exit them with an Arbor agency loan, thereby getting two bites at the same deal. Not a bad idea.

Figure 11 – AlphaSense interview with former Arbor VP

In order to access liquidity against these floating rate bridge loans, Arbor established Collateralized Loan Obligation facilities, in which it retains a junior/residual tranche. That is to say:

- Arbor gets paid last, and the equity tranche is the most junior security.
- Arbor receives residual, non-fixed coupons from the CLO. It can get paid the most if borrowers are non-delinquent, or nothing at all if delinquencies are high.

Viceroy's analysis shows that the weighted average current underlying Debt Service Coverage Ratio of the **collateral** of Arbor's Collateralized Loan Obligations (**CLOs**) is ~0.63x

- Borrowers who have not hedged interest rate variance on short-term floating-rate loans are all underwater, and will be dipping into equity in order to fund interest-only mortgage repayments.
    - Arbor says there is a cap requirement for borrowers, but borrowers say they have no hedging requirements. [see rate cap tegus interview]
- Underlying multifamily residential properties have not been rehabilitated and are not stabilized. They do not quality for agency refinance and must refinance at significantly higher long-term fixed rates. None of the agency loan programs mentioned by Arbor accept loans with a DSCR below 1x.

We believe that the underlying collateral of Arbor's CLOs is largely representative of Arbor's own loan book, which we believe is at immense risk of default as waves of loans require refinancing over the next 18 months.

As for any recovery against assets, we note the following:

- The current underlying weighted average LTV of the CLOs is ~77%
- Appraised values of underlying CLOs properties are valued at cap rates of ~3.8%. This is ludicrous. The current risk-free rate is ~4.6%.
- A bullish evaluation of underlying property values at a cap rate of ~7% (which is more than reasonable given these properties have NOT been rehabilitated) wipes out the LTV buffer and substantially all, if not all, of Arbors residual claim.
- A default of Arbor's CLOs will revert collateral (properties) to secured lenders, wiping out Arbor's equity/residual tranche. This alone will destroy half of Arbor's book value.

We believe a default of Arbor's CLOs is inevitable and has not properly assessed its default risk.

Examining Controls

Core to mitigating a very predictable disaster is solid internal controls practiced by Arbor, as in the end they will be holding the bag. Here are Arbor's underwriting guidelines:

Underwriting and Risk Management. Our underwriters perform due diligence on all proposed transactions prior to approval and commitment using several tools to manage and mitigate potential loan losses and risk sharing exposure. The underwriters analyze each loan application in accordance with the guidelines below to determine the loan's conformity with the guidelines. Key factors considered in credit decisions include, but are not limited to, debt service coverage, loan to value ratios and property financial and operating performance. In general, our underwriting guidelines require evaluation of the following:

- The borrower and each person directing a borrowing entity's activities (a "key principal"), including a review of their experience, credit, operating, bankruptcy and foreclosure history;
- Historic and current property revenues and expenses;
- Potential for near-term revenue growth and opportunity for expense reduction and increased operating efficiencies;
- Property location, its attributes and competitive position within its market;
- Proposed ownership structure, financial strength and real estate experience of the borrower and property management;
- Third-party appraisal, environmental review, flood certification, zoning and engineering studies;
- Market assessment, including property inspection, review of tenant lease files, surveys of comparable properties and an analysis of area economic and demographic trends;
- Review of an acceptable mortgagee's title policy and an "as built" survey;
- Construction quality of the property to determine future maintenance and capital expenditure requirements;
- The requirements for any reserves, including those for immediate repairs or rehabilitation, replacement reserves, tenant improvement and leasing commission costs, real estate taxes and property casualty and liability insurance; and
- For any application for one of our Agency products, we will underwrite the loan to the relevant agency or Company guidelines.

Figure 12 – Extract from Arbor 2022 10-K

Arbor underwriting agents then prepare a report for EVERY loan and present them to an investment committee for approval. This committee consists of the CEO, CCO, and EVP of Structured Finance.

Investment Approval Process. We apply an established investment approval process to all loans and other investments proposed for our Structured Business before submitting each proposal for final approval. A written report is generated for every loan or other investment that is submitted to our credit committee for approval, which consists of our chief executive officer, chief credit officer and executive vice president of structured finance. The report includes a description of the prospective borrower and any guarantors, the collateral, and the proposed use of investment proceeds, as well as borrower and property financial statements and analysis. The report also includes an analysis of borrower liquidity, net worth, cash investment, income, credit history and operating experience. All transactions require the approval of the majority of the members of our credit committee. Following the approval of a transaction, our underwriting and servicing departments, together with our asset management group, assure that all loan approval terms have been satisfied and conform to lending requirements established for that particular transaction.

Figure 13 – Extract from Arbor 2022 10-K

It is astounding that the purported 3 most qualified financial minds at Arbor managed to mess it up this badly. We note the following:

- A significant portion of the properties underlying the CLOs have atrocious reviews, including pictures, and have not been rehabilitated. Some properties have already been condemned and labelled as slums. We expand on this in Section 3 below, where we examine a sample of properties from the CLOs.
  - It is difficult to believe that underwriters have conducted inspections of loan collateral properties.
  - Current NOI figures show NOI increases have not been forthcoming. Either rehabilitations have not been completed, or they were ineffective.
- Billions of dollars of loans in CLOs were made to finfluencers and real estate "guru" syndicators who have zero real estate investment backgrounds. Rudimentary news searches show many, if not all, are experiencing financial distress in a rising/high rate environment.
- Arbor's establish interest rate caps for their loans. Various documented interviews on Tegus and Alphasense claim this is not the case.
  - Even if this were the case, lenders would be forced to extend rate caps at current rates when they expire, which is ludicrous and totally nonsensical as projects are already underwater and rate caps are now prohibitively expensive.
- The equity and other guarantees backing these investments are naturally other multifamily residential projects and real estate, which will be subject to the same deterioration as the underlying debt collateral. Further the non-recourse nature of these loans makes cutting losses a viable strategy.
  - It is difficult to suggest that smaller lenders and syndicates can post more equity when projects are already underwater and NOI increases have not been forthcoming.

The Prospect of Refinancing

The only feasible way that we believe Arbor can continue as a going concern is by refinancing bridging loans. Per above, we note that doing this is effectively just prolonging a catastrophe:

- Arbor's loan book substantially matures over the next 18 months. As shown in Section 6 below, new originations are fading quickly in high-rate environments that do not support most multifamily rehabilitation bridging projects.
- The underlying debt service coverage ratios of these floating rate loans in the CLOs is 0.63x.
- NOI figures have not improved. This suggests that even if properties have been rehabilitated, that NOI improvements have not been forthcoming.
- Industry aggregators and experts suggest that operating costs of multifamily residential sector are skyrocketing.
  - Globest.com have reported that multifamily residential insurance rates are up, on average, 13.6%[2].
  - Reviews of properties and industry experts have signaled that maintenance of multifamily residential properties is being neglected in high-interest environments. This was corroborated with interviews with former Arbor VPs.
- Rate caps expirations must be extended at current prices, which are uneconomical. This deserves scrutiny insofar as the impact of expiring rate caps will have on the delinquency of Arbor borrowers.

We believe a wave of maturing loans would not (or, should not) qualify for refinancing with Arbor, or any other bank, because banks are not a charities.

Structured Financing Bridge Loan Program Term Sheet

LOAN AMOUNT	$15–$100M
LOAN TERM	Generally, 1 to 3 years; extension options available
AMORTIZATION	Determined on a case-by-case basis; typically interest only payments
MINIMUM DSCR	1.25 at exit with appropriate in-place DSCR; lower DSCRs considered if payment supported by prefunded interest reserves or guarantees
MAXIMUM LTV	Minimum 75% of exit value
LTC	Up to 80% of approved costs

Figure 14 – Arbor bridge requirements[3]

So what happens when over $10b of bridge financing loans mature?

[2] https://www.globest.com/2023/08/07/multifamily-insurance-rates-are-up-as-much-as-28/
[3] https://arbor.com/bridge/

3. Underlying Collateral – A Deep Dive

Viceroy obtained underlying, current loan data in Arbor's CLO instruments through Trustee data reports. The CLO securitizations analyzed were current "vintages"[4] of ARCLO 2021 FL1 through to ARCLO 2022 FL2. These loans are multifamily, floating rate, interest-only loans with 12–36-month loan terms.

While is widely known that the rising rate environment has negatively impacted Arbor's CLO borrowers, we are not aware of any analysts who have covered how distressed the underlying assets appear.

Like-for-like

We believe that this sample is largely representative of Arbor's book. For all intents and purposes, the structure loans in the CLO share the same metrics with other consolidated structure loans. They are so alike, in fact, that Arbor do not even segment out their wholly owned structure loan assets from consolidated CLO structured loans, for which they only have a residual interest.

- The weighted average interest rate of Arbor's consolidated structured bridge loans was 8.85%. The CLO weighted average rate is about 8.9% in the same period.
- The weighted average loan term of Arbor's consolidated structured bridge loans is 13.8 months. The average loan term in the CLO is about 13.5 months.
- The weighted average LTV of Arbor's consolidated structure bridge loans is 77%. The underlying LTV of the CLO is 77.6%.

CLO Underlying Performance Breakdown

Note: Multiple properties are missing figures for NOI, most recent cap rate and securitization cap rate. This results in inaccurate weighted average figures from a depressed numerator.

ARCLO 2021-FL1			
Total balance	759,102,706	Number of loans	53
Balance @ DSCR<1	540,582,031	Number of loans DSCR < 1	37
WA DSCR	0.76x	Delinquent	7
WA loan rate	8.95%	Delinquent in past 12 mo	6
WA Securitization implied cap rate	5.34%	WA LTV	70%
WA most recent cap rate	4.06%	NOI	52,833,301

ARCLO 2021-FL2			
Total balance	613,837,000	Number of loans	30
Balance @ DSCR<1	468,517,000	Number of loans DSCR < 1	21
WA DSCR	0.69x	Delinquent	2
WA loan rate	9.15%	Delinquent in past 12 mo	-
WA Securitization implied cap rate	5.32%	WA LTV	72%
WA most recent cap rate	5.22%	NOI	40,074,217

ARCLO 2021-FL3			
Total balance	1,430,743,331	Number of loans	70
Balance @ DSCR<1	973,508,931	Number of loans DSCR < 1	45
WA DSCR	0.78x	Delinquent	4
WA loan rate	8.99%	Delinquent in past 12 mo	2
WA Securitization implied cap rate	5.26%	WA LTV	77%
WA most recent cap rate	5.56%	NOI	91,596,645

Figures 15, 16 & 17 – Viceroy Analysis

[4] We note that Arbor trades with these CLOs, so in any months there can be many transactions in/out of the CLOs. By "vintage" we refer to the loans in the CLOs as at Sep 2023

ARCLO 2021-FL4			
Total balance	1,913,817,505	Number of loans	92
Balance @ DSCR<1	1,536,951,505	Number of loans DSCR < 1	75
WA DSCR	0.68x	Delinquent	11
WA loan rate	9.02%	Delinquent in past 12 mo	14
WA Securitization implied cap rate	5.18%	WA LTV	77%
WA most recent cap rate	3.61%	NOI	88,052,150

ARCLO 2022-FL1			
Total balance	2,017,534,520	Number of loans	74
Balance @ DSCR<1	1,627,933,305	Number of loans DSCR < 1	58
WA DSCR	0.76x	Delinquent	9
WA loan rate	8.97%	Delinquent in past 12 mo	5
WA Securitization implied cap rate	4.93%	WA LTV	79%
WA most recent cap rate	4.11%	NOI	113,294,408

ARCLO 2022-FL2			
Total balance	966,576,531	Number of loans	38
Balance @ DSCR<1	718,861,531	Number of loans DSCR < 1	29
WA DSCR	0.84x	Delinquent	2
WA loan rate	8.87%	Delinquent in past 12 mo	-
WA Securitization implied cap rate	4.95%	WA LTV	72%
WA most recent cap rate	4.15%	NOI	48,329,825

Figures 18, 19 & 20 – Viceroy Analysis

Collateral Waterfall – A Closer Look

The Arbor CLO has, itself, DSCR and LTV covenants which it must meet.

- The interest coverage ratio divides interest income by interest expense for the classes senior to those retained by Arbor.
- The overcollateralization ratio divides the total principal balance of all collateral in the CLO by the total principal balance of the bonds associated with the applicable ratio[5].

Cash Flow Triggers	CLO 12	CLO 13	CLO 14	CLO 15	CLO 16	CLO 17	CLO 18	CLO 19
Overcollateralization (1)								
Current	126.58 %	128.52 %	119.76 %	120.85 %	121.21 %	122.51 %	124.03 %	120.30 %
Limit	117.87 %	118.76 %	118.76 %	119.85 %	120.21 %	121.51 %	123.03 %	119.30 %
Pass / Fail	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass
Interest Coverage (2)								
Current	197.05 %	180.22 %	148.34 %	145.30 %	145.55 %	140.69 %	159.15 %	120.12 %
Limit	120.00 %	120.00 %	120.00 %	120.00 %	120.00 %	120.00 %	120.00 %	120.00 %
Pass / Fail	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass

Figure 21 – Arbor Covenants, extract from 2022 10-K

If these covenants fail, Arbor will not receive any interest or principal on these loans until the accounts become current. We note that current vintages are already scraping past covenant tests.

The priority of payments given default shows that Arbor would not receive any funds in a default or delinquency situation until the Senior Participation is paid in full for their total interests in the CLO:

1. Senior - in an amount equal to the accrued and unpaid interest on the principal balance of the Senior Participation.
2. Senior - in an amount equal to its pro rata portion of payments of principal received with respect to the commercial real estate loan.
3. Senior - any unreimbursed realized losses previously allocated to the Senior Participation.
4. Junior - any unreimbursed cure payments or any unreimbursed costs (including advances) paid or reimbursed by the holder of the Junior Participation with respect to the commercial real estate loan.

[5] There are separate tests for defaulted securities, please refer to the 2022 10-K.

Arbor's Residual Stake in the CLOs

We understand Arbor's equity value in the CLOs as described by its residual interest in each instrument. This is as disclosed in Arbor's latest 10-K.

CLO		ABR Residual	Value ($m)
CLO 14	2021-FL1	Residual interest of $129.5m, of which $68.7m are below IG notes	129.5
CLO 15	2021-FL2	Residual interest of $140.6m, of which $73.4m are below IG notes	140.6
CLO 16	2021-FL3	Residual interest of $262.5m, of which $135.0m are below IG notes	262.5
CLO 17	2021-FL4	Residual interest of $385.9m, of which $194.3m are below IG notes	385.9
CLO 18	2022-FL1	Residual interest of $397.2m, of which $210.1m are below IG notes	397.2
CLO 19	2022-FL2	$177.2 million were below investment grade notes retained by us	177.2
Total			**1,492.9**

Figure 22 – Viceroy Analysis[6]

Effectively, when analyzing the CLOs, this is the "value at risk". Being at the bottom of the waterfall: Arbor is in a precarious position as the underlying value of these assets, we believe, will barely be able to cover senior bondholder claims.

Residual Collateral Values in Recovery Scenario

In what we believe is an inevitable wave of defaults across Arbor's books, we believe that Arbor will inevitably rely on recovery from collateral. We note the following:

- The current 10-year Treasury Bond Rate is ~4.6%.
- The implied weighted cap rate of underlying CLO properties is ~3.8%.

There is no conceivable way that Arbor realizes the underlying value of the collateral in the event of mass default at valuations at the risk-free rate for unrehabilitated multifamily residential units.

Given the CLO has an equity buffer of 22% it would only take a 5.6% cap rate to eliminate the equity buffer and an 8% cap rate adjustment would leave a $1.9b shortfall.

Further it would take an 87% increase in the NOI of the CLO loan book to justify the current appraisal value at an 8% cap rate.

At a very bullish 7% cap rate valuation, the delta to the true underlying value of this un-financeable portfolio will easily surpass ~22.5% LTV buffer, and destroy Arbor's entire equity tranche in the CLOs.

Residual Shortfall Analysis	
Outstanding Debt ($m)	**6,467.05**
Collateral ($m)	8,314.65
LTV	77.78%
NOI	317.96
Implied Cap Rate	3.82%
LTV buffer ($m)	1,848
Collateral @ 7% cap rate	**4,542**
Variance @ 7% cap rate	(3,772)
Net shortfall to $ABR	**(1,925)**

Figure 23 – Viceroy Analysis[7]

CORRECTION – Jan 8, 2024 : this table has been corrected to eliminate double counting of property values and NOI for properties with multiple loans. This correction has INCREASED the estimated shortfall by ~$650m.

[6] While Arbor does not explicitly break out this figure, this calculation is consistent with DBRS figures to a <1% margin of error.
[7] We note that a small number of loans were excluded from our analysis as they did not report NOI and/or collateral figures.

Discounted Cashflow Model

Viceroy has also completed a fixed income model to highlight how, in our opinion, the CLOs will inevitably breach covenants and become distressed. It also highlights like-for-like financial outcomes even if the CLOs do not.

Both the loan assets and the securitized debt liabilities are valued using level 3 fair value discounted cash flow methodologies.

- Assets - Loans and investments, net. – "discounted cash flow methodologies using discount rates."
- Liabilities - Securitized debt and junior subordinated notes – "discounted expected future cash flows at a yield that reflects current market interest rates and credit spreads."

Our analysis has determined that the implied discount rate for the liabilities aligns closely with the average interest rate paid on the loan book.

The level 3 valuation method of discounted cash flow would mean for each % increase in the cap rate will result in a 1.14% drop in Fair Value. Discount rates are not really material to this analysis.

Using the implied discount factors the following equity shortfall %'s would result in a book value adjustment to cover the redirected payments to senior participants in the CLO.

Equity Shortfall - Present Value	5%	10%	20%
2023	(116,870)	(233,740)	(467,479)
2024 Onwards	(239,380)	(478,760)	(957,521)
Total	**(356,250)**	**(712,500)**	**(1,425,000)**
% of Book Value	(4.7%)	(9.4%)	(18.7%)

Figure 24 – Viceroy Analysis

On an individual loan basis our modelling found that under the current assumptions presented in the financials 8.4% of the CLO will enter negative equity in its current loan term. As these loans are unlikely to be refinanced due to DCSRs below 1 and the current valuations having a below market implied cap rate this is a sign of delinquency to come and the under accounted for loss provision.

Allowance for loss-sharing obligations	%	$,000s
As at Sep 23		69,261
Loans that will enter negative equity	8.4%	
Loan value that will enter negative equity	5.3%	408,719
Average cap rate of negative equity loans	(0.7%)	

Figure 25 – Viceroy Analysis

Given the current risk of delinquency and subsequent equity shortfall it appears that the unrestricted cash balance of $476m would not last very long. We note that Agency Loan underwriters require substantial liquidity which also acts as a quasi-covenant.

Cash - Sep 23	$,000s
Cash and cash equivalents	895,298
Restricted cash	419,158
Unrestricted cash and cash equivalents	**476,140**

Figure 26 – Viceroy Analysis

Interest Coverage Ratio

Arbor is already scraping the limits of its CLO DSCR covenants. Note that it receives residual based on what is effectively an arbitrage between CLO income and bondholder coupon. This also highlights that Arbor's distributions are diminishing.

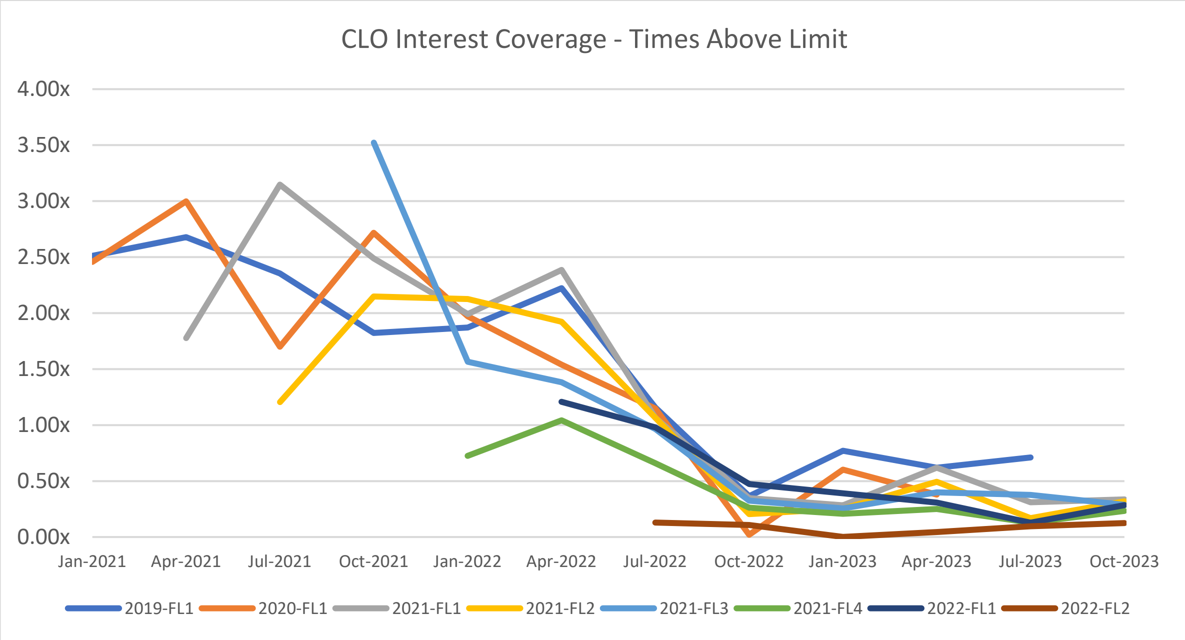


Figure 27 – Viceroy Analysis

If the Interest Coverage test is failed, then interest will start to be directed to senior debt holders and weigh on Arbor's cash flow.

Extrapolating findings to Arbor's whole portfolio

As discussed above, we believe Arbor's CLO portfolio is like-for-like with its wholly owned bridge loan book.

Believe it or not, Arbor's first impairment of its bridge loan book since the pandemic was only in Q2 2023: a $5m impairment against a $36m loan.

The value of impaired loans now stands at $90m, and has an impairment provision of $17.7m, or 20%.

Arbor - Impairment Analysis	Q1-2021	Q2-2021	Q3-2021	Q4-2021	Q1-2022	Q2-2022	Q3-2022	Q4-2022	Q1-2023	Q2-2023	Q3-2023
Loans considered impaired											
UPB											
Land	134,215	134,215	134,215	134,215	134,215	134,215	134,215	134,215	134,215	134,215	134,215
Multifamily										36,377	90,070
Office	2,151	2,136	2,096		1,962				44,625	44,625	45,025
Other	146,395	36,370	31,745	25,725	23,745	23,745	23,745	23,745	23,745	23,745	23,745
Total	282,761	172,721	168,056	159,940	159,922	157,960	157,960	157,960	202,585	238,962	293,055
Allowance for loss % of UPB											
Land	58.02%	58.02%	58.02%	58.02%	58.02%	58.02%	58.02%	58.02%	58.02%	58.02%	58.02%
Multifamily										13.74%	19.71%
Office	69.74%	70.22%	0.00%		76.45%				17.82%	17.82%	17.66%
Other	18.37%	53.24%	53.61%	35.05%	31.66%	31.66%	31.66%	31.66%	31.66%	31.83%	31.66%
Total	37.58%	57.16%	56.46%	54.32%	54.33%	54.06%	54.06%	54.06%	46.07%	41.17%	37.91%

Figure 28 – Viceroy Analysis

Given ludicrous valuations placed on collateral, a 20% impairment of Arbor's structured book is generous, and would still wipe out any net asset value to the company's book.

4. The Underlying Properties

Cap rates aside, Viceroy has explored the underlying collateral supporting Arbor loans. The outlook is not good, and we do not believe there will be sufficient collateral to cover dues in the even of defaults.

- Substantially all properties, even those with the best performing DSCR metrics, appear to be serially undermaintained. It is obvious that these properties have not been properly rehabilitated.
- Poor security, vandalism, theft, and shootings are widely reported among properties.
- Owners appear to pay for and fabricate substantially all good reviews. Some good reviews appear to be from prospective tenants, and form part of the lease application process.
- Management appears to be raising rents of properties without any actual rehabilitation.

We picked the below properties at random, albeit at the larger value end. Don't believe us? We've posted the entire CLO underlying assets in a spreadsheet for you to channel check yourselves.

The Caden at East Mil

This $120m appraised property in Orlando has a 1-star average review score on Yelp[8], and 2.4 star Google reviews[9] (bad). Within the last month, all reviews have been 1 star. Among allegations is that:

- Tenants have *never* had an inspection in the last 5 years.
- Management changes with the season.
- The complex is frequently broken into.
- There are rat and roach infestations.
- Maintenance has not been available.
- Pictures of "renovated" units show renovations are purely superficial and have not addressed underlying property problems.

The appraised property value is at an implied cap rate of 4.36%, which is about 30bps below the current 10yr T-Bond rate. This loan was made in October 2021. It is blindingly obvious that little/no works have been completed to date.

The Caden at East Mil	
Current Balance	98,912,000
Appraisal	120,100,000
LTV	82%
NOI	4,314,678
Implied Cap Rate	4.36%

Figure 29 – Viceroy Analysis

Figures 30 & 31 – Google Reviews

[8] https://www.yelp.com/biz/the-caden-at-east-mil-orlando
[9] https://www.google.com/maps/place/Caden+at+Lakeside/@28.4856863,-81.4081396,17z/data=!4m8!3m7!1s0x88e77c72d5138bad:0x36621917385e092a!8m2!3d28.4856863!4d-81.4055647!9m1!1b1!16s%2Fg%2F12hm6rylf?entry=ttu

Lantana Apartments

This complex in Las Vegas has an appraised value of $110m. It has a 1.4 star average review score on Yelp[10], and 2.6 star Google reviews[11] (bad). Within the last month, all reviews have been 1 star. Among allegations is that:

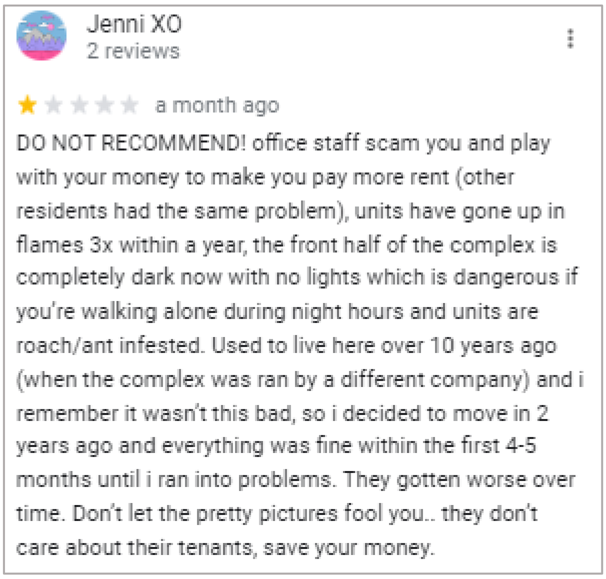
- Three units in this complex have gone up in flames due within the last year due to faulty wiring, with many other tenants complaining of fire damage within walls.
- There is no security or maintenance to attend to issues.
- “A man was dead for 5 weeks and they just found his body”
- Roach and mice infestations.

The renovation year of the apartments is listed as completed in 2022, however it is abundantly clear from reviews that they have not taken place. There appear to be some renovations occurring now, however it also appears that vacancies on renovated apartments are high due to mass availability on Lantana’s website.

The implied cap rate for the property is 4.5%, which is ~10bps below the current 10 T-Bond rate. The loan was originated in 2021.

Lantana Apartments	
Current Balance	99,500,000
Appraisal	110,000,000
LTV	90%
NOI	4,490,521
Implied Cap Rate	4.51%

Figure 32 – Viceroy Analysis



Figures 33 & 34 – Google Reviews – Picture of fire at apartments dated June 2023

[10] https://www.yelp.com/biz/tides-at-charleston-apartments-las-vegas?sort_by=date_desc
[11] https://www.google.com/maps/place/Tides+on+Charleston/@36.1588297,-115.2373396,21z/data=!4m17!1m8!3m7!1s0x80c8c0e28ac6bee9:0xc6203fc8f3610eac!2s6501+W+Charleston+Blvd,+Las+Vegas,+NV+89146,+USA!3b1!8m2!3d36.1588316!4d-115.2373445!16s%2Fg%2F11c5qjdt07!3m7!1s0x80c8c11d8e892575:0xad28c8a73dbc598d!8m2!3d36.1588297!4d-115.2373396!9m1!1b1!16s%2Fg%2F1tdlb_jb?entry=ttu

Sterling Pointe - Aspire Arden

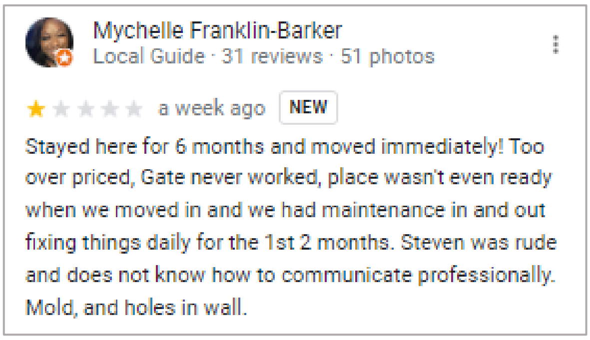
This $63m appraised property in Sacramento has a 2.1 star average review score on Yelp[12], and 2.3 star Google reviews[13] (bad).

- Despite being newly renovated, the apartments have mold and holes in walls. Residents note that “maintenance in and out fixing things daily for the first 2 months”. On the plus side, maintenance appear to be attending to requests, on the other hand, the tenant still moved out.

The implied cap rate on this property is a ludicrous 1.62%, which is about 400bps below the current risk free T-Bond rate. The loan originated in 2021. The investors, Ridge Capital Investors, paid only $33m for the property in December 2019, less than 2 years before a $43m loan was extended against a $63m collateral. This is absolutely abhorrent lending behavior and was somehow approved by a committee consisting only of the CEO, CCO, and EVP.

Sterling Point	
Current Balance	43,989,000
Appraisal	63,600,000
LTV	69%
NOI	1,028,742
Implied Cap Rate	1.62%

Figure 35 – Viceroy Analysis



Figures 36 & 37 – Sterling Pointe sale & Google Review

[12] https://www.yelp.com/biz/the-luxe-sacramento-4?sort_by=date_desc

[13] https://www.google.com/maps/place/Aspire+Arden/@38.5891379,-121.415418,17z/data=!4m12!1m2!2m1!1saspire+arden+hurley+way+yelp!3m8!1s0x809adb670abe18c7:0xe2c5d0375afe8b96!8m2!3d38.5891379!4d-121.4128431!9m1!1b1!15sChxhc3BpcmUgYXJkZW4gaHVybGV5IHdheSB5ZWxwkgERYXBhcnRtZW50X2NvbXBsZXjgAQA!16s%2Fg%2F11kqkksz8k?entry=ttu

2 East Oak Street

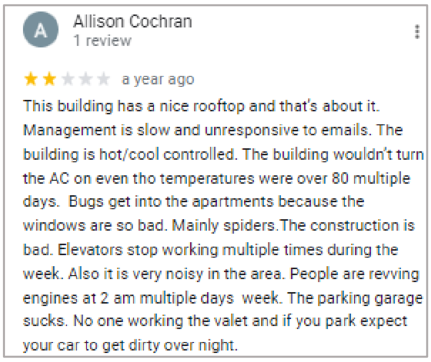
This $113m appraised property in Chicago has a 1.5 star average review score on yelp[14], and 3.6 star Google reviews[15].

- The application process for obtaining a lease includes leaving the agent, Kristen, a 5 star google review. The rating nonetheless is still a meager 3.6.
- The elevators and AC units are allegedly undermaintained.
- There is little/no security at the property, with residents complaining that the stairwell is occupied by the homeless, and the lounge by hookers and drug dealers (unsure if this is a positive or negative).
- Despite being newly renovated, the apartments present with quality issues.

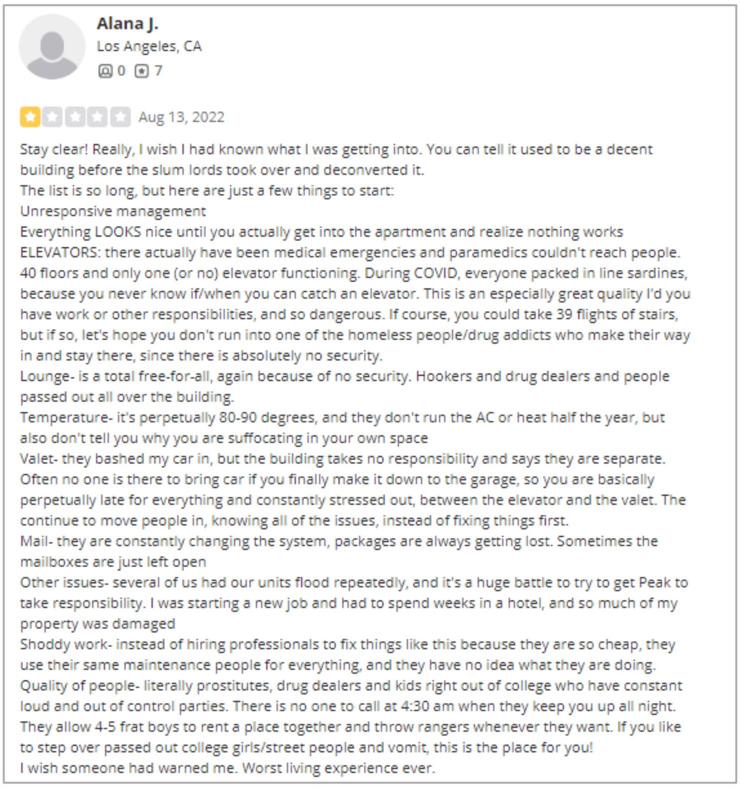
The implied cap rate on this property is 4.47%, which is about 15bps below the current risk-free T-Bond rate. The loan was originated in 2020 and the property has already been rehabilitated. The DSCR is still ~0.9x. This loan was due to mature in February 2023, and appears to have been extended by Arbor. What other choice do they have?

2 East Oak Street	
Current Balance	68,757,000
Appraisal	113,000,000
LTV	61%
NOI	5,052,397
Implied Cap Rate	4.47%

Figure 38 – Viceroy Analysis



Allison Cochran
1 review
a year ago
This building has a nice rooftop and that's about it. Management is slow and unresponsive to emails. The building is hot/cool controlled. The building wouldn't turn the AC on even tho temperatures were over 80 multiple days. Bugs get into the apartments because the windows are so bad. Mainly spiders.The construction is bad. Elevators stop working multiple times during the week. Also it is very noisy in the area. People are revving engines at 2 am multiple days week. The parking garage sucks. No one working the valet and if you park expect your car to get dirty over night.



Alana J.
Los Angeles, CA
0 7
Aug 13, 2022
Stay clear! Really, I wish I had known what I was getting into. You can tell it used to be a decent building before the slum lords took over and deconverted it.
The list is so long, but here are just a few things to start:
Unresponsive management
Everything LOOKS nice until you actually get into the apartment and realize nothing works
ELEVATORS: there actually have been medical emergencies and paramedics couldn't reach people. 40 floors and only one (or no) elevator functioning. During COVID, everyone packed in line sardines, because you never know if/when you can catch an elevator. This is an especially great quality I'd you have work or other responsibilities, and so dangerous. If course, you could take 39 flights of stairs, but if so, let's hope you don't run into one of the homeless people/drug addicts who make their way in and stay there, since there is absolutely no security.
Lounge- is a total free-for-all, again because of no security. Hookers and drug dealers and people passed out all over the building.
Temperature- it's perpetually 80-90 degrees, and they don't run the AC or heat half the year, but also don't tell you why you are suffocating in your own space
Valet- they bashed my car in, but the building takes no responsibility and says they are separate. Often no one is there to bring car if you finally make it down to the garage, so you are basically perpetually late for everything and constantly stressed out, between the elevator and the valet. The continue to move people in, knowing all of the issues, instead of fixing things first.
Mail- they are constantly changing the system, packages are always getting lost. Sometimes the mailboxes are just left open
Other issues- several of us had our units flood repeatedly, and it's a huge battle to try to get Peak to take responsibility. I was starting a new job and had to spend weeks in a hotel, and so much of my property was damaged
Shoddy work- instead of hiring professionals to fix things like this because they are so cheap, they use their same maintenance people for everything, and they have no idea what they are doing.
Quality of people- literally prostitutes, drug dealers and kids right out of college who have constant loud and out of control parties. There is no one to call at 4:30 am when they keep you up all night. They allow 4-5 frat boys to rent a place together and throw rangers whenever they want. If you like to step over passed out college girls/street people and vomit, this is the place for you!
I wish someone had warned me. Worst living experience ever.

Figures 39 & 40 – Google & Yelp reviews

[14] https://www.yelp.com/biz/2-e-oak-condominium-association-chicago
[15] https://www.google.com/maps/place/Two+East+Oak/@41.9009553,-87.6276104,19z/data=!4m18!1m9!3m8!1s0x880fd351e5307e27:0x34fb387628e7ab5f!2sTwo+East+Oak!8m2!3d41.9009321!4d-87.6280857!9m1!1b1!16s%2Fm%2F0wfh0sv!3m7!1s0x880fd351e5307e27:0x34fb387628e7ab5f!8m2!3d41.9009321!4d-87.6280857!9m1!1b1!16s%2Fm%2F0wfh0sv?entry=ttu

5. Meet the Borrowers

Viceroy have identified several lenders in Arbor's CLOs which are currently facing financial troubles as reported on in the media. Loans attributed to these lenders also appear to be underperforming, in some cases already defaulting. Others we have included due to the high value of underperforming loans in Arbor CLOs.

Several, though not all, of these lenders are personalities in the world of retail investing seminars where they pitch syndication of multifamily real estate deals to relatively unsophisticated investors.

Nitya Capital

Nitya Capital is a Texas-based real estate investor founded and managed by Swapnil Agarwal. Nitya reportedly faced distressed asset sales, lagging renovations, suspended cash distributions and deferring property and asset management fees.

Agarwal has promoted the idea of crowdfunding real estate which is basically how Nitya Capital operates. We note that an analysis of SEC Form D filed by Nitya associates appears to show its deal flow drying up.

Nitya Capital Form D Analysis - Viceroy Research			
	2020	**2021**	**2022**
Offerings	33	4	5
Offering amount	399,029,515	45,572,184	165,698,230
Amount sold	399,029,515	44,995,979	121,643,302
Amount remaining	-	576,205	44,054,928
Payments to executives	23,399,056	2,392,939	16,103,600

Figure 41 – Viceroy Analysis

Note: Figures for 2022 are largely accounted for by the offering for Project Hatteras Investors which conducted an offering of $101m, raising $76m.

We also note that compared to the other borrowers below, Nitya's average offering amount sold per investor is smaller, signaling an increase concentration in retail investors in their fundraising.

Agarwal has also taken to Forbes to promote his teachings including the very-poorly timed "Three Reasons Commercial Office Real Estate Can Transcend Economic Uncertainty" on February 2, 2021.

Loans to Nitya Capital total USD426.7m in 9 loans in the Jacksonville and Orlando metro areas.

Porfolio Analysis - Viceroy Research	
Portfolio name	Nitya Capital
Loans	9
Current balance	426,750,000
WA DSCR	0.69x
Total units	3,774
WA loan rate	8.54%
WA implied cap rate	3.63%

Figure 42 – Nitya Capital portfolio analysis

We do not believe this portfolio will return to being able to service its debt for several reasons:

- A Morningstar note on the ARCLO 2022-FL1 notes dated August 2023 stated that only 10% of the planned unit upgrades at the Caden at East Mil property had been completed.
- The City of Jacksonville issued 11 citation violations for the Miramar Apartments complex in January 3, 2023[16]. Complaints by tenants include broken windows, faulty air conditioning units, leaky plumbing, holes in the ceiling and black mold[17].
- Local Jacksonville news outlet News4Jax revealed that the San Remo property had at least 80 code enforcement complaints were made in 2022 about the property. A unit was condemned on July 20, 2022, due to a collapsed ceiling[18] . Several contractors claimed that they had not been paid by property manager KPM[19].
- We note that the Jacksonville properties are in a high crime neighborhood with a murder or attempted murder recorded at each one.

Applesway

Applesway Investment Group is led by Koteswar “Jay” Rao Gajavelli, another product of the anyone-can-do-it real estate seminar circuit. The company made the news in April when Arbor foreclosed on four apartment complexes in Houston worth $229m, after which Applesway mistakenly served mass eviction notices to residents of the foreclosed properties[20].

Porfolio Analysis - Viceroy Research	
Portfolio name	Applesway
Loans	8
Current balance	100,250,000
WA DSCR	0.68x
Total units	2,660
WA loan rate	8.57%
WA implied cap rate	2.54%

Figure 43 – Applesway portfolio analysis [21]

Since then, the bad news has continued including a lawsuit by investors claiming they were duped and foreclosed upon by another lender. The SEC Form D analysis is as follows:

Applesway Form D Analysis - Viceroy Research	2019	2020	2021	2022
Offerings	1	3	5	5
Offering amount	6,000,000	41,500,000	42,000,000	62,000,000
Amount sold	-	6,155,000	31,367,600	25,250,000
Amount remaining	6,000,000	35,345,000	10,632,400	45,750,000
Payments to executives	-	768,500	1,936,700	8,522,000

Figure 44 – Applesway portfolio analysis

Gajavelli is listed along with other investors as the sponsors in 2 multi-property loans on 4 properties in the Westchase neighborhood in Houston.

[16] https://www.actionnewsjax.com/news/local/city-jacksonville-issues-11-citation-violations-miramar-apartment-complex/5KB4ODNH4ZEUDI2NATKGDUUEFM/
[17] https://www.actionnewsjax.com/news/local/its-always-been-hell-another-miramar-apartments-resident-discusses-living-conditions/VK3PY2H26JDVFDRYVGCWA5IEC4/
[18] https://www.news4jax.com/news/local/2022/09/12/collapsing-ceilings-no-air-conditioning-no-hot-water-the-i-team-investigates-complaints-against-san-remo-apartments-in-arlington/
[19] https://www.news4jax.com/i-team/2022/11/30/i-team-contractors-say-local-apartment-management-company-late-on-tens-of-thousands-of-dollars-in-payments/
[20] https://therealdeal.com/texas/2023/08/10/applesway-attempted-mass-eviction-at-apartments-it-no-longer-owns/
[21] We calculated the Applesway properties from the reported DSCR, current loan value, and loan rate.

ICER

Icer is a New York-based investment firm that stated to industry publication Bisnow that it was seeking greener pastures out-of-state seeking to escape New York's regulatory environment. It appears to have settled in Georgia where the Atlanta Journal Constitution revealed that they took to increasing rent to "as much as $2,000 a month for a three-bedroom apartment that previously rented for hundreds of dollars less".

Porfolio Analysis - Viceroy Research	
Portfolio name	ICER Properties
Loans	13
Current balance	108,650,000
WA DSCR	0.30x
Total units	2,611
WA loan rate	9.62%
WA implied cap rate	0.96%

Figure 45 – ICER Properties portfolio analysis[22]

Both loans were modified on March 6, 2023 though it's not clear what the modifications were.

The Atlanta Journal Constitution's Dangerous Dwellings investigation identified properties in the greater Atlanta area with high crime, fire, code violation and hazard risks. Two of the ICER properties in the Arbor CLOs, the Overlook Apartments, and the Park at Greenbriar are identified on this list.

The Overlook apartments clocked in 109 violations from 2017 to 2022 and dozens of complaints including roof, plumbing, fire safety, foundation problems and drainage. The Park at Greenbriar was much the same and was on a list of properties announced by the Atlanta authorities to be "targeted" for its chronic crime and condition problems[23,24,25,26].

Tides Equities

Tides Equities accounts for only one loan in the Arbor CLOs but it is the largest single property loan in all the CLOs for which we have data with a current balance of US$99.5m for the Lantana Apartments in Las Vegas, Nevada. According to a report by The Real Deal we believe this to be the largest loan on Tides' books, three times its median loan size[27].

> Tides Equities has about $1.5 billion across 47 loans coming due by the end of 2025, according to a *TRD* analysis of data from DBRS Morningstar. The median loan size is $29.1 million, while the firm's largest loan maturing by 2025 is for $99.5 million.

Figure 46 – Tides Equities' Investors Get Capital Call Alert – The Real Deal[28]

Like many of the loans profiled in this section the property fails to cover its debt payments and has seen an increase in LTV to 90%

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[22] We calculated the ICER properties from the reported DSCR, current loan value, and loan rate.
[23] https://www.ajc.com/news/investigations/dwellings/list-dangerous-apartments/
[24] https://www.ajc.com/news/investigations/atlantas-new-problem-property-list-drops-some-notorious-apartments/V264VPKECJGUPC44MU7PHBBHWA/
[25] https://www.ajc.com/news/investigations/dwellings/apartments-violent-crime/
[26] https://www.fultoncountyga.gov/news/2022/07/15/fulton-da-plans-crackdown-on-dangerous-apartment-complexes
[27] https://therealdeal.com/la/2023/06/27/facing-cash-crunch-tides-equities-may-call-investors-for-more-money/
[28] https://therealdeal.com/la/2023/06/27/facing-cash-crunch-tides-equities-may-call-investors-for-more-money/

Porfolio Analysis - Viceroy Research	
Portfolio name	Tides
Loans	1
Current balance	99,500,000
WA DSCR	0.73x
Total units	508
WA loan rate	8.72%
WA implied cap rate	4.08%

Figure XX – Tides Equities portfolio analysis[29]

Tides Equity landed in hot water earlier in 2023 when it announced the possibility of a capital raise from its equity partners. The next day its largest investor AMC Investments raised the possibility of its own capital raise to cover Tides' contractor payments[30]. The funds supposedly earmarked for these payments were instead used to cover its debt repayments. Tides reported it had entered workouts to some of its loans in September 2023 while Arbor failed to comment on whether its loans with Tides were included in that number[31].

A bit more digging around the property itself shows some serious problems. A fire in June 2023 resulted in 1 fatality and there were previous serious fires in 2022 and 2020. Las Vegas councilman Brian Knudsen called the situation "unacceptable", and the same article claims that buildings damaged in a previous fire were still without a roof and fenced off[32]. A local news channel interviewed victims of the fire who claimed that the management "offered a new apartment with a $500 rental increase"[33].

Keycity Capital

KeyCity Capital is a Dallas Fort Worth based private equity firm which markets itself as a connector to private investors to real estate deals. It appears to do this through tele-marketed free dinner seminars[34]. The SEC Form D analysis is as follows:

KeyCity Capital Form D Analysis - Viceroy Research	2021	2022	2023
Offerings	2	5	6
Offering amount	60,000,000	Indefinite	Indefinite
Amount sold	51,750,000	38,079,873	21,854,029
Amount remaining	-	576,205	44,054,928
Payments to executives	-	-	-

Figure 47 – Keycity Capital Form D analysis

Porfolio Analysis - Viceroy Research	
Portfolio name	KeyCity Capital
Loans	6
Current balance	84,325,000
WA DSCR	0.37x
Total units	1,240
WA loan rate	8.92%
WA implied cap rate	4.26%

Figure 48 – KeyCity Capital portfolio analysis

There are also signs of financial distress in the portfolio. The Emerald Pointe apartments reportedly failed to make payments for trash collection in March 2023[35,36].

[29] We calculated the ICER properties from the reported DSCR, current loan value, and loan rate.
[30] https://therealdeal.com/national/2023/07/28/tides-largest-backer-warns-investors-faults-syndicator-for-diverting-funds/
[31] https://therealdeal.com/national/2023/09/18/tides-equities-touts-workouts-on-most-of-apartment-portfolio/
[32] https://www.firerescue1.com/fatal-fires/articles/fatal-las-vegas-apartment-fire-reveals-history-of-major-blazes-ike5xRlJNbShacbc/
[33] https://www.reviewjournal.com/local/local-las-vegas/i-could-have-lost-my-life-apartment-fire-survivor-recounts-blaze-2795546/
[34] https://www.keycitycapital.com/dinnertfl
[35] https://www.fox13memphis.com/news/what-if-your-apartment-complex-stops-paying-for-trash/article_085d629a-cdae-11ed-b133-9fcc579f495c.html
[36] https://www.fox13memphis.com/watch-code-officers-to-investigate-trash-pickup-problem-at-emerald-pointe-apartments/video_4de85a56-efb4-56ba-a5bd-993f0a85aa9e.html

The Arch

The Arch properties are secured against 2 Jacksonville Properties at 1706 ART Museum Drive and 1591 Lane Avenue South and list as owners Paxe Palmer LP and Schweb Partners. Schweb has made the news several times for egregious rent hikes, poor property maintenance and conflicts with tenants[37,38].

Porfolio Analysis - Viceroy Research	
Portfolio name	The Arch
Loans	2
Current balance	92,310,000
WA DSCR	0.74x
Total units	0
WA loan rate	9.07%
WA implied cap rate	n/a

Figure 49 – The Arch portfolio analysis

North Trio

The owner of one of the loans is listed as Inner Light Ministries Inc, with the title owner address all at the address of Inner Light Ministries. The loan sponsors are Mark and Abraham Mermelstein, Yehuda Ruzohorsky, Boruch Fink, Joseph Friedman and Aaron Lazar, a consortium of investors who appear to have done deals together in the past[39].

Porfolio Analysis - Viceroy Research	
Portfolio name	North Trio
Loans	3
Current balance	79,200,000
WA DSCR	0.27x
Total units	772
WA loan rate	8.82%
WA implied cap rate	1.65%

Figure 50 – North Trio portfolio analysis

Frankforter

Frankforter Group is a Canadian Real Estate investment and asset management company. The properties are the Julian and Ivy Residences in Orlando, the Generations in Atlanta and the Avery at Pompano beach. We note that these are individual loans.

Porfolio Analysis - Viceroy Research	
Portfolio name	Frankforter
Loans	4
Current balance	227,270,000
WA DSCR	0.62x
Total units	1,137
WA loan rate	8.70%
WA implied cap rate	3.58%

Figure 51 – Frankforter portfolio analysis

[37] https://www.washingtonpost.com/dc-md-va/2022/12/11/bladensburg-rent-strike-pg-county/
[38] https://www.washingtonpost.com/dc-md-va/2022/07/15/laurel-rent-strike-pg-county/
[39] Ruzohorsky, Mark Mermelstein and Lazar are the members of Riverwalk Construction Texas.

Hannan Lis and Gideon Pfeffer

Two loans list Hannan Lis and Gideon Pfeffer as loan sponsors secured against the Retreat at Farmington Hills in the outskirts of Detroit and the Verona at the Park development in Washington. Likely owned by GSH Ventures, another retail multifamily real estate scheme[40].

Porfolio Analysis - Viceroy Research	
Portfolio name	Lis-Pfeffer
Loans	2
Current balance	121,050,000
WA DSCR	0.58x
Total units	696
WA loan rate	8.87%
WA implied cap rate	3.13%

Figure 52 – Lis-Pfeffer portfolio analysis

Elisa Zhang

Elisa Zhang is a real estate finfluencer, formerly a computer engineer, who markets herself through the Eliza Zhang Financial Independence University[41]. Somehow this qualified her for a $72.225m loan for 2 properties from Arbor in the 2021 FL3 and 2021 FL4 tranches. These properties are owned together with Lavatube Capital, a husband-and-wife team touting high-growth low risk returns and Lane Kawaoka, a real estate podcaster.

The two properties, the Kendall Manor Apartments in Houston, and the Amara Apartments in Phoenix, have middling google reviews.

Porfolio Analysis - Viceroy Research	
Portfolio name	Elisa Zhang
Loans	2
Current balance	72,255,000
WA DSCR	0.59x
Total units	574
WA loan rate	8.78%
WA implied cap rate	3.58%

Figure 53 – Elisa Zhang portfolio analysis

Proudliving

Proudliving is a New Jersey based “owner and manager of real estate” which like other entities mentioned above takes funds from accredited retail investors to invest in the multi-family area. Proudliving accounts for a multi-property loan on 8 properties totaling $34.5m. The loan is listed as being in payment default with interest payments capitalized.

Porfolio Analysis - Viceroy Research	
Portfolio name	Proudliving
Loans	8
Current balance	34,500,000
WA DSCR	0.41x
Total units	282
WA loan rate	9.32%
WA implied cap rate	2.80%

Figure 54 – Proudliving portfolio analysis

[40] https://gshrealestate.com/
[41] https://www.ezfiuniversity.com/meet-elisa-zhang

Cyclone

The Cyclone portfolio lists the original borrower as various entities we believe to be subsidiaries of Cyclone Investment Group, headed by Aaron Eichorn and Charles Aryeh who appears to have used a relative, Chiya Aryeh as a sponsor for the loans.

Porfolio Analysis - Viceroy Research	
Portfolio name	Cyclone
Loans	4
Current balance	63,300,000
WA DSCR	0.71x
Total units	1,141
WA loan rate	8.64%
WA implied cap rate	2.97%

Figure 55 – Cyclone portfolio analysis

One of the properties, the Gardenview Apartments in Gainesville, caught fire in May 2023.

Cyclone made the news in New Jersey in August 2023 when residents were forced to vacate due to a condemnation notice from the city. A total of 430 violations were announced relating to that Plainfield apartment block and local news cited previous incidences of resident being forced out due to unlivable conditions[42].

Key Takeaways

We note that Trustee data sponsor and borrower data for earlier CLOs is inconsistent, and the nature of the loan book is such that properties can be swapped in and out over time. We believe the above serves to show that Arbor's loans are not being made to the most sophisticated or financially sound borrowers, and some of them have already hit hard times.

[42] https://newjersey.news12.com/state-dept-of-health-finds-195-new-violations-against-plainfield-apartment-building

6. Originations

The declining state of Arbor's CLO operations is also visible in its SEC filings. In short, Arbor can replace non-performing loans in its CLOs with new loans. However we note 2 trends that suggest this is unlikely to be able to offset future delinquency losses.

1. Loan runoff has been outpacing loan originations since Q3 2022. While newer originations have weighted average interest rates, they have been unable to offset the interest income from runoffs. Industry interviews state reasons such as: hostile interest rate environment, rising rate cap costs, rising insurance costs, lender reluctance and inability to exit old deals to enter new ones.

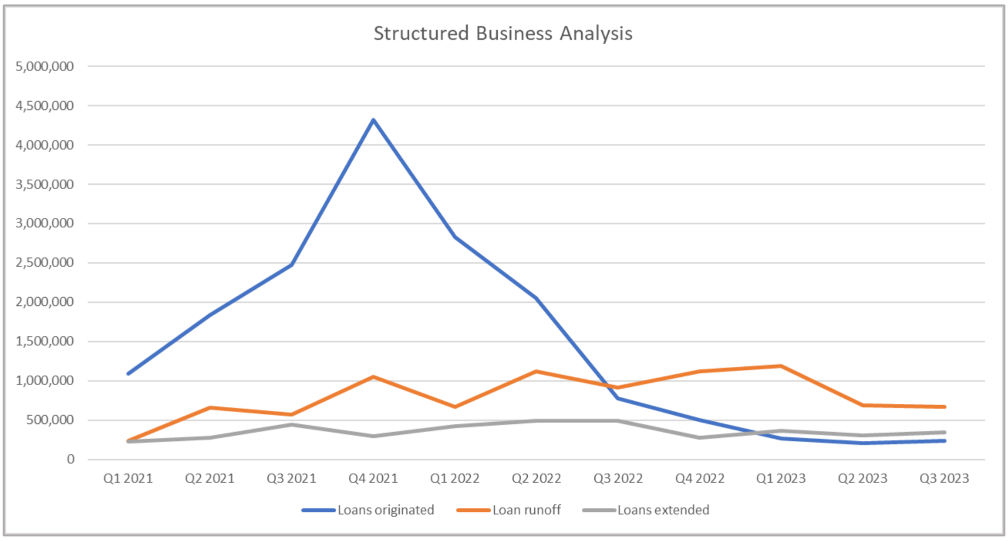

Figure 56 – Viceroy Analysis

2. The average amount per loan originated has fallen nearly two-thirds y/y to \$5.7m from \$14.9m in Q3 2022. While not significant on its own

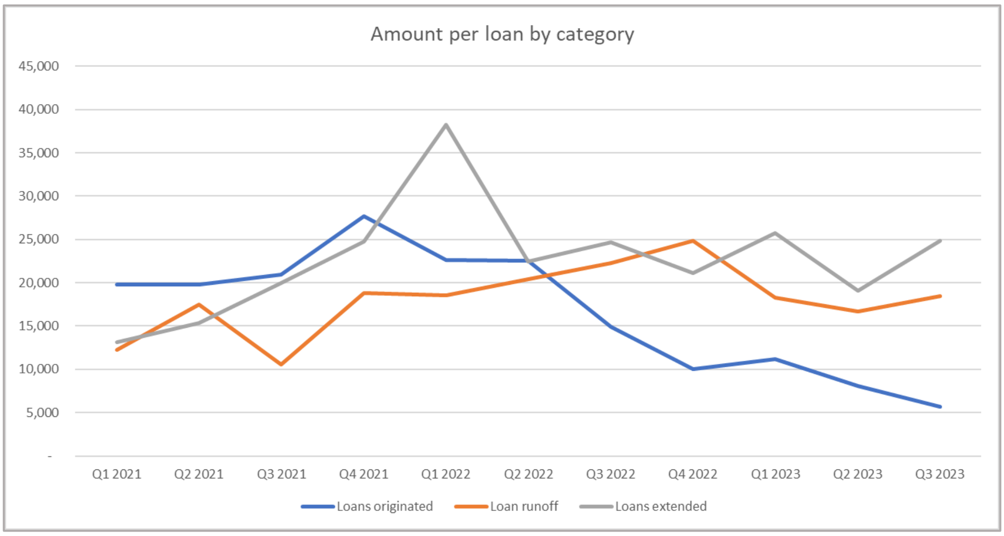

Figure 57 – Viceroy Analysis

3. The percentage by which each CLO tranche's interest coverage rate exceeds its limit as defined by Arbor has dropped across the board and converged with variance peaking in Q2 2021. This broadly speaks to homogeneity across Arbor's CLO book as old loans are replaced with new ones.

7. Related party dealings

The cherry on top: Viceroy have also identified an undisclosed related party transaction involving an EVP of structured finance and Hampshire Properties.

The Kathryn at Grand Park & The Maxwell at Grand Park

Both loans are to subsidiaries of Hampshire Properties with Hampshire Properties' founder and CEO Tomas Rosenthal as sponsor. This is confirmed by local news media[43]. Arbor has several connections to Hampshire Properties, some of which have been written about previously by Ningi Research:

Hampshire Properties' CFO is Max Profesorske who was listed as Arbor's VP of Structured Finance in an SEC filing dated October 2021[44].


Max Profesorske
VP, Structured Finance

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Figure 58 - BBCMS Mortgage Trust 2021-C12

Arbor made a preferred equity investment in a Hampshire Properties affiliate as part of an unrelated CLO deal relating to the Fairfax Multifamily Portfolio[45].

[43] https://www.bizjournals.com/dallas/news/2021/02/01/hampshire-properties.html
[44] https://capedge.com/filing/1891818/0001539497-21-001855/FWP
[45] https://www.sec.gov/Archives/edgar/data/1515166/000153949719000566/n1577_x6-ts.htm

8. Key Takeaways & Further Reading

Arbor has a slowing stream of healthy new loans to breathe life into its dying portfolio. This is because the business of multifamily residential investments is no longer economically viable.

We have conducted similar analysis across various of Arbor's competitors and can comfortably say that this is not an issue isolated to Arbor. This whole industry needs a fresh, detailed look, and we're not doing all of the homework for you.

- We believe Arbor is the worst of the worst of multifamily bridge financiers on standalone metrics.
- There is no rate cut large enough on the horizon to save underwater multifamily residential investments made at ~0% cash rates.

Without drawing attention away from our core thesis, there are a multitude of other reasons not to invest in multifamily residential:

- Trustee data reports that multifamily residential insurance is up, on average, 13% y/y in the Sunbelt[46]. This has put immense pressure on NOI.
- Sunbelt multifamily transaction volumes have dried up amid a torrent of new constructions flooding the market over the next 12 months. The WSJ reports more than 950,000 units were under construction in June 2023[47].

As a side note, we don't believe what has made the Sunbelt residential market attractive in the first place will disappear. It is an unfortunate consequence of being unprepared that many investments will fail. This will also create ample opportunities for distressed markets.

We believe Arbor is uninvestable.

[46] https://www.globest.com/2023/08/07/multifamily-insurance-rates-are-up-as-much-as-28/
[47] https://www.wsj.com/articles/sunbelt-construction-boom-threatens-top-apartment-building-owners-d009312f