



Arbor – Delinquent Case Study

Viceroy dive into delinquent, unimpaired loans in Arbor’s portfolio

PLEASE READ IMPORTANT DISCLAIMER – PAGE 6

December 26, 2023 – Last week, Viceroy Research published an updated surveillance report on Arbor’s CLOs, which showed mounting delinquencies across its portfolio. This report, and all of Viceroy’s work on Arbor, can be found here:

<https://viceroyresearch.org/category/arbor-realty-trust-nyseabr/>

In this December period, we can also show that Arbor has been removing non-performing loans from its CLO and plugged performing loans in the deals. This report will dive into 4 delinquent loans we have identified that Arbor have bought back from the CLO into their portfolio:

- The Graham – 250 Uvalde Road, Houston, Texas
- Oak Tree Village – 2210 Southside Boulevard, Port Royal, South Carolina
- Midwood Forest – 507 Georgia Park Avenue, Atlanta, Georgia
- Forest Creek Apartments - 4663 Waldrop Drive, Forest Park, Georgia

Three of these properties (excl. The Graham) are managed by Sureste Property Group, who have recently been criticized by the press for illegally evicting dozens of tenants the week before Christmas without leave from the court.

This data is a publicly available from the CLO trustee US Bank, as well as on third party data providers such as Trepp. We reiterate that the complete lack of any real due diligence by Arbor investors and many sell side analysts continues to extend the vast information asymmetry gap to between real estate industry professionals.

We reiterate our belief that Arbor is a donut. \$0.00.

There is no rate cut large enough, no rate caps cheap enough, and no investors dumb enough to save Arbor.

The Graham

An overview of The Graham’s underlying performance clearly shows the investment is not viable. The property is levered to 92% of its appraised value. Its cap rate is not calculable, because the property is operationally loss making.

Property Name	The Graham		
Address	250 Uvalde Road		
Original balance	33,515,419	DSCR (NOI)	0.17
Current loan Balance	36,377,340	DSCR (NCF)	0.12
NOI	(784,358)	LTV	92%
NCF	(917,714)	Delinquency Status	30 Days

Figure 1 – Viceroy Analysis



Whistleblowers have sent us The Graham’s P&L. In the 12 months leading to May 2023, Uvalde interest expenses increased 85%. This is irrelevant because Uvalde operated at a \$800kpa LOSS across the same period.

Income Statement		The Selena Accrual Basis Jun 2022 - May 2023											
Account	Account Name	Jun 2022	Jul 2022	Aug 2022	Sep 2022	Oct 2022	Nov 2022	Dec 2022	Jan 2023	Feb 2023	Mar 2023	Apr 2023	May 2023
	Insurance	24,246.10	24,246.10	24,246.10	24,246.10	24,246.10	28,436.31	22,374.75	22,374.75	22,374.75	23,616.03	23,011.46	23,346.24
	Expenses	186,201.50	205,783.84	221,691.71	215,078.00	282,418.75	200,235.02	370,199.90	289,208.62	239,025.97	295,573.68	232,598.84	361,537.62
	Operating Income	(51,668.05)	(199,413.36)	(182,480.35)	(114,731.25)	(218,049.32)	(12,356.97)	(99,896.57)	5,090.88	17,744.92	(2,206.46)	60,465.34	(39,557.69)
Non-Operating Expenses													
Interest Expense													
7210-0000	Interest Expense	141,538.91	167,098.99	184,747.40	189,609.89	173,708.16	166,764.81	165,937.90	255,338.60	235,543.28	261,853.53	255,550.29	267,455.60
	Interest Expense	141,538.91	167,098.99	184,747.40	189,609.89	173,708.16	166,764.81	165,937.90	255,338.60	235,543.28	261,853.53	255,550.29	267,455.60

Figure 2 – The Graham P&L (Viceroy Emphasis)

Uvalde’s bad debt corresponds to 23% of its gross market rent. After backing out vacant units from Gross Rent, the bad debt at Uvalde in the 12 months to May 2023 is 35%, and 34 % of the units (by rent value) are vacant.

Income Statement		The Selena Accrual Basis Jun 2022 - May 2023												
Account	Account Name	Jun 2022	Jul 2022	Aug 2022	Sep 2022	Oct 2022	Nov 2022	Dec 2022	Jan 2023	Feb 2023	Mar 2023	Apr 2023	May 2023	
Income														
Rental Income														
5005-0000	Gross Market Rent	375,500.00	376,250.00	376,350.00	376,425.00	376,450.00	413,500.00	413,500.00	413,500.00	413,500.00	413,500.00	429,900.00	429,900.00	
5010-0000	Contract Gain(Loss) to Lease	28,407.27	3,462.92	11,783.93	13,862.28	9,982.07	(15,710.14)	(19,426.76)	(16,271.07)	(17,152.18)	(18,285.84)	(25,562.11)	(25,543.01)	
	Rental Income	403,907.27	379,712.92	388,133.93	390,287.28	386,432.07	397,789.86	394,073.24	397,228.93	396,347.82	395,214.16	404,337.89	404,356.99	
Economic Vacancies														
5025-0000	Bad Debt	1.1	(161,486.86)	(219,601.81)	(203,379.52)	(146,142.55)	(166,603.84)	(87,650.77)	(18,634.06)	(11,007.30)	(41,839.18)	(15,824.56)	(23,304.11)	(1,816.41)
5030-0100	Conc - Miscellaneous	0.00	0.00	(2,038.00)	(8,012.99)	(17,343.00)	(4,670.22)	(7,295.00)	(2,396.86)	(225.00)	(1,522.00)	(270.97)	(2,880.25)	
5030-0200	Conc - Move-In Special	0.00	0.00	(1,050.00)	(2,311.00)	0.00	0.00	0.00	0.00	0.00	0.00	(193.55)	(2,253.39)	
5030-0400	Conc - Renewals	0.00	0.00	(1,585.00)	(1,134.00)	0.00	(820.00)	0.00	0.00	0.00	(775.00)	0.00	(845.00)	
5040-0000	Down Units	(3,475.00)	(3,475.00)	(3,475.00)	(3,475.00)	(3,475.00)	(4,000.00)	(4,000.00)	(4,000.00)	(4,000.00)	(4,000.00)	(5,325.00)	(5,325.00)	
5045-0000	Employee Units	(1,467.50)	(1,467.50)	(1,467.50)	(1,071.75)	(1,120.00)	(1,483.28)	(412.50)	(1,781.00)	(1,419.50)	(1,419.50)	(1,659.50)	(1,899.50)	
5065-0000	Vacancy Loss	2.1	(134,996.77)	(168,267.75)	(164,553.21)	(147,377.47)	(141,159.94)	(135,519.22)	(134,304.74)	(127,059.68)	(129,737.65)	(124,309.32)	(116,794.87)	(107,871.81)
	Economic Vacancies	(301,426.13)	(392,812.06)	(377,548.23)	(309,524.76)	(329,701.78)	(234,143.49)	(164,646.30)	(146,244.84)	(177,221.33)	(147,850.38)	(147,548.00)	(122,891.36)	
	Net Rental Income	102,481.14	(13,099.14)	10,585.70	80,762.52	56,730.29	163,646.37	229,426.94	250,984.09	219,126.49	247,363.78	256,789.89	281,465.63	

Figure 3 – The Graham P&L (Viceroy Emphasis)

Readers may be wondering “how is the DSCR reported at 0.17x while the company makes negative operating income?”

We don’t know how the trustee has reported this figure; it may be the case that The Graham paid interest to Arbor, ahead of their own maintenance and renovation costs. The actual loss for The Graham in Uvalde in the 12 months to May 2023 was \$6.45m once “non-operating expenses”, which we believe are Sponsor fees, are priced in.

Non-Operating Expenses	575,349.61	577,145.31	313,134.04	378,924.10	443,779.70	1,026,136.18	694,574.14	321,576.60	273,734.51	346,217.07	309,773.65	395,954.75	5,656,299.66
Net Income	(827,017.66)	(776,558.67)	(495,614.39)	(493,655.35)	(661,829.02)	(1,038,493.15)	(794,470.71)	(316,485.72)	(255,989.59)	(348,423.53)	(249,308.31)	(435,512.44)	(6,493,358.54)

Figure 4 - The Graham P&L (Viceroy Emphasis)

A 17 year-old was shot in the parking lot in the Graham in 2020.

HOUSTON, Texas (KTRK) -- The Harris County Sheriff's Office has released sketches of two men they say were involved in a murder earlier this month.

On Friday, Nov. 13, at about 9:40 p.m., Julian Cobos was at the Graham apartments, located at 250 Uvalde when he was shot to death.

Figure 5 – “Harris County Sheriff's Office releases sketches of 2 men wanted for murder” – ABC 13¹

¹ <https://abc13.com/murder-suspect-sketches-julian-cobos-graham-apartments-on-uvalde-men-wanted-for/8253985/>



Midwood Forest

Midwood Forest does not appear to be a viable investment. It is a 1966-build property, operating at a 0.4x DSCR. It is levered up to 91% of its appraised value (appraised at 0% SOFR cycle).

Property Name	Midwood Forest		
Address	507 Georgia Park Ave		
Original balance	8,845,000	DSCR (NOI)	0.40
Current loan Balance	8,845,000	DSCR (NCF)	0.36
NOI	656,750	LTV	91%
NCF	634,875	Delinquency Status	30 Days

Figure 6 – Viceroy Analysis

It is, by far, the worst reviewed property we have encountered in Arbor’s portfolio, with dozens of complaints of rat infestations, mold, leakages, crime, and just about every single other problem one can think of.

The property managers appears similarly unenthusiastic about addressing concerns, and have resorted to telling resident complainants to “fuck off”.



Figure 7 – Google Reviews of Midwood Forest?

We note that the property is managed and/or owned by Sureste Property Group, which also own/manage Oak Tree Village and Forest Creek Apartments below.

²<https://www.google.com/maps/uv?pb=!1s0x88f4fd64d6c9f9ed%3A0x8c5b190f7bc18b28!3m1!7e115!5sGoogle%20Search!15sCglgAQ&hl=en&imagekey=!1e10!2sAF1QipOVenfslREyVHvj8wnJJ07nGeyGkPrxNWTG6hA&sa=X&ved=2ahUKEwjpronnK2DAXULbmwGHbSrC0gQ9fkHKAB6BQgBENkB>



Oak Tree Village

It comes as some surprise to us that one of the very rare >1x DSCR portfolio properties in the Arbor loan book becomes delinquent. After a quick investigation, the problem indeed appears to be with its owner, Sureste.

Property Name	Oak Tree Village		
Address	2210 Southside Blvd.		
Original balance	6,800,000	DSCR (NOI)	1.33
Current loan Balance	6,800,000	DSCR (NCF)	1.33
NOI	588,111	LTV	48%
NCF	566,776	Delinquency Status	30 Days

Figure 8 – Viceroy Analysis

Sureste have allegedly illegally evicted tenants from Oak Tree Village. They have also failed to maintain the property and failed site visits from Port Royal code officers.

On Dec. 9, Edwards received another letter from management — this time saying her lease was being terminated and she had to move out by Dec. 16, two weeks before the initial date she was given. She doesn't know why.

"I've been a really good tenant," she said. "I've paid my rent two weeks in advance every month."

Edwards plans to stay until Dec. 30, arguing that the eviction is illegal because it has not been filed in court. No one came to move her out Dec. 16. She plans to move her family into a home in downtown Port Royal.

As recently as July, code officers from the Town of Port Royal issued Oak Tree Village warnings for failure to maintain the property and having unsanitary conditions, including overflowing dumpsters. It is unclear from the reports whether those problems have been fixed.

Figures 9 & 10 – "Experts predict wave of evictions in the new year. In Beaufort Co., they've already begun" –Island Packet

Journalists who toured the apartment of the illegally evicted tenant note that the property presented broken fire alarms, water damage, roaches, dysfunctional appliances, and decaying foundations.

They hope it will be better. Oak Tree Village, a complex previously known as August on Southside before it was sold last year, markets its apartments as luxury, yet their deteriorating conditions and record of code violations tell a different story. In a tour of her apartment, Edwards showed broken smoke detectors, water damage, roaches and dysfunctional or missing appliances. Outside, paint on the siding and porches had started to chip, exposing the wood decaying underneath.

Figure 11 – "Experts predict wave of evictions in the new year. In Beaufort Co., they've already begun" –Island Packet³

Forest Creek Apartments

This property, at face value, appears to have been one of the few that would have survived distress. Despite being highly levered, it has >1x DSCR. This property is similarly owned/managed by Sureste. It may be the case that Sureste properties are cross guaranteed, and Forest Creek is an innocent victim to the Midwood Forest disaster.

³ <https://www.islandpacket.com/news/coronavirus/article247865585.html>



Property Name	Forest Creek Apartments		
Address	various		
Original balance	11,325,000	DSCR (NOI)	1.11
Current loan Balance	11,325,000	DSCR (NCF)	1.07
NOI	513,084	LTV	93%
NCF	479,087	Delinquency Status	< 1 Month

Figure 12 – Viceroy Analysis

Conclusion

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.



Attention: Whistleblowers

Viceroy encourage any parties with information pertaining to misconduct within Arbor Realty Trust, 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.

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