Arbor Realty Trust – The Cream of the Flop

An assessment of 2018-2023 builds in Arbor's CLO portfolio demonstrate that even the cream of the flop are doomed to fail.

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March 26, 2024 – Viceroy Research's reports to date have substantiated our belief that Arbor has, by far, the worst portfolio of MF bridge loans in the entire, infamously embattled industry.

- The underlying DSCR of the CLO portfolio is 0.60x.
- The underlying LTV of the CLO portfolio is 77%.
- The implied cap rate of underlying CLO assets is about 3.8%, which is obviously ludicrous means that the underlying LTV is vastly understated.

Financial metrics aside: Arbor's CLO portfolio is still a dumpster fire:

- The average build date for the underlying CLO Arbor asset is 1979.
- The average occupancy rate is 84.7%.
- Most borrowers appear to have no financial asset management, real estate, or investment experience.
- The property tenant reviews are almost exclusively atrocious.

Viceroy has published many reports on Arbor's financial conundrums: the quality of its borrowers, their rapidly compounding delinquency rates, and the quality of its worst underlying assets. You can find them on our website:

https://viceroyresearch.org/arbor-realty-research/

We think it's time for a change of pace: this report will highlight the best of the worst properties on Arbor's CLO books. Viceroy have selected a sample of recently constructed properties in Arbor's CLO portfolio, of which there are about a dozen, to showcase another financial conundrum Arbor faces:

- Arbor have provided hundreds of millions of dollars in loans to finance syndicate purchases of newly-built units and, on some occasions, what appears to be construction financing disguised as a bridge loan.
- Substantially all these new-built underlying properties were purchased with high tenancy rates, limiting possible NOI uplift.
- There is little/no room for renovation of new build apartments, thus little ability to build NOI.
- Every single one of these underlying assets is underwater, and rate caps have/will expire[1].
- None of these loans qualify for refinancing or for agency loans, as they are underwater.
- Many borrowers appear to have concentrated exposure to Arbor.
- The only guarantees from these borrowers appears to be "equity" in other MF residential investments which are also likely underwater.

Arbor's new builds ($m)	Balance	Valuation	LTV	Revenues	NOI	DSCR	Occupancy	Cap rate	Built	Reno
153-10 88th Avenue	65	116	56%	8.70				3.6%*	2023	
55 Jordan Ave NJ	56	91	62%	7.05	3.42	0.75	92%	3.76%	2021	2021
Bella Visa Apartments	9	12	82%	1.24	0.61	0.69	90%	5.30%	2018	
Citizens Square Apartments	17	26	66%	1.80	1.28	0.7	85%	5.02%	2020	2024
Generations	61	103	59%	6.25	3.01	0.32	79%	2.92%	2020	2020
Northchase Village Apartments	33	39	84%	4.00	2.10	0.72	87%	5.37%	2018	2024
The Julian	80	148	54%	8.26	4.87	0.72	88%	3.30%	2020	2020
Villages of Chandler BTR	22	38	59%	0.80	0.19	0.08	32%	0.49%	2023	2023
Woodland Cottages Bridge	20	38	52%	0.97	(0.17)	N/A	24%	-0.44%	2023	2023
Total	**364**	**610**		**39**	**15**					

*Estimate, as The 88 does not actually disclose fiancial data to the CLO trustee, for some reason.

Figure 1 – Viceroy Analysis

How does Arbor intend to rehabilitate these loans in the likely event that many become delinquent?

[1] For more on rate caps, please see our 'Slumlord Millionaires' report.

Other notes

A consistent theme with these newer properties appears to be operator inexperience and absurd valuations despite poor asset quality.

- The Generations loan is 30 days delinquent.
- The Julian loan is currently subject to credit risk. Industry sources have advised that the Julian has additional borrowings to the tune of ~$37m and have sent the Julian’s proforma accounts and pitch deck to supplement this claim.
- The Julian, like almost every other Arbor underlying property, has terrible yelp Reviews[2]. Inconsistency across review sites suggests a significant number of fakes.
- Nitya Capital has infamously sold substantial portions of its portfolio citing a rising rates environment[3]. Like many other Arbor underlying properties Northchase Village Apartments has terrible reviews and has been the location of multiple shootings.
- The sponsors of the Bella Vista apartments, JJRS Investments Group, is a small-time investment syndicate run by 3 managers who do not appear to have any investment, real estate, or asset management backgrounds outside of personal investments[4].

[2] https://www.yelp.com/biz/the-julian-orlando-2
[3] https://therealdeal.com/texas/2023/05/16/nitya-sells-multifamily-holdings-for-100m/ https://therealdeal.com/texas/2023/05/16/nitya-sells-multifamily-holdings-for-100m/
[4] https://jjrsinvestmentsgroup.com/about-us https://jjrsinvestmentsgroup.com/about-us

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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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