Arbor – The Re-crap-italization of The Selena

Arbor has subordinated $1.9m in overdue interest and $4.4m in mezz financing against The Selena in favor of an 18% "rescue loan" originated by Elevate's GPs.

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May 28, 2024 – Arbor has modified loans against 127 properties in its CLO to May 2024. In its Q1 2024 earnings call, Arbor CEO Ivan Kaufman claimed that "Fresh capital [is] brought to the table in every one of these deals". Naturally, Viceroy got to work diving into the terms of these modifications and the nature of these "fresh capital" injections. Obviously: they are pure garbage.

> With this philosophy in mind, we had a tremendous amount of success in the first quarter, working through a substantial amount of our delinquencies and modifying these loans by getting borrowers to bring a significant amount of fresh equity to the table and recapitalizing their deals. As a result, in the first quarter, we successfully modified 40 loans total of $1.9 billion, with fresh capital being brought to the table in every one of these deals. This includes cash to purchase the interest rate caps, fund interest rate and renovation reserves, bring any past due loans current and paid down balances where appropriate. In fact, borrowers injected approximately $45 million of new capital into these deals, with $1.65 billion of these loans purchasing new interest rate caps.

Figure 1 – Ivan Kaufman – Arbor Q1 2024 Conference Call

Viceroy reached out to syndicates with modified loans – both in and out of Arbor's CLOs – to request investment packs and details of investment opportunities available. The IR team of heavily distressed Elevate Commercial Investment Group immediately divulged the favorable terms in which Arbor recapitalized their loan(s).

Syndicators have explicitly confirmed that ***Arbor has kicked the can of delinquent loans at their own expense.***

Arbor has extended mezzanine financing to delinquent customers.

Last Dollar %	Capital Stack Going Forward		Viceroy Notes:
57%	Arbor A Loan	$32,000,000	Fixed at 6.0% rate. Secured by first deed of trust on the Property
64%	Rescue Loan	$3,865,000	18% rate per year. Second ranking security.
76%	Arbor B Loan	$6,277,340	"Interest fully accrued until sale". Third ranking security.
100%	Existing Equity	$13,511,995	
	Total	**$55,654,335**	

Figure 2 – Extract from "The Selena" forecast provided by Elevate & Viceroy notes

- Arbor has fixed the interest of Elevate's $32m floating rate "The Selena" debt at 6%, without Elevate purchasing a rate cap. Viceroy believes this represents a discount of over 300bps.
- Elevate created a new CRE Debt investment vehicle to provide "fresh capital" to The Selena in the form of a "rescue loan" carrying interest at 18% (!). This rescue loan has a 2nd ranking lien on the Selena.
  - This "rescue loan" is presumably intended to meet Arbor's interest expenses on the 6% loan going forward.
- Arbor has rolled over $6.3m of outstanding interest and what appears to be mezzanine financing into a 3rd ranking loan.
  - This is comprised of $1.9m "past due" amount, and what appears to be $4.4m in mezz financing.

		Viceroy Notes:
Arbor Principal	$36,377,340	"A Note" plus mezz financing (?)
Past Due Amount	$1,900,000	
Total Due to Arbor	**$38,277,340**	
Arbor - A Note	$32,000,000	
Arbor - B Note	$6,277,340	Comprised of $1.9m "Past Due Amount", plus balance of "Principal beyond "A Note".
Total Due to Arbor	**$38,277,340**	

Figure 3 – Extract from "The Selena" forecast provided by Elevate & Viceroy notes

The Selena has $42m of debt against an independent valuation of $40.9m, which implies a current cap rate of 1.3%.

LTV Analysis - Viceroy Research	
Arbor A loan	$32,000,000
Rescue loan	$3,865,000
Arbor B loan	$6,277,340
Total debt	**$42,142,340**
Most recent value (Arbor CLO)	$40,980,000
LTV (valuation)	103%
Revenue (Dec 2023)	$3,743,590
Opex (Dec 2023)	$3,208,698
NOI	**$534,891**
Impied cap rate	**1.31%**
Occupancy (Dec 2023)	78.48%
Blue-sky revenue	$4,770,119
Opex (Dec 2023)	$3,208,698
Blue-sky NOI	**$1,561,421**
Blue-sky cap-rate	5.50%
Viceroy blue-sky valuation	$28,389,475
Viceroy blue-sky LTV	**148%**

Figure 4 – Viceroy Research LTV analysis

Viceroy's blue-sky analysis generously (unrealistically) assumes:

- A 100% occupancy rate and corresponding increase in revenue.
- Fixed operating expenses.
- NOI uplift of ~200%.
- A cap rate of 5.5%, representing best-in-class assets in the current market.

Even with these imaginary numbers, Arbor still will not break even on its $32m loan when The Selena inevitably collapses.

Those who have been following this saga can see a return to the mean where Arbor's loan book is becoming distressed at an exponential rate. A faux pas from its borrowers now also shows that syndicates are increasingly being utilized to assist can kicking by Arbor.

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.

We believe Arbor management have known about the immediate and extreme risk of delinquencies and impairments since early 2023, if not prior. It has not communicated any audited, auditable, or verifiable impairment figures to investors to this effect.

We further believe syndicators refinancing their own existing, failed investments, that they are abhorrent, evil grifters who are swindling the average Joe, and throwing good money after bad.

Our original report, published on November 16, 2023, together with subsequent notes, can be found here:

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

The Background – The Selena vs The Graham

Readers may recall that Viceroy Research published a case study on Elevate's "The Graham" property in December 2023, around the same time that The Graham was bought out of Arbor's CLO (at par) and was rebranded as "The Selena" (presumably due to the bad press "The Graham" received).

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

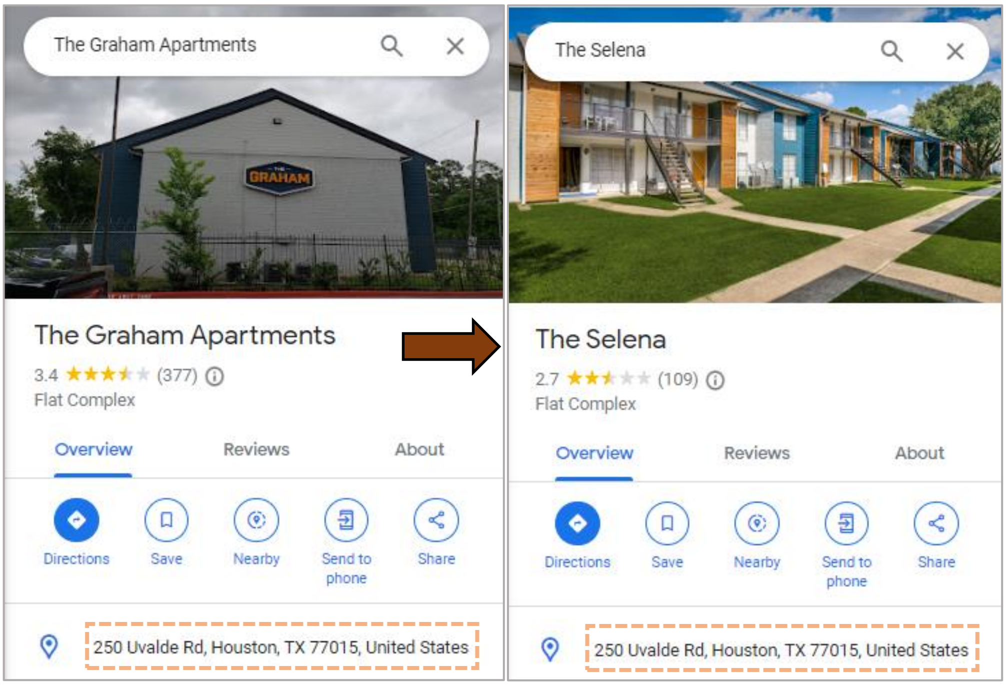
A 17 year-old was shot in the parking lot in the Graham in 2020.

> 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 13[1]

Figures 5 & 6 – Extracts from Arbor – Delinquent Case Study – Dec 26, 2023[1]

The Selena and The Graham are the same property. The rebranding did not work: the Selena has significantly worse reviews than its predecessor.



Figures 7 & 8 – Google Maps – The Selena vs The Graham

[1] https://viceroyresearch.org/wp-content/uploads/2023/12/Arbor-Delinquent-Case-Study.pdf

The Recrapitalization

In January 2024, The Real Deal reported that Elevate had defaulted on a $38m loan tied to the Selena[2].

Texas syndicator Elevate drives another Arbor foreclosure filing

Dallas-based firm defaulted on $38M tied to Houston apartments

Figure 9 – Texas syndicator Elevate drives another Arbor foreclosure filing

Prior to this, in July 2023, Elevate established a Real Estate Debt Fund.

1.1 Name. The name of the Company is MFCI Fund I LLC. The principal executive office of the Company is 10860 Switzer Ave, #114, Dallas, TX 75238, unless changed by the Managing Member, in its sole and absolute discretion, with written notice given to the Member(s) of such change.

WHEREAS, the Company was formed as a limited liability company under the Delaware Limited Liability Company Act, as amended (the "Act"), by the filing of the articles of organization with the Delaware Secretary of State on July 28, 2023, 2023 (the "Certificate");

Figures 10 & 11 – Extracts from MFCI Fund Execution Docs

We presumed the purpose of this fund was a ponzi-esque scheme whereby the MFCI Debt Fund syndicate would buy out Arbor's bridge loan, as opposed to constantly capital calling investors of their existing equity-syndicate to meet working capital requirements. We were half right:

I'm looking to invest in the debt fund. I was wondering, is the intention of the debt fund to take-over existing bridge loans from current Elevate projects 9:08 PM

Money will go into some of elevate projects, so we will have Control 9:08 PM

Figure 12 – Viceroy discussion with Elevate's IR team

Mina Roufail from Elevate then elaborated on what "money will go into some of Elevate's projects so we will have control" meant:

One of the deals for example that we invested the money into.

We got the senior lender to subordinate dollar for dolllar so now we have priority position over their capital 9:09 PM

Is it possible to get an idea of the financial position of those existing projects so I can determine repayability 9:09 PM

+1 (508) 344-1669 ~Mina Roufail
One of the deals for example that we invested the money into.
...

Oh that's a great outcome 9:09 PM

was that Arbor? 9:09 PM

Yes, how did you know? Please keep confidential we do not want that information released 9:10 PM

Figure 13 – Viceroy discussion with Elevate's IR team

[2] https://therealdeal.com/texas/houston/2024/01/25/texas-syndicator-elevate-drives-another-arbor-foreclosure/

Elevate's debt fund invested money into the Selena and "got [Arbor] to subordinate dollar for dollar so [Elevate' now have a priority position over their capital". Elevate's IR subsequently sent Viceroy The Selena's forecast model, which shows the capital stack as follows:

Last Dollar %	Capital Stack Going Forward		Viceroy Notes:
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	Total Due to Arbor	**$38,277,340**	

Figure 14 – Extract from "The Selena" forecast provided by Elevate & Viceroy notes

- The Selena property defaulted on a $38.3m loan due to Arbor, including $1.9m of outstanding interest.
- Arbor recapitalized this loan in 2 tranches:
  - Arbor A-Loan – $32m first-ranking note secured by deed of trust on Property. Fixed at 6% rate without rate cap. This is a ~300bps discount Arbor's book.

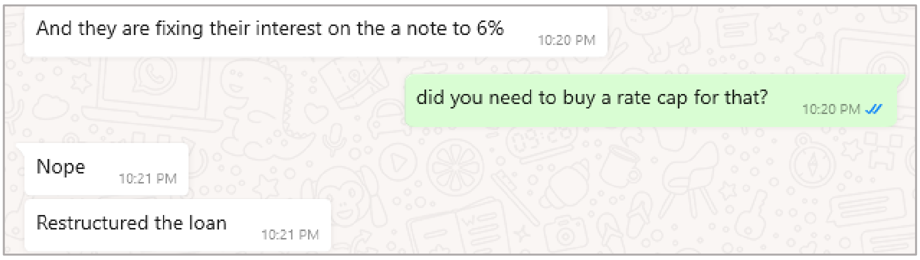

Figure 15 – Viceroy discussion with Elevate's IR team

  - Arbor B-Loan – $6.3m third-ranking note. This note appears to consolidate $1.9m in overdue interest and $4.4m in mezz financing. Interest accruing until sale.
- The Elevate Real Estate Debt Fund invested $3.9m in The Selena in the form of second-ranking "rescue loan" incurring 18% interest.
  - This working capital "rescue loan" appears to be covering the Arbor A Loan interest expenses, which far exceed the property's NOI.

Arbor has subordinated $1.9m in overdue interest and $4.4m in mezzanine financing against The Selena in favor of an 18% "rescue loan" originated by Elevate's GPs.

The Recoverability

Viceroy do not believe the Arbor A Note is recoverable, let alone the second-ranking "rescue loan" and the third-ranking Arbor B Note.

As of December 2023, The Selena reported:

- $534k Net Operating Income (NOI)
- 78% Occupancy Rate
- $40.98m valuation
- 1.3% implied cap rate
- 0.16x DSCR

These are garbage numbers even by the standard of Arbor's CLO.

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- A 100% occupancy rate and corresponding increase in revenue.
- Fixed operating expenses.
- NOI uplift of ~200%.
- A cap rate of 5.5%, representing best-in-class assets in the current market.

Even with these imaginary numbers, Arbor still will not break even on its $32m loan when The Selena inevitably collapses.

Even if Arbor does, miraculously, fully recover its "A Loan", it is subordinated to an 18% interest rate "rescue loan" from the Elevate GP's new syndicate, which wipes out Arbor's "B" note.

The Modifications

Arbor has modified loans against 127 properties in its CLO to May 2024. In its Q1 2024 earnings call, Arbor CEO Ivan Kaufman claimed that "Fresh capital [is] brought to the table in every one of these deals". Naturally, Viceroy got to work diving into the terms of these modifications and the nature of these "fresh capital" injections. Obviously: they are pure garbage.

> With this philosophy in mind, we had a tremendous amount of success in the first quarter, working through a substantial amount of our delinquencies and modifying these loans by getting borrowers to bring a significant amount of fresh equity to the table and recapitalizing their deals. As a result, in the first quarter, we successfully modified 40 loans total of $1.9 billion, with fresh capital being brought to the table in every one of these deals. This includes cash to purchase the interest rate caps, fund interest rate and renovation reserves, bring any past due loans current and paid down balances where appropriate. In fact, borrowers injected approximately $45 million of new capital into these deals, with $1.65 billion of these loans purchasing new interest rate caps.

Figure 17 – Ivan Kaufman – Arbor Q1 2024 Conference Call

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*There are modifications in which Arbor is kneecapping itself in order to kick the can. We call these **"recrapitalizations"***

38% of Arbor's CLO loans are now delinquent and/or modified. Arbor has modified loans against 11 properties in the last month. **These modifications substantially comprise of capitalization of interest, "temporary" rate reductions, forbearance agreements, maturity extensions and/or a combination of the same.**

Per Viceroy's Q1 2024 review[3], we note that a substantial amount of interest is now being recorded as **Paid-In-Kind (PIK) receivables against vastly overstated collateral on ~80% book LTV loans**. **These amounts are non-recoverable.**

In total: Arbor have modified loans of 127 properties in 2024 alone. We note the following:

- The weighted DSCR of modified loans is 0.54x, about 500bps lower than the average CLO weighted DSCR.
- The nature of many extended loans are various, high leverage loans secured against the same assets.
  - Adjusting for this: the LTV of loans modified in 2024 ranges between 0.3x to 1.13x, with the average at about 80%.
- We reiterate that the LTV denominator, being the values of the properties, is ludicrous. The LTV is vastly understated.
  - We note that the cap rate of underlying assets whose loans were modified in 2024 is ~3.9% against a 10 year T-bill rate of 4.35%.
- **Loans modified this year have already begun falling delinquent again.**
- Contrary to Arbor's claims: The reserve balance of modified loans has *fallen* $30m since December 2023.

Arbor simply kicks the can down bankruptcy boulevard. Modified loans exhibit zero potential for any operational improvement.

Over 40% of Arbor's CLO loan book is either distressed, modified, or both.

Arbor's provisions and impairments, which make up ~1% of the value of the CLO, are not consistent with the radical concessions we can see Arbor taking in their delinquency modifications.

[3] https://viceroyresearch.org/2024/05/09/arbor-realty-trust-fraud/

The Conclusion

Those who have been following this saga now see that we are returning to the mean where Arbor's loan book is becoming distressed at an exponential rate. A faux pas from its borrowers shows that syndicates are complicit in Arbor's can-kicking activities.

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.

We believe Arbor management have known about the immediate and extreme risk of delinquencies and impairments since early 2023, if not prior. It has not communicated any audited, auditable, or verifiable impairment figures to investors to this effect.

Since our reports and the tsunami of delinquencies and modifications have hit Arbor's book, management have fought to be *less* transparent in their disclosures and intentionally omit important details to keep investors in the dark.

The vast majority of sell-side analysts covering Arbor similarly have zero interest in the fact that Arbor committed fraud, that the entire CLO portfolio is underwater, that the dividend is a wind-down, and that management lies to them. We are in the process of testing their models.

We further believe syndicators refinancing their own existing, failed investments, that they are abhorrent, evil grifters who are swindling the average Joe, and throwing good money after bad.

Our original report, published on November 16, 2023, together with subsequent notes, can be found here:

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

P.S. Self-dealing operators are a massive red flag. Just look at this circle…

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.

About Viceroy

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