



INVEST/STAY CONNECTED

INITIAL REPORT FEBRUARY 21, 2024
LAST UPDATED FEBRUARY 21, 2024

ARBOR REALTY TRUST, INC.

\$13 / Recommendation: HOLD, target \$13

Arbor Realty Trust (ABR). ABR is a 40-billion-dollar originator, owner and manager in the multifamily loan market (apartments). At the end of 2023 Arbor’s loan portfolio and servicing portfolio were \$12.4 billion and \$28 billion respectively. Multifamily loans are predominantly secured by first mortgage liens on the properties and are floating rate. ABR further specializes in bridge or short-term loans in the “workforce housing” category (lower income). Arbor initially lends short term from its own portfolio with the goal of refinancing and servicing the loan through a [GSE](#) such as Fannie or Freddie.

We initiated coverage due to the changing environment and the various opportunities in the capital structure of ABR such as bonds, preferred shares, and common shares with above average yields. ABR has good management and the shares have strongly outperformed the FTSE REIT indexes since 2017 but we are seeing a rise in defaults on commercial loans due to higher interest rates but how big will it be? We don’t think it will be that bad due to the fact that rates are expected to drop throughout 2024. These are our assumptions for ABR:

At the end of 2023 ABR had sixteen non-performing loans with a carrying value of \$263 million (2% of the portfolio) versus \$138 million at the end of September 2023. We modeled the loan portfolio for a total of \$1.5 billion face value in defaults over the next 3 years (12% of the portfolio) and used a 71% recovery assumption for those defaulted loans. This recovery assumption is conservative at 56% of the original appraised property value on average. Under this scenario, ABR loses \$430 million of portfolio value but still produces over \$1 billion in distributable earnings. Book value sensitivity would be around \$1.50 per share per \$1 billion of defaults. We see GAAP earnings dropping to \$1.12 in 2024 due to loss provisions, and a smaller drop in distributable earnings to \$1.97 from 2.25 in the previous year. We assumed a reduction in the common dividend to \$1.50 from 1.75. With \$929 million of cash on hand, a 25% default rate with a 50% recovery assumption is not that different. In the case of ABR, we do not see a disaster from rising defaults because the portfolio is constructed well, and the company has good management. *(note on the short reports at the bottom of page 2)*

Management is already taking some action, by reducing the loan portfolio by 15% in 2023 and growing the servicing portfolio. Many ABR loans have enhancements, and the company has successfully navigated problem loans in the past. Our hold rating and \$13 price target for the common is based on our current forecasts and management’s capabilities.

Company Stats & Estimates in 1,000s

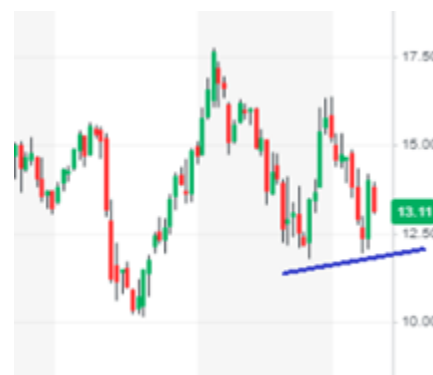
Shares & Units outstanding	205 mm
Equity Market Cap	2,709
Projected Common Yield	11.36%
Total Assets	15,738
Total Liabilities & PFD	13,117
2024 Total Revenue	675
2024 Distributable Earnings	404
2025 Distributable Earnings	386
2024 Current Cash Flow Yield	14.91%
Enterprise Value	15,826
EBITDA (2024 Est.)	468
Dividend coverage @1.50	132%
Price to Dist. Earnings / Share	6.7 X
2024 YE book value / share	\$12.74
2025 YE book value / share	\$12.13
2026 YE book value / share	\$11.57

Portfolio Stats Q1 2023

Total Portfolio	13,600
W/A Loan-to-Value	76%
Mos. to Maturity	19.2
Mos. to Maturity w/ext. option	36.7
Multi Family %	91%
Bridge Loan %	97%

[ABR INVESTOR RELATIONS](#)

[RECENT PRESENTATION](#)



BROXTON CAPITAL ADVISORS ABR as of 12/31/2023

Wednesday, February 21, 2024

share price \$13.23

PROJECTIONS IN MM fiscal yr. 2024 2025 2026

Income Statement

Interest Income 1198 1078 1014

Interest Expense 813 732 688

Net Investment Income **385** **347** **326**

Other Revenue 290 317 331

Total Revenue **675** **664** **657**

Credit Provisions for losses 150 150 125

Total Expenses 400 404 383

Other Expenses 64 63 62

Net Income 211 196 212

Net Income / Share GAAP 1.12 1.04 1.12

Distributable Earnings 404 386 377

Distributable Earnings / Share 1.97 1.89 1.84

Interest Income YOY -10% -10% -6%

EBITDA 468 449 439

Cash Flow 404 386 377

Dividend **1.50** **1.50** **1.50**

Common Dividend Coverage % **131.5%** **125.8%** **122.7%**

Price to Dist. Earnings / Share **6.7** **7.0** **7.2**

Valuations

Distributable Earnings Yield 14.9% 14.3% 13.9%

Dividend Yield 11.34% 11.34% 11.34%

PE ratio 11.8 12.7 11.8

Enterprise Value 15,826

Equity Market Cap 2,709 2,709 2,709

Capital Structure

Shares & Units outstanding * 205

Senior Notes 1,617

PFD Shares Face Value **633**

Liquidity

Dec. 31 2023

Cash 929

Borrowing Availability est. 1000+

Total Assets 15,738

Total Liabilities & PFD 13,117

Ratio 120%

Book Value

Estimated BV / Share \$12.74 \$12.13 \$11.57

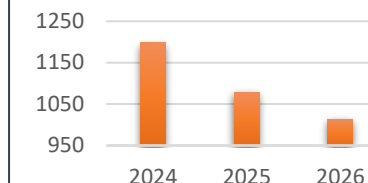
Book Value

NOTES:

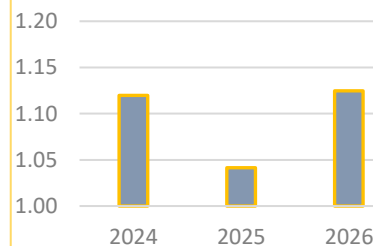
*Additional dilution from the convertible Notes not included in Shares & Units outstanding: 17.3mm.

ABR has been the subject of a few short reports, which we reviewed, in general we would say that the authors were not familiar with how to analyze the effect of defaults on loan portfolios which is known as default sensitivity analysis.

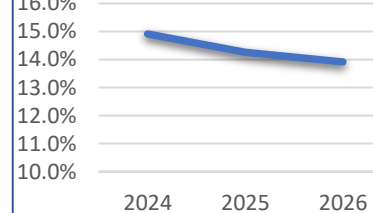
Revenue Projection



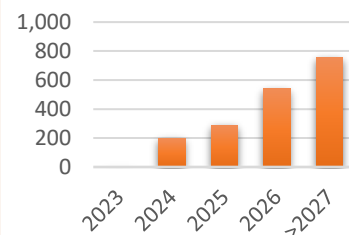
EPS Projection



Distributable Earnings Yield



Bonds Only Amortization Schedule



Disclosures

Previous reports are available upon request. Smart Yield Fund targets a mix of different security classes that contain the risk of loss. Investors should carefully consider the Fund's investment objectives and risk factors before investing. Investing involves risk, including possible loss of principal. Investors should consider the loss of principle and targeted returns are not guaranteed. Individual investors in Smart Yield are generally required to be accredited investors. Smart Yield is a fund operated through individual accounts creating the composite. Smart Yield Fund is a new product with an inception date of September 30, 2020, and as such does not have historical data. Asset Mix Projections on page 2 and 6, Smart Yield Portfolio Metrics on page 5 are estimated or targets of the fund. Asset class mix and targets may change based on the direction of the managers. Portfolio allocation projected annual return and beta assumption for each asset class on pages 7-10 are estimated. Beta for the fund and each asset class is estimated versus the S&P 500. The average beta for the entire fund is projected to be .32. Beta is a measure of the fund's volatility in relation to S&P 500 Index. This index has a beta of 1.0. The fund targets a total gross return before fees and expenses of 9.24%. The fund projects a blended return based on income securities and capital gains. Smart Yield attempts to continuously improve the value of investment portfolios by investing in corporate bonds, convertible bonds, other types of bonds (investment grade and sub-investment grade, [which may also have limited liquidity]), dividend paying equities, non-dividend paying equities, ETFs, including leveraged ETFs, and other securities. Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. 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We exit positions in accordance with our discipline, this includes when valuation targets are clearly exceeded, or financial performance falls below our projections. Since Smart Yield returns will be calculated using a composite of accounts, the average account will not match the composite return and the return could be higher or lower. Broxton offers Smart Yield for other investment managers. Any commentary is solely the opinion of the Broxton Capital Advisors. It refers to securities we hold in our portfolio and sometimes ones we are considering but does not represent a complete list of positions held at Broxton Capital Advisors. A complete list covering the last twelve months will be furnished upon request. Price targets are mentioned for information purposes only. Nothing contained herein constitutes a recommendation to purchase or sell securities at any designated price or time. Targeted performance does not guarantee future results. 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