

# Arbor Realty Trust Investor Presentation

September 2016



# Overview of our franchise - business platforms



## *Balance Sheet Loan Origination & Structured Investment Platform*

- Specialized real estate finance platform that invests in a diversified portfolio of structured finance assets in the multifamily and commercial real estate markets, with a focus on bridge and mezzanine loans
- Primary focus is multifamily, senior loans, which generate strong leveraged returns in a secure part of the capital stack
- \$1.6 billion investment portfolio as of June 30, 2016
- 89% of investment portfolio in bridge loans, with 76% of bridge loans to multifamily properties
- Small balance lending strategy is differentiated from peers – average size of ~\$12 million per loan
- Formed in June 2003 as a real estate investment trust (“REIT”) for federal income tax purposes

## *Agency Loan Origination and Servicing Platform*

- One of only 25 Fannie Mae DUS® licensed lenders nationwide and one of only 22 Freddie Mac Program Plus lenders, Affordable Housing, and HUD originator
- Leading national multifamily agency loan origination and servicing platform with over 200 direct employees, including 20 originators in eight states with more than 20 years of experience on average
- Primary focus on small balance loans with ~\$5 million average loan size
- Servicing portfolio of approximately \$12 billion of unpaid principal balance as of June 30, 2016 (~47 bps svc fee)
- Originated more than \$3 billion in loans in 2015; 5-year compounded average growth rate in originations of more than 20%



# Our franchise value

- 
- Seasoned management team averaging over 20 years of industry experience with significant insider ownership
  - Owner of one of only 25 Fannie Mae DUS® licenses
  - Deep and versatile origination network, both in the agency loan and balance sheet loan verticals
  - Dedicated asset management platform with strong credit history and extensive experience in restructuring, modifying and working out assets through all cycles
  - Experienced securitization platform completing 6 non-recourse CLO securitizations since 2012 totaling in excess of \$1 billion with replenishment features
  - Pro forma book value of ~\$8.46 per common share, above the current stock price creating a significant value play; combined with a current dividend yield of 8.5%
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# Recent achievements

1

## **Acquired the agency platform of Arbor Commercial Mortgage, LLC on July 14, 2016**

- Immediate accretion to our earnings and dividends
- Significant diversification and greater predictability to our earnings streams through a long-dated, prepayment protected servicing portfolio
- Transitioning the REIT from a mono line dependent entity into a fully integrated franchise with a significant agency origination business with high barriers to entry providing a natural limitation on competition
- Increasing our equity base and market cap, creating a larger, more efficient vehicle for us to raise capital in the future
- Provide full alignment with our shareholders through significant stock ownership

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## **Growth of dividend for 2Q16 to \$0.16 per share with a current dividend yield of 8.5%**

- 7% increase compared to 1Q16, ahead of realizing the benefits from the agency platform acquisition
- Dividends totaling \$0.60 per share in 2015, representing a 15% increase over 2014

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## **Continued focus on new and improved non-recourse financing structures**

- Closed a new \$325 million CLO in August 2016 with improved terms
- Currently ~\$1 billion of non-recourse debt with replenishment features with a weighted average all in rate of ~3.25%
- Target 70 – 75% of our total financing as being non-recourse

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## **Substantial contribution to core earnings from our residential mortgage banking joint venture and structured transactions**

- Diversifying income streams generating \$8.0 million of income to ABR during the six months ended June 30, 2016 and \$17.8 million of income to ABR during the year ended December 31, 2015
- Generated a return on our capital of approximately 50% as of June 30, 2016 from our residential mortgage joint venture



# Agency platform acquisition

## *Acquired*

- **Agency platform of Arbor Commercial Mortgage, LLC**
  - Servicing platform including approximately \$12 billion in UPB as of June 30, 2016 (approximately 47 bps weighted average servicing fee)
    - Fair value of MSR of approximately \$220 million

## *Consideration*

- **\$276 million (50% cash, 50% stock) acquisition price**
- **\$88 million cash**
- **\$50 million in attractive seller financing instrument**
- **\$138 million stock consideration; 21.23 million operating partnership units**
  - Number of operating partnership units based upon an agreed upon ABR share price of \$6.50

## *Structure*

- **Platform acquired in a tax efficient manner through the bifurcation of income streams through different REIT subsidiaries**

## *Transaction close*

- **July 2016**

## *Other*

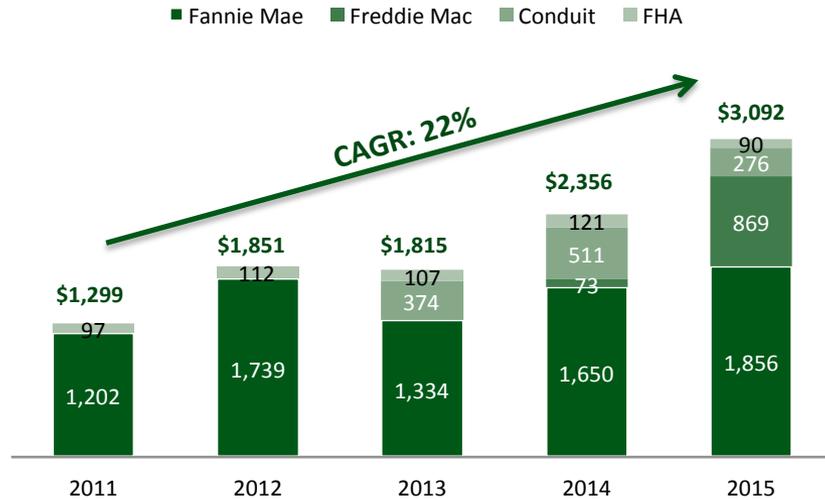
- **Two year option at discretion of special committee of the ABR Board to purchase for \$25 million the existing management contract and fully internalize the management structure**

*Agency acquisition anticipated to be transformational for the franchise's future growth and success*

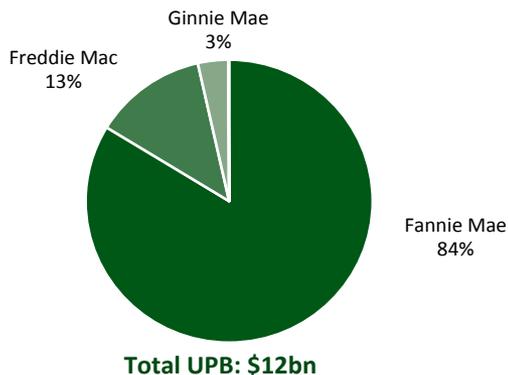


# Leading, nationwide origination and servicing platform

## Total Originations – Acquired Businesses (\$mm)



## Servicing platform – Investor type



Note: All metrics shown as of 6/30/16



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## Overview of origination platform

- Operating since 1995, originated over \$20 billion since inception
  - \$10.4 billion in aggregate originations from 2011 – 2015 producing a 22% five year annual growth rate
  - \$1.6 billion of originations this year through June 30, 2016
- One of only 25 licensed Fannie Mae DUS® lenders
- Top 10 multifamily DUS® lender for nine consecutive years
- Top small loan lender for Fannie Mae in 2014
- Top small balance lender for Freddie Mac in 2015
- 20 originators in eight states with more than 20 years average experience

## Overview of servicing platform

- 100% multifamily-focused servicing platform
- Average loan size of ~\$5 million
  - Focus on small balance (\$1 - \$5 million)
- 7 years weighted average remaining loan term
  - Prepayment protection in commercial MSR has structural advantages compared to residential MSR
- Weighted average servicing fee of approximately 47 bps
- Annual annuity income of more than \$50 million
- Approximately \$375 million in escrow balances
- Estimated fair market value of MSRs of approximately \$220 million

# Strategic benefits for ABR shareholders

## ✓ Immediately accretive to earnings and dividends

- *Significantly increases core earnings on a run-rate basis*

## ✓ Diversification and predictability of earnings streams

- *The acquisition of a long-dated, prepayment protected servicing portfolio will result in a consistent and recurring cash flow stream in a diversified stable annuity of servicing income*

## ✓ Creates fully integrated franchise

- *Transitions ABR from a monoline, dependent entity into a fully integrated franchise with a significant agency originations business with high barriers to entry*
- *One of the few REITs offering agency origination and servicing capabilities with a balance sheet to carry these loans*

## ✓ Comprehensive product offering

- *Increases our size and scale and broadens our products*
- *Ability to meet the multiple needs of our clients with products for short-term and long-term commercial real estate financing needs*

## ✓ Larger, more efficient company

- *Significantly increases equity base and market cap, creating a larger, more efficient vehicle to access capital*

## ✓ Full alignment with shareholders

- *Experienced management team that is fully aligned with shareholders through significant stock ownership*
- *Management now owns more than 35% of ABR*

*Acquisition expands our product offerings and adds diversity, duration, and stability to our earnings streams*



# Preliminary financial impact of agency platform acquisition

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- Agency business is less capital intensive and has an attractive return on equity profile
  - Agency business estimated to generate approximately \$50-\$55 million of GAAP pre-tax income and \$40 million pre-tax cash flow in 2016
    - \$50-\$60 million gross servicing revenue in 2016
  - Immediately accretive to ABR earnings and dividends
  - Estimated dividend accretion of \$0.06-\$0.10 per share; 10%-17% accretion based on pre-acquisition \$0.60 annualized dividend per share<sup>1</sup>
  - Equity base increase of ~\$150 million resulting in pro forma equity of ~\$700 million
  - \$547 million market cap (NYSE: ABR) as of September 20, 2016
  - Pro forma book value per common share of ~\$8.46
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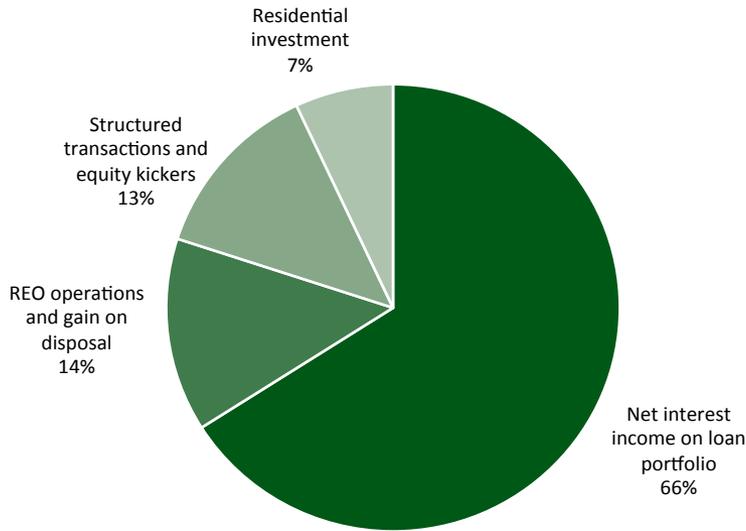
Note:

<sup>1</sup> Assumes bifurcation of servicing income and excludes transaction costs



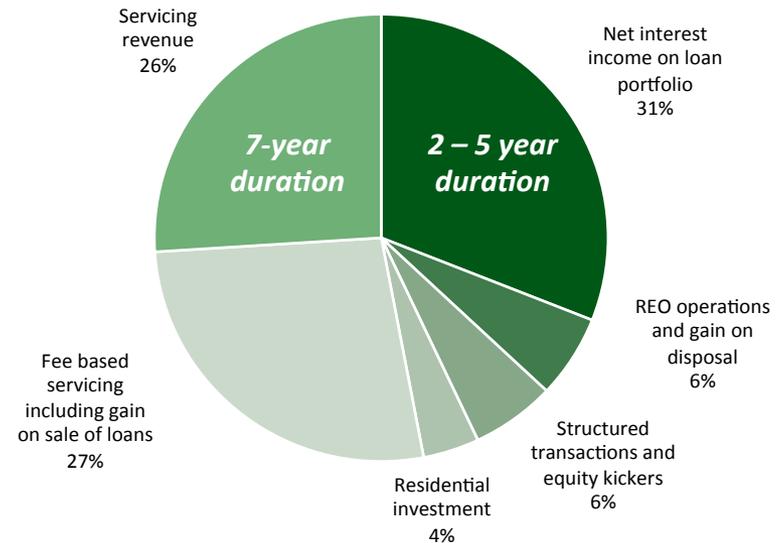
# Diversification & duration of income sources

2015 income sources



Total: \$89.7mm

Pro forma 2015 income sources



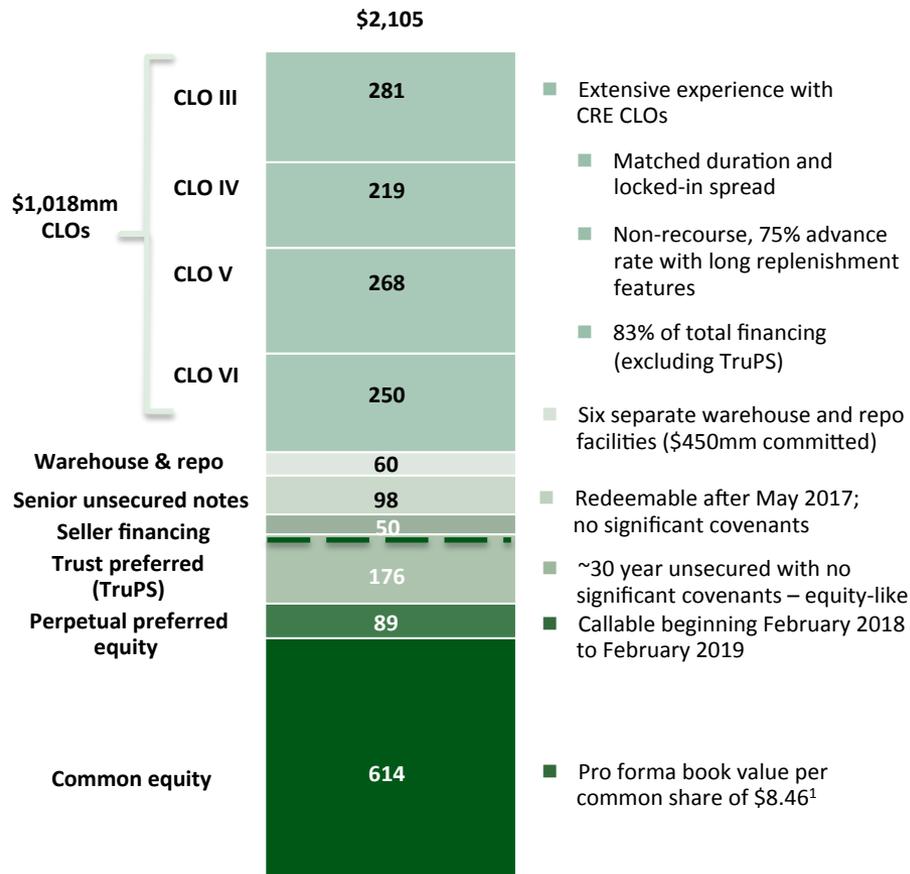
Total: \$190.1mm

- Pro forma for the acquisition, ABR significantly diversifies its income sources while creating a long-dated, prepayment protected revenue stream
  - Potential for additional benefit from increase in interest income on escrow balances due to future increases in LIBOR



# Pro forma capital structure

## Capital structure (\$mm)



## Recent Developments

- Closed \$325mm CLO VI Transaction (Aug. 18, 2016)
  - ~\$250mm of notes issued
  - Replenishment period of 3 years
- Agency Loan Origination and Servicing Platform Acquisition (July 14, 2016)
  - Issued 21.23mm O.P. units
  - Issued \$50mm note to seller

Notes: Table is as of 6/30/16 pro forma for the Recent Developments highlighted above. Excludes short term debt assumed in our recent acquisition of ACM's Agency Loan Origination and Servicing Platform

<sup>1</sup> As of 6/30/16, pro forma for the acquisition of the agency business, based on \$614 million pro forma book value of common equity and 51.4 million common shares outstanding and 21.2 million operating partnership units outstanding issued in connection with the acquisition of the agency business



# Financial performance

## Balance sheet loan origination / investment platform income statement

(Amounts in 000s except per share amounts)	For the year ended December 31,		For the 6 months ended June 30,
	2014	2015	2016
Net interest income	\$59,869	\$59,185	\$27,796
REO assets NOI and gains from disposals	6,388	12,212	2,016
Structured transactions and equity kickers	8,919	11,437	3,479
Residential mortgage banking JV income	–	6,600	4,700
Other income	1,645	270	304
<b>Total net revenues</b>	<b>\$76,821</b>	<b>\$89,704</b>	<b>\$38,295</b>
Total operating expenses	31,163	36,601	15,618
Preferred stock dividends	7,256	7,554	3,777
<b>Core AFFO</b>	<b>\$38,402</b>	<b>\$45,549</b>	<b>\$18,900</b>
Core earnings ROE on common equity	9.4%	9.9%	8.0%
Core AFFO per common share	\$0.76	\$0.89	\$0.37
Dividend per common share	\$0.52	\$0.60	\$0.31
Core earnings per share in excess of dividends	\$0.24	\$0.29	\$0.06

*Earnings in excess of dividends*

## Agency loan origination platform income statement

(Amounts in 000s except per share amounts)	For the year ended December 31,	
	2014	2015
Interest earned	\$6,605	\$10,126
Fee-based services, including gain on sales	40,967	51,317
Originated mortgage servicing rights	39,591	47,614
Servicing revenue, net	23,445	27,822
<b>Total revenues</b>	<b>\$110,608</b>	<b>\$136,879</b>
Interest expense	3,592	7,067
Employee compensation and benefits	47,823	54,616
Selling and administrative	11,257	14,627
Provision for loss sharing	2,616	3,785
<b>Net income</b>	<b>\$45,320</b>	<b>\$56,784</b>

*Predictable annuity income streams*

