ARBOR REALTY TRUST INC
Form S-11/A
February 05, 2004

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As filed with the Securities and Exchange Commission on February 5, 2004

Registration No. 333-110472

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 2

to

FORM S-11

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Arbor Realty Trust, Inc.

(Exact Name of Registrant as Specified in its Governing Instruments)

333 Earle Ovington Boulevard

Suite 900
Uniondale, New York 11553
(516) 832-8002
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Frederick C. Herbst

Chief Financial Officer and Treasurer
Arbor Realty Trust, Inc.
333 Earle Ovington Boulevard
Suite 900
Uniondale, New York 11553
(516) 832-7408
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

David J. Goldschmidt
Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, New York 10036-6522
(212) 735-3000

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Securities Being Registered	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, par value $.01 per share	$150,000,000(1)(2)	$12,398.13(3)

(1) Includes shares that the underwriters have the option to purchase from us to cover over-allotments, if any.

(2) Estimated solely for the purpose of computing the registration fee in accordance with Rule 457(o) of the Securities Act of 1933, as amended.

(3) Of this amount, $11,670.23 was paid on $144,254,970 of the proposed maximum aggregate offering price amount in connection with the initial filing of this registration statement on November 13, 2003. $727.90 is being paid on the remaining $5,745,030 in connection with this filing of the registration statement.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission acting, pursuant to said Section 8(a), may determine.

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SUBJECT TO COMPLETION, DATED FEBRUARY 5, 2004

PROSPECTUS

Arbor Realty Trust, Inc.

Shares of Common Stock

This is our initial public offering. We are offering shares of our common stock, par value $.01 per share.

The selling stockholders are offering shares of our common stock underlying units and shares of our common stock issued upon exercise of warrants underlying units. The units were issued and sold to the selling stockholders on July 1, 2003 in transactions exempt from the registration requirements of the Securities Act of 1933 and each unit consisted of five shares of common stock and one warrant to purchase an additional share of common stock.

We expect the public offering price to be between $ and $ per share. There has been no organized public market for our common stock.

We will not receive any proceeds from the sale of our common stock by the selling stockholders.

The underwriters have an option to purchase from us up to additional shares of our common stock to cover over-allotment of shares.

We intend to apply to list our common stock on the New York Stock Exchange under the symbol .

Investing in our common stock involves risks. See Risk Factors beginning on page 17 for a discussion of these risks.

- We have a limited operating history and may not operate successfully.
- Historical consolidated financial statements included in this prospectus include expenses that would not have been incurred had we operated as a separate entity during the periods presented and exclude the management fees payable pursuant to the management agreement.
- We are substantially controlled by Arbor Commercial Mortgage and its controlling equity owner, Mr. Kaufman.
- We are dependent on our manager with whom we have conflicts of interest.
- Our directors have approved very broad investment guidelines for our manager and do not approve each investment decision made by our manager.
- We depend on key personnel with long standing business relationships, the loss of whom could threaten our ability to operate our business successfully.
- We may be unable to generate sufficient revenue from operations to pay our operating expenses and to pay dividends to our stockholders.
- If Arbor Commercial Mortgage ceases to be our manager, the financial institutions providing our credit facilities may not provide future financing to us.
- If we do not qualify as a REIT or fail to remain qualified as a REIT, we will be subject to tax as a regular corporation and could face substantial tax liability.
- There is no public market for our common stock, and there may be no market for our common stock after the completion of this offering.
- Our charter generally does not permit ownership in excess of 9.6% of our common or capital stock, and attempts to acquire our capital stock in excess of these limits are ineffective without prior approval from our board of directors.

	Per Share	Total

Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Arbor Realty Trust, Inc.	$	$
Proceeds, before expenses, to selling stockholders		$

Delivery of the shares of common stock will be made on or about , 2004.

Neither the Securities and Exchange Commission, any state securities commission, nor any other regulatory body has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2004

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You should rely only on the information contained in this prospectus. Neither we nor the underwriters have not authorized anyone to provide you with different or additional information. This prospectus does not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this prospectus in any jurisdiction to or from any person to whom or from whom it is unlawful to make such offer or solicitation of an offer in such jurisdiction. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front cover of this prospectus. Neither the delivery of this prospectus nor any distribution of securities pursuant to this prospectus shall, under any circumstances, create any implication that there has been no change in the information set forth in this prospectus or in our affairs since the date of this prospectus.

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PROSPECTUS SUMMARY

This summary highlights information more fully described elsewhere in this prospectus and contains the material terms of this offering. However, you should read this entire prospectus carefully before deciding to invest in our common stock. Unless otherwise mentioned or unless the context otherwise requires, all references in this prospectus to (a) we, us, our, or similar references mean Arbor Realty Trust, Inc. and its subsidiaries, including Arbor Realty Limited Partnership, our operating partnership, and (b) Arbor Commercial Mortgage , or our manager means Arbor Commercial Mortgage, LLC.

Arbor Realty Trust, Inc.

We are a specialized real estate finance company investing in real estate related bridge and mezzanine loans, preferred equity and, in limited cases, discounted mortgage notes and other real estate related assets, which we collectively refer to as structured finance investments. Our objective is to maximize the difference between the yield on our investments and the cost of financing these investments to generate cash available for distribution, facilitate capital appreciation and maximize total return to our stockholders. We commenced operations in July 2003 and conduct substantially all of our operations through our operating partnership, Arbor Realty Limited Partnership. We intend to elect to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code and generally will not be subject to federal taxes on our income to the extent we distribute our income to our stockholders and maintain our qualification as a REIT.

We actively pursue lending and investment opportunities with property owners and developers who need interim financing until permanent financing can be obtained. Our structured finance investments generally have maturities of two to five years, depending on the type, have extension options when appropriate, and generally require a balloon payment of principal at maturity. Our financings typically range in size from $1 million to $25 million, and historically, our manager s spreads have ranged from 4.00% to 7.00% over 30-day LIBOR for mezzanine financings and 3.00% to 5.00% over 30-day LIBOR for bridge financings. Borrowers in the market for these types of loans include owners or developers who seek either to acquire or refurbish real estate or pay down debt and reposition a property for permanent financing. Our investment program emphasizes the following categories of real estate related activities:

Bridge Financing We offer bridge financing products to borrowers who are typically seeking short term capital to be used in an acquisition of property. The borrower has usually identified an undervalued asset that has been under-managed or is located in a recovering market. From the borrower s perspective, shorter term bridge financing is advantageous because it allows time to improve the property value through repositioning the property without encumbering it with restrictive long term debt. The bridge loans we make are secured by first lien mortgages on the property. Borrowers usually use the proceeds of a conventional mortgage loan to repay a bridge loan.

Mezzanine Financing We offer mezzanine loans, which are loans subordinate to a conventional first mortgage loan and senior to the borrower s equity in a transaction. Our mezzanine financing may take the form of pledges of ownership interests in entities that directly or indirectly control the real property or subordinated loans secured by second mortgages. We may also require additional collateral such as personal guarantees, letters of credit and/or additional collateral unrelated to the property.

Preferred Equity Investments We provide financing by making preferred equity investments in entities that directly or indirectly own real property. In cases where the terms of a first mortgage prohibit additional liens on the ownership entity, investments structured as preferred equity interests in the entity owning the property serve as viable financing substitutes. With preferred equity investments, we typically become a special limited partner or member in the ownership entity.

Other Investments We may engage in other investment activities, including the purchase of discounted first lien mortgage notes from other lenders and opportunistic investments including the acquisition of properties. Typically, these transactions, which may be conducted through taxable subsidiaries, are analyzed with the expectation that, upon property repositioning or renovation, they will be sold to achieve a significant return on invested capital.

We borrow against or leverage our investments to the extent consistent with our investment guidelines in order to increase the size of our portfolio and potential returns to our stockholders. We generate profits to the extent interest and fee income exceed interest expense, loan losses and operating expenses. We also generate profits from gains on investments.

We are externally managed and advised by Arbor Commercial Mortgage. Our manager is a national commercial real estate finance company operating through 15 regional offices in the United States, specializing in debt and equity financing for multi-family and commercial real estate. We believe Arbor Commercial Mortgage s experience and reputation positions it to originate attractive investment opportunities for us. Our management agreement with Arbor Commercial Mortgage was developed to capitalize on synergies with Arbor Commercial Mortgage s origination infrastructure, existing business relationships and management expertise.

Arbor Commercial Mortgage has granted us a right of first refusal to pursue all structured finance investment opportunities identified by Arbor Commercial Mortgage. We have agreed not to pursue, and to allow Arbor Commercial Mortgage to pursue, any real estate opportunities other than structured finance transactions. This has historically included providing and servicing multi-family and commercial mortgage loans under Fannie Mae, Federal Housing Administration and conduit commercial lending programs, which we believe will offer customer relationship synergies to our business. Our portfolio currently contains loans and investments that we originated and loans and investments that we purchased from third parties or from affiliates.

We have a senior management team with significant industry experience. Mr. Ivan Kaufman, the chief executive officer of Arbor Commercial Mortgage, and Mr. Frederick Herbst, the chief financial officer of Arbor Commercial Mortgage, also serve as our chief executive officer and chief financial officer, respectively. Mr. Kaufman is the former co-founder and chairman of Arbor National Holdings.

Our Business Strategy

We believe the financing of multi-family and commercial real estate offers significant growth opportunities that demand customized financing solutions.

Consolidation in the financial services industry has reduced the number of companies providing multi-family and commercial real estate financing products.

We believe this consolidation has led to a trend among remaining institutions to focus on larger, more standardized transactions.

The growth of a market for securitized commercial real estate pools has provided a new source of financing for real estate assets.

We believe we have the necessary levels of capital and financial flexibility to compete effectively in today s rapidly changing market. Our borrowers, who in the past relied on banks and life insurance companies as their primary source for commercial real estate financing, have benefited from our flexible underwriting standards. This flexibility has created significant demand for our bridge, mezzanine and other forms of innovative financing.

Our principal business objectives are to invest in bridge and mezzanine loans, preferred equity and other real estate related assets and actively manage our portfolio in order to generate cash available for distribution, facilitate capital appreciation and maximize total return to our stockholders. We believe we can achieve these objectives through the following business and growth strategies:

Provide customized financing;

Focus on a niche market in smaller loan balances;

Execute transactions rapidly;

Manage and maintain credit quality;

Use Arbor Commercial Mortgage s relationships with existing borrowers and origination infrastructure;

Offer broader products and expand customer base; and

Leverage the experience of the executive officers and employees of Arbor Commercial Mortgage and us;

Our asset management group is integrated into the underwriting and structuring process for all transactions in order to enhance the credit quality of our originations before transactions close. After closing, our asset management group s experience in managing complex restructurings, refinancings and asset dispositions is used to improve the credit quality and yield on managed investments. We believe our asset management group s involvement in our credit underwriting process helps to mitigate investment risk after the closing of a transaction.

Our Manager

Arbor Commercial Mortgage is a national commercial real estate finance company founded in 1993 as a subsidiary of Arbor National Holdings, Inc., an originator and servicer of single-family residential mortgage loans. Our chief executive officer, Mr. Ivan Kaufman, is also Arbor Commercial Mortgage s chief executive officer and its controlling equity owner, and was the co-founder, chairman and majority shareholder of Arbor National Holdings. Under Mr. Kaufman s direction, Arbor National Holdings grew to 25 branches in 11 states and funded more than $4 billion in loans in its last full year of operations. Arbor National Holdings became a public company in 1992 and was sold to BankAmerica in 1995.

In connection with the sale of Arbor National Holdings, Mr. Kaufman purchased its commercial mortgage lending operations and the rights to the Arbor name and retained a significant portion of Arbor National Holdings senior management team. This senior management team has guided Arbor Commercial Mortgage s growth from a company originally capitalized with approximately $8 million of equity value, including its partnership interest in Arbor Realty Limited Partnership, to approximately $69 million of equity value as of September 30, 2003. Arbor Commercial Mortgage is now a full service provider of financial services to owners and developers of multi-family and commercial real estate properties. Arbor Commercial Mortgage has derived revenue from the origination for sale and servicing of government-sponsored and conduit mortgage loans for commercial and multi-family real estate properties as well as from the origination of structured finance loans and investments. Arbor Commercial Mortgage originated over $600 million in new loans in 2002 and is currently servicing a portfolio with a principal balance of $2.9 billion, including loans serviced for Arbor Realty Limited Partnership.

Our primary business will be investing in structured finance loans and investments. We do not intend to originate or service government sponsored investment grade assets, but we may invest in such assets in the future.

Arbor Commercial Mortgage s executive officers and employees have extensive experience in originating and managing structured commercial real estate investments. The senior management team has an average of over 20 years experience in the financial services industry. Arbor Commercial Mortgage currently has 130 employees spread among its corporate headquarters in Uniondale, New York, 14 other sales offices located throughout the United States and the servicing administration office in Buffalo, NY.

We and our operating partnership have entered into a management agreement with Arbor Commercial Mortgage pursuant to which Arbor Commercial Mortgage has agreed to provide us with structured finance investment opportunities and loan servicing as well as other services necessary to operate our business.

We pay our manager an annual base management fee based on the equity of our operating partnership, as further discussed below. The amount of the base management fee does not depend on the performance of the services provided by our manager or the types of assets it selects for our investment, but the value of our operating partnership s equity will be affected by the performance of these assets. We also pay our manager incentive compensation each fiscal quarter. We have paid $587,734 in base management fees to Arbor

Commercial Mortgage for management services rendered for the six months ended December 31, 2003. Our manager did not earn incentive compensation for the quarters ended September 30, 2003 or December 31, 2003.

The table summarizes the calculation of the base management fee, incentive compensation and other fees and expenses payable to our manager pursuant to the management agreement.

Type	Description and Method of Computation	Payable
Base management fee[1]	(1) 0.75% per annum of the first $400 million of our operating partnership s equity, (2) 0.625% per annum of our operating partnership s equity between $400 million and $800 million, and (3) 0.50% per annum of our operating partnership s equity in excess of $800 million.	Monthly in arrears in cash
Incentive compensation[2]	(1) 25% of the amount by which: (a) our operating partnership s funds from operations per operating partnership unit, adjusted for certain gains and losses, exceeds (b) the product of (x) 9.5% per annum or the Ten Year U.S. Treasury Rate plus 3.5%, whichever is greater, and (y) the weighted average of the book value of the net assets contributed by Arbor Commercial Mortgage to our operating partnership per operating partnership unit, $15 (representing the offering price per share of our common stock in the original offering)[3], the offering price per share of our common stock in any subsequent offerings and the issue price per operating partnership unit for subsequent contributions to our operating partnership, multiplied by (2) the weighted average of our operating partnership s outstanding operating partnership units.	Each fiscal quarter, with at least 25% paid in our common stock
Overhead expenses	Compensation of our independent directors, legal, accounting, due diligence tasks and other services that outside professionals perform for us.	Each fiscal quarter in cash
Origination fee income[4]	An amount equal to 100% of the origination fees paid by the borrower to us with respect to each bridge loan and mezzanine loan we originate, up to 1% of the loan s principal amount.	Upon closing of each loan
Termination fee[5]	If we terminate or elect not to renew the management agreement in order to manage our portfolio internally, we are required to pay a termination fee equal to the base management fee and incentive compensation for the 12-month period preceding the termination. If, without cause, we terminate or elect not to renew the management agreement for any other reason, including a change of control of us, we are required to pay a termination fee equal to two times the base management fee and incentive compensation paid for the 12-month period preceding the termination.	Upon termination

(1) For purposes of calculating the base management fee, our operating partnership s equity equals the month-end value computed in accordance with generally accepted accounting principles of total partners equity in our operating partnership, plus or minus any unrealized gains, losses or other items that do not affect realized net income.

(2) At least 25% of the incentive compensation paid to our manager will be in the form of shares of our common stock, subject to ownership limitations in our charter. Beginning on January 1, 2004, the incentive compensation will be measured over a full fiscal year, subject to recalculation and potential reconciliation at the end of each fiscal year. We intend to pay our manager each installment of the incentive compensation within sixty (60) days following the last day of the fiscal quarter with respect to which such incentive compensation payment is payable.

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(3) We allocated the $75 offering price per unit to the five shares of common stock comprising each unit, resulting in an offering price of $15 per share of common stock in the original offering. We did not allocate any value to the one warrant underlying each unit because the warrants have an initial exercise price of $15 and they are not exercisable, detachable or freely tradable for an indeterminable period of time (i.e., until after the registration and listing of the common stock comprising the units on national securities exchange or The Nasdaq Stock Market).

(4) 100% of the origination fees paid by the borrower in excess of 1% of the loan s principal amount are retained by us.

(5) The management agreement has an initial term of two years and is renewable automatically for an additional one year period every year thereafter, unless terminated with six months prior written notice.

Our Corporate History

On July 1, 2003, Arbor Commercial Mortgage, LLC contributed the majority of its structured finance portfolio to our operating partnership. These initial assets, consisting of 12 bridge loans, five mezzanine loans, five preferred equity investments and two other real estate related investments, were transferred at book value, which approximates fair value, that, at June 30, 2003, represented $213.1 million in assets financed by $169.2 million borrowed under Arbor Commercial Mortgage s credit facilities and supported by $43.9 million in equity. Simultaneously with Arbor Commercial Mortgage s contribution of assets, we issued and sold 1,610,000 of our units in a private offering, which we refer to as the original offering.

In connection with its contribution of the initial assets, Arbor Commercial Mortgage arranged for us to have substantially similar credit facilities as those used by Arbor Commercial Mortgage to finance these assets. In exchange for the asset contribution, we issued to Arbor Commercial Mortgage approximately 3.1 million operating partnership units, each of which Arbor Commercial Mortgage may redeem for one share of our common stock or an equivalent amount in cash, at our election, and approximately 629,000 warrants, each of which entitles Arbor Commercial Mortgage to purchase one additional operating partnership unit at an initial exercise price of $15. The operating partnership units and warrants for additional operating partnership units issued to Arbor Commercial Mortgage were valued at approximately $43.9 million at July 1, 2003, based on the price offered to investors in our units in the original offering. Each of the approximately 3.1 million operating partnership units received by Arbor Commercial Mortgage is paired with one share of our special voting preferred stock that entitles the holder to one vote on all matters submitted to a vote of our stockholders. As operating partnership units are redeemed for shares of our common stock or cash, an equivalent number of shares of special voting preferred stock will be redeemed and cancelled. See Description of Stock Special Voting Preferred Stock. As a result of Arbor Commercial Mortgage s asset contribution and the related formation transactions, Arbor Commercial Mortgage owns approximately a 28% limited partnership interest in our operating partnership and the remaining 72% interest in our operating partnership is owned by us. After giving effect to this offering, Arbor Commercial Mortgage will own approximately a % interest in our operating partnership and we will own the remaining %. In addition, Arbor Commercial Mortgage has approximately 28% of the voting power of our outstanding stock (without giving effect to the exercise of Arbor Commercial Mortgage s warrants for additional operating partnership units). After giving effect to this offering, Arbor Commercial Mortgage will have approximately % of the voting power of outstanding stock (without giving effect to the exercise of Arbor Commercial Mortgage s warrants for additional operating partnership units).

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Our Structure

The following chart shows our structure after giving effect to this offering:

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(1) Upon consummation of this offering, investors purchasing shares of our common stock in this offering will own % of our outstanding common stock, purchasers of our units in the original offering will hold % of our outstanding common stock and grantees of restricted stock pursuant to our stock incentive plan, including our directors, executive officers, and certain of our employees and employees of our manager will hold the remaining %.

(2) Holders of Class A and Class B membership interests of Arbor Commercial Mortgage have the same voting rights and are both entitled to distributions in accordance with their percentage ownership interests in the company. However, holders of Class B membership interests cannot transfer their interests or compete with Arbor Commercial Mortgage without the consent of the managing member, Arbor Management, LLC, an entity wholly owned by Mr. Ivan Kaufman and his wife.

(3) Mr. Kaufman, the Ivan and Lisa Kaufman Family Trust, a trust created by Mr. Kaufman for the benefit of Mr. Kaufman s family and Arbor Management collectively hold all the outstanding Class A membership interests which constitute 64% of the outstanding membership interests of Arbor Commercial Mortgage. 24% of the outstanding membership interests of Arbor Commercial Mortgage previously held by Mr. Kaufman and the Ivan Kaufman Grantor Retained Trust, of which Mr. Kaufman is a co-trustee, as Class A membership interests have been reclassified as Class B membership interests, effective as of January 1, 2003. Mr. Kaufman, together with the Kaufman entities which include the Ivan and Lisa Kaufman Family Trust, the Ivan Kaufman Grantor Retained Trust and Arbor Management, beneficially own approximately 88% of the outstanding membership interests of Arbor Commercial Mortgage. See Security Ownership of Beneficial Owners and Management.

(4) Messrs. Herbst, Palmier and Weber and Messrs. Martello and Horn, two of our directors, collectively hold 5% of the outstanding membership interests in Arbor Commercial Mortgage as Class B membership interests. In addition, Mr. Martello also serves as (a) trustee of the Ivan and Lisa Kaufman Family Trust and (b) co-trustee, along with Mr. Kaufman, of the Ivan Kaufman Grantor Retained Annuity Trust.

(5) Arbor Commercial Mortgage holds 3,146,724 shares of our special voting preferred stock which will entitle it to % of the voting power of our outstanding stock upon consummation of this offering. These shares of special voting preferred stock are paired with 3,146,724 operating partnership units held by Arbor Commercial Mortgage and will be redeemed upon redemption of these operating partnership units. Assuming the redemption of all Arbor Commercial Mortgage s operating partnership units for shares of our common stock after the consummation of this offering, Arbor Commercial Mortgage would retain % of the voting power of our outstanding stock. The % figure does not give effect to the exercise of Arbor Commercial Mortgage s 629,345 warrants for additional operating partnership units, each of which is exercisable for an additional partnership unit that will be paired with one share of our special voting preferred stock. Assuming Arbor Commercial Mortgage s exercise of all warrants for additional operating partnership units paired with shares of our special voting preferred stock after the consummation of this offering, it would have a % partnership interest in our operating partnership and % of the voting power of our outstanding stock.

(6) We hold our partnership interests in Arbor Realty Limited Partnership through two wholly-owned subsidiaries, Arbor Realty GPOP, Inc., the holder of a 0.1% general partner interest, and Arbor Realty LPOP, Inc., the holder of a % limited partner interest upon consummation of this offering. Our only material subsidiaries are Arbor Realty Limited Partnership, Arbor Realty GPOP and Arbor Realty LPOP.

(7) The % figure does not give effect to the exercise of Arbor Commercial Mortgage s 629,345 warrants for additional operating partnership units, each of which is exercisable for an additional partnership unit that will be paired with one share of our special voting preferred stock. Arbor Commercial Mortgage may acquire up to 3,776,069 shares of our common stock upon redemption of its operating partnership units (including 629,345 operating partnership units issuable upon exercise of warrants for additional operating partnership units) should we elect to issue shares of our common stock upon such redemption.

Summary Risk Factors

An investment in our common stock involves a number of risks. You should consider carefully the risks discussed below and under Risk Factors beginning on page 17 before purchasing our common stock.

We have a limited operating history and may not operate successfully.

Historical consolidated financial statements included in this prospectus include expenses that would not have been incurred had we operated as a separate entity during the periods presented and exclude the management fees payable pursuant to the management agreement.

We are substantially controlled by Arbor Commercial Mortgage and its controlling equity owner, Mr. Kaufman.

We are dependent on our manager with whom we have conflicts of interest.

Our directors have approved very broad investment guidelines for our manager and do not approve each investment decision made by our manager.

Our manager has broad discretion to invest funds and may acquire structured finance assets where the investment returns are substantially below expectations or that result in net operating losses.

We depend on key personnel with long standing business relationships, the loss of whom could threaten our ability to operate our business successfully.

We may be unable to invest excess equity capital on acceptable terms or at all, which would adversely affect our operating results.

We invest in multi-family and commercial real estate loans, which involve a greater risk of loss than single family loans.

Volatility of values of multi-family and commercial properties may adversely affect our loans and investments.

We may be unable to generate sufficient revenue from operations to pay our operating expenses and to pay dividends to our stockholders.

If Arbor Commercial Mortgage ceases to be our manager pursuant to the management agreement, the financial institutions providing our credit facilities may not provide future financing to us.

If we do not qualify as a REIT or fail to remain qualified as a REIT, we will be subject to tax as a regular corporation and could face substantial tax liability.

There is no public market for our common stock, and there may be no market for our common stock after the completion of this offering.

Our charter generally does not permit ownership in excess of 9.6% of our common or capital stock, and attempts to acquire our capital stock in excess of these limits are ineffective without prior approval from our board of directors.

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Restrictions on Ownership of Stock

In order for us to maintain our qualification as a REIT under the Code, not more than 50% (by value) of our outstanding shares of capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities). For the purpose of preserving our REIT qualification, our charter generally prohibits direct or indirect ownership of more than 9.6% of the outstanding shares of capital stock. Our board of directors may, however, in its discretion, exempt a person from this ownership limitation, and, as a condition to such exemption, may require a satisfactory ruling from the Internal Revenue Service, or IRS, an opinion of counsel (as to our continued REIT status) and/or certain representations and undertakings from such person.

Distribution Policy

To maintain our qualification as a REIT, we intend to make regular quarterly distributions to our stockholders of at least 90% of our taxable income, which does not necessarily equal net income as calculated in accordance with generally accepted accounting principles. Distributions are authorized by our board of directors and declared by us based upon a variety of factors deemed relevant by our directors, and our distribution policy may change in the future. Our ability to make distributions to our stockholders depends, in part, upon our receipt of distributions from our operating partnership, Arbor Realty Limited Partnership, which may depend, in part, upon the performance of our investment portfolio, and, in turn, upon Arbor Commercial Mortgage s management of our business. If cash available for distribution is insufficient, we may be required to borrow funds or sell assets in order to meet our REIT distribution requirements. Distributions to our stockholders are generally taxable to our stockholders as ordinary income, although a portion of these distributions may be designated by us as long term capital gain to the extent they are attributable to capital gain income recognized by us, or may constitute a return of capital to the extent they exceed our earnings and profits as determined for tax purposes.

Our charter allows us to issue preferred stock with a preference on distributions. We currently have no intention to issue any such preferred stock with a preference on distributions but if we do, the dividend preference on the preferred stock could limit our ability to make a dividend distribution to our common stockholders.

On November 5, 2003, we declared a dividend of $.25 per share of common stock, payable with respect to the quarter ending September 30, 2003, to stockholders of record at the close of business on November 5, 2003. We distributed this dividend on November 18, 2003. On December 19, 2003, our board of directors authorized a dividend of $.25 per share of common stock, payable with respect to the quarter ending December 31, 2003, to stockholders of record at the close of business on December 19, 2003. We declared this dividend on December 19, 2003 and distributed it on December 30, 2003.

Preferred Stock

Pursuant to a pairing agreement that we entered into with our operating partnership and our manager, each operating partnership unit issued to Arbor Commercial Mortgage and its affiliates in connection with the contribution of the initial assets (including operating partnership units issuable upon the exercise of Arbor Commercial Mortgage s warrants) is paired with one share of our special voting preferred stock. No operating partnership unit that is paired with a share of special voting preferred stock may be transferred unless accompanied by such special voting share. A holder of special voting preferred stock is not entitled to any regular or special dividend payments or other distributions, other than a $.01 per share liquidation preference.

Each share of special voting preferred stock entitles the holder to one vote on all matters submitted to a vote of our stockholders. Therefore, through its ownership of the paired special voting preferred stock, Arbor Commercial Mortgage is currently entitled to a number of votes representing approximately 28% of the voting power of all shares entitled to vote on matters submitted to a vote of our stockholders (without giving effect to the exercise of Arbor Commercial Mortgage s warrants). After giving effect to this offering, Arbor

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Commercial Mortgage will have approximately % of the voting power of our outstanding stock (without giving effect to the exercise of Arbor Commercial Mortgage s warrants for additional operating partnership units). The holders of special voting preferred stock have no separate class voting rights except as provided by our charter.

Upon redemption of any operating partnership unit that is paired with a share of special voting preferred stock, the share of special voting preferred stock will be redeemed and cancelled by us. Other than the shares of special voting preferred stock to be issued to Arbor Commercial Mortgage upon exercise of its warrants for additional operating partnership units, we do not intend to issue operating partnership units that would be paired with shares of our special preferred voting stock in the future.

Tax Status

We intend to elect to be treated as a REIT for federal income tax purposes. To qualify as a REIT, we must meet various tax law requirements, including, among others, requirements relating to the nature of our assets, the sources of our income, the timing and amount of distributions that we make and the composition of our stockholders. As a REIT, we generally are not subject to federal income tax on income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax at regular corporate rates, and we may be precluded from qualifying as a REIT for the subsequent four taxable years following the year during which we lost our qualification. Further, even to the extent that we qualify as a REIT, we will be subject to tax at normal corporate rates on net income or capital gains not distributed to our stockholders, and we may be subject to other taxes, including payroll taxes, and state and local income, franchise, property, sales and other taxes. Moreover, we may have subsidiary entities that are subject to federal income taxation and to various other taxes. Any dividends received from us will generally, with limited exceptions, not be eligible for taxation at the preferred capital gain rates that currently apply, pursuant to recently enacted legislation, to dividends received by individuals from taxable corporations. See Federal Income Tax Considerations.

Conflicts of Interest

We, our executive officers and Arbor Commercial Mortgage face conflicts of interest because of our relationships with each other. Mr. Ivan Kaufman is our chief executive officer and the chief executive officer of Arbor Commercial Mortgage. Mr. Kaufman and entities controlled by him, or the Kaufman entities, together beneficially own approximately 88% of the outstanding membership interests of Arbor Commercial Mortgage. Mr. Frederick C. Herbst is our chief financial officer and the chief financial officer of Arbor Commercial Mortgage. Mr. Herbst, two of our executive vice presidents, Messrs. Dan Palmier and Fred Weber, and two of our directors, Mr. Joseph Martello and Mr. Walter Horn, collectively, have a minority ownership interest in Arbor Commercial Mortgage. In addition, Mr. Martello serves as trustee of one of the Kaufman entities that owns a majority of the outstanding membership interests in Arbor Commercial Mortgage and co-trustee of another Kaufman entity.

Arbor Commercial Mortgage will continue, among other activities, to originate, acquire and service multi-family and commercial mortgage loans that meet the underwriting and approval guidelines of Fannie Mae, the Federal Housing Administration and conduit commercial lending programs secured by first liens on real property. Accordingly, Messrs. Kaufman and Herbst will devote substantial amounts of their time to operating portions of Arbor Commercial Mortgage s business that do not involve managing us. Further conflicts of interest may arise because Arbor Commercial Mortgage may also provide permanent mortgage financing to real estate concerns to which we have made temporary loans, or because Arbor Commercial Mortgage may have equity interests in real estate concerns that borrow money from us. In addition, Messrs. Palmier and Weber will continue to provide services to Arbor Commercial Mortgage as members of Arbor Commercial Mortgage s executive committee, and may receive fees for originating loans on behalf of Arbor Commercial Mortgage.

Arbor Commercial Mortgage holds a 28% limited partnership interest in our operating partnership as a result of the contribution of the initial assets. After giving effect to this offering, Arbor Commercial Mortgage will own approximately a % interest in our operating partnership and we will own the remaining %. Arbor Commercial Mortgage also owns approximately 3.1 million shares of our special voting preferred stock that entitle it to 28% of the voting power of our outstanding stock (without giving effect to the exercise of Arbor Commercial Mortgage s warrants). After giving effect to this offering, Arbor Commercial Mortgage will have approximately % of the voting power of our outstanding stock (without giving effect to the exercise of Arbor Commercial Mortgage s warrants for additional operating partnership units).

We were formed by Arbor Commercial Mortgage and the terms of our management agreement and the contribution of the initial assets were not negotiated at arm s length. To address some of these conflicts of interest, our charter requires that a majority of our board of directors be independent directors and that a majority of our independent directors make any determinations on our behalf with respect to the relationships or transactions that present a conflict of interest for our directors or officers. Our board of directors has adopted a specific policy that decisions concerning our management agreement, including termination, renewal and enforcement of the management agreement, or our participation in any transactions with Arbor Commercial Mortgage or its affiliates outside of the management agreement, including our ability to purchase securities and mortgage or other assets from or to sell securities and assets to Arbor Commercial Mortgage must be reviewed and approved by a majority of our independent directors. Finally, our independent directors will periodically review the general investment standards established for the manager under the management agreement.

Original Offering

On July 1, 2003, we issued and sold 1,610,000 of our units, each consisting of five shares of our common stock, $.01 par value per share, and one warrant to purchase an additional share of common stock. 1,327,989 of these units were sold to JMP Securities LLC, or JMP Securities, as initial purchaser, and were simultaneously resold by JMP Securities in transactions exempt from the registration requirements of the Securities Act of 1933, as amended, to persons reasonably believed by JMP Securities to be qualified institutional buyers (as defined in Rule 144A under the Securities Act) and to a limited number of institutional accredited investors (as defined in Rule 501 under the Securities Act). The remaining 282,011 units were sold directly by us to individual accredited investors. Certain investors in the original offering included institutions and individuals affiliated with us and JMP Securities.

Registration Rights

In connection with the original offering, we entered into a registration rights agreement with JMP Securities. Pursuant to that agreement, we have included in a registration statement, of which this prospectus is a part, shares of common stock comprising the units and shares of common stock issued upon exercise of the warrants comprising the units originally issued and sold to the selling stockholders named in this prospectus. The registration statement is referred to as the IPO registration statement. These shares of common stock offered pursuant to this prospectus are listed under The Offering.

At the time of the original offering we also entered into a registration rights agreement with Arbor Commercial Mortgage whereby we granted Arbor Commercial Mortgage certain demand and other registration rights with respect to shares of common stock that may be issued to Arbor Commercial Mortgage upon redemption of the 3.1 million operating partnership units issued to Arbor Commercial Mortgage and issuable to Arbor Commercial Mortgage upon exercise of the 629,345 warrants for additional operating partnership units.

Lock-Up Agreements

In connection with the original offering, Arbor Commercial Mortgage, members of our senior management and board of directors and certain members of the senior management of Arbor Commercial Mortgage agreed not to offer, pledge, sell contract to sell, sell any option or contract to purchase or otherwise transfer or

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dispose of, directly or indirectly, any shares of our common stock, or any securities convertible into or exercisable for any of our common stock or any right to acquire our common stock, until the earlier of:

- 180 days from the effective date of the IPO registration statement; and
- two years from the consummation of the original offering, subject to certain exceptions.

We also agreed not to offer to sell, contract to sell, or otherwise dispose of, loan, pledge or grant any rights with respect to any shares of our common stock, any options or warrants to purchase any shares of our common stock or any securities convertible into or exercisable for any of our common stock, including our units, for a period of 180 days following the completion of the original offering, subject to certain exceptions.

JMP Securities, at any time, and without notice, may release all or any portion of the common stock subject to the foregoing lock-up agreements.

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The Offering

Common stock we are offering	shares
Common stock offered by selling stockholders	shares of common stock comprising the units; and shares of common stock issued upon exercise of the warrants comprising the units.
Common stock to be outstanding after this offering	shares(1)
Offering Price	The public offering price of our common stock will be $ per share, for a total of $ million. Proceeds, before expenses, to us will be $ million, or $ per share. Proceeds, before expenses, to the selling stockholders will be $ million.
Use of Proceeds	We estimate that the net proceeds from our sale of shares of common stock in this offering, at the initial public offering price of $ per share, which is the midpoint of the range listed on the cover page of this prospectus, after deducting the underwriting discount and other estimated offering expenses, will be approximately $ million. If the underwriters exercise their over-allotment option in full, we estimate that the net proceeds, after deducting the underwriting discount and other estimated offering expenses, of the sale of common stock by us will be approximately $ million. We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders. We intend to use all of the net proceeds of this offering to repay indebtedness under our warehouse credit agreement and master repurchase agreements. We anticipate that we will use the additional borrowing capacity created by the repayments under these credit facilities to fund our lending business in connection with newly originated and existing loans in our portfolio as the need arises.
Proposed New York Stock Exchange Symbol	____

(1) The number of shares outstanding after this offering excludes the over-allotment option granted to the underwriters.

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Summary Selected Unaudited Consolidated Financial Information

of Arbor Realty Trust, Inc. and Subsidiaries

The following tables present selected historical consolidated financial information for the three months ended September 30, 2003. The selected historical consolidated financial information presented below under the captions Consolidated Statement of Operations Data and Consolidated Balance Sheet Data have been derived from our unaudited, interim consolidated financial statements and include all adjustments, consisting only of normal recurring accruals, which management considers necessary for a fair presentation of the historical consolidated financial statements for such period. The information presented under the caption Statement of Operations Data for the three months ended September 30, 2003 is not necessarily indicative of any other interim period or of the year ended December 31, 2003. In addition, since the information presented below is only a summary and does not provide all of the information contained in our historical consolidated financial statements, including the related notes, you should read it in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations of Arbor Realty Trust, Inc. and Subsidiaries and our historical consolidated financial statements, including the related notes, included elsewhere in this prospectus.

	Three Months Ended September 30, 2003
	(Unaudited)
Consolidated Statement of Operations Data:	
Interest Income	$4,669,990
Other income	500
Total revenue	4,670,490
Total expenses	3,183,411
Net income	1,074,587
Earnings per share, basic and diluted(1)	.13
Dividends declared per common share(2)	.25

	At September 30, 2003
	(Unaudited)
Consolidated Balance Sheet Data:	
Loans and investments, net	$214,237,458
Related party loans, net	26,000,000
Total assets	255,389,573
Notes payable and repurchase agreements	91,913,811
Total liabilities	97,831,411
Minority interest	44,309,289
Total stockholders equity	$113,248,873

	Three Months Ended September 30, 2003
	(Unaudited)
Other Data:	
Total originations	$39,014,922

(1) The warrants underlying the units issued in the original offering at $75.00 per unit have an exercise price of $15.00 per share and expire on July 1, 2005. This exercise price is equal to the price per share of common stock in the original offering and approximates the market value of our common stock at September 30, 2003. Therefore, the assumed exercise of the warrants were not considered to be dilutive for purposes of calculating diluted earnings per share.

(2) On November 5, 2003, we declared a dividend of $.25 per share of common stock, payable with respect to the quarter ending September 30, 2003, to common stockholders of record at the close of business on November 5, 2003. We distributed this dividend on November 18, 2003.

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Summary Selected Consolidated Financial Information

of the Structured Finance Business of Arbor Commercial Mortgage, LLC and Subsidiaries

On July 1, 2003, Arbor Commercial Mortgage contributed a portfolio of structured finance investments and related liabilities to our operating partnership. In addition, certain employees of Arbor Commercial Mortgage became our employees. These assets, liabilities and employees represented a substantial portion of Arbor Commercial Mortgage s structured finance business.

The tables on the following page present selected historical consolidated financial information of the structured finance business of Arbor Commercial Mortgage at the dates and for the periods indicated. The structured finance business did not operate as a separate legal entity or business division or segment of Arbor Commercial Mortgage, but as an integrated part of Arbor Commercial Mortgage s consolidated business. Accordingly, the statements of revenue and direct operating expenses do not include charges from Arbor Commercial Mortgage for corporate general and administrative expense because Arbor Commercial Mortgage considered such items to be corporate expenses and did not allocate them to individual business units. These expenses included costs for Arbor Commercial Mortgage s executive management, corporate facilities and overhead costs, corporate accounting and treasury functions, corporate legal matters and other similar costs. The selected consolidated financial information presented under the caption Consolidated Statement of Revenue and Direct Operating Expenses Data for the years ended December 31, 2002, 2001 and 2000 and under the caption Consolidated Statement of Assets and Liabilities Data as of December 31, 2002 and 2001 have been derived from the audited consolidated financial statements of the structured finance business of Arbor Commercial Mortgage included elsewhere in this prospectus. The selected consolidated financial information presented under the caption Consolidated Statement of Revenue and Direct Operating Expenses Data for the years ended December 31, 1999 and 1998 and the caption Consolidated Statement of Assets and Liabilities Data as of December 31, 2000, 1999 and 1998 have been derived from the unaudited consolidated financial statements of the structured finance business of Arbor Commercial Mortgage.

The selected consolidated financial information presented under the caption Consolidated Statement of Revenue and Direct Operating Expenses Data for the six months ended June 30, 2003 and 2002 and the nine months ended September 30, 2002 and under the caption Consolidated Statement of Assets and Liabilities Data at June 30, 2003 have been derived from the unaudited interim consolidated financial statements of Arbor Commercial Mortgage s structured finance business and include all adjustments, consisting only of normal recurring accruals, which management considers necessary for a fair presentation of the historical consolidated financial information for such periods. The selected historical consolidated financial information presented under the caption Consolidated Statement of Revenue and Direct Operating Expenses Data for the six month period ended June 30, 2003 is not necessarily indicative of the results of any other interim period or the year ended December 31, 2003. The selected historical consolidated financial information presented under the caption Consolidated Statement of Revenue and Direct Operating Expenses Data for the six month period ended June 30, 2002 and the nine month period ended September 30, 2002 are not necessarily indicative of the results of any other interim period or the year ended December 31, 2002.

The consolidated financial statements of Arbor Commercial Mortgage s structured finance business included in this prospectus represent the consolidated financial position and results of operations of Arbor Commercial Mortgage s structured finance business during certain periods and at certain dates when Arbor Commercial Mortgage previously held our initial assets, as well as several other structured finance investments that we did not acquire in connection with our formation transactions. See Arbor Realty Trust, Inc. Accordingly, the historical financial results of Arbor Commercial Mortgage s structured finance business are not indicative of our future performance. In addition, since the information presented is only a summary and does not provide all of the information contained in the consolidated financial statements of Arbor Commercial Mortgage s structured finance business, including related notes, you should read it in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations of the Structured Finance Business of Arbor Commercial Mortgage, LLC and Subsidiaries and the consolidated financial statements of Arbor Commercial Mortgage s structured finance business, including related notes, contained elsewhere in this prospectus.

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Consolidated Statement of Revenue and Direct Operating Expenses Data:

	Six Months Ended June 30,		Nine Months Ended September 30,	Year Ended December 31,				
	2003	2002	2002	2002	2001(1)	2000(1)	1999(1)	1998(1)
	(Unaudited)		(Unaudited)					
Interest Income	$7,688,465	$7,482,750	$10,798,414	$14,532,504	$14,667,916	$10,707,551	$ 6,964,873	$ 6,807,617
Income from real estate held for sale, net of operating expenses							925,999	1,608,172
Other income	1,552,414	553,625	572,161	1,090,106	1,668,215	652,970	2,838,639	7,064,294
Total revenue	9,240,879	8,036,375	11,370,575	15,622,610	16,336,131	11,360,521	10,729,511	15,480,083
Total direct operating expenses	5,737,688	8,344,302	10,775,555	13,639,755	10,997,800	9,227,274	7,145,469	6,589,274
Revenue in excess of direct operating expenses before gain on sale of loans and real estate and income from equity affiliates	3,503,191	(307,927)	595,020	1,982,855	5,338,331	2,133,247	3,584,042	8,890,809
Gain on sale of loans and real estate	1,024,268	7,006,432	7,006,432	7,470,999	3,226,648	1,880,825	1,818,299	1,898,558
Income from equity affiliates		601,100	632,350	632,350	1,403,014	5,028,835	3,592,398	567,006
Revenue, gain on sale of loans and real estate and income from equity affiliates in excess of direct operating expenses	4,527,459	7,299,605	8,233,802	10,086,204	9,967,993	9,042,907	8,994,739	11,356,373

Consolidated Statement of Assets and Liabilities Data:

	At June 30,	At December 31,				
	2003	2002	2001	2000	1999	1998
	(Unaudited)					
Loans and investments, net	$204,561,578	$172,142,511	$160,183,066	$ 85,547,323	$50,156,022	$75,604,351
Related party loans, net	23,277,041	15,952,078	15,880,207			
Investment in equity affiliates	3,654,573	2,586,026	2,957,072	20,506,417	23,459,586	20,092,793
Total assets	241,667,960	200,563,236	183,713,747	119,110,446	84,751,032	96,537,674
Notes payable and repurchase agreements	171,045,404	141,836,477	132,409,735	70,473,501	47,154,530	58,678,062
Total liabilities	172,686,366	144,280,806	134,086,301	72,266,700	48,025,934	59,193,306
Net assets	68,981,594	56,282,430	49,627,446	46,843,746	36,725,098	37,344,368

Other Data:

Six Months Ended June 30,		Nine Months Ended September 30,	Year Ended December 31,				
2003	2002	2002	2002	2001	2000	1999	1998

Total originations	$117,965,000	$30,660,000	$49,510,000	$130,043,000	$86,700,000	$108,378,000(2)	$120,378,900(2)	$230,718,353(2)

(1) In June 1998, Arbor Commercial Mortgage entered into a joint venture with SFG I, an affiliate of Nomura Asset Capital Corp., for the purpose of acquiring up to $250 million of structured finance investments. Arbor Commercial Mortgage and SFG I each made 50% of the capital contributions to the joint venture and shared profits equally. Nomura Asset Capital Corp. provided financing to the joint venture in the form of a repurchase agreement. On July 31, 2001, Arbor Commercial Mortgage purchased SFG I s interest in this venture. This buyout was accounted for by the purchase accounting method. Prior to the purchase, net income from this venture was recorded in income from equity affiliates. The activities of the former joint venture have been included in the statements of revenue and direct operating expenses from the date of acquisition, August 2001. See the consolidated financial statements of Arbor Commercial Mortgage s structured finance business and the related notes to the consolidated financial statements included elsewhere in this prospectus for further information.

(2) Total originations for 1998, 1999 and 2000 include originations from Arbor Commercial Mortgage s joint venture with SFG I discussed in footnote 1.

Arbor Realty Trust, Inc. was incorporated in the State of Maryland in June 2003. Our principal executive offices are located at 333 Earle Ovington Boulevard, Suite 900, Uniondale, New York 11553. Our telephone number is (516) 832-8002.

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RISK FACTORS

An investment in our common stock involves a number of risks. Before making an investment decision, you should carefully consider all of the risks described below and the other information contained in this prospectus. If any of the risks discussed in this prospectus actually occur, our business, financial condition and results of operations could be materially adversely affected. If this were to occur, the value of our common stock could decline and you may lose all or part of your investment.

Risks Related to Our Business

We have a limited operating history and may not operate successfully.

We were organized in June 2003 and have a limited operating history. The results of our operations depend on many factors, including the performance of the initial assets, the availability of opportunities for the acquisition of additional assets, the level and volatility of interest rates, readily accessible short and long term financing, conditions in the financial markets and economic conditions, and we may not operate successfully. We face substantial competition in acquiring suitable investments, which could adversely impact our yields.

Historical consolidated financial statements included in this prospectus include expenses that would not have been incurred had we operated as a separate entity during the periods presented and exclude the management fees payable pursuant to the management agreement.

The historical consolidated financial statements included in this prospectus for the three years ending December 31, 2002, the six months ending June 30, 2002 and the nine months ending September 30, 2002 relate to the structured finance business of Arbor Commercial Mortgage and may not reflect what our results of operations, financial condition and cash flows would have been had we operated as a separate, stand-alone entity during the periods presented. This historical financial information includes assets in the structured finance portfolio of Arbor Commercial Mortgage that were not contributed to us. It also includes employee compensation and benefit expenses for the costs of originations, underwriting services and the servicing of all our contributed assets that we would not have incurred had we operated as a separate entity during the periods presented because they would have been borne by Arbor Commercial Mortgage under the terms of the management agreement. This historical financial information does not include the management fees that we pay our manager.

Historical consolidated financial statements included in this prospectus present historical financial information for the structured finance business of Arbor Commercial Mortgage which never operated as a separate business division of Arbor Commercial Mortgage during the periods presented.

The structured finance business of Arbor Commercial Mortgage has never operated as a separate business division or segment of Arbor Commercial Mortgage. The historical consolidated financial statements of the structured finance business of Arbor Commercial Mortgage presented in this prospectus do not reflect the historical financial information of Arbor Commercial Mortgage s entire business because it operates two business lines in addition to the structured finance business that was contributed to us. These other business lines generate revenues and expenses, which are included in Arbor Commercial Mortgage s historical financial statements, but are not included in the historical financial information included in this prospectus. We prepared the historical consolidated financial statements included in this prospectus for the three years ending December 31, 2002, the six months ending June 30, 2002 and the nine months ending September 30, 2002 from Arbor Commercial Mortgage s historical accounting records. The revenues, expenses, assets, liabilities and cash flows during each respective period that pertained to Arbor Commercial Mortgage s structured finance business were allocated to us. All of these allocations are based on assumptions that management believes are reasonable under the circumstances. However, these allocations may not be indicative of the revenues, expenses, assets, liabilities and cash flows that would have existed or resulted if we had operated as a separate entity during the periods presented.

We may be unable to invest excess equity capital on acceptable terms or at all, which would adversely affect our operating results.

We may not be able to identify investments that meet our investment criteria and we may not be successful in closing the investments that we identify. Unless and until we identify structured finance investments consistent with our investment criteria, any excess equity capital may be used to repay borrowings under our warehouse credit facility and repurchase agreements, which would not produce a return on capital. In addition, the investments that we acquire with our equity capital may not produce a return on capital. There can be no assurance that we will be able to identify attractive opportunities to invest our equity capital which would adversely affect our results of operations.

We may change our investment strategy without stockholder consent, which may result in riskier investments than our current investments.

We may change our investment strategy and guidelines at any time without the consent of our stockholders, which could result in our making investments that are different from, and possibly riskier than, the investments described in this prospectus. A change in our investment strategy or guidelines may increase our exposure to interest rate and real estate market fluctuations.

We depend on key personnel with long standing business relationships, the loss of whom could threaten our ability to operate our business successfully.

Our future success depends, to a significant extent, upon the continued services of our manager and our employees. In particular, the mortgage lending experience of Mr. Ivan Kaufman and Mr. Fred Weber and the extent and nature of the relationships they have developed with developers of multi-family and commercial properties and other financial institutions are critical to the success of our business. We cannot assure you of their continued employment with Arbor Commercial Mortgage or us. The loss of services of one or more members of our manager s officers or our officers could harm our business and our prospects.

If we cannot obtain additional financing substantially similar to the credit facilities we currently have, our growth will be limited.

We are generally required to distribute to our stockholders at least 90% of our taxable income each year to continue to qualify as a REIT, and we must distribute all of our taxable income in order to avert any corporate income taxes on retained income. As a result, our retained earnings available to fund origination of new loans are nominal, and we rely upon the availability of additional debt or equity capital to fund these activities. Our long term ability to grow through investment in structured finance assets will be limited if we cannot obtain additional financing substantially similar to the credit facilities we currently have, including interest rates and advance rates. Market conditions may make it difficult to obtain financing on favorable terms or at all.

If Arbor Commercial Mortgage ceases to be our manager pursuant to the management agreement, the financial institutions providing our credit facilities may not provide future financing to us.

The financial institutions that finance our investments pursuant to our existing credit facilities require that Arbor Commercial Mortgage manage our operations pursuant to the management agreement as a condition to making advances to us under these credit facilities. Additionally, if Arbor Commercial Mortgage ceases to be our manager, each of the financial institutions under these credit facilities has the right to terminate their facility and their obligation to advance funds to us in order to finance our future investments. If Arbor Commercial Mortgage ceases to be our manager for any reason and we are not able to obtain financing under our existing credit facilities, our growth may be limited.

The repurchase agreements and credit facilities that we use to finance our investments may require us to provide additional collateral and may leave us without funding should our funding sources file for bankruptcy.

Credit facilities, including repurchase agreements, involve the risk that the market value of the loans pledged or sold by us to the funding source may decline in value, in which case the lending institution may require us to provide additional collateral to pay down a portion of the funds advanced. In addition, in the event that the funding source files for bankruptcy or becomes insolvent, our loans may become subject to the bankruptcy or insolvency proceedings, thus depriving us, at least temporarily, of the benefit of these assets. Such an event could materially adversely affect our results of operations.

Mezzanine loans involve greater risks of loss than senior loans secured by income producing properties.

We invest in mezzanine loans that take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of investments involve a higher degree of risk than long term senior mortgage lending secured by income producing real property because the investment may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt. As a result, we may not recover some or all of our investment. In addition, mezzanine loans may have higher loan to value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal.

Preferred equity investments involve a greater risk of loss than traditional debt financing.

We invest in preferred equity investments, which involve a higher degree of risk than traditional debt financing due to a variety of factors, including that such investments are subordinate to other loans and are not secured by property underlying the investment. Furthermore, should the issuer default on our investment, we would only be able to proceed against the partnership in which we have an interest, and not the property underlying our investment. As a result, we may not recover some or all of our investment.

Mortgage investments that are not United States government insured and non-investment grade mortgage assets involve risk of loss.

We originate and acquire uninsured and non-investment grade mortgage loans and mortgage assets as part of our investment strategy. Such loans and assets include mezzanine loans and bridge loans. While holding such interests, we are subject to risks of borrower defaults, bankruptcies, fraud, losses and special hazard losses that are not covered by standard hazard insurance. In the event of any default under mortgage loans held by us, we bear the risk of loss of principal and non-payment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount of the mortgage loan. To the extent we suffer such losses with respect to our investments in mortgage loans, the value of our company and the price of our common stock may be adversely affected.

We invest in multi-family and commercial real estate loans, which involve a greater risk of loss than single family loans.

Our investments include multi-family and commercial real estate loans that are considered to involve a higher degree of risk than single family residential lending because of a variety of factors, including generally larger loan balances, dependency for repayment on successful operation of the mortgaged property and tenant businesses operating therein, and loan terms that include amortization schedules longer than the stated maturity and provide for balloon payments at stated maturity rather than periodic principal payments. In

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addition, the value of commercial real estate can be affected significantly by the supply and demand in the market for that type of property.

We may invest in direct ownership of real estate, the value of which may fluctuate.

We may make investments in the direct ownership of real property. In addition, our loans held for investment are generally directly or indirectly secured by a lien on real property that, upon the occurrence of a default on the loan, could result in our acquiring ownership of the property. Investments in real property or real property related assets are subject to varying degrees of risk. The value of each property is affected significantly by its ability to generate cash flow and net income, which in turn depends on the amount of rental income that can be generated net of expenses required to be incurred with respect to the property. The rental income from these properties may be adversely affected by a number of factors, including general economic climate and local real estate conditions, an oversupply of (or a reduction in demand for) space in properties in the areas where particular properties are located and the attractiveness of particular properties to prospective tenants. Net income from properties also is affected by such factors as the cost of compliance with government regulations, including zoning and tax laws, and the potential for liability under applicable laws. Many expenditures associated with properties (such as operating expenses and capital expenditures) cannot be reduced when there is a reduction in income from the properties. Adverse changes in these factors may have a material adverse effect on the ability of our borrowers to pay their loans, as well as on the value that we can realize from properties we own or acquire.

Risks of cost overruns and noncompletion of renovation of the properties underlying rehabilitation loans may materially adversely affect our investment.

The renovation, refurbishment or expansion by a borrower under a mortgaged property involves risks of cost overruns and noncompletion. Estimates of the costs of improvements to bring an acquired property up to standards established for the market position intended for that property may prove inaccurate. Other risks may include rehabilitation costs exceeding original estimates, possibly making a project uneconomical, environmental risks and rehabilitation and subsequent leasing of the property not being completed on schedule. If such renovation is not completed in a timely manner, or if it costs more than expected, the borrower may experience a prolonged impairment of net operating income and may not be able to make payments on our investment.

Participating interests may not be available and, even if obtained, may not be realized.

In connection with the acquisition and origination of certain structured finance assets, we may obtain participating interests, or equity kickers, in the owner of the property that entitle us to payments based upon a development s cash flow, profits or any increase in the value of the development that would be realized upon a refinancing or sale of the development. Competition for participating interests is dependent to a large degree upon market conditions. Participating interests are more difficult to obtain when multi-family and commercial real estate financing is available at relatively low interest rates. In the current interest rate environment, we may have greater difficulty obtaining participating interests. Participating interests are not government insured or guaranteed and are therefore subject to the general risks inherent in real estate investments. Therefore, even if we are successful in originating mortgage loans that provide for participating interests, there can be no assurance that such interests will result in additional payments to us.