ARBOR REALTY TRUST INC
Form S-11
November 13, 2003

Table of Contents

As filed with the Securities and Exchange Commission on November 13, 2003

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

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Table of Contents

CALCULATION OF REGISTRATION FEE

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price(1)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Units, each consisting of five shares of Common Stock, par value $.01 per share, and one Warrant to purchase one share of Common Stock	1,602,833	$ 75.00	$ 120,212,475	$ 9,725.19
Common Stock, par value $.01 per share, comprising a portion of the Units	8,014,165	(2)	(2)	(2)
Warrants, comprising a portion of the Units	1,602,833	(2)	(2)	(2)
Common Stock, $.01 par value per share, issuable upon exercise of the Warrants	1,602,833	$ 15.00	$ 24,042,495	$ 1,945.04
Total			$ 144,254,970	$ 11,670.23

(1) Estimated based on a bona fide estimate of the maximum aggregate offering price solely for the purposes of calculating the registration fee pursuant to Rule 457(a) of the Securities Act of 1933.

(2) Such securities will be offered at no additional cost. As a result, no additional registration fee is required with respect therein.

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.

Table of Contents

The information in this prospectus is not complete and may be changed or supplemented. The securities described in this prospectus cannot be sold until the registration statement that we have filed to cover the securities has become effective under the rules of the Securities and Exchange Commission. This prospectus is not an offer to sell the securities, nor is it a solicitation of an offer to buy the securities in any jurisdiction where an offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED NOVEMBER 13, 2003

PROSPECTUS

[ARBOR LOGO]

Arbor Realty Trust, Inc.

1,602,833 Units
8,014,165 Shares of Common Stock Comprising the Units
1,602,833 Warrants Comprising the Units
1,602,833 Shares of Common Stock Underlying the Warrants

Arbor Realty Trust, Inc. invests in a diversified portfolio of multi-family and commercial real estate related bridge and mezzanine loans, preferred equity investments and other real estate related assets. Arbor Commercial Mortgage, LLC manages our operations. We will 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 that we distribute our income to stockholders and maintain our qualification as a REIT.

This prospectus relates to the resale of up to 1,602,833 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, 8,014,165 shares of common stock comprising the units, 1,602,833 warrants comprising the units, and 1,602,833 shares of common stock underlying the warrants, collectively the offered securities. The warrants have an initial exercise price of $15 and are exercisable until 5:00 p.m. New York City time on July 1, 2005. The warrants comprising the units do not become exercisable, detachable and freely tradable until after the shares of the common stock comprising the units are registered under the Securities Act and either listed on a national securities exchange or The Nasdaq Stock Market, Inc. The shares of common stock and the warrants comprising the units may not be traded separately until such listing.

We issued and sold 1,610,000 units in the original offering on July 1, 2003. 1,327,989 of these units were sold to JMP Securities LLC, as initial purchaser, and were simultaneously resold by JMP 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 persons affiliated with us and JMP.

The selling stockholders from time to time may offer and sell the offered securities, held by them directly or through agents or broker-dealers on terms to be determined at the time of sale. These sales may be made on any exchange or interdealer quotation system on which the offered securities are then traded, in the over-the-counter market, in negotiated transactions or otherwise at prices and at terms then prevailing or at prices related to the then current market prices or at prices otherwise negotiated. To the extent required, the names of any agent or broker-dealer and applicable commissions or discounts and any other required information with respect to any particular offer will be set forth in a prospectus supplement that will accompany this prospectus. A prospectus supplement may also add, update or change information contained in this prospectus.

As soon as practicable after the registration statement of which this prospectus is a part is declared effective, we intend to apply to list the offered securities on the New York Stock Exchange or The Nasdaq Stock Market.

Investing in our securities involves risks. See Risk Factors beginning on page 15 for a discussion of these risks.

- We have a limited operating history and may not operate successfully.
- Our historical consolidated financial information is not likely to be indicative of our future performance or financial condition as a separate company.
- 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 ACM 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 the offered securities, and there may be no market for the offered securities 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.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 200_

TABLE OF CONTENTS

PROSPECTUS SUMMARY
RISK FACTORS
FORWARD LOOKING STATEMENTS
USE OF PROCEEDS
DISTRIBUTION POLICY
PRICE RANGE OF UNITS
SELECTED UNAUDITED CONSOLIDATED FINANCIAL INFORMATION
OF ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL INFORMATION OF THE STRUCTURED FINANCE BUSINESS
OF ARBOR COMMERCIAL MORTGAGE, LLC AND SUBSIDIARIES
MANAGEMENT S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
MANAGEMENT S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE STRUCTURED FINANCE BUSINESS OF ARBOR COMMERCIAL MORTGAGE, LLC AND SUBSIDIARIES
ARBOR REALTY TRUST, INC.
OUR MANAGER AND THE MANAGEMENT AGREEMENT
MANAGEMENT
REGISTRATION RIGHTS AND LOCK-UP AGREEMENTS
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT
DESCRIPTION OF STOCK
SECURITIES ELIGIBLE FOR FUTURE SALE
BOOK ENTRY ISSUANCE; THE DEPOSITORY TRUST COMPANY
IMPORTANT PROVISIONS OF MARYLAND LAW AND OF OUR CHARTER AND BYLAWS
OUR OPERATING PARTNERSHIP AGREEMENT
FEDERAL INCOME TAX CONSIDERATIONS
ERISA CONSIDERATIONS
SELLING STOCKHOLDERS
PLAN OF DISTRIBUTION
LEGAL MATTERS
EXPERTS
WHERE YOU CAN FIND MORE INFORMATION
INDEX TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF ARBOR REALTY TRUST, INC. AND SUBSIDIARIES
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE STRUCTURED FINANCE BUSINESS OF ARBOR COMMERCIAL MORTGAGE, LLC AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS OF MEZZOBRIDGE FUNDING LLC
SIGNATURES
EXHIBIT INDEX
CONTRIBUTION AGREEMENT
GUARANTY
INDEMNITY AGREEMENT
ARTICLES OF INCORPORATION
ARTICLES SUPPLEMENTARY
BYLAWS
WARRANT AGREEMENT
REGISTRATION RIGHTS AGREEMENT

MANAGEMENT AGREEMENT
SERVICES AGREEMENT
NON-COMPETITION AGREEMENT
AMENDED/RESTATED AGREEMENT OF LIMITED PARTNERSHIP
WARRANT AGREEMENT
REGISTRATION RIGHTS AGREEMENT
PAIRING AGREEMENT
2003 OMNIBUS STOCK INCENTIVE PLAN
FORM OF RESTRICTED STOCK AGREEMENT
BENEFITS PARTICIPATION AGREEMENT
FORM OF INDEMNIFICATION AGREEMENT
SUBSIDIARIES
CONSENT OF GRANT THORNTON LLP

Table of Contents

You should rely only on the information contained in this prospectus. We 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.

TABLE OF CONTENTS

	Page
PROSPECTUS SUMMARY	1
RISK FACTORS	15
FORWARD LOOKING STATEMENTS	29
USE OF PROCEEDS	30
DISTRIBUTION POLICY	30
PRICE RANGE OF UNITS	31
SELECTED UNAUDITED CONSOLIDATED FINANCIAL INFORMATION OF ARBOR REALTY TRUST, INC. AND SUBSIDIARIES	32
SELECTED CONSOLIDATED FINANCIAL INFORMATION OF THE STRUCTURED FINANCE BUSINESS OF ARBOR COMMERCIAL MORTGAGE, LLC AND SUBSIDIARIES	
MANAGEMENT S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF ARBOR REALTY TRUST, INC. AND SUBSIDIARIES	35
MANAGEMENT S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE STRUCTURED FINANCE BUSINESS OF ARBOR COMMERCIAL MORTGAGE, LLC AND SUBSIDIARIES	43
ARBOR REALTY TRUST, INC	52
OUR MANAGER AND THE MANAGEMENT AGREEMENT	75
MANAGEMENT	85
REGISTRATION RIGHTS AND LOCK-UP AGREEMENTS	90
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	92
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	95
DESCRIPTION OF STOCK	97
SECURITIES ELIGIBLE FOR FUTURE SALE	103
BOOK ENTRY ISSUANCE; THE DEPOSITORY TRUST COMPANY	105
IMPORTANT PROVISIONS OF MARYLAND LAW AND OF OUR CHARTER AND BYLAWS	107
OUR OPERATING PARTNERSHIP AGREEMENT	111
FEDERAL INCOME TAX CONSIDERATIONS	116
ERISA CONSIDERATIONS	133
SELLING STOCKHOLDERS	135
PLAN OF DISTRIBUTION	144
LEGAL MATTERS	146
EXPERTS	146
WHERE YOU CAN FIND MORE INFORMATION	146
INDEX TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF ARBOR REALTY TRUST, INC. AND SUBSIDIARIES	F-1
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE STRUCTURED FINANCE BUSINESS OF ARBOR COMMERCIAL MORTGAGE, LLC AND SUBSIDIARIES	F-17
INDEX TO FINANCIAL STATEMENTS OF MEZZOBRIDGE FUNDING LLC	F-34

PROSPECTUS SUMMARY

This summary highlights information more fully described elsewhere in this prospectus. This summary is not complete and does not contain all the information you should consider before buying our securities. You should read this entire prospectus carefully before deciding to invest in our securities, including Risk Factors , Selected Consolidated Financial Information of Arbor Realty Trust, Inc. and Subsidiaries, Selected Consolidated Financial Information of the Structured Finance Business of Arbor Commercial Mortgage, LLC and Subsidiaries, Management s Discussion & Analysis of Financial Condition and Results of Operations of Arbor Realty Trust, Inc. and Subsidiaries, Management s Discussion & Analysis of Financial Condition and Results of Operations of the Structured Finance Business of Arbor Commercial Mortgage, LLC and Subsidiaries, the historical consolidated financial statements of Arbor Realty Trust, Inc. and subsidiaries, including related notes and the historical consolidated financial statements of the structured finance business of Arbor Commercial Mortgage, LLC and subsidiaries, including related notes, each included elsewhere in this prospectus. 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 Arbor Realty Limited Partnership, our operating partnership, and (b) Arbor Commercial Mortgage, ACM , or our manager mean Arbor Commercial Mortgage, LLC.

Arbor Realty Trust, Inc.

We are a Maryland corporation that commenced operations in July 2003. We invest 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. We 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.

On July 1, 2003, Arbor Commercial Mortgage, LLC, or ACM, 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 ACM s credit facilities and supported by $43.9 million in equity. Simultaneously with the ACM s contribution of assets, we issued and sold 1,610,000 of our units in a private offering, or the original offering.

We are externally managed and advised by ACM. 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 ACM s experience and reputation positions it to originate attractive investment opportunities for us. Our management agreement with ACM was developed to capitalize on synergies with ACM s origination infrastructure, existing business relationships and management expertise.

We believe the financing of multi-family and commercial real estate offers significant growth opportunities as the inflexibility of traditional lenders has created increased demand for customized financing solutions. Since its inception in 1996, ACM s structured finance group has originated over $1.2 billion in structured finance transactions for investment by ACM and certain joint venture partners. ACM has not realized any loss of principal on these investments, and, to date, approximately $1 billion of these investments have been fully realized. ACM has granted us a right of first refusal to pursue all structured finance investment opportunities identified by ACM. ACM will continue to provide and service 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.

We have a strong senior management team with significant industry experience. Mr. Ivan Kaufman, the chief executive officer of ACM, and Mr. Frederick Herbst, the chief financial officer of ACM, also serve as our chief executive officer and chief financial officer, respectively. Mr. Fred Weber, the head of the structured finance group at ACM since 1999, is our executive vice president of structured finance. Mr. Daniel M. Palmier, the head of ACM s asset management group since 1997, is our executive vice president of asset management, and the eight

additional employees who comprised the asset management group of ACM have also joined us. In October 2003, we hired Mr. John C. Kovarik as our chief credit officer. Messrs. Kaufman, Weber, Palmier and Kovarik serve as members of our credit committee, which has the authority to decide whether we will invest in an individual loan or security originated by ACM.

We believe the asset management group s involvement in our credit underwriting process helps to mitigate investment risk after the closing of a transaction. The 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 a transaction closes. After the closing of transactions, the 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.

In connection with ACM s contribution of the initial assets, ACM arranged for us to have substantially similar credit facilities as those used by ACM to finance these assets. In exchange for ACM s asset contribution, we issued to ACM approximately 3.1 million operating partnership units, each of which ACM 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 ACM to purchase one additional operating partnership unit. The operating partnership units and warrants for additional operating partnership units issued to ACM 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, adjusted for the initial purchaser s discount. Each of the approximately 3.1 million operating partnership units received by ACM 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 ACM s asset contribution and the related formation transactions, ACM owns approximately a 28% limited partnership interest in our operating partnership and the remaining 72% interest in our operating partnership is owned by us. In addition, ACM has approximately 28% of the voting power of our capital stock (without giving effect to the exercise of ACM s warrants for additional operating partnership units).

Our Business Strategy

We believe there is strong growth potential in customized financing of multi-family and commercial real estate. In the past decade, the commercial mortgage industry has experienced significant change, due in part to increasingly standardized underwriting requirements, more demanding borrowers and lenders and the growth of a market for securitized commercial real estate pools.

Many existing lending firms lack the capital or financial flexibility to compete effectively in today s rapidly changing market. As a result, the commercial mortgage industry is moving toward greater consolidation. Banks and life insurance companies, which have traditionally been the primary source for commercial real estate financing, are increasingly constraining borrowers by their relatively inflexible underwriting standards, including lower loan to value ratios, thereby creating significant demand for bridge, mezzanine and other forms of innovative financing.

We capitalize on this demand by investing in a diversified portfolio of structured finance assets in the multi-family and commercial real estate market. Our principal business objectives are to invest in bridge and mezzanine loans, preferred equity and other real estate related assets and actively manage this 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. We provide financing customized to the needs of our borrowers. We target borrowers with reputations for enhancing value, but whose options may be limited by conventional bank financing and who may benefit from the sophisticated structured finance products we offer. Historically, ACM has attempted to provide customized loan structures and other financing alternatives to fit the characteristics and purpose of each individual borrower and its financing requirements, and we employ a similar strategy.

Use ACM s Relationships with Existing Borrowers. We capitalize on ACM s reputation in the commercial real estate finance industry. ACM has relationships with over 125 distinct borrowers nationwide. Since ACM s originators offer ACM s senior mortgage loans as well as our structured finance products, we are able to benefit from ACM s existing customer base and use its senior lending business as a potential way to refinance our structured finance assets.

Offer Broader Products and Expand Customer Base. We have the ability to offer a larger number of financing alternatives than ACM has been able to offer to its customers in the past. Our potential borrowers are able to choose from products offering longer maturities and larger principal amounts than ACM could previously offer.

Leverage Our Experience and the Experience of ACM. Our executive officers and employees, and those of ACM, have extensive experience originating and managing structured commercial real estate investments. Our senior management team has on average over 20 years experience in the financial services industry. Additionally, our executive officers have prior experience in managing and operating a public company, the predecessor company to ACM.

Manage and Maintain Credit Quality. A critical component of our success in the real estate finance sector is our ability to manage the real estate risk that is underwritten by our manager and us. We actively manage and maintain the credit quality of our portfolio by using the expertise of our asset management group, which has a proven track record of structuring and repositioning structured finance investments to improve the credit quality and yield on managed investments.

Focus on a Niche Market in Smaller Loan Balances. We focus on loans with principal amounts under $20 million, which many larger lending firms do not target. We can afford to invest the time and effort required to close loans with smaller principal amounts because of our relatively efficient cost structure.

Execute Transactions Rapidly. We act quickly and decisively on proposals, provide commitments and close transactions within a few weeks and sometimes days, if required. We believe that rapid execution attracts opportunities from both borrowers and other lenders that would not otherwise be available. We believe our ability to structure flexible terms and close loans in a timely manner gives us a competitive advantage over lending firms that also serve the market for loans with principal amounts under $20 million.

Our Investment Strategy

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. 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 general 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. We believe this product allows our clients to fund their projects in a more efficient and strategic manner than financing methods offered by conventional lenders. Our mezzanine financing may take the form of pledges of ownership interests in entities that directly or indirectly

Table of Contents

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 have a $250.0 million warehouse credit agreement with a financial institution, with a term of three years. We also have a $100.0 million master repurchase agreement with another financial institution, with a one-year term, renewable annually and a $50.0 million master repurchase agreement with a third financial institution with a term of three years. We may also sell participating interests in our investments.

Our Manager

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

In connection with the sale of ANH, Mr. Kaufman purchased its commercial mortgage lending operations and the rights to the Arbor name and retained a significant portion of ANH s senior management team. This senior management team has guided ACM s growth from a company originally capitalized with approximately $8 million to its current equity value of approximately $69 million as of September 30, 2003. ACM is now a full service provider of financial services to owners and developers of multi-family and commercial real estate properties. ACM, which has been profitable every year since 1995, originated over $600 million in new loans in 2002 and is currently servicing a portfolio with a principal balance of $2.7 billion.

ACM 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. ACM 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 ACM pursuant to which ACM 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, payable monthly in cash as a percentage of ARLP s equity and equal to 0.75% per annum of the equity up to $400 million, 0.625% per annum of the equity from $400 million to $800 million and 0.5% per annum of the equity in excess of $800 million. For purposes of calculating the base management fee, equity equals the month end value computed in accordance with generally accepted

accounting principles of (1) total partners equity in ARLP, plus or minus (2) any unrealized gains, losses or other items that do not affect realized net income.

We also pay ACM incentive compensation each fiscal quarter, calculated as (1) 25% of the amount by which (a) ARLP 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 10 year Treasury Rate plus 3.5%, whichever is greater, and (y) the weighted average of book value of the net assets contributed by ACM to ARLP per operating partnership unit, the offering price per share of our common equity in the original offering and subsequent offerings and the issue price per operating partnership unit for subsequent contributions to ARLP, multiplied by (2) the weighted average of ARLP s outstanding operating partnership units. At least 25% of this incentive compensation is paid to ACM in shares of our common stock, subject to ownership limitations in our charter. We have also agreed to share with ACM a portion of the origination fees that we receive on loans we originate with ACM. See Our Manager and the Management Agreement.

We pay or reimburse ACM for certain third party expenses, compensation of our independent directors and certain other expenses. Third party expenses include certain legal, accounting, due diligence tasks and other services that outside professionals perform for us.

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. 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.

Our Structure

The following chart shows our structure following completion of the original offering and the transactions in connection with our formation:

(1) Mr. Kaufman, the Ivan and Lisa Kaufman Family Trust, the Ivan Kaufman Grantor Retained Annuity Trust and Arbor Management, LLC, the managing member of ACM and an entity wholly owned by Mr. Kaufman and his spouse, which we collectively refer to in this prospectus as the Kaufman entities, collectively hold this 88% membership interest in ACM. See Security Ownership of Beneficial Owners and Management.

(2) Messrs. Herbst, Weber, Palmier and Messrs. Joseph Martello and Walter Horn, two of our directors, collectively hold 5% of the membership interests in ACM. In addition, Mr. Martello also serves as (a) trustee of the Ivan and Lisa Kaufman Family Trust, a trust created by Mr. Kaufman for the benefit of Mr. Kaufman s family, and (b) co-trustee, along with Mr. Kaufman, of the Ivan Kaufman Grantor Retained Annuity Trust.

(3) We hold our partnership interests in our operating partnership through two wholly owned subsidiaries, Arbor Realty GPOP, Inc., the general partner, holding a 0.1% general partner interest, and Arbor Realty LPOP, Inc., a limited partner, holding a 71.9% limited partner interest.

Risk Factors

An investment in our securities involves a number of risks. You should consider carefully the risks discussed below and under Risk Factors beginning on page 15 before purchasing our securities.

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

Table of Contents

Our historical consolidated financial information is not likely to be indicative of our future performance or financial condition as a separate company.

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 ACM 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 the offered securities, and there may be no market for the offered securities 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.

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 ACM s management of our business. 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 or may constitute a return of capital.

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 our common stockholders of record at the close of business on November 5, 2003. We plan to distribute this dividend on November 18, 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 ACM and its affiliates in connection with the contribution of the initial assets (including operating partnership units issuable upon the exercise of ACM 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, ACM 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 ACM s warrants). The holders of special voting preferred stock have no separate class voting rights except as provided by our charter.

Upon any redemption of an 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.

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 ACM 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 ACM. The Kaufman entities own approximately 88% of the beneficial equity interest of ACM. Mr. Frederick C. Herbst is our chief financial officer

and the chief financial officer of ACM. 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 ACM. In addition, Mr. Martello serves as trustee of one of the Kaufman entities that owns a majority ownership interest in ACM and co-trustee of another Kaufman entity that owns an equity interest in ACM.

ACM 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 ACM s business that do not involve managing us. Further conflicts of interest may arise because ACM may also provide permanent mortgage financing to real estate concerns to which we have made temporary loans, or because ACM 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 ACM as members of ACM s executive committee, and may receive fees for originating loans on behalf of ACM.

ACM holds a 28% limited partnership interest in our operating partnership as a result of the contribution of the initial assets. ACM also owns approximately 3.1 million shares of our special voting preferred stock that entitle it to 28% of the voting power of our stock (without giving effect to the exercise of ACM s warrants).

We were formed by ACM 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 concerning any acquisition of assets from ACM or its affiliates or other participation in any transactions with ACM or its affiliates outside of the management agreement 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, as initial purchaser, and were simultaneously resold by JMP 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.

Registration Rights

In connection with the original offering we entered into a registration rights agreement with JMP. Pursuant to that agreement, we have filed a shelf registration statement of which this prospectus is a part, covering the resale of the offered securities. The shelf registration statement includes the offered securities listed under The Offering.

At the time of the original offering we also entered into a registration rights agreement with ACM whereby we granted ACM certain demand and other registration rights with respect to shares of common stock that may be issued to ACM upon redemption of the 3.1 million operating partnership units issued to ACM and issuable to ACM upon exercise of the 629,000 warrants for additional operating partnership units.

Lock-Up Agreements

In connection with the original offering, ACM, members of our senior management and board of directors and certain members of the senior management of ACM agreed not to offer, pledge, sell contract to sell, sell any option or contract to purchase or otherwise transfer or 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 shelf 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, at any time, and without notice, may release all or any portion of the common stock subject to the foregoing lock-up agreements.

Table of Contents

The Offering

Securities Offered

The selling stockholders may, from time to time, sell the offered securities which include:
1,602,833 units sold in the original offering;
8,014,165 shares of common stock comprising the units;
1,602,833 warrants comprising the units; and
1,602,833 shares of common stock underlying the warrants.

The warrants have an initial exercise price of $15 and are exercisable until 5:00 p.m. New York City time on July 1, 2005. The warrants comprising the units do not become exercisable, detachable and freely tradable until after the shares of the common stock comprising the units are registered under the Securities Act and either listed on a national securities exchange or The Nasdaq Stock Market, Inc. The shares of common stock and the warrants comprising the units may not be traded separately until such listing.

Offering Price

The selling stockholders are offering, from time to time, the securities being offered by this prospectus at the then current market price.

Use of Proceeds

The selling stockholders will receive all of the proceeds from the sale of the securities. We will not receive any proceeds from the sale of the securities.

Listing

We have agreed to use our best efforts to list or include the offered securities on The Nasdaq Stock Market, including The Nasdaq SmallCap Market, or the New York Stock Exchange, in our discretion, as soon as practicable after we are able to satisfy the applicable listing requirements for the offered securities, which will not occur for an indefinite period of time, if at all, after the registration statement of which this prospectus is a part is declared effective. If and when we apply for listing of the offered securities under the applicable listing requirements, we cannot guarantee that we will have the minimum number of holders required in order to list or include the offered securities on either The Nasdaq Stock Market, including The Nasdaq SmallCap Market, or the New York Stock Exchange.

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	$4,664,115
Other income	6,375
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
Consolidated Balance Sheet Data:	(unaudited)
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.

Table of Contents

Summary Selected Consolidated Financial Information
of the Structured Finance Business of Arbor Commercial Mortgage, LLC and Subsidiaries

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

The tables on the following page present selected historical consolidated financial information of the structured finance business of ACM 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 ACM, but as an integrated part of ACM s consolidated business. Accordingly, the statements of revenue and direct operating expenses do not include charges from ACM for corporate general and administrative expense because ACM considered such items to be corporate expenses and did not allocate them to individual business units. These expenses included costs for ACM 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 ACM 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 ACM.

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 ACM 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 ACM s structured finance business included in this prospectus represent the consolidated financial position and results of operations of ACM s structured finance business during certain periods and at certain dates when ACM 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 ACM 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 ACM 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 ACM s structured finance business, including related notes, contained elsewhere in this prospectus.

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
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
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	10,265,147	15,643,907	19,009,357	23,725,959	20,965,793	18,270,181	16,140,208	17,945,647
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	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, 2003	At December 31,				
	(unaudited)	2002	2001	2000	1999	1998
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, ACM 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. ACM 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, ACM 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 ACM 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 ACM 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.

Table of Contents

RISK FACTORS

An investment in our securities 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 securities 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.

Our historical consolidated financial information is not likely to be indicative of our future performance or financial condition as a separate company.

The historical consolidated financial information included in this prospectus for the three years ending December 31, 2002 and at December 31, 2002 and 2001, for the six months ending June 30, 2003 and at June 30, 2003 and 2002 may not reflect what our results of operations, financial condition and cash flows would have been had we been a separate, stand-alone entity during the periods presented. We prepared our historical consolidated financial statements from ACM s historical accounting records. The revenues, expenses, assets, liabilities and cash flows during each respective period that pertained to ACM 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.

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

ACM must be our external manager pursuant to the management agreement in order to receive advances under each of our existing credit facilities. Additionally, if ACM ceases to be our manager, each of the financial institutions under our current 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 ACM ceases to be our manger 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. These types of investments are considered to involve a higher degree of risk than long term senior mortgage lending secured by income producing real property due to a variety of factors, including the investment becoming unsecured as a result of foreclosure by the senior lender. 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 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.

Competition in acquiring desirable investments may limit their availability, which could, in turn, negatively affect our ability to maintain our dividend distribution.

We compete in investing in structured finance assets with numerous public and private real estate investment vehicles, such as other REITs, mortgage banks, pension funds, institutional investors and individuals. Structured finance assets are often obtained through a competitive bidding process. Many of our competitors are larger than us, have access to greater capital and other resources, have management personnel with more experience than our officers or our manager and have other advantages over us and our manager in conducting certain business and providing certain services. Competition may result in higher prices for structured finance assets, lower yields and a narrower spread of yields over our borrowing costs. In addition, competition for desirable investments could delay the investment of our equity capital in desirable assets, which may, in turn, reduce earnings per share and may negatively affect our ability to maintain our dividend distribution. There can be no assurance that we will achieve investment results that will allow any specified level of cash distribution.

Interest rate fluctuations may adversely affect the value of our assets, net income and common stock.

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Interest rate fluctuations present a variety of risks including the risk of a mismatch between asset yields and borrowing rates, variances in the yield curve and fluctuating prepayment rates and may adversely affect our income and value of our common stock.

Prepayment rates can increase, thus adversely affecting yields.

The value of our assets may be affected by prepayment rates on mortgage loans. Prepayment rates on loans are influenced by changes in current interest rates and a variety of economic, geographic and other factors beyond our control, and consequently, such prepayment rates cannot be predicted with certainty. In periods of declining interest rates, prepayments on loans generally increase. If general interest rates decline as well, the proceeds of such prepayments received during such periods are likely to be reinvested by us in assets yielding less than the yields on the assets that were prepaid. In addition, the market value of the structured finance assets may, because of the risk of prepayment, benefit less than other fixed income securities from declining interest rates. Under certain interest rate and prepayment scenarios we may fail to recoup fully our cost of acquisition of certain investments. A portion of our investments require payments of deferred interest upon prepayment or maturity of the investment. This deferred interest will generally discourage a borrower from repaying an investment ahead of its scheduled maturity. We may not be able to structure future investments that contain similar deferred interest payments.

Refinancing our credit facilities may materially adversely affect our results of operations.

Our loans held for investment may have maturities that are different from the maturities for the funds we borrow to finance them. If the funds we borrow mature before the loans we make, we would have to seek new financing that may not be on as favorable terms and our net income would be adversely affected.

Changes in market conditions may adversely affect our credit facilities and repurchase agreements.

Credit facilities, including repurchase agreements, involve the risk that the market value of the loans pledged or sold to the funding source by us may decline, in which case the lending institution may require us to provide additional collateral or pay down a portion of the funds advanced. In addition, in the event 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 business.

The geographic concentration of the properties underlying our investments may increase our risk of loss.

We have not established any limit upon the geographic concentration of properties underlying our investments. As a result, properties underlying our investments may be overly concentrated in certain geographic areas, and we may experience losses as a result. As of September 30, 2003, 22%, 20%, 16%, 10% and 10% of the outstanding balance of the structured finance investments we hold had underlying properties in Florida, New York, Maryland, Nevada and New Jersey, respectively. A worsening of economic conditions in these states could have an adverse effect on our business, including reducing the demand for new financings, limiting the ability of customers to pay financed amounts and impairing the value of our collateral.

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

Multi-family and commercial property values and net operating income derived from such properties are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing, retail, industrial, office or other commercial space); changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; retroactive changes to building or similar codes; and increases in operating expenses (such as energy costs). In the event a property s net operating income decreases, a borrower may have difficulty paying our loan, which could result in losses to us. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay our loans, which could also cause us to suffer losses.

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

As a REIT, we are generally required to distribute at least 90% of our taxable income each year to our stockholders. We intend to distribute to our stockholders all or substantially all of our taxable income each year so as to qualify for the tax benefits accorded to REITs, but our ability to make distributions may be adversely affected by the risk factors described in this prospectus. We may not be able to make distributions in the future. In the event of continued or future downturns in our operating results and financial performance or unanticipated declines in the value of our mortgage portfolio, we may be unable to declare or pay distributions to our stockholders. The timing and amount of distributions are in the sole discretion of our board of directors, which considers, among other factors, our financial performance, debt service obligations and applicable debt covenants (if any), REIT qualification requirements and other tax considerations and capital expenditure requirements.

Among the factors that could adversely affect our results of operations and impair our ability to make distributions to our stockholders are:

- the investment of the proceeds of the original offering;
- our ability to make profitable structured finance investments;
- defaults in our investment portfolio or decreases in the value of our portfolio;
- the fact that anticipated operating expense levels may not prove accurate, as actual results may vary from estimates; and
- increased debt service requirements, including those resulting from higher interest rates on variable rate indebtedness.

Some of these factors are beyond our control and a change in any one of these factors could affect our ability to make distributions. The level of our distributions may not increase over time.

Table of Contents

Failure to maintain an exemption from the Investment Company Act would adversely affect our results of operations.

We believe that we conduct our business in a manner that allows us to avoid being regulated as an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act. Under Section 3(c) (5) (C), the Investment Company Act exempts entities that are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. The staff of the SEC has provided guidance on the availability of this exemption. Specifically, the staff s position generally requires us to maintain at least 55% of our assets directly in qualifying real estate interests. To constitute a qualifying real estate interest under this 55% requirement, a real estate interest must meet various criteria. Loans that are secured by equity interests in the owners of real property rather than the property itself, direct equity interests in entities that own real property and certain mortgage backed securities may not qualify for purposes of the 55% requirement depending upon the type of entity. Our ownership of these equity interests, therefore, is limited by the provisions of the Investment Company Act.

We are subject to various risks related to our use of, and dependence on, debt.

The amount we have to pay on variable rate debt increases as interest rates increase, which may decrease cash available for distribution to stockholders. We cannot assure you that we will be able to meet our debt service obligations. If we do not meet our debt service obligations, we risk the loss of some or all of our assets. Changes in economic conditions or our financial results or prospects could (1) result in higher interest rates on variable rate debt, (2) reduce the availability of debt financing generally or debt financing at favorable rates, (3) reduce cash available for distribution to stockholders and (4) increase the risk that we could be forced to liquidate assets to repay debt, any of which could have a material adverse affect on us.

If we violate covenants in any of our debt agreements, we could be required to repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, if at all. Violations of certain debt covenants may result in our being unable to borrow unused amounts under a line of credit, even if repayment of some or all borrowings is not required.

In any event, financial covenants under our current or future debt obligations could impair our business strategies by limiting our ability to borrow beyond certain amounts or for certain purposes.

A general economic slowdown could have a material effect on our business.

Periods of economic slowdown or recession may be accompanied by declines in real estate values. Delinquencies, foreclosures and losses generally increase during economic slowdowns or recessions. Because a portion of the investments we make are subordinate to other creditors, the rate of delinquencies, foreclosures and losses on our mortgage loans could be higher than those generally experienced in the mortgage lending industry. If our loans go into and remain in default, we may have to foreclose and may incur substantial losses. Because real estate investments are relatively illiquid, our ability to promptly sell one or more investments or properties underlying foreclosed investments in our portfolio may be limited. In addition, any material decline in real estate values would increase the loan to value ratio of loans that we have previously extended, weaken our collateral coverage and increase the possibility of a loss in the event of a borrower default. Any sustained period of increased delinquencies, foreclosures or losses is likely to materially and adversely affect our ability to finance loans in the future. Furthermore, certain international events have caused significant uncertainty in the global financial markets. While the long term effects of these events and their potential consequences are uncertain, they could have a material adverse effect on general economic conditions, consumer confidence and market liquidity.

Liability relating to environmental matters may impact the value of the underlying properties.

Under various federal, state and local laws, an owner or operator of real property may become liable for the costs of removal of certain hazardous substances released on its property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous substances. The presence of hazardous substances may adversely affect an owner s ability to sell real estate or borrow using real

estate as collateral. To the extent that an owner of an underlying property becomes liable for removal costs, the ability of the owner to make debt payments may be reduced, which in turn may adversely affect the value of the relevant mortgage asset held by us.

We are substantially controlled by one of our principal stockholders.

Mr. Ivan Kaufman is our chairman and chief executive officer and the president and chief executive officer of our manager. Further, the Kaufman entities beneficially own an 88% membership interest in ACM. ACM owns approximately 3.1 million operating partnership units, representing a 28% limited partnership interest in our operating partnership. The operating partnership units are redeemable for approximately 3.1 million shares of our common stock. Each of the operating partnership units ACM owns is paired with one share of our special voting preferred stock, each of which entitle ACM to one vote on all matters submitted to a vote of our stockholders. Therefore, ACM is currently entitled to approximately 3.1 million votes, or 28% of the voting power of our outstanding stock. Because of his position with us and our manager and his ability to effectively vote a substantial minority of our outstanding voting stock, Mr. Kaufman has significant influence over our policies and strategy.

Risks Related to Conflicts of Interest

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

We have only eleven employees, including Mr. Fred Weber, Mr. Daniel M. Palmier, Mr. John C. Kovarik and an eight-person asset management group, and are dependent upon our manager, ACM, to provide services to us that are vital to our operations. Our chairman, chief executive officer and president, Mr. Ivan Kaufman, is also the chief executive officer and president of our manager. Our chief financial officer, Mr. Frederick Herbst, is the chief financial officer of our manager and our secretary and general counsel, Mr. Walter Horn, is the general counsel of our manager. In addition, the Kaufman entities own an approximate 88% membership interest in ACM and Messrs. Herbst, Weber, Palmier, Martello and Horn, collectively hold a 5% ownership interest in ACM. Mr. Martello also serves as the trustee of one of the Kaufman entities that holds a majority ownership interest in our manager and co-trustee of another Kaufman entity that owns an equity interest in ACM. Our manager holds a 28% limited partnership interest in our operating partnership and 28% of the voting power of our stock (without giving effect to the exercise of ACM s warrants).

We may enter into transactions in the future with ACM with the approval of the independent members of our board of directors. ACM may from time to time provide permanent mortgage loan financing to clients of ours, which will be used to refinance bridge financing provided by us. We and ACM may also make loans to the same borrower or to borrowers that are under common control. Additionally, our policies and those of ACM may require us to enter into intercreditor agreements in situations where loans are made by us and ACM to the same borrower.

We have entered into a management agreement with our manager under which our manager provides us with all of the services vital to our operations other than asset management services. However, the management agreement was not negotiated at arm s length and its terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third party. Certain matters relating to our organization also were not approved at arm s length and the terms of the contribution of assets to us may not be as favorable to us as if the contribution was with an unaffiliated third party.

The results of our operations is dependent upon the availability of, and our manager s ability to identify and capitalize on, investment opportunities. Our manager s officers and employees are also responsible for providing the same services for ACM s portfolio of investments. As a result, they may not be able to devote sufficient time to the management of our business operations.

Conflicts of interest could arise in transactions where we lend to borrowers in which ACM holds an equity interest.

ACM has contributed loans to us that are secured by properties in which ACM owns equity interests in the borrower. Every transaction that we enter into with an entity in which ACM holds equity interests raises a potential

Table of Contents

conflict of interest. Conflicts of interest with respect to these mortgage loans include, among others, decisions regarding (1) whether to waive defaults of such borrower, (2) whether to foreclose on a loan, and (3) whether to permit additional financing on the properties securing our investments other than financing provided by us.

Termination of our management agreement may be costly.

Termination of the management agreement with our manager is difficult and costly. Our management agreement may be terminated by us (1) without cause, after the initial two year period, on six months prior written notice and (2) with cause in the event of our manager s uncured breach of the management agreement, if approved by a majority of our independent directors. If we terminate the management agreement without cause or elect not to renew the management agreement in connection with the decision to manage our portfolio internally, we are required to pay our manager a termination fee equal to the base management fee and the incentive fee earned during the twelve month period preceding the termination. If we terminate the management agreement without cause (except in a case where we become internally managed) or elect not to renew the management agreement for any other reason, including a change of control of us, we are required to pay our manager a termination fee equal to two times the base management fee and the incentive fee earned during the twelve-month period preceding the termination. If we terminate without cause and become internally managed, we are required to pay our manager a termination fee equal to the base management fee and the incentive fee earned during the 12-month period preceding the termination. These provisions may increase the effective cost to us of terminating the management agreement, thereby adversely affecting our ability to terminate our manager without cause.

If our manager terminates the management agreement, we may not be able to find an adequate replacement manager.

At any time after the initial two-year term of the management agreement, our manager may terminate the management agreement without cause or elect not to renew the agreement, without penalty (except in certain cases of a change in control of the manager during the first three years of the management agreement), on six months prior written notice to us. In the event of our uncured breach of the management agreement, our manager may also terminate the agreement for cause without penalty. If our manager terminates our agreement, we may not be able to find an adequate replacement manager.

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

Our manager is authorized to follow very broad investment guidelines. Our directors will periodically review our investment guidelines and our investment portfolio. However, our board does not review each proposed investment. In addition, in conducting periodic reviews, the directors rely primarily on information provided to them by our manager. Furthermore, transactions entered into by our manager may be difficult or impossible to unwind by the time they are reviewed by the directors. Our manager has great latitude within the broad investment guidelines in determining the types of assets it may decide are proper investments for us.

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.

Our manager has broad discretion, within the general investment criteria established by our board of directors, to allocate the proceeds of the original offering and to determine the timing of investment of such proceeds. Such discretion could result in allocation of proceeds to assets where the investment returns are substantially below expectations or that result in net operating losses, which would materially and adversely affect our business, operations and results.

The management compensation structure that we have agreed to with our manager may cause our manager to invest in high risk investments. In addition to its base management fee, our manager is entitled to receive incentive compensation based in part upon our achievement of targeted levels of funds from operations. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on funds from operations may lead our manager to place undue emphasis on the maximization of funds from operations

at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our invested portfolio.

Risks Related to Our Status as a REIT

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.

We intend to operate so as to qualify as a REIT under the Internal Revenue Code. However, qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which only limited judicial and administrative interpretations exist. Even a technical or inadvertent mistake could jeopardize our REIT status. Our continued qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. In particular, our ability to qualify as a REIT depends in part on the relative values of our common and special voting preferred stock, which have not been determined by independent appraisal, are susceptible to fluctuation, and could, if successfully challenged by the IRS, cause us to fail to meet the ownership requirements. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own a preferred equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.

Furthermore, new tax legislation, administrative guidance or court decisions, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT. If we fail to qualify as a REIT in any tax year, then:

- we would be taxed as a regular domestic corporation, which, among other things, means we would be unable to deduct distributions to stockholders in computing taxable income and would be subject to federal income tax on our taxable income at regular corporate rates;

- any resulting tax liability could be substantial and would reduce the amount of cash available for distribution to stockholders; and

- unless we were entitled to relief under applicable statutory provisions, we would be disqualified from treatment as a REIT for the subsequent four taxable years following the year during which we lost our qualification, and thus, our cash available for distribution to stockholders would be reduced for each of the years during which we did not qualify as a REIT.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets. Any of these taxes would decrease cash available for distribution to our stockholders. In addition, in order to meet the REIT qualification requirements, or to avert the imposition of a 100% tax that applies to certain gains derived by a REIT from dealer property or inventory, we may hold some of our assets through taxable subsidiary corporations. See Federal Income Tax Considerations-Taxation of Arbor Realty.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities.

To qualify as a REIT for federal income tax purposes we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

Complying with REIT requirements may force us to liquidate otherwise attractive investments.

To qualify as a REIT we must ensure that at the end of each calendar quarter at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets. The remainder

of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 20% of the value of our total securities can be represented by securities of one or more taxable REIT subsidiaries. If we fail to comply with these requirements at the end of any calendar quarter, we must correct such failure within 30 days after the end of the calendar quarter to avoid losing our REIT status and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments.

Liquidation of collateral may jeopardize our REIT status.

To continue to qualify as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our mortgage and preferred equity investments to satisfy our obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our status as a REIT.

Complying with REIT requirements may force us to borrow to make distributions to stockholders.

As a REIT, we must generally distribute at least 90% of our annual taxable income, subject to certain adjustments, to our stockholders. To the extent that we satisfy the distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws.

From time to time, we may generate taxable income greater than our net income for financial reporting purposes due to, among other things, amortization of capitalized purchase premiums, or our taxable income may be greater than our cash flow available for distribution to stockholders (for example, where a borrower defers the payment of interest in cash pursuant to a contractual right or otherwise). If we do not have other funds available in these situations we could be required to borrow funds, sell investments at disadvantageous prices or find another alternative source of funds to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year. These alternatives could increase our costs or reduce our equity.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our common stock.

At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. Any of those new laws or interpretations may take effect retroactively and could adversely affect us or you as a stockholder. On May 28, 2003, The Jobs and Growth Tax Relief Reconciliation Act of 2003 was enacted, which decreases the tax rate on most dividends paid by corporations to individual investors to a maximum of 15% from current rates, and such rates are retroactive to the beginning of January 2003. REIT dividends, with limited exceptions, will not benefit from the rate reduction, because a REIT s income generally is not subject to corporate level tax. As such, this legislation could cause shares in non-REIT corporations to be a more attractive investment to individual investors than shares in REITs and could have an adverse effect on the value of our common stock.

Your investment in our securities has various federal, state and local income tax risks that could affect the value of your investment.

Although the provisions of the Internal Revenue Code relevant to your investment in our securities are generally described in Federal Income Tax Considerations, we strongly urge you to consult your own tax advisor concerning the effects of federal, state and local income tax law on an investment in our securities because of the complex nature of the tax rules applicable to REITs and their stockholders.

Table of Contents

Restrictions on share accumulation in REITs could discourage a change of control of our company.

In order for us to qualify as a REIT, not more than 50% of the number or value of our outstanding shares of capital stock may be owned, directly or indirectly, by five or fewer individuals during the last half of a taxable year.

In order to prevent five or fewer individuals from acquiring more than 50% of our outstanding shares and a resulting failure to qualify as a REIT, our charter provides that, subject to certain exceptions, no person may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, more than 9.6% of the aggregate value or number (whichever is more restrictive) of shares of our outstanding common stock or 9.6% by value of our outstanding capital stock. For purposes of this calculation, warrants held by such person will be deemed to have been exercised. The shares most recently acquired by a person that are in excess of these limits will not have any voting rights exerciseable by such person. Any attempt to own or transfer shares of our common or preferred stock in excess of the ownership limit without the consent of the board of directors will result in the shares being automatically transferred to a charitable trust (or otherwise be void) and be deemed to have been offered for sale to us for a period subsequent to the acquisition. Any person who acquires shares in excess of these limits is obliged to immediately give written notice to us and provide us with any information we may request in order to determine the effect of the acquisition on our status as a REIT.

While these restrictions are designed to prevent any five individuals from owning more than 50% of our shares, they could also discourage a change in control of our company. These restrictions may also deter tender offers that may be attractive to stockholders or limit the opportunity for stockholders to receive a premium for their shares if an investor makes purchases of shares to acquire a block of shares.

Complying with REIT requirements may limit our ability to hedge effectively.

The REIT provisions of the Internal Revenue Code may limit our ability to hedge our operations by requiring us to limit our income in each year from qualified hedges, together with any other income not generated from qualified real estate assets, to no more than 25% of our gross income. In addition, we must limit our aggregate income from nonqualified hedging transactions, from our provision of services and from other non-qualifying sources to no more than 5% of our annual gross income. As a result, we may have to limit our use of advantageous hedging techniques. This could result in greater risks associated with changes in interest rates than we would otherwise want to incur. If we were to violate the 25% or 5% limitations, we would possibly have to pay a penalty tax equal to the amount of income in excess of those limitations, multiplied by a fraction intended to reflect our profitability. If we fail to satisfy the REIT gross income tests, unless our failure was due to reasonable cause and not due to willful neglect, we could lose our REIT status for federal income tax purposes.

Risk Factors Related to the Offering

There is no public market for the offered securities, and there may be no market for the offered securities after the completion of this offering.

There has been no public market for the offered securities. We have agreed to use our best efforts to list or include the offered securities on The Nasdaq Stock Market, including The Nasdaq SmallCap Market, or the New York Stock Exchange, in our discretion, as soon as practicable after we are able to satisfy the applicable listing requirements for the offered securities, which will not occur for an indefinite period of time, if at all, after the registration statement of which this prospectus is a part is declared effective. If and when we apply for listing of the offered securities under the applicable listing requirements, we cannot guarantee that we will have the minimum number of holders required in order to list or include the offered securities on either The Nasdaq Stock Market, including The Nasdaq SmallCap Market, or the New York Stock Exchange. Consequently, because the warrants underlying the units do not become exercisable, detachable and fully tradable until after the registration of the common stock underlying the units under the Securities Act and listing on a national securities exchange or The Nasdaq Stock Market, including The Nasdaq SmallCap Market, the shares of common stock and the warrants may not be separately tradable for an indefinite period of time.

In addition, quotation through The Nasdaq Stock Market, including The Nasdaq SmallCap Market, or the New York Stock Exchange does not ensure that an actual market will develop for the offered securities. Accordingly, no assurance can be given as to (i) the likelihood that an actual market for the offered securities will develop, (ii) the

liquidity of any such market, (iii) the ability of any holder to sell the offered securities, or (iv) the prices that may be obtained for the offered securities.

Although JMP has advised us that they intend to make a market in the units, they are only obligated to make a market in the units and use reasonable efforts to engage additional market makers in connection with our listing on The Nasdaq Stock Market, including The Nasdaq SmallCap Market, or the New York Stock Exchange, as provided in the registration rights agreement with JMP. Except as provided in the registration rights agreement, JMP may discontinue market making at any time without notice. Their market-making activity will be subject to the limitations imposed by the securities laws. We cannot guarantee that the market for the units will be maintained. The trading price of the units will likely decline if there ceases to be an active trading market for them.

We may not be able to make distributions in the future.

We pay, and intend to continue to pay, quarterly dividends and to make distributions to our stockholders in amounts such that all or substantially all of our taxable income in each year, subject to certain adjustments, is distributed. Such distributions, together with our expected compliance with other requirements, should enable us to qualify for the tax benefits accorded to a REIT under the Internal Revenue Code. However, our ability to pay dividends may be adversely affected by various factors, including the risk factors described in this prospectus. All distributions are made at the discretion of our board of directors and depend upon our earnings, our financial condition, maintenance of our REIT status and other tax considerations and such other factors as our board of directors may deem relevant from time to time. There are no assurances of our ability to pay dividends in the future. In addition, some of our distributions may include a return of capital.

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.

For the purpose of preserving our REIT qualification, our charter generally prohibits direct or constructive ownership by any person of more than 9.6% (by value or by number of shares, whichever is more restrictive) of the outstanding shares of our common stock or 9.6% (by value) of our outstanding shares of capital stock. For purposes of this calculation, warrants held by such person will be deemed to have been exercised if such exercise would result in a violation. Our charter s constructive ownership rules are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than these percentages of the outstanding stock by an individual or entity could cause that individual or entity to own constructively in excess of these percentages of the outstanding stock and thus be subject to our charter s ownership limit. Any attempt to own or transfer shares of our common or preferred stock in excess of the ownership limit without the consent of the board of directors will result in the shares being automatically transferred to a charitable trust or otherwise be void.

Maryland takeover statutes may prevent a change of our control. This could depress our stock price.

Under Maryland law, business combinations between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. The statute permits various exceptions, including business combinations that are exempted by the board of directors before the time that an interested stockholder becomes an interested stockholder. An interested stockholder is defined as:

- any person who beneficially owns 10% or more of the voting power of the corporation s shares; or
- an affiliate or associate of the corporation who, at any time within the two year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which he otherwise would have become an interested stockholder.

After the five year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and

- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

The business combination statute may prevent or discourage others from trying to acquire control of us and increase the difficulty of consummating any offer, including potential acquisitions that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders. See Important Provisions of Maryland Law and of Our Charter and Bylaws Business Combinations and Control Share Acquisitions.

Our staggered board and other provisions of our charter and bylaws may prevent a change in our control.

Our board of directors is divided into three classes of directors. The current terms of the Class I, Class II and Class III directors will expire in 2004, 2005 and 2006, respectively. Directors of each class are chosen for three year terms upon the expiration of their current terms, and each year one class of directors is elected by the stockholders. The staggered terms of our directors may reduce the possibility of a tender offer or an attempt at a change in control, even though a tender offer or change in control might be in the best interest of our stockholders. In addition, our charter and bylaws also contain other provisions that may delay or prevent a transaction or a change in control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders. See Important Provisions of Maryland Law and of Our Charter and Bylaws.

Future offerings of debt securities, which would be senior to our common stock upon liquidation, or equity securities, which would dilute the holdings of our existing stockholders and may be senior to our common stock for the purposes of dividend distributions or distributions upon liquidation, may adversely affect the market price of our common stock.

In the future we may attempt to increase our capital resources by making additional offerings of debt or equity securities, including commercial paper, medium term notes, senior or subordinated notes and classes of preferred stock or common stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. If we decide to issue preferred stock in addition to our special voting preferred stock already issued, it could have a preference on liquidating distributions or a preference on dividend payments that could limit our ability to make a dividend distribution to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us.

Securities eligible for future sale may have adverse effects on our share price.

The effect of future sales of our common stock or the availability of our common stock for future sales may affect the market price of our common stock. As of the date of this prospectus, we have 9,809,567 shares of our common stock outstanding (or authorized for issuance upon exercise of the warrants underlying our units for shares of common stock) and 3,776,069 shares of our common stock authorized for issuance upon redemption of operating partnership units (including 629,345 operating partnership units issuable upon exercise of 629,345 warrants for additional operating partnership units). Furthermore, we satisfy our obligation to pay up to 25% of the incentive

compensation payable to our manager under the management agreement with shares of our common stock. The issuance of common stock could cause dilution of our existing common stock and a decrease in the market price.

You should not rely on lock-up agreements in connection with the original offering to limit the number of units sold into the market.

In connection with the original offering, we agreed with JMP 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. ACM and each of the persons serving as our directors and executive officers at the consummation of the original offering also entered into lock-up agreements with respect to their units, common stock, warrants and the shares of common stock issuable upon redemption of operating partnership units restricting the sale of such securities without the consent of JMP until the earlier of 180 days after the date of effectiveness of the registration statement of which this prospectus is a part or two years from the consummation of original offering, subject to certain exceptions. JMP may, at any time, release all or a portion of the securities subject to the foregoing lock-up provisions. If the restrictions under the lock-up agreements with members of our senior management and directors are waived or terminated, approximately 260,750 units will be available for sale into the market, subject only to applicable securities rules and regulations, which could reduce the market price for the offered securities.

An increase in market interest rates may have an adverse effect on the market price of our securities.

One of the factors that investors may consider in deciding whether to buy or sell our securities is our dividend rate as a percentage of our share or unit price relative to market interest rates. If the market price of our securities is based primarily on the earnings and return that we derive from our investments and income with respect to our properties and our related distributions to stockholders, and not from the market value or underlying appraised value of the properties or investments themselves, then interest rate fluctuations and capital market conditions will likely affect the market price of our securities. For instance, if market rates rise without an increase in our dividend rate, the market price of our securities could decrease as potential investors may require a higher dividend yield on our common stock or seek other securities paying higher dividends or interest. In addition, rising interest rates would result in increased interest expense on our variable rate debt, thereby adversely affecting cash flow and our ability to service our indebtedness and pay dividends.

Broad market fluctuations could negatively impact the market price of our common stock.

The stock market has experienced extreme price and volume fluctuations that have affected the market price of many companies in industries similar or related to ours and that have been unrelated to these companies operating performances. These broad market fluctuations could reduce the market price of our common stock. Furthermore, our operating results and prospects may be below the expectations of public market analysts and investors or may be lower than those of companies with comparable market capitalizations, which could lead to a material decline in the market price of our common stock.

FORWARD LOOKING STATEMENTS

We make forward looking statements in this prospectus that are subject to risks and uncertainties. These forward looking statements include information about possible or assumed future results of our business and our financial condition, liquidity, results of operations, plans, and objectives. They also include, among other things, statements concerning anticipated revenues, income or loss, capital expenditures, dividends, capital structure, or other financial terms, as well as statements regarding the subjects that are forward looking by their nature, such as:

- our business strategy;
- completion of any pending transactions;
- our ability to obtain future financing arrangements;
- our understanding of our competition;
- our projected operating results;
- the operating results presented in the historical consolidated financial statements included in this prospectus;
- market trends;
- estimates relating to our future dividends;
- projected capital expenditures; and
- the impact of technology on our operations and business.

The forward looking statements are based on our beliefs, assumptions, and expectations of our future performance, taking into account the information currently available to us. We do not intend to update our forward looking statements. These beliefs, assumptions, and expectations can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity, and results of operations may vary materially from those expressed in our forward looking statements. You should carefully consider this risk when you make a decision concerning an investment in our securities, along with the following factors, among others, that could cause actual results to vary from our forward looking statements:

- the factors referenced in this prospectus, including those set forth under the sections captioned Risk Factors and Arbor Realty Trust, Inc.;
- general volatility of the capital markets and the market price of our common stock;
- changes in our business or investment strategy;
- availability, terms and deployment of capital;
- availability of qualified personnel;
- changes in our industry and the market in which we operate, interest rates or the general economy; and
- the degree and nature of our competition.

When we use words such as will likely result, may, shall, will, believe, expect, anticipate, project, intend, estimate, goal, expressions, we intend to identify forward looking statements. You should not place undue reliance on these forward looking statements. We are not obligated to publicly update or revise any forward looking statements, whether as a result of new information, future events, or otherwise.

Table of Contents

USE OF PROCEEDS

The selling stockholders will receive all of the proceeds from the sale of the securities. We will not receive any proceeds from the sale of the securities.

DISTRIBUTION POLICY

We have made and intend to make, regular quarterly distributions to our stockholders. To qualify as a REIT we must distribute to our stockholders an amount at least equal to:

- 90% of our REIT taxable income, determined before the deduction for dividends paid and excluding any net capital gain (which does not necessarily equal net income as calculated in accordance with generally accepted accounting principals); plus

- 90% of the excess of our net income from foreclosure property (as defined in Section 856 of the Internal Revenue Code) over the tax imposed on such income by the Internal Revenue Code; less

- any excess non-cash income (as determined under the Internal Revenue Code). See Federal Income Tax Considerations.

We are subject to income tax on income that is not distributed and to an excise tax to the extent that certain percentages of our income are not distributed by specified dates. See Federal Income Tax Considerations. Income as computed for purposes of the foregoing tax rules will not necessarily correspond to our income as determined for financial reporting purposes.

Distributions are authorized by our board of directors and declared by us based upon a number of factors, including actual results of operations, restrictions under Maryland law, the timing of the investment of our equity capital, the amount of funds from operations, our financial condition, debt service requirements, capital expenditure requirements, our taxable income, the annual distribution requirements under the REIT provisions of the Internal Revenue Code, our operating expenses and other factors our directors deem relevant. Our ability to make distributions to our stockholders depends 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, from ACM s management of our business. Distributions are made in cash to the extent that cash is available for distribution.

Distributions to stockholders are generally taxable to our stockholders as ordinary income, although a portion of such distributions may be designated by us as long term capital gain or may constitute a return of capital. We will furnish annually to each of our stockholders a statement setting forth distributions paid during the preceding year and their federal income tax status. For a discussion of the federal income tax treatment of our distributions, see Federal Income Tax Considerations Taxation of Arbor Realty and Federal Income Tax Considerations Taxation of Stockholders.

We may not be able to generate sufficient revenue from operations to pay distributions to our stockholders. In addition, our directors may change our distribution policy in the future. See Risk Factors.

Our charter allows us to issue preferred stock that could have a preference on distributions. We currently have no intention to issue any such preferred stock, but if we do, the dividend preference on the preferred stock could limit our ability to make a dividend distribution to the holders of our common stock. We have previously issued approximately 3.1 million shares of our special voting preferred stock to ACM which does not have any preferential dividend, except a $.01 per share liquidation preference upon a liquidation or redemption.

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 plan to distribute this dividend on November 18, 2003.

Table of Contents

PRICE RANGE OF UNITS

There is no established market for the units, which are not listed on any securities exchange, and trading in the units has not been quoted on any interdealer or over-the-counter bulletin board since the original offering. The units are eligible for trading in the Private Offering, Resales and Trading through Automated Linkages Market of the National Association of Securities Dealers, Inc., the PORTAL Market. As of November 3, 2003, there were approximately 140 beneficial owners of our units. This figure does not reflect the beneficial ownership of shares held in nominee name. The table below reflects the high and low prices for trades of our units as reported in PORTAL for each of the months indicated.

Month	High	Low	Dividend
July 2003	$75.250	$69.750	(1)
August 2003			(1)
September 2003			(1)
October 2003	$75.250	$75.125	

(1) On November 5, 2003 we declared a dividend of $.25 per share of common stock, payable with respect to the quarter ended September 30, 2003, to our common stockholders of record as of the close of business on November 5, 2003. We plan to distribute this dividend on November 18, 2003.

Table of Contents

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 and at September 30, 2003. The selected historical consolidated financial information presented below under the captions Consolidated Statement of Operations Data and 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 Consolidated 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)
Statement of Operations Data:	
Interest Income	$4,664,115
Other income	6,375
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
Balance Sheet Data:	(unaudited)
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 stockholders of record at the close of business on November 5, 2003.

Table of Contents

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF THE STRUCTURED FINANCE BUSINESS OF ARBOR COMMERCIAL MORTGAGE, LLC AND SUBSIDIARIES

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

The tables on the following page present selected historical consolidated financial information of the structured finance business of ACM 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 ACM but as an integrated part of ACM s consolidated business. Accordingly, the statements of revenue and direct operating expenses do not include charges from ACM for corporate general and administrative expense because ACM considered such items to be corporate expenses and did not allocate them to individual business units. These expenses included costs for ACM 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 ACM 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 ACM.

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 ACM 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 ACM s structured finance business included in this prospectus represent the consolidated financial position and results of operations of ACM s structured finance business during certain periods and at certain dates when ACM 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 ACM 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 ACM 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 ACM s structured finance business, including related notes, contained elsewhere in this prospectus.

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
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
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	10,265,147	15,643,907	19,009,357	23,725,959	20,965,793	18,270,181	16,140,208	17,945,647
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	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, 2003	At December 31,				
	(unaudited)	2002	2001	2000	1999	1998
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, ACM 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. ACM 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, ACM 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 ACM 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 ACM s joint venture with SFG I discussed in footnote 1.

Table of Contents

MANAGEMENT S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

You should read the following discussion in conjunction with the sections of this prospectus entitled Risk Factors , Forward-Looking Statements and Selected Consolidated Financial Information of Arbor Realty Trust, Inc. and Subsidiaries and our historical consolidated financial statements, including related notes, included elsewhere in this prospectus.

Overview

We are a Maryland corporation that was formed in June 2003 to invest in real estate related bridge and mezzanine loans, preferred equity and, in limited cases, discounted mortgage notes and other real estate related assets. We conduct substantially all of our operations through our operating partnership.

On July 1, 2003, ACM contributed $213.1 million of structured finance assets and $169.2 million of borrowings supported by $43.9 million of equity in exchange for a commensurate equity ownership in our operating partnership. In addition, certain employees of ACM were transferred to our operating partnership. These assets, liabilities and employees represent a substantial portion of ACM s structured finance business. We are externally managed and advised by ACM and pay ACM a management fee in accordance with a management agreement. ACM will also originate, underwrite and service all structured finance assets on behalf of our operating partnership.

Concurrently with ACM s asset contribution, we consummated a private equity offering of units, each consisting of five shares of common stock and one warrant to purchase one share of common stock. Gross proceeds from the private financing totaled $120.2 million. Gross proceeds from the private financing combined with the concurrent equity contribution by ACM totaled approximately $164.1 million in equity capital. We paid offering expenses of $9.6 million resulting in stockholders equity and minority interest of $154.5 million at our inception.

Sources of Operating Revenues

We derive our operating revenues primarily through the interest and other income received from making real estate related bridge and mezzanine loans and preferred equity investments. We provide bridge loans secured by first lien mortgages on the property to borrowers who are typically seeking short term capital to be used in an acquisition of property. The bridge loans we make typically range in size from $1 million to $25 million and have terms of up to seven years. We provide real property owners with mezzanine loans that are secured by pledges of ownership interests in entities that directly or indirectly control the real property or second mortgages. These loans typically range in size from $2 million to $15 million and have terms of up to seven years. We also make preferred equity investments in entities that directly or indirectly own real property.

In addition, we may derive operating revenue from income from equity affiliates relating to joint ventures that were formed with equity partners to acquire, develop and/or sell real estate assets.

We may also derive operating revenue from the gain on sale of loans and real estate. We may acquire (1) real estate for our own investment and, upon stabilization, disposition at an anticipated return and (2) real estate notes generally at a discount from lenders in situations where the borrower wishes to restructure and reposition its short term debt and the lender wishes to divest certain assets from its portfolio.

Table of Contents

Critical Accounting Policies

Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements included in this prospectus. Certain of the accounting policies used in the preparation of these consolidated financial statements are particularly important for an understanding of the financial position and results of operations presented in the historical consolidated financial statements included in this prospectus and require the application of significant judgment by management and, as a result, are subject to a degree of uncertainty.

Loans and Investments

Loans held for investment are intended to be held to maturity and, accordingly, are carried at cost, net of unamortized loan origination costs and fees, unless such loan or investment is deemed to be impaired. We invest in preferred equity interests that allow us to participate in a percentage of the underlying property s cash flows from operations and proceeds from a sale or refinancing. At the inception of each such investment, management must determine whether such investment should be accounted for as a loan, joint venture or as real estate. To date, management has determined that all such investments are properly accounted for and reported as loans.

Specific valuation allowances are established for impaired loans based on the fair value of collateral on an individual loan basis. The fair value of the collateral is determined by an evaluation of operating cash flow from the property during the projected holding period, and estimated sales value computed by applying an expected capitalization rate to the stabilized net operating income of the specific property, less selling costs, discounted at market discount rates.

If upon completion of the valuation, the fair value of the underlying collateral securing the impaired loan is less than the net carrying value of the loan, an allowance is created with a corresponding charge to the provision for loan losses. The allowance for each loan is maintained at a level believed adequate by management to absorb probable losses.

Revenue Recognition

Interest Income. Interest income is recognized on the accrual basis as it is earned. In most instances, the borrower pays an additional amount of interest at the time the loan is closed, an origination fee, and deferred interest upon maturity. This additional income, as well as any direct loan origination costs incurred, is deferred and recognized over the life of the related loan as a yield adjustment. Income recognition is suspended for loans when in the opinion of management a full recovery of income and principal becomes doubtful. Income recognition is resumed when the loan becomes contractually current and performance is demonstrated to be resumed. Several of the loans provide for accrual of interest at specified rates, which differ from current payment terms. Interest is recognized on such loans at the accrual rate subject to management s determination that accrued interest and outstanding principal are ultimately collectible, based on the underlying collateral and operations of the borrower. If management cannot make this determination regarding collectibility, interest income is recognized only upon actual receipt.

Recently Issued Accounting Pronouncements

In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). FIN 46 provides guidance on identifying entities for which control is achieved through means other than through voting rights (a variable interest entities or VIE), and how to determine when and which business enterprise should consolidate a VIE. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in VIE make additional disclosures. The transitional disclosure requirements are effective for the interim or the annual period ending after December 31, 2003. Management is in the process of evaluating all of its mezzanine loans and preferred equity investments, which may be deemed variable interest entities under the provision of FIN 46. A definitive conclusion can not be reached until the evaluation has been completed.

Table of Contents

Results of Operations

Three Months Ended September 30, 2003

The following table sets forth our results of operations for the three months ended September 30, 2003:

	Three Months Ended September 30, 2003
	(unaudited)
Revenue:	
Interest income	$4,664,115
Other income	6,375
Total revenue	$4,670,490
Expenses:	
Interest expense	721,854
Employee compensation and benefits	446,845
Stock based compensation	1,587,674
Selling and administrative	133,304
Management fee	293,734
Total expenses	3,183,411
Income before minority interest	1,487,079
Income allocated to minority interest	412,492
Net income	$1,074,587

Revenues

Interest income was $4.7 million. The average balance of the loan and investment portfolio was $243.8 million during the quarter. The average yield on these assets was 7.59%.

Expenses

Interest expense was $722,000. The average balance of debt financing was $81.0 million during the quarter. The average cost of these borrowings was 3.56%. Our average leverage for the quarter was 33%, resulting in our interest margin on a levered basis being 9.61%.

Employee compensation and benefits expense was $447,000, which represents salaries, benefits and incentive compensation for the ten employees employed by us during the quarter.

Stock-based compensation expense was $1.6 million. This expense represents the cost of restricted stock granted to certain of our employees, executive officers and directors and certain executive officers and employees of our manager. Of the total shares granted, two-thirds of the shares granted vested immediately and the remaining one-third will vest over three years. The amount of compensation expense recorded in the quarter represents the full expense of the vested shares and a ratable portion of the expense of the unvested shares.

Selling and administrative expense was $133,000. This amount is comprised primarily of professional fees, including legal and accounting services.

Management fees were $294,000. This amount represents the base management fee as provided for in the management agreement with our manager. The management agreement also provides for incentive compensation fees; however, the requirements for incentive compensation

were not satisfied and no incentive compensation was recorded in the period.

Table of Contents

Income allocated to minority interest was $412,000. This amount represents the portion of our income allocated to our manager, which owns a 28% limited partnership interest in our operating partnership and is allocated 28% of our income.

Liquidity and Capital Resources

Sources of Liquidity

Liquidity is a measurement of the ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain loans and investments and other general business needs. Our primary sources of funds for liquidity consist of funds raised from our private equity offering in July 2003, borrowings under credit agreements, net cash provided by operating activities, repayments of outstanding loans and investments and the issuance of common, convertible and/or preferred equity securities.

To maintain our status as a REIT under the Internal Revenue Code, we must distribute annually at least 90% of our taxable income. These distribution requirements limit our ability to retain earnings and thereby replenish or increase capital for operations. However, we believe that our significant capital resources and access to financing will provide us with financial flexibility and market responsiveness at levels sufficient to meet current and anticipated capital requirements, including expected new lending and investment opportunities.

Gross proceeds from the original offering on July 1, 2003 totaled $120.2 million, which combined with ACM s equity contribution of $43.9 million, resulted in total contributed capital of $164.1 million. We paid or accrued offering expenses of $9.6 million, resulting in stockholders equity and minority interest of $154.5 million at our inception.

We also maintain liquidity through one warehouse credit facility and two master repurchase agreements with three different financial institutions. Prior to July 1, 2003, ACM had similar financing facilities with these financial institutions.

We have a $250.0 million warehouse credit agreement with a financial institution, dated as of July 1, 2003, with a term of three years. In the event this facility is not renewed, we have nine months to repay all outstanding advances. This warehouse credit facility includes a profit sharing agreement, whereby the institution shares in the net interest spread of the assets financed. The profit sharing component represents the percentage of the net profits earned over the life of a loan that are payable to the lender upon repayment of the underlying investment. Net profits are based on interest income, interest expense and deferred interest payable at repayment of an investment. On September 30, 2003 the outstanding balance under this facility was $28.4 million.

We have a $100.0 million master repurchase agreement with a second financial institution, dated as of November 18, 2002, with a one-year term, renewable annually. This repurchase agreement was assigned from ACM to us on July 1, 2003. In the event this facility is not renewed, we have twelve months to repay all outstanding advances. On September 30, 2003, the outstanding balance under this facility was $63.5 million.

We have a $50.0 million master repurchase agreement with a third financial institution, dated as of July 1, 2003 with a term of three years. This facility has not yet been utilized.

The warehouse credit agreement and the two master repurchase agreements require that we pay down borrowings under these facilities pro-rata as principal payments on our loans and investments are received. In addition, if upon maturity of a loan or investment we decide to grant the borrower an extension option, the financial institutions have the option to extend the borrowings or request payment in full on the outstanding borrowings of the loan or investment extended. The financial institutions also have the right to request immediate payment of any outstanding borrowings on any loan or investment that is at least 60 days delinquent.

We believe our existing sources of funds will be adequate for purposes of meeting our short-term liquidity within one year and long-term liquidity needs. Our loans and investments, the majority of which have been contributed to us, are financed under existing credit facilities and their credit status is continuously monitored; therefore, these

Table of Contents

loans and investments are expected to generate a generally stable return. Our ability to meet our long-term liquidity and capital resource requirements is subject to obtaining additional debt and equity financing. If we are unable to renew our sources of financing on substantially similar terms or at all it would have an adverse effect on our business and results of operations. Any decision by our lenders and investors to enter into such transactions with us will depend upon a number of factors, such as our financial performance, compliance with the terms of our existing credit arrangements, industry or market trends, the general availability of and rates applicable to financing transactions, such lenders and investors resources and policies concerning the terms under which they make such capital commitments and the relative attractiveness of alternative investment or lending opportunities.

The maximum borrowing capacities, advance rates and other principal terms of our credit facilities are listed below:

	Warehouse Facility	Repurchase Agreement	Repurchase Agreement
Total Facility Amount	$250,000,000	$100,000,000	$50,000,000
Sublimits based on Investment Type			
Bridge Loan Sublimit Amount	$125,000,000	$ 75,000,000	$50,000,000
Maximum Advance Rate (1)	85%(2)	80%	80%
Pricing over LIBOR	2.00%	2.00%	1.25%
Profit Share (3)	20.0%		
Mezzanine Loans/Preferred Equity Sublimit Amount	$175,000,000	$ 25,000,000	$50,000,000
Maximum Advance Rate (1)	80%(4)	65%	75%
Pricing over LIBOR	2.75%	2.75%	2.50%
Profit Share (3)	20.0%		
Note Acquisitions Sublimit Amount	$125,000,000		
Maximum Advance Rate (4)	80%(5)		
Pricing over LIBOR	2.50%		
Property Acquisitions			
Total Line	$125,000,000		
Maximum Advance Rate	80%		
Pricing over LIBOR	2.50%		

(1) Advance rates for certain investments funded under the credit facilities are negotiated on an individual basis and may differ from the maximum advance rate listed.

(2) Maximum loan amount advanced per bridge loan equal to $20.0 million.

(3) Certain investments included in contribution of the initial assets are financed under prior profit sharing agreements between the financial institution and ACM with profit sharing percentages ranging from 20% to 45% of net interest income of the loans and investments financed.

(4) Maximum loan amount advanced per mezzanine loan equal to $20.0 million.

(5) Maximum loan amount advanced per acquisition equal to $20.0 million.

In addition to these credit facilities, we have a participation agreement with a financial institution to finance a portion of a $16.4 million apartment bridge loan. The interest payable on the participation agreement is LIBOR plus 3.00% with a floor of 4.75% and the outstanding balance as of September 30, 2003 was approximately $12.9 million.

Table of Contents

Contractual Commitments

Pursuant to our management agreement with ACM, we pay ACM an annual base management fee, payable monthly in cash as a percentage of ARLP s equity and equal to 0.75% per annum of the equity up to $400 million, 0.625% per annum of the equity from $400 million to $800 million and 0.5% per annum of the equity in excess of $800 million. For purposes of calculating the base management fee, equity equals the month end value computed in accordance with generally accepted accounting principles of (1) total partners equity in ARLP, plus or minus (2) any unrealized gains, losses or other items that do not affect realized net income.

We also pay ACM incentive compensation each fiscal quarter, calculated as (1) 25% of the amount by which (a) ARLP 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 10 year Treasury Rate plus 3.5%, whichever is greater, and (y) the weighted average of book value of the net assets contributed by ACM to ARLP per operating partnership unit, the offering price per share of our common equity in the original offering and subsequent offerings and the issue price per operating partnership unit for subsequent contributions to ARLP, multiplied by (2) the weighted average of ARLP s outstanding operating partnership units. At least 25% of this incentive compensation is paid to ACM in shares of our common stock, subject to ownership limitations in our charter. We have also agreed to share with ACM a portion of the origination fees that we receive on loans we originate with ACM.

Related Party Transactions

Related Party Loans

ACM has a 50% non-controlling interest in a joint venture, which was formed to acquire, develop and/or sell real estate assets. At September 30, 2003, ACM s investments in this joint venture were approximately $2.6 million. At September 30, 2003, we had a $16.0 million bridge loan outstanding to the joint venture, which is collateralized by a first lien position on a commercial real estate property. There is a limited guarantee on the loan of 50% by our chief executive officer and 50% by the key principal of the joint venture. The loan requires monthly interest payments based on LIBOR and matures in October 2004. We have agreed to provide the borrower with additional mezzanine financing in the amount of up to $8.0 million. The mezzanine financing requires interest payments based on LIBOR and matures in May 2006. The loan will be funded in two equal installments of $4.0 million. The funding will be drawn down as construction progresses. The interest on the first component, which was funded by ACM in June 2003 and purchased by us in July 2003, will be earned on the full $4.0 million, while the interest on the second component, which has yet to be funded by us, will be earned as the $4.0 million is drawn down. This additional financing is secured by a second mortgage lien on the property. Interest income recorded from these loans was approximately $240,000, for the period ended September 30, 2003.

Our $16.0 million bridge loan to the joint venture was contributed by ACM as one of the structured finance assets contributed to the Company on July 1, 2003. At the time of contribution, ACM also agreed to provide a limited guarantee of the loan s principal amount based any profits realized on its retained 50% interest in the joint venture with the borrower and ACM s participating interests in borrowers under three other contributed structured finance assets.

In June 2003, ACM invested approximately $818,000 in exchange for a 12.5% non-controlling interest in a joint venture, which was formed to acquire, develop and/or sell real estate assets. This investment was purchased by us from ACM in August 2003. In addition, as of September 30, 2003, we had two mezzanine loans, secured by a second lien position in the ownership interests of the borrower and the property, to this joint venture totaling $6.0 million outstanding. The loans require monthly interest payments based on LIBOR and mature in May 2006. Interest income recorded from these loans was approximately $97,000 for the period ended September 30, 2003.

At the time of ACM s origination of three of the structured finance assets that it contributed to us on July 1, 2003, each of the property owners related to these contributed assets granted ACM participating interests that share in a percentage of the cash flows of the underlying properties. Upon contribution of the structured finance assets, ACM retained these participating interests and its 50% non-controlling interest in the joint venture to which it had made the $16.0 million bridge loan. ACM agreed that if any portion of the outstanding amount of any of these four contributed assets is not paid at the its maturity or repurchase date, ACM will pay us, subject to the limitation

described below, the portion of the unpaid amount of the contributed asset up to the total amount then received by ACM due to the realization of any profits on its retained interests associated with any other of the four contributed assets. However, ACM will no longer be obligated to make such payments to us when the remaining accumulated principal amount of the four contributed assets, collectively, falls below $5 million and none of the four contributed assets is in default.

Related Party Formation Transactions

ACM contributed the majority of its structured finance portfolio to our operating partnership pursuant to a contribution agreement. The contribution agreement contains representations and warranties concerning the ownership and terms of the structured finance assets it contributed and other customary matters. ACM has agreed to indemnify us and our operating partnership against breaches of those representations and warranties. In connection with its asset contribution ACM has also agreed to guaranty a portion of the principal amount of four contributed assets in which ACM has retained a participating interest or a joint venture interest in the borrower.

In exchange for ACM s asset contribution, we issued to ACM approximately 3.1 million operating partnership units, each of which ACM 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 ACM to purchase one additional operating partnership unit. The operating partnership units and warrants for additional operating partnership units issued to ACM 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, adjusted for the initial purchaser s discount. We also granted ACM certain demand and other registration rights with respect to the shares of common stock issuable upon redemption of its operating partnership units.

Each of the approximately 3.1 million operating partnership units received by ACM 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. As a result of ACM s asset contribution and the related formation transactions, ACM owns approximately a 28% limited partnership interest in our operating partnership and the remaining 72% interest in our operating partnership is owned by us. In addition, ACM has approximately 28% of the voting power of our capital stock (without giving effect to the exercise of ACM s warrants for additional operating partnership units).

We and our operating partnership have entered into a management agreement with ACM pursuant to which ACM has agreed to provide us with structured finance investment opportunities and loan servicing as well as other services necessary to operate our business. As discussed above in Contractual Commitments, we have agreed to pay our manager an annual base management fee and incentive compensation each fiscal quarter and share with ACM a portion of the origination fees that we receive on loans we originate with ACM pursuant to this agreement.

Under the terms of the management agreement, ACM is also required to provide us with a right of first refusal with respect to all structured finance identified by ACM or its affiliates. We have agreed not to pursue, and to allow ACM to pursue, any real estate opportunities other than structured finance transactions. In addition, Mr. Kaufman has entered into a non-competition agreement with us pursuant to which he has agreed not to pursue structured finance investment opportunities, except as approved by our board of directors.

We and our operating partnership have also entered into a services agreement with ACM pursuant to which our asset management group provides asset management services to ACM. In the event the services provided by our asset management group pursuant to the agreement exceed by more than 15% per quarter the level of activity anticipated by our board of directors, we will negotiate in good faith with our manager an adjustment to our manager s base management fee under the management agreement, to reflect the scope of the services, the quantity of serviced assets or the time required to be devoted to the services by our asset management group.

Recent Developments

We made three new loans and investments, totalling $41.8 million, during October 2003. As discussed under Arbor Realty Trust, Inc. Our Assets , we made a $4.8 million bridge loan in connection with a refinancing of the $2.5 million 80 Evergreen million mezzanine loan and a $27 million 24-month bridge loan in connection with the refinancing of the $4.0 million Carlton Arms Apartments mezzanine loan. In addition, we originated a $10.0 million equity investment in an entity that is purchasing a commercial office building in Manhattan. This investment bears a 12% return.

During October, five of our investments contributed by ACM, totaling $33.9 million, were repaid in full, including all current and deferred interest: the Holiday Inn Convention Center bridge loan ($4.7 million), the Park Place Apartments preferred equity investment ($3.9 million), the Vermillion Apartments bridge loan ($18.8 million), Carlton Arms Apartments mezzanine loan ($4.0 million) and the Devonshire Apartments preferred equity investment ($2.5 million). The assets contributed by ACM generally did not include prepayment protection which may result in prepayments on these loans occurring prior to their scheduled maturity date. We intend to structure loans that we originate in the future to provide for prepayment protection. If successful, we will be able to retain assets in our portfolio on a longer term basis.

Quantitative and Qualitative Disclosures about Market Risk

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and real estate values. The primary market risks that we are exposed to are real estate risk and interest rate risk.

Real Estate Risk

Commercial mortgage assets may be viewed as exposing an investor to greater risk of loss that residential mortgage assets since such assets are typically secured by larger loans to fewer obligors than residential mortgage assets. Multi-family and commercial property values and net operating income derived from such properties are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors), local real estate conditions (such as an oversupply of housing, retail, industrial, office or other commercial space); changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; retroactive changes to building or similar codes; and increases in operating expenses (such and energy costs). In the event net operating income decreases, a borrower may have difficulty repaying our loans, which could result in losses to us. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay our loans, which could also cause us to suffer losses. Even when the net operating income is sufficient to cover the related property s debt service, there can be no assurance that this will continue to be the case in the future.

Interest Rate Risk

Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control.

Our operating results will depend in large part on differences between the income from our assets and our borrowing costs. Most of our assets and borrowings are variable-rate instruments, based on LIBOR. The objective of this strategy is to minimize the impact of interest rate changes on our net interest income. Many of our loans and borrowings are subject to various interest rate floors. As a result, the impact of a change in interest rates may be different on our interest income than it is on our interest expense. Based on the assets and liabilities as of September 30, 2003, and assuming the balances of these assets and liabilities remain unchanged for the subsequent months, a 1% increase in LIBOR would increase our annual net income and cash flows because the principal amount of assets that would be subject to an interest rate adjustment under this scenario exceeds the amount of liabilities that would subject to an interest rate adjustment. A 1% decrease in LIBOR would also increase our annual net income and cash flows because the principal amount of assets currently subject to interest rate floors (and, therefore, would not be subject to a downward interest rate adjustment) exceeds the amount of liabilities currently subject to interest rate floors. As the size of the portfolio increases and the percentage of borrowings as a percent of assets increases, a change in interest rates may have a negative impact on our net income.

In the event of a significant rising interest rate environment and/or economic downturn, defaults could increase and result in credit losses to us, which could adversely affect our liquidity and operating results. Further, such delinquencies or defaults could have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities.

Table of Contents

MANAGEMENT S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE STRUCTURED FINANCE BUSINESS OF ARBOR COMMERCIAL MORTGAGE, LLC AND SUBSIDIARIES

You should read the following discussion in conjunction with the sections of this prospectus entitled Risk Factors , Forward-Looking Statements and Selected Consolidated Financial Information of the Structured Finance Business of Arbor Commercial Mortgage, LLC and Subsidiaries and the historical consolidated financial statements of the structured finance business of ACM, including related notes, included elsewhere in this prospectus.

Overview and Basis of Presentation

We are a Maryland corporation that was formed in June 2003 to invest in real estate related bridge and mezzanine loans, preferred equity and, in limited cases, discounted mortgage notes and other real estate related assets. We conduct substantially all of our operations through our operating partnership, Arbor Realty Limited Partnership. We intend to elect to be treated as a REIT for federal income tax purposes.

On July 1, 2003 ACM contributed a portfolio of structured finance investments and related liabilities to our operating partnership. In addition, certain employees of ACM related to its structured finance business became our employees. These assets, liabilities and employees represented a substantial portion of ACM s structured finance business, which historically invested in real estate related bridge and mezzanine loans, preferred equity and other real estate related assets.

The structured finance business of ACM is not a separate legal entity and the assets and liabilities associated with ACM s structured finance business are components of a larger business. We obtained the information in the consolidated financial statements included elsewhere in this prospectus from ACM s consolidated historical accounting records.

The structured finance business of ACM never operated as a separate business segment or division of ACM, but as an integrated part of ACM s consolidated business. Accordingly, the statements of revenue and direct operating expenses do not include charges from ACM for corporate general and administrative expense because ACM considered such items to be corporate expenses and did not allocate them to individual business units. These expenses included costs for ACM s executive management, corporate facilities and overhead costs, corporate accounting and treasury functions, corporate legal matters and other similar costs.

The information in the statements of revenue and direct operating expenses include the revenue and direct operating expenses that relate to the structured finance business. Direct operating expenses include interest expense applicable to the funding costs of the structured finance business loans and investments, salaries and related fringe benefit costs, provision for loan losses and other expenses directly associated with revenue-generating activities. Direct operating expenses also include allocations of certain expenses, such as telephone, office equipment rental and maintenance, office supplies and marketing, which were directly associated with the structured finance business and were allocated based on headcount of the structured finance business in relation to the total headcount of ACM. All of these allocations are based on assumptions that management believes are reasonable under the circumstances.

The consolidated financial statements in this prospectus do not include a statement of cash flows because the structured finance business did not maintain a separate cash balance. Other than the debt required to fund the loans and investments of the structured finance business, operating activities of the structured finance business were funded by ACM.

Since the structured finance business never operated as a separate business division or segment of ACM, the consolidated financial statements included in this prospectus are not intended to be a complete presentation of the historical financial position, results of operations and cash flows of the structured finance business. These consolidated financial statements were prepared for inclusion in the registration statement of which this prospectus is part and do not purport to reflect the financial position or results of operations that would have resulted if the structured finance business had operated as a separate company. The historical consolidated financial information included in this prospectus is not likely to be indicative of our financial position, results of operations or cash flows

for any future period. See Risk Factors Our historical consolidated financial information is not likely to be indicative of our future performance or financial position as a separate company.

Sources of Operating Revenues

We derive our operating revenues primarily through the interest and other income received from making real estate related bridge and mezzanine loans and preferred equity investments. We provide bridge loans secured by first lien mortgages on the property to borrowers who are typically seeking short term capital to be used in an acquisition of property. The bridge loans we make typically range in size from $1 million to $25 million and have terms of up to seven years. We provide real property owners with mezzanine loans that are secured by pledges of ownership interests in entities that directly or indirectly control the real property or second mortgages. These loans typically range in size from $2 million to $15 million and have terms of up to seven years. We also make preferred equity investments in entities that directly or indirectly own real property.

We may also derive operating revenue from the gain on sale of loans and real estate. We acquire (1) real estate for our own investment and, upon stabilization, disposition at an anticipated return and (2) real estate notes generally at a discount from lenders in situations where the borrower wishes to restructure and reposition its short term debt and the lender wishes to divest certain assets from its portfolio.

In addition, we derive operating revenue from income from equity affiliates relating to joint ventures that ACM s structured finance business formed with equity partners to lend to, acquire, develop and/or sell real estate assets.

Significant Accounting Estimates and Critical Accounting Policies

Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements included in this prospectus. Certain of the accounting policies used in the preparation of these consolidated financial statements are particularly important for an understanding of the financial position and results of operations presented in the historical consolidated financial statements included in this prospectus and require the application of significant judgment by management and, as a result, are subject to a degree of uncertainty.

Real Estate Owned

Real estate owned represents commercial real estate property that the structured finance business of ACM owns and operates. Such assets are not depreciated and are carried at the lower of cost or fair value less cost to sell. Management reviews its real estate assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Loans and Investments

Loans held for investment are intended to be held to maturity and, accordingly, are carried at cost, net of unamortized loan origination costs and fees, unless such loan or investment is deemed to be impaired.

ACM s structured finance business historically invested in preferred equity interests that allowed ACM to participate in a percentage of the underlying property s cash flows from operations and proceeds from a sale or refinancing. At the inception of each such investment, management must determine whether such investment should be accounted for as a loan, joint venture or as real estate. To date, management has determined that all such investments are properly accounted for and reported as loans.

Specific valuation allowances are established for impaired loans based on the fair value of collateral on an individual loan basis. The fair value of the collateral is determined by an evaluation of operating cash flow from the property during the projected holding period, and estimated sales value computed by applying an expected capitalization rate to the stabilized net operating income of the specific property, less selling costs, discounted at market discount rates. If upon completion of the valuation, the fair value of the underlying collateral securing the

impaired loan is less than the net carrying value of the loan, an allowance is created with a corresponding charge to the provision for loan losses. The allowance for each loan is maintained at a level believed adequate by management to absorb probable losses.

Revenue Recognition

The revenue recognition policies for ACM s structured finance business are as follows:

Interest Income. Interest income is recognized on the accrual basis as it is earned. In most instances, the borrower pays an additional amount of interest at the time the loan is closed, an origination fee, and deferred interest upon maturity of the loan. This additional income as well as any direct loan origination costs incurred, is deferred and recognized over the life of the related loan as a yield adjustment. Income recognition is suspended for loans when in the opinion of management a full recovery of income and principal becomes doubtful. Income recognition is resumed when the loan becomes contractually current and performance is demonstrated to be resumed Several of the loans provide for accrual of interest at specified rates, which differ from current payment terms. Interest is recognized on such loans at the accrual rate subject to management s determination that accrued interest and outstanding principal are ultimately collectible, based on the underlying collateral and operations of the borrower. If management cannot make this determination regarding collectibility, interest income is recognized only upon actual receipt.

Results of Operations

Six Months Ended June 30, 2003 and 2002

Revenue. The following table sets forth the components of revenue:

	Six Months Ended June 30,		Increase/ (Decrease)	
	2003	2002	Amount	Percent
Interest income	$ 7,688,465	$ 7,482,750	$ 205,715	3%
Gain on sale of loans and real estate	1,024,268	7,006,432	(5,982,164)	(85)%
Income from equity affiliates		601,100	(601,100)	
Other income	1,552,414	553,625	998,789	180%
Total Revenue	$ 10,265,147	$ 15,643,907	$ (5,378,760)	(34)%

Interest income increased $206,000, or 3%, to $7.7 million for the six months ended June 30, 2003 from $7.5 million for the six months ended June 30, 2002. This increase was primarily due to a 21% increase in the weighted average balance of loans and investment partially offset by a 15% decrease in the weighted average effective interest rate of loans and investments primarily due to a decline in market interest rates. Most of our loans and investments are variable rate instruments based on LIBOR. The negative impact to interest income as a result of the decrease in market interest rates was partially offset by interest rate floors that were in effect on many of our loans and investments.

Gain on sale of loans and real estate decreased $6.0 million, or 85%, to $1.0 million for the six months ended June 30, 2003 from $7.0 million for the six months ended June 30, 2002. This decrease was primarily attributable to a $6.8 million gain on the sale of a joint venture interest in March 2002 partially offset by a $900,000 gain on the partial liquidation of a joint venture interest in 2003.

Income from equity affiliates for the six months ended June 30, 2002 consist of net income from a joint venture interest recognized prior to the sale of that joint venture interest in March 2002.

Other income increased $1.0 million, or 180%, to $1.6 million for the six months ended June 30, 2003 from $554,000 for the six months ended June 30, 2002. This increase was primarily attributable to (a) the partial satisfaction of an impaired loan for an amount $350,000 in excess of the loan s carrying value resulting in the

recognition of other income for this amount (b) increased funds received on paid off loans of $337,000 and (c) increased accelerated amortization of revenue of $390,000 on loans with early payoffs.

Expenses. The following table sets forth the components of direct operating expenses:

	Six Months Ended June 30,		Increase/ (Decrease)	
	2003	**2002**	**Amount**	**Percent**
Interest expense	$3,468,275	$3,370,777	$ 97,498	3%
Employee compensation and benefits	1,751,147	1,410,272	340,875	24%
Selling and administrative	458,266	368,253	90,013	24%
Provision for loan losses	60,000	3,195,000	(3,135,000)	(98%)
Total direct operating expenses	$5,737,688	$8,344,302	$(2,606,614)	(31)%

Interest expense increased $100,000, or 3%, to $3.5 million for the six months ended June 30, 2003 from $3.4 million for the six months ended June 30, 2002. This increase is primarily attributable to a 26% increase in the weighted average borrowings partially offset by a 19% decrease in the weighted average effective financing rate primarily due to a decline in market interest rates.

Employee compensation and benefits increased $341,000, or 24%, to $1.8 million for the six months ended June 30, 2003 from $1.4 million for the six months ended June 30, 2002. This increase reflects increased staffing levels associated with the increased loan and investments opportunities.

Selling and administrative expenses increased $90,000, or 24%, to $458,000 for the six months ended June 30, 2003 from $368,000 for the six months ended June 30, 2002. This increase was primarily attributable to operating expenses incurred in 2003 for a real estate owned asset, and increased marketing expenses associated with the growth of the lending and investment activities.

Provision for loan losses decreased $3.1 million, or 98%, to $60,000 for the six months ended June 30, 2003 from $3.2 million for the six months ended June 30, 2002. This decrease was directly attributable to a $3.1 million provision for loan losses recorded in 2002 prior to this loan being foreclosed and reclassified to real estate owned. This provision was recorded to reflect this asset at its estimated fair value.

Nine Months Ended September 30, 2002

Revenues. The following table sets forth the components of revenue:

	Nine Months Ended September 30, 2002
Interest income	$10,798,414
Gain on sale of loans and real estate	7,006,432
Income from equity affiliates	632,350
Other income	572,161
Total Revenue	$19,009,357

Interest income was $10.8 million. The average balance of the loan and investment portfolio was $174.7 million during the period. The average yield on these assets was 8.24%.

Gain on sale of loans and real estate was $7.0 million. This amount consists primarily of a $6.8 million gain on the sale of a joint venture interest in March 2002.

Income from equity affiliates was $632,000. This amount consists primarily of net income from a joint venture interest recognized prior to the sale of that joint venture interest in March 2002.

Other income was $572,000. This amount represents funds received on loans and investments which generate additional payments to us based on the borrower s operating cash flow.

Expenses. The following table sets forth the components of direct operating expenses:

	Nine Months Ended September 30, 2002
Interest expense	$ 4,832,260
Employee compensation and benefits	2,105,445
Selling and administrative	582,850
Provision for loan losses	3,255,000
Total direct operating expenses	$ 10,775,555

Interest expense was $4.8 million. The average balance of debt financing was $118.9 million during the quarter. The average cost of these borrowings was 5.42%.

Employee compensation and benefits expense was $2.1 million, which represents salaries, benefits and incentive compensation for all employees who work directly in ACM s structured finance business.

Selling and administrative expense was $583,000. This amount is comprised primarily of professional fees directly associated with ACM structured finance business, operating expenses incurred for a real estate owned assets, and marketing expenses incurred directly for ACM s structured finance business.

The provision for loan losses was $3.3 million. Of this amount $3.1 million was directly attributable to a specific loan at was being foreclosed upon and reclassified to real estate owned. This provision was recorded to reflect this asset at its estimated fair value. The remaining provision of $200,000 was established to properly reflect the book value of an impaired loan.

Years Ended December 31, 2002 and 2001

Revenue. The following table sets forth the components of revenue:

	Year Ended December 31,		Increase/ (Decrease)	
	2002	2001	Amount	Percent
Interest income	$ 14,532,504	$ 14,667,916	$ (135,412)	(1)%
Gain on sale of loans and real estate	7,470,999	3,226,648	4,244,351	132%
Income from equity affiliates	632,350	1,403,014	(770,664)	(55)%
Other income	1,090,106	1,668,215	(578,109)	(35)%
Total Revenue	$ 23,725,959	$ 20,965,793	$ 2,760,166	13%

Interest income decreased $135,000, or 1%, to $14.5 million for 2002 from $14.7 million for 2001. This decrease was primarily due to a 16% decrease in the weighted average effective interest rate of loans and investments primarily due to a decline in market interest rates partially offset by a 17% increase in the weighted average balance of loans and investment. Most of our loans and investments are variable rates instruments based on LIBOR. The negative impact to interest income as a result of the decrease in market interest rates was partially offset by interest rate floors that were in effect on many of our loans and investments.

Gain on sale of loans and real estate increased $4.2 million, or 132%, to $7.5 million for 2002 from $3.2 million for 2001. This increase was primarily attributable to a $6.8 million gain on the sale of a joint venture interest

Table of Contents

in March 2002 partially offset by a $2.2 million gain from the sale of property from a joint venture interest and a $276,000 decrease in income from the sale of foreclosed loans.

Income from equity affiliates decreased $770,000, or 55%, to $632,000 for 2002 from $1.4 million for 2001. This decrease was primarily attributable to a $868,000 decrease in net income from joint venture interests due to dissolutions of joint ventures in 2001 and 2002, partially offset by a $97,000 increase in net income from other joint venture interest.

Other income decreased $578,000, or 35%, to $1.1 million for 2002 from $1.7 million for 2001. This decrease was primarily attributable to decreased extension fees earned of $215,000 and decreased funds received on paid off loans of $361,000.

Expenses. The following table sets forth the components of direct operating expenses:

	Year Ended December 31,		Increase/ (Decrease)	
	2002	**2001**	**Amount**	**Percent**
Interest expense	$ 6,586,640	$ 7,029,374	$ (442,734)	(6)%
Employee compensation and benefits	2,827,191	2,888,603	(61,412)	(2)%
Selling and administrative	910,924	839,823	71,101	8%
Provision for loan losses	3,315,000	240,000	3,075,000	1,281%
Total direct operating expenses	$13,639,755	$10,997,800	$2,641,955	24%

Interest expense decreased $443,000, or 6%, to $6.6 million for 2002 from $7.0 million for 2001. This decrease is primarily attributable to a 20% decrease in the weighted average effective financing rate due to a decline in market interest rates partially offset by a 17% increase in the weighted average borrowings.

Employee compensation and benefits remained relatively stable from 2001 to 2002.

Selling and administrative expenses increased $71,000, or 8%, to $911,000 for 2002 from $840,000 for 2001. This increase was primarily attributable to increased legal expenses associated with the asset management and restructuring of our loans and investments portfolio.

Provision for loan losses increased $3.1 million, or 1,281%, to $3.3 million for 2002 from $240,000 for 2001. This increase was directly attributable to a $3.1 million provision for possible loan losses recorded in 2002 prior to this loan being foreclosed on and reclassified as real estate owned. This provision was recorded to reflect this asset at its estimated fair value.

Years Ended December 31, 2001 and 2000

Revenue. The following table sets forth the components of revenue:

	Year Ended December 31,		Increase/ (Decrease)	
	2001	**2000**	**Amount**	**Percent**
Interest income	$14,667,916	$10,707,551	$ 3,960,365	37%
Gain on sale of loans and real estate	3,226,648	1,880,825	1,345,823	72%
Income from equity affiliates	1,403,014	5,028,835	(3,625,821)	(72)%
Other income	1,668,215	652,970	1,015,245	155%
Total Revenue	$20,965,793	$18,270,181	$ 2,695,612	15%

Interest income increased $4.0 million, or 37%, to $14.7 million for 2001 from $10.7 million for 2000. This increase was primarily due to a 81% increase in the weighted average balance of loans and investment partially offset by a 24% decrease in the weighted average effective interest rate of loans and investments primarily due to a decline in market interest rates.

Gain on sale of loans and real estate increased $1.3 million, or 72%, to $3.2 million for 2001 from $1.9 million for 2000. This increase was primarily attributable to a $2.2 million gain from the sale of property from a joint venture interest partially offset by reduced gains on sales of foreclosed loans of $800,000.

Income from equity affiliates decreased $3.6 million, or 72%, to $1.4 million for 2001 from $5.0 million for 2000. This decrease was due to (a) a $3.3 million decrease in net income from a joint venture interest due to the dissolution of the joint venture interest in 2001 and (b) a $353,000 decrease in net income from other joint venture interest.

Other income increased $1.0 million, or 155%, to $1.7 million for 2001 from $653,000 for 2000. This increase was primarily attributable to increased funds received on paid off loans of $900,000.

Expenses. The following table sets forth the components of direct operating expenses:

	Year Ended December 31,		Increase/ (Decrease)	
	2001	2000	Amount	Percent
Interest expense	$ 7,029,374	$ 5,518,463	$ 1,510,911	27%
Employee compensation and benefits	2,888,603	3,026,324	(137,721)	(5)%
Selling and administrative	839,823	442,487	397,336	90%
Provision for loan losses	240,000	240,000		%
Total direct operating expenses	$ 10,997,800	$ 9,227,274	$ 1,770,526	19%

Interest expense increased $1.5 million, or 27%, to $7.0 million for 2001 from $5.5 million for 2000. This increase was primarily attributable to a 73% increase in the weighted average borrowings partially offset by a 26% decrease in the weighted average effective financing rate primarily due to a decline in market interest rates.

Employee compensation and benefits decreased $138,000, or 5%, to $2.9 million for 2001 from $3.0 million for 2000. This decrease was primarily attributable to the streamlining of certain levels of management of ACM s structured finance business.

Selling and administrative expenses increased $397,000, or 90%, to $840,000 in 2001 from $442,000 for 2000. This increase was primarily attributable to increased legal expenses associated with the asset management and restructuring of our loans and investments portfolio.

Provision for loan losses was stable from 2000 to 2001.

Pro Forma Effect of ACM s Asset Contribution on Results of Operations

We were formed in June 2003 to operate as a real estate investment trust and to expand the structured finance business of ACM. On July 1, 2003, we completed a private placement of our units, each consisting of five shares of our common stock and one warrant to purchase one share of our common stock. Gross proceeds from the private financing totaled $120.2 million. In exchange for a commensurate equity ownership in our operating subsidiary, ACM contributed $213.1 million of structured finance assets subject to $169.2 million of borrowings supported by $43.9 million of equity. These assets and liabilities were contributed at book value, which approximates fair value, and represent 88% of the assets and 98% of the liabilities of ACM s structured finance business as of June 30, 2003. In addition, certain employees of ACM were transferred to us.

We are externally managed and advised by ACM and pay ACM a management fee in accordance with the terms of the management agreement. ACM also sources originations, provides underwriting services and services all structured finance assets on our behalf. As a result, the operating expenses as presented in the historical consolidated financial statements of ACM s structured finance business would have been affected had we been formed at an earlier time. Employee compensation and benefits expense would have decreased by $895,811 and $1,518,890 for the six months ended June 30, 2003 and year ended December 31, 2002, respectively, because these costs would have been borne by ACM under terms of the management agreement. Similarly, selling and

49

administrative expense would have decreased by $65,752 and $127,753 for the six months ended June 30, 2003 and year ended December 31, 2002, respectively.

In accordance with the management agreement, we will pay ACM a management fee, composed of a base management fee and incentive compensation. The base management fee is 0.75% per annum of the first $400 million of equity. The incentive compensation is equal to 25% of the amount that our funds from operations, adjusted for certain gains and losses, divided by contributed capital, exceeds 9.5% per annum or the 10-year Treasury Rate plus 3.5%, whichever is greater.

This pro forma information does not reflect the results of the private financing. However, gross proceeds from the private financing totaled $120.2 million, which combined with ACM s equity contribution of $43.9 million, resulted in total contributed capital of $164.1 million. Offering expenses of $9.6 million were paid by us, resulting in stockholders equity and minority interest of $154.5 million at our inception.

Liquidity and Capital Resources

Liquidity is a measurement of the ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain loans and investments and other general business needs. On July 1, 2003, ACM contributed a portfolio of structured finance investments and related liabilities to our operating partnership. In addition, certain employees of ACM became our employees. These assets, liabilities and employees represented a substantial portion of the structured finance business of ACM.

On July 1, 2003 we completed the original offering, resulting in gross proceeds of $120.2 million. Gross proceeds from the original offering combined with the concurrent equity contribution by ACM totaled approximately $164.1 in equity capital.

Subsequent to and as a result of the original offering, substantially all of the operations of the structured finance business of ACM have been conducted by us. Therefore, a description of the liquidity and capital resources of the structured finance business of ACM is not presented. A description of our liquidity and capital resources is presented in the section of this prospectus entitled Management s Discussion & Analysis of Financial Condition and Results of Operations of Arbor Realty Trust, Inc. and Subsidiaries Liquidity and Capital Resources.

Related Party Transactions

Related Party Loans

ACM has a 50% non-controlling interest in a joint venture, which was formed to acquire, develop and/or sell real estate assets. At June 30, 2003, December 31, 2002 and 2001, ACM s structured finance business investments in this joint venture were approximately $2.6 million, $2.3 million and $1.8 million, respectively. This investment is accounted for under the equity method. At June 30, 2003 and December 31, 2002, ACM had a $16.0 million bridge loan outstanding to the joint venture, which is collateralized by a first lien position on a commercial real estate property. There is a limited guarantee on the loan of 50% by the chief executive officer of ACM and 50% by the key principal of the joint venture. The loan requires monthly interest payments based on LIBOR and matures in October 2004. ACM agreed to provide the borrower with additional mezzanine financing in the amount of up to $8.0 million. The mezzanine financing requires interest payments based on LIBOR and matures in May 2006. The loan will be funded in two equal installments of $4.0 million. The funding will be drawn down as construction progresses. The interest on the first component, which was funded by ACM in June 2003, will be earned on the full $4.0 million, while the interest on the second component, which has yet to be funded, will be earned as the $4.0 million is drawn down. This additional financing is secured by a second mortgage lien on the property. In addition, an interest and renovation reserve totaling $2.5 million is in place to cover both the bridge and mezzanine loans. Interest income recorded from these loans was approximately $217,000, $449,000 and $148,000 for the periods ended June 30, 2003, December 31, 2002 and 2001, respectively.

In June 2003, ACM invested approximately $818,000 in exchange for a 12.5% non-controlling interest in a joint venture, which was formed to acquire, develop and/or sell real estate assets. This investment is accounted for

under the equity method. In June, 2003, ACM made two mezzanine loans secured by a second lien position in the ownership interests of the borrower and the property to this joint venture totaling $6.0 million outstanding. The loans require monthly interest payments based on LIBOR and mature in May 2006. Interest income recorded from these loans was approximately $8,000 for the period ended June 30, 2003.

Related Party Formation Transactions

ACM contributed the majority of its structured finance portfolio to our operating partnership pursuant to a contribution agreement. The contribution agreement contains representations and warranties concerning the ownership and terms of the structured finance assets it contributed and other customary matters. ACM has agreed to indemnify us and our operating partnership against breaches of those representations and warranties.

In exchange for ACM s asset contribution, we issued to ACM approximately 3.1 million operating partnership units, each of which ACM 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 ACM to purchase one additional operating partnership unit. The operating partnership units and warrants for additional operating partnership units issued to ACM 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, adjusted for the initial purchaser s discount. We have also granted ACM certain demand and other registration rights with respect to the shares of common stock issuable upon redemption of its operating partnership units.

Each of the approximately 3.1 million operating partnership units received by ACM 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. As a result of ACM s asset contribution and the related formation transactions, ACM owns approximately a 28% limited partnership interest in our operating partnership and the remaining 72% interest in our operating partnership is owned by us. In addition, ACM has approximately 28% of the voting power of our capital stock (without giving effect to the exercise of ACM s warrants for additional operating partnership units).

We and our operating partnership have entered into a management agreement with ACM pursuant to which ACM has agreed to provide us with structured finance investment opportunities and loan servicing as well as other services necessary to operate our business. ACM is also required to provide us with a right of first refusal with respect to all structured finance identified by ACM or its affiliates. We have agreed not to pursue, and to allow ACM to pursue, any real estate opportunities other than structured finance transactions. As discussed above in Contractual Commitments, we have agreed to pay our manager an annual base management fee and incentive compensation each fiscal quarter and share with ACM a portion of the origination fees that we receive on loans we originate with ACM pursuant to this agreement.

We and our operating partnership have also entered into a services agreement with ACM pursuant to which our asset management group provides asset management services to ACM. In the event the services provided by our asset management group pursuant to the agreement exceed by more than 15% per quarter the level of activity anticipated by our board of directors, we will negotiate in good faith with our manager an adjustment to our manager s base management fee under the management agreement, to reflect the scope of the services, the quantity of serviced assets or the time required to be devoted to the services by our asset management group.

Quantitative and Qualitative Disclosures about Market Risk

Since the consummation of the original offering and the related formation transactions, substantially all of the operations of the structured finance business of ACM have been conducted by us. Therefore, quantitative and qualitative disclosures about market risk relating to the structured finance business of ACM is not presented. A description of market risks relating to our business is presented in the section of this prospectus entitled Management s Discussion & Analysis of Financial Condition and Results of Operations of Arbor Realty Trust, Inc. and Subsidiaries Quantitative and Qualitative Disclosures about Market Risk

Table of Contents

ARBOR REALTY TRUST, INC.

We are a Maryland corporation that was formed in June 2003 to invest in real estate related bridge and mezzanine loans, preferred equity and, in limited cases, discounted mortgage notes and other real estate related assets. We conduct substantially all of our operations through our operating partnership. We will elect to be taxed as a 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.

On July 1, 2003, ACM 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, at June 30, 2003, represented $213.1 million in assets financed by $169.2 million borrowed under ACM s credit facilities, giving effect to notes payable equal to the financing amount available for each contributed investment under ACM s credit facilities, and supported by $43.9 million in equity.

We are externally managed and advised by ACM. 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 ACM s experience and reputation positions it to originate attractive investment opportunities for us. Our management agreement with ACM was developed to capitalize on synergies with ACM s origination infrastructure, existing business relationships and management expertise.

We believe the financing of multi-family and commercial real estate offers significant growth opportunities as the inflexibility of traditional lenders has created increased demand for customized financing solutions. Since its inception in 1996, ACM s structured finance group has originated over $1.2 billion in structured finance transactions for investment by ACM and certain joint venture partners. ACM has not realized any loss of principal on these investments, and, to date, approximately $1 billion of these investments have been fully realized. ACM has granted us a right of first refusal to pursue all structured finance investment opportunities identified by ACM. ACM will continue to provide and service 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.

We have a strong senior management team with significant industry experience. Mr. Ivan Kaufman, the chief executive officer of ACM, and Mr. Frederick Herbst, the chief financial officer of ACM, also serve as our chief executive officer and chief financial officer, respectively. Mr. Fred Weber, the head of the structured finance group at ACM since 1999, is our executive vice president of structured finance. Mr. Daniel M. Palmier, the head of ACM s asset management group since 1997, is our executive vice president of asset management, and the eight additional employees who comprised the asset management group of ACM have also joined us. In October 2003, we hired Mr. John C. Kovarik as our chief credit officer. Messrs. Kaufman, Weber, Palmier and Kovarik serve as members of our credit committee, which has the authority to decide whether we will invest in an individual loan or security originated by ACM.

We believe the asset management group s involvement in our credit underwriting process helps to mitigate investment risk after the closing of a transaction. The 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 a transaction closes. After the closing of structured finance transactions, the 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.

In connection with ACM s contribution of the initial assets, ACM arranged for us to have substantially similar credit facilities as those used by ACM to finance these assets. In exchange for ACM s asset contribution, we issued to ACM approximately 3.1 million operating partnership units, each of which ACM 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 ACM to purchase one additional operating partnership unit. The operating partnership units and warrants for additional operating partnership units issued to ACM 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, adjusted for the initial

purchaser s discount. Each of the approximately 3.1 million operating partnership units received by ACM 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 ACM s asset contribution and the related formation transactions, ACM owns approximately a 28% limited partnership interest in our operating partnership and the remaining 72% interest in our operating partnership is owned by us. In addition, ACM has approximately 28% of the voting power of our capital stock (without giving effect to the exercise of ACM s warrants for additional operating partnership units).

Industry Overview

Multi-family and commercial real estate encompasses a wide spectrum of assets including multi-family, office, industrial, retail and hospitality properties. We believe there is strong growth potential in customized financing of multi-family and commercial real estate. Commercial mortgage banks have arranged a significant portion of the debt financing for commercial real estate. In the past decade, the commercial mortgage industry has experienced significant change, due in part to increasingly standardized underwriting requirements, more demanding borrowers and lenders and the growth of a market for securitized commercial real estate pools. Many existing lending firms lack the capital or financial flexibility to compete effectively in today s rapidly changing market and the commercial mortgage industry is moving toward greater consolidation. Banks and life insurance companies, which have traditionally been the primary source for commercial real estate financing, are increasingly constraining borrowers by their relatively inflexible underwriting standards, including lower loan to value ratios, thereby creating significant demand for bridge, mezzanine and other forms of innovative financing.

Our Business Strategy

We capitalize on this demand by investing in a diversified portfolio of structured finance assets in the multi-family and commercial real estate market. Our principal business objectives are to invest in bridge and mezzanine loans, preferred equity and other real estate related assets and actively manage this 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. We provide financing customized to the needs of our borrowers. We target borrowers with reputations for enhancing value, but whose options may be limited by conventional bank financing and who may benefit from the sophisticated structured finance products we offer. Historically, ACM has attempted to provide customized loan structures and other financing alternatives to fit the characteristics and purpose of each individual borrower and its financing requirements and we employ a similar strategy.

Use ACM s Relationships with Existing Borrowers. We capitalize on ACM s reputation in the commercial real estate finance industry. ACM has relationships with over 125 distinct borrowers nationwide. Since ACM s originators offer ACM s senior mortgage loans as well as our structured finance products, we are able to benefit from ACM s existing customer base and use its senior lending business as a potential refinance vehicle for our structured finance assets.

Offer Broader Products and Expand Customer Base. We have the ability to offer a larger number of financing alternatives than ACM has been able to offer to its customers in the past. Our potential borrowers are able to choose from products offering longer maturities and larger principal amounts than ACM could previously offer.

Leverage Our Experience and the Experience of ACM. Our executive officers and employees, and those of ACM, have extensive experience originating and managing structured commercial real estate investments. Our senior management team has on average over 20 years experience in the financial services industry. Additionally, our executive officers have prior experience in managing and operating a public company, the predecessor company to ACM.

Manage and Maintain Credit Quality. A critical component of our success in the real estate finance sector is our ability to manage the real estate risk that is underwritten by our manager and us. We actively manage and maintain the credit quality of our portfolio by using the expertise of our asset management group, which has a proven track record of structuring and repositioning structured finance investments to improve the credit quality and yield on managed investments.

Focus on a Niche Market in Smaller Loan Balances. We focus on loans with principal amounts under $20 million, which many larger lending firms do not target. We can afford to invest the time and effort required to close loans with smaller principal amounts because of our relatively efficient cost structure.

Execute Transactions Rapidly. We act quickly and decisively on proposals, provide commitments and close transactions within a few weeks and sometimes days, if required. We believe that rapid execution attracts opportunities from both borrowers and other lenders that would not otherwise be available. We believe our ability to structure flexible terms and close loans in a timely manner gives us a competitive advantage over lending firms that also serve the market for loans with principal amounts under $20 million.

Our Investment Guidelines

We have adopted general guidelines for our investments and borrowings to the effect that:

- no investment will be made that would cause us to fail to qualify as a REIT;
- no investment will be made that would cause us to be regulated as an investment company under the Investment Company Act;
- no more than 25% of our equity, determined as of the date of such investment, will be invested in any single asset;
- our leverage will generally not exceed 80% of the value of our assets, in the aggregate; and
- we will not co-invest with our manager or any of its affiliates unless (i) our co-investment is otherwise in accordance with these guidelines and (ii) the terms of such co-investment are at least as favorable to us as to our manager or such affiliate (as applicable) making such co-investment.

Our manager is required to seek the approval of a majority of the independent members of our board of directors before we engage in a material transaction with another entity managed by our manager. These investment guidelines may be changed by our board of directors without the approval of our stockholders.

Our Investment Strategy

We actively pursue lending and investment opportunities with property owners and developers who need interim financing until permanent financing can be obtained. We will initially target transactions under $20 million where we believe we have competitive advantages, particularly our lower cost structure and in house capabilities. Our structured finance investments generally have maturities of two to five years, depending on type, have extension options when appropriate, and generally require a balloon payment of principal at maturity. Borrowers in the market for these types of loans include, but are not limited to, owners or developers seeking either to acquire or refurbish real estate or to pay down debt and reposition a property for permanent financing.

We target borrowers with reputations for enhancing value, but whose options are limited by conventional bank financing and can benefit from the sophisticated financing products we offer. Loan structures vary as they are customized to fit the characteristics and purpose of the financing. Our structured finance assets are underwritten in accordance with guidelines designed to evaluate the borrower and its ability to satisfy the repayment conditions of the loan, including an analysis of the various repayment strategies available to the investment. In certain instances, especially in our mezzanine and preferred equity investments, we may underwrite investments based on a stabilized value of the underlying property.

Our investment program emphasizes the following general 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 typically range in size from $1 million to $25 million and are secured by first lien mortgages on the property. The term of the loan typically is up to five years. Historically, ACM s spreads have ranged from 3.00% to 5.00% over 30-day LIBOR. Additional yield enhancements may include origination fees, deferred interest and participating interests, which are equity interests in the borrower that share in a percentage of the underlying cash flows of the property. Borrowers usually use the proceeds of a conventional mortgage to repay a bridge loan.

Mezzanine Financing. We offer mezzanine loans. Mezzanine loans are subordinate to a conventional first mortgage loan and senior to the borrower s equity in a transaction. We believe this product allows our clients to fund their projects in a more efficient and strategic manner than financing methods offered by conventional lenders. 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.

Our mezzanine loans typically range in size from $2 million to $15 million and have terms of up to seven years. Historically, ACM s spreads have ranged from 4.00% to 7.00% over 30-day LIBOR, occasionally with an interest rate floor. As in the case with our bridge loans, the yield on these investments may be enhanced by prepaid and deferred interest payments, yield look-backs and participating interests.

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 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.

Real Property Acquisitions. We may purchase existing real estate for repositioning and/or renovation and then disposition at an anticipated significant return. From time to time, we may identify real estate investment opportunities. In these situations, we may act solely on our own behalf or in partnership with other investors. Typically, these transactions are analyzed with the expectation that we will have the ability to sell the property within a one to two year time period, achieving a significant return on invested capital. In connection with these transactions, speed of execution is often the most critical component to success. We may seek to finance a portion of the acquisition price through short term financing. Repayment of the short term financing will either come from the sale of the property or conventional permanent debt.

Note Acquisitions. We may acquire real estate notes from lenders in situations where the borrower wishes to restructure and reposition its short term debt and the lender wishes, for a variety of reasons (such as risk mitigation, portfolio diversification or other strategic reasons), to divest certain assets from its portfolio. These notes will generally be acquired at a discount. In such cases, we intend to use our management resources to resolve any dispute concerning the note or the property securing it and to identify and resolve any existing operational or any other problems at the property. We will then either restructure the debt obligation for immediate resale or sale at a later date or reposition it for permanent financing. In some instances, we may take title to the property underlying the real estate note.

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 have substantially similar credit facilities as used by ACM to finance the initial assets. We are currently in negotiations with the providers of the credit facilities to provide similar credit facilities and to increase the amounts available under these credit facilities, but there can be no assurance that we will be able to obtain additional financing. We may also sell participating interests in our investments.

In order to meet the REIT qualification requirements, or to avert the imposition of a 100% tax that applies to certain gains derived by a REIT from dealer property or inventory, we may hold some of our assets through taxable subsidiary corporations. See Federal Income Tax Considerations Taxation of Arbor Realty.

Our Assets

We own a diversified portfolio of structured finance investments consisting principally of bridge and mezzanine loans as well as preferred equity investments. As of September 30, 2003, the majority of our portfolio consisted of initial assets contributed by ACM that have not yet matured. Since the commencement of our operations in July 2003, we have originated structured finance investments and purchased additional loans and investments from ACM.

At September 30, we had 30 loans and investments in our portfolio, totaling $241 million. These loans and investments were for 23 multi-family properties, four hotels, two commercial properties and one co-op. There are no loans that are non-performing within the portfolio. We continue to actively manage every single loan in the portfolio and believe that our strict underwriting and active asset management enable us to maintain the credit quality of our portfolio.

Our yield for the first quarter of operations ended September 30, 2003 was 7.65% on average assets of $244 million. Our average cost of funds was 3.56% on average borrowings of $81 million. Our average leverage for the quarter was 33%, resulting in our interest margin on a levered basis being 9.61%. As we add more loans and investments to our portfolio, we anticipate our leverage ratio, levered return and level of earnings will increase over time. Our business plan contemplates an increase of our leverage ratio to 65% to 70% over time.

The table on the following page lists the principal terms of each of our investments and the financing relating to each individual investment, each as of September 30, 2003.

Table of Contents

OUR ASSETS
As of September 30, 2003

Property Information			Investment Information					Funding Information				
Name	**Type**	**Location**	**Balance**	**Origination Date**	**Maturity Date**	**Interest Pay Rate Index**	**Interest Rate(1)**	**Balance**	**Interest Rate Index**	**Interest Rate(2)**	**Profit Share(2)**	**Advance Rate**
Bridge Loans:												
130 West 30th	Multi-family	New York, NY	$ 16,000,000	9/2001	5/2006	Libor + 2.25%	3.36%	$ 15,000,000	Libor + 1.50%	2.62%	Yes	93.75%
1025 5th Avenue	Co-op	New York, NY	1,100,000	10/2002	10/2003	18.00%	18.00%				No	
Concord and Henry	Multi-family/office	Massachusetts	5,000,000	4/2003	4/2004	Libor + 5.50% Floor 7.00%	7.00%	4,000,000	Libor + 2.00%	3.12%	No	80.00%
Dylan Hotel	Hotel	New York, NY	14,000,000	3/2003	3/2005	Libor + 5.00% Floor 6.50%	6.50%	9,800,000	Libor + 2.00%	3.12%	No	70.00%
Less: Participation			(2,100,000)			50% of net spread less 0.50% asset mgmt fee	(3.00%)			(1.56%)		
							3.50%			1.56%		
Emerald Bay	Multi-family	Winter Park, FL	15,400,000	5/2003	12/2004	Libor + 3.50% Floor 5.50%	5.50%	12,946,300	Libor + 3.00% Floor 4.25%	4.25%	No	84.07%
Grand Plaza	Multi-family	Las Vegas, NV	25,232,102	11/2002	12/2004	Libor + 3.00% Floor 5.25%	5.25%	18,723,511	Libor + 2.00%	3.12%	No	74.21%
Holiday Inn-Deland	Hotel	Deland, FL	4,700,000	3/2000	4/2004	Libor + 6.65% Floor 12.50%	12.50%		Libor + 2.00%		Yes	
Indiana Portfolio	Multi-family	Indiana	14,624,845	3/2003	3/2004	Libor + 4.25%	5.37%	500,000	Libor + 2.25%	3.37%	No	3.42%
Palmetto Villas Apts	Multi-family	Ontario, CA	9,130,000	5/2003	4/2005	Libor + 4.00% Floor 5.50%	5.50%	7,304,000	Libor + 2.00%	3.12%	No	80.00%
Partners Portfolio	Multi-family	Baltimore, MD	14,200,000	4/2003	4/2006	Libor + 3.50% Floor 5.00%	5.00%		Libor + 2.00%		Yes	
Tropical Gardens	Multi-family	Lauderdale Lakes, FL	8,800,000	12/2002	12/2004	Libor + 3.50% Floor 5.50%	5.50%	7,040,000	Libor + 2.00%	3.12%	No	80.00%
Vermillion Apts	Multi-family	Miami Lakes, FL	18,850,000	9/2002	9/2004	Libor + 3.00% Floor 5.00%	5.00%		Libor + 2.00% Libor Floor 2.50%		No	
Walbridge Terrace	Multi-family	San Francisco, CA	6,200,000	7/2003	7/2004	Libor + 4.500% Floor 6.00%	6.00%		Libor + 2.00%		No	

Bridge Loans	**Total**	$ 151,136,947	5.38%	$ 75,313,811	3.01%

(1) Interest rate excludes deferred interest component. See asset descriptions for terms.

(2) Interest rate does not include deferred interest component due to profit sharing arrangements pursuant to our warehouse facility. See Management s Discussion & Analysis of Financial Condition and Results of Operations of Arbor Realty Trust, Inc. and Subsidiaries Liquidity and Capital Resources for a description of these profit sharing arrangements.

Table of Contents

OUR ASSETS (continued)
As of September 30, 2003

Property Information			Investment Information					Funding Information				
Name	**Type**	**Location**	**Balance**	**Origination Date**	**Maturity Date**	**Interest Pay Rate Index**	**Interest Rate(1)**	**Balance**	**Interest Rate Index**	**Interest Rate(2)**	**Profit Share(2)**	**Advance Rate**
Mezzanine Loans:												
80 Evergreen Avenue	Commercial	Brooklyn, NY	$ 2,500,000	6/2003	5/2006	Pay Libor + 3.50% Floor Pay 5.00%	5.00%				No	
130 West 30th Street	Condo	New York, NY	4,000,000	6/2003	5/2006	Libor + 7.00% Floor 10.00%	10.00%		Libor + 2.25% Floor 1.75%		Yes	
333 E. 34th Street	Multi-family	New York, NY	10,000,000	1/2002	2/2004	Pay: Libor + 3.00% Floor Pay: 8.00%	8.00%		Libor + 4.00% Libor Floor 2.00%		Yes	
930 Flushing Avenue	Commercial	Brooklyn, NY	3,500,000	6/2003	5/2006	Pay Libor + 3.50% Floor Pay 5.00%	5.00%				No	
Carltons Arms	Multi-family	Tampa, FL	4,000,000	11/2001	12/2003	Libor + 6.75% Floor 12.00%	12.00%		Libor + 2.25%		Yes	
The Crossings	Multi-family	Glassboro, NJ	2,000,000	6/2003	6/2006	Libor + 7.00% Floor 10.00%	10.00%		Libor + 3.00% Floor 2.00%		Yes	
James Hotel	Hotel	Arizona	2,220,491	8/2003	7/2006	Libor + 7.00% Floor 9.00% Cap 10.00%	9.00%				No	
Partners Portfolio	Multi-family	Baltimore, MD	4,725,569	4/2003	5/2006	Libor + 4.50% (Year 1); Libor + 6.50% (Year 2); Libor + 7.50% (Year 3) Libor Floor 2.00%	6.50%		Libor + 3.00% Floor 2.00%		Yes	
Schron B	Multi-family	New Jersey	3,000,000	5/2003	4/2005	Libor + 5.25 Floor 6.75%%	6.75%		Libor + 4.00% Libor Floor 2.00%		No	
SMC Portfolio	Multifamily	Baltimore, MD	11,520,000	9/2003	9/2005	Libor + 5.50% (Year 1); Libor + 6.50% (Year 2); Libor + 7.50% (Year 3) Libor Floor 2.00%	7.50%		Libor + 2.25% Floor 1.75%		Yes	
Mezzanine Loans Total			$47,466,060				7.91%					

(1) Interest rate excludes deferred interest component. See asset descriptions for terms.

(2) Interest rate does not include deferred interest component due to profit sharing arrangements pursuant to our warehouse facility. See Management s Discussion & Analysis of Financial Condition and Results of Operations of Arbor Realty Trust, Inc. and Subsidiaries Liquidity and Capital Resources for a description of these profit sharing arrangements.

OUR ASSETS (continued)

As of September 30, 2003

Property Information			Investment Information					Funding Information				
Name	**Type**	**Location**	**Balance**	**Origination Date**	**Maturity Date**	**Interest Pay Rate Index**	**Interest Rate(1)**	**Balance**	**Interest Rate Index**	**Interest Rate(2)**	**Profit Share(2)**	**Advance Rate**
Preferred Equity:												
CDS Portfolio	Multi-family	Texas	$ 4,991,001	12/1998	1/2004	Libor + 4.50% Floor 9.56%	9.56%	$	Libor + 2.75%		No	
Devonshire Apts	Multi-family	Holyoke, MA	2,500,000	1/2002	1/2005	Libor + 4.50% Floor 10.00%	13.50%		Libor + 2.25%		Yes	
Dutch Village	Multi-family	Baltimore, MD	7,074,431	6/2003	11/2006	Libor + 4.50% (Year 1); Libor + 6.50% (Year 2); Libor + 7.50% (Year 3) Libor Floor 2.00%	6.50%		Libor + 3.00% Libor Floor 2.00%		Yes	
Park Place	Multi-family	Santa Ana, CA	3,860,000	1/2002	1/2005	Libor + 5.00% Floor 12.00%	12.00%		Libor + 2.25%		Yes	
Schron A	Multi-family	New Jersey	19,300,000	5/2003	4/2005	Libor + 5.25% Floor 6.75%	6.75%	16,600,000	Libor + 2.75%	3.87%	No	86.01%
Villages at Gateway	Multi-family	Denver, CO	2,800,000	2/2002	3/2004	Libor + 6.00% Floor 10.00%	10.00%		Libor + 2.25%		Yes	
Preferred Equity Total			$ 40,525,432				8.19%	$ 16,600,000		3.87%		
Other Investments												
Albion	Hotel	Miami, FL	$ 1,977,245	3/2001	8/2023	7.39% Fixed	7.39%				No	
Total Assets			$ 241,105,684				6.34%	$ 91,913,811		3.17%		

(1) Interest rate excludes deferred interest component. See asset descriptions for terms.

(2) Interest rate does not include deferred interest component due to profit sharing arrangements pursuant to our warehouse facility. See Management s Discussion & Analysis of Financial Condition and Results of Operations of Arbor Realty Trust, Inc. and Subsidiaries Liquidity and Capital Resources for a description of these profit sharing arrangements.

A description of the terms and characteristics of each of the investments listed in the table above follows.

Bridge Loans

130 West 30th Street. ACM originated this $16.0 million bridge loan to 130 West 30th, LLC in September 2001 and contributed it to us upon the consummation of the original offering. The borrower used the proceeds to acquire an 18 story office building in New York, New York. It is currently undergoing construction to convert the building from office to residential condominiums using the ACM mezzanine loan proceeds purchased by us on July 1, 2003.

The loan bears interest at a variable rate of LIBOR plus 2.25%. In connection with ACM providing the borrower with additional mezzanine financing in June 2003, the maturity date of this bridge loan was extended to May 31, 2006. Interest payments are due monthly, and the principal balance is due in full upon maturity. The loan is secured by a first mortgage lien on the property. There is a limited guarantee on the loan of 50% by Mr. Ivan Kaufman and 50% by the key principal of the borrower.

The borrower has the option to extend the term of the loan for one 12 month period at no fee.

ACM holds a 50% membership interest in 130 West 30th, LLC which it did not contribute to us in connection with the asset contribution. This interest is used to partially fund a loan loss guarantee by ACM. See Participating Interests in Our Investments Retained by ACM below.

1025 5th Avenue. ACM originated this $1.1 million bridge loan in October 2002 and contributed it to us upon the consummation of the original offering. The borrowers used the loan proceeds to renovate an apartment in a cooperative building in New York, New York.

As of September 30, 2003, the loan bore interest at a fixed rate of 18.00% per annum and was scheduled to mature in October 2003. In October 2003, the maturity date of the loan was extended to October 2004 and the interest rate was reduced to 10.00%. Interest payments are due monthly and the principal balance is due in full upon maturity. The loan is secured by a pledge of 225 cooperative shares owned by the lessee of the apartment and the apartment lease.

Concord Street & Henry Terrace. ACM originated this $5.0 million bridge loan to Henry Terrace, LLC and 100 Concord St., LLC in April 2003 and contributed it to us upon the consummation of the original offering. The borrowers used the proceeds to refinance an existing loan on a 74 unit multi-family residential property in Worcester, Massachusetts and a commercial property in Framingham, Massachusetts.

The loan bears interest at a variable rate of LIBOR plus 5.50%, with a 7.00% floor, and matures in April 2004. Interest payments are due monthly, and the principal balance is due in full upon maturity. In addition, upon maturity or prepayment of the loan, the borrower must pay deferred interest equal to the greater of 2.00% on the original principal balance or the amount necessary to generate an aggregate annual internal rate of return of 14.00%. The loan is secured by a first mortgage lien on the properties.

The borrower has the option to extend the term of the loan for one 6 month period at no fee if the loan has an outstanding principal balance of not more than $1.5 million at the time the extension is requested.

Dylan Hotel. ACM refinanced a discounted loan between Debis Financial Services Inc. and Grand Palace Hotel at the Park LLC with a $14.0 million bridge loan to Grand Palace Hotel at the Park LLC in March 2003. ACM contributed this bridge loan to us upon the consummation of the original offering. The borrower is the owner of a 107 room hotel in New York, New York.

The loan bears interest at a variable rate of one month LIBOR plus 5.00% with a floor of 6.50%, and matures in March 2005. Interest payments are due monthly, and the principal balance is due in full upon maturity.

In addition, upon maturity of the loan, the borrower must pay deferred interest of 1.00% on the principal repaid. The loan is secured by a first mortgage lien on the property.

The borrower has the option to extend the term of the loan for one 12 month period for additional interest of 1.00% on the outstanding principal balance upon such extension, but only if the borrower is in compliance with certain financial covenants.

ACM entered into a participation agreement with BD Hotels, LLC pursuant to which BD Hotels funded $2.1 million of the equity in the loan and is entitled to receive 50% of the net interest received by ACM, less a 0.50% management fee payable to ACM.

Emerald Bay Apartments. ACM originated this $16.4 million bridge loan to Empirian Bay LLC in May 2003 and contributed it to us upon the consummation of the original offering. The borrower used the loan proceeds to acquire and renovate a 432 unit multi family property in Winter Park, Florida. Of the total loan amount, $15.4 million has been disbursed and the remaining $1.0 million will be released as the renovations to the property are completed.

The loan bears interest on the outstanding balance at a variable rate of LIBOR plus 3.50%, with a floor of 5.50% and matures in December 2004. Interest payments are due monthly, and the borrower must make monthly principal payments of $21,000 until June 2004 and $30,000 from July 2004 through November 2004, with the balance due upon maturity. In addition, if the loan is repaid within the first 14 months after its origination, the borrower must pay deferred interest of .50%, and if the loan is repaid after this time, the borrower must pay deferred interest of 1.00%. The loan is secured by a first mortgage lien on the property and has been unconditionally guaranteed by certain affiliates of the borrower.

The borrower has an option to extend the term of the loan for one 6-month period for additional interest of 1.00% on the outstanding principal balance upon such extension and, if the first option is exercised, an option to extend for an additional 12-month period for additional interest of 1.00% on the outstanding principal balance upon such extension. If the initial term is extended, the borrower must pay interest monthly and make monthly principal payments of $30,000 from December 2004 to June 2005 and $75,000 from July 2005 through May 2006.

The loan is financed with a $16.2 million participation agreement with one of our lending partners pursuant to which we have a first loss position of $1.0 million. Of this participation amount, $12.9 million is currently outstanding. The participant is paid interest at a variable rate of LIBOR plus 3.00%, with a floor of 4.25%.

Grand Plaza. ACM originated a $25.5 million bridge loan to Grand Plaza Limited Partnership in November 2002 and contributed it to us upon the consummation of the original offering. The borrower used the loan proceeds to refinance outstanding debt on a 676 unit multifamily residential property located in Las Vegas, Nevada. The current outstanding balance on the loan is approximately $25.2 million.

The loan bears interest at a variable rate of LIBOR plus 3.00%, with a floor of 5.25%, and matures in December 2004. Interest and principal payments are due monthly. The loan is secured by a first mortgage lien on the property.

The borrower has the option to extend the term of the loan for one 12-month period at no fee.

Holiday Inn Convention Center. ACM originated this $5.7 million bridge loan to Hospitality Associates of DeLand Florida, Ltd. in March 2000 and contributed it to us upon the consummation of the original offering. The borrower used the loan proceeds to acquire and renovate the Holiday Inn Convention Center, a 148 room hotel in DeLand, Florida, as well as fund a $1.1 million capital improvements program. In connection with the extension of the maturity date, the borrower repaid $1.0 million of the outstanding principal balance, to $4.7 million.

The loan bears interest at a variable rate of LIBOR plus 6.65% with a floor of 12.50%, and matures in April 2004. Interest payments are due monthly, and the principal balance is due in full upon maturity. In addition, upon maturity or prepayment of the loan, the borrower must pay deferred interest of 3.00% on the principal repaid. The

loan is secured by a first mortgage lien on the property, a pledge of the partnership interests of the borrower and a pledge of the membership interests of certain of the borrower s affiliates.

Since the loan was not paid off by July 1, 2003, the borrower was required to pay additional interest of 0.50% on the outstanding principal balance. In October 2003, this bridge loan, together with all interest due, was repaid in full

Indiana Portfolio. ACM originated a $13.75 million bridge loan to NSH Affordable Housing of Indiana, Inc. in March 2003 and contributed it to us upon the consummation of the original offering. The borrower used the loan proceeds to acquire four affordable housing multi family properties located in Evansville, Indianapolis and Marion, Indiana.

The loan bears interest at a variable rate of one month LIBOR plus 4.25% and matures in March 2004. Interest payments are due monthly, and the principal balance is due in full upon maturity. The loan is secured by a first mortgage lien on the properties.

ACM also originated a separate $1.2 million bridge loan to the same borrower to fund renovations on the four properties described above. This loan also bears interest at a variable rate of one month LIBOR plus 4.25% and matures in March 2004. Interest payments on amounts drawn on the loan are due monthly, and the principal balance is due in full upon maturity. As of September 30, 2003, the outstanding principal balance was approximately $875,000. This loan is also secured by a first mortgage lien on the properties.

Palmetto Villas Apartments. ACM originated this $9.1 million bridge loan to Palmetto Villas Investors, LLC in May 2003 and contributed it to us upon the consummation of the original offering. The borrower used the loan proceeds to acquire and renovate a 134 unit multi family residential property in Ontario, California.

The loan bears interest at a variable rate of one month LIBOR plus 4.00%, with a floor of 5.50%, and matures in April 2005. Interest payments are due monthly, and the principal balance is due in full upon maturity. In addition, upon maturity or prepayment of the loan, the borrower must pay deferred interest of 1.00% on the principal repaid. The loan is secured by a first mortgage lien on the property.

The borrower has the option to extend the term of the loan for two 6 month periods. If the loan is extended the interest rate will increase to one month LIBOR plus 4.50%, with a floor of 6.00%. Additionally, the borrower must pay additional interest of .50% on the outstanding principal balance upon each such extension.

Partners Portfolio Bridge Loan. ACM originated this $14.2 million bridge loan to SRH/LA Chesapeake Apartments L.P., SRH/LA Nottingham, LLC, SRH/LA Hunter, LLC and SRH/LA Melvin, LLC in April 2003. ACM contributed this bridge loan to us upon the consummation of the original offering. The borrowers used the loan proceeds to acquire this 391 unit multi family residential portfolio, consisting of three properties in Baltimore, Maryland and fund a $1.6 million capital improvement program.

The loan bears interest at a variable rate of LIBOR plus 3.50% with a floor of 5.00%, and matures in April 2006. Interest payments are due monthly, and the principal balance is due in full upon maturity. In addition, upon maturity or prepayment of the loan, the borrowers must pay deferred interest of 1.00% on the principal repaid. The loan is secured by a first mortgage lien on each of the properties and partnership interests in certain affiliates of the borrower and a pledge of the cash flow of certain other properties.

Tropical Gardens Apartments. ACM originated this $8.8 million bridge loan to NHP Tropical Gardens Limited Partnership in December 2002 and contributed it to us upon the consummation of the original offering. The borrower used the loan proceeds to acquire and renovate a 245 unit multi family residential property located in Lauderdale Lakes, Florida.

The loan bears interest at a variable rate of LIBOR plus 3.50%, with a floor of 5.50%, and matures in December 2004. Interest payments are due monthly, and the principal balance is due in full upon maturity. In

addition, upon maturity or prepayment of the loan, the borrower must pay deferred interest of 1.00% on the principal repaid. The loan is secured by a first mortgage lien on the property.

Vermillion Apartments. ACM originated this $18.9 million bridge loan to SRH Vermillion Limited Partnership in September 2002 and contributed it to us upon the consummation of the original offering. The borrower used the loan proceeds to acquire a 330 unit multi family residential property located in Miami Lakes, Florida and fund a $1.3 million capital improvement program.

The loan bears interest at a variable rate of LIBOR plus 3.00%, with a floor of 5.00%, and matures in September 2004. Interest payments are due monthly and the principal balance is due in full upon maturity. The borrower must pay 0.50% of additional interest in September 2003, and 1.00% of deferred interest upon the prepayment or maturity of the loan unless the loan is refinanced with permanent financing from ACM in which case, the deferred interest will be waived, and ACM will reduce the management fee payable by us to ACM by an amount equal to 50% of the deferred interest waived. The loan is secured by a first mortgage lien on the property. An affiliate of the borrower has also provided a $1.5 million guarantee contingent upon the financial performance of the property. In October 2003, this bridge loan, together with interest due, was repaid in full.

Walbridge Terrace. We originated this $6.2 million bridge loan to Silver Lake Apartments, LLC in July 2003. The borrower used the loan proceeds to repay the existing construction loan and complete construction of this 40-unit senior housing property with 6,500 square feet of ground floor retail space in San Francisco, California.

The loan bears a variable rate of interest of LIBOR plus 4.50%, with a 6.00% floor, and matures in July 2004. The borrower paid a 2.00% origination fee on the date the loan closed. In accordance with our management agreement with ACM, the first 1.00% was paid to ACM and we retained the remaining 1.00%. The borrower must pay 1.00% of deferred interest upon the prepayment or maturity of the loan unless the loan is refinanced with permanent financing from ACM in which case, the deferred interest will be waived, and ACM will reduce the management fee payable by us to ACM by an amount equal to 50% of the deferred interest waived. The loan is secured by a first mortgage lien on the property and has been unconditionally guaranteed by key principals of the borrower.

Mezzanine Loans

80 Evergreen. ACM originated this $2.5 million mezzanine loan in June 2003. We purchased this loan from ACM effective August 1, 2003. The borrower used the loan proceeds to acquire and make repairs to a 77,680 square foot warehouse/industrial space located in Brooklyn, New York.

The loan bears a variable rate of interest of one-month LIBOR plus 8.00% with a floor of 9.50% and matures in May 2006. The borrower has the option to remit interest at a rate of LIBOR plus 3.50% with a 5.00% floor and to accrue the differential interest owed. Interest payments are due monthly, and the principal balance is due in full upon maturity. The loan is secured by a junior lien on the property. The loan is subordinate to a $1.6 million first mortgage lien held by a third party lender.

In connection with our refinancing of this mezzanine loan and the first mortgage lien in October 2003, this loan was repaid in full and replaced with a $4.8 million bridge loan made by us. The new bridge loan bears a variable rate of interest on one-month LIBOR plus 4.75% and will mature in May 2006.

The borrower has the option to extend the term of the loan for two 12-month periods at no fee.

130 West 30th Street. In connection with ACM s refinancing of the $16.0 million bridge loan to 130 West 30th, LLC on June 19, 2003, ACM agreed to provide the borrower with additional mezzanine financing in the amount of up to $8.0 million. This mezzanine loan matures in May 2006. We purchased this mezzanine loan from ACM on July 1, 2003 with a portion of the net proceeds from the original offering.

The additional financing will allow for the renovation/conversion of the office building to residential condominiums. The estimated cost of the construction project is $14.0 million, and it is estimated that the project will be completed by the end of the first quarter of 2004. Additional funds to complete construction are anticipated to come from the sales of the condominium units, cash flow from the operations and partner equity contributions.

The mezzanine financing bears interest at a variable rate of one-month LIBOR plus 7.00%, with a floor of 10.00%, and will be funded in two equal installments of $4.0 million. The two key principals will each contribute $1.0 million before either component is funded. The funding will be drawn down as construction progresses. The interest on the first component, which has been funded, will be earned on the full $4.0 million, while the interest on the second component, which has yet to be funded, will be earned as the $4.0 million is drawn down. The second component will remain unfunded unless a specified number of condominiums have been sold. The additional financing is secured by a second mortgage lien on the property.

333 East 34th Street. ACM originated this $10.0 million mezzanine loan to 333 East 34th, LLC in January 2002 and contributed it to us upon consummation of the original offering. The borrower used the loan proceeds to acquire and renovate a multi family residential building located in New York. The borrower is converting the New York rental property into condominiums.

The loan bears a variable rate of interest of one month LIBOR plus 5.00%, with a 12.50% floor, and matures in February 2004. The borrower has the option to remit interest at a rate of LIBOR plus 3.00% with an 8.00% floor and to accrue the differential interest owed, which compounds at an annual rate of 12.50%. Interest payments are due monthly, and the principal balance is due in full upon maturity. The loan is secured by a pledge of the membership interests in the borrower, and two affiliates of the borrower have personally guaranteed the loan for up to $1.0 million. The loan is subordinate to a $31.0 million first mortgage lien held by a third party lender.

The borrower has the option to extend the term of the loan for three, 12-month periods, the second of which requires a payment of additional interest of $300,000.

ACM holds a 15% interest in the property which it did not contribute to us in connection with the asset contribution. This interest is used to partially fund a loan loss guarantee by ACM. See Participating Interests in Our Investments Retained by ACM below.

930 Flushing Avenue. ACM originated this $3.5 million mezzanine loan in June 2003. We purchased this loan from ACM effective August 1, 2003. The borrower used the loan proceeds to acquire the 300,000 square foot warehouse/industrial space located in Brooklyn, New York.

The loan bears a variable rate of interest of one-month LIBOR plus 8.00% with a floor of 9.50% and matures in May 2006. The borrower has the option to remit interest at a rate of LIBOR plus 3.50% with a 5.00% floor and to accrue the differential interest owed. Interest payments are due monthly, and the principal balance is due in full upon maturity. The loan is secured by a junior lien on the property. The loan is subordinate to a $7.7 million first mortgage lien held by a third party lender.

The borrower has the option to extend the term of the loan for two 12-month periods for addition interest of 3.00% of the outstanding principal balance upon exercise of each extension.

Carlton Arms Apartments. ACM originated this $4.0 million mezzanine loan to HRA Egypt Lake, Inc. and Carlton Arms, LLC in November 2001 and contributed it to us upon consummation of the original offering. The borrowers used the loan proceeds to refinance the existing debt on a 650 unit apartment complex located in Tampa, Florida.

The loan bears interest at a variable rate of one month LIBOR plus 6.75%, with a floor of 12.00%, and matures in December 2003. Interest payments are due monthly and since January 2002, the borrower has made principal payments from excess cash flow, with the unpaid principal balance due in full upon maturity. In addition, upon maturity or prepayment of the loan, the borrowers must pay deferred interest of $840,000 on the principal repaid. This deferred interest has not been accrued. Upon the maturity of this loan, we will allocate a portion of the

amount received to our manager pro-rata based on the time frame this loan was held by our manager prior to the ACM s asset contribution. The loan is secured by a pledge of the membership interests in the borrower. The loan is subordinate to an approximately $21.4 million first mortgage lien held by a third party lender. The borrowers have the option to extend the term of the loan for up to six months with no additional interest due.

In connection with our refinancing of this $4.0 million mezzanine loan and the first mortgage lien in October 2003, this loan was repaid in full, including all deferred interest due, a portion of which we allocated to ACM pro rata for the timeframe it held the loan. We replaced the loan with a $27 million bridge loan made by us, which has an initial term of 24 months with one 12-month extension. The borrower must pay additional interest of 1.00% on the outstanding principal balance upon such extension. The borrower paid a 1.50% origination fee on the date the loan closed. In accordance with our management agreement with ACM, the first 1.00% was paid to ACM and we retained the remaining 0.50%. In addition, upon maturity or prepayment of the loan, the borrower must pay deferred interest of 1.50% of the principal repaid.

The new bridge loan is bifurcated into two notes. Note A, for $21.5 million, bears a variable rate of interest of LIBOR plus 3.50% with a 5.00% floor. Note B, for $5.5 million, bears a variable rate of interest of LIBOR plus 6.50% with an 8.50% floor. Note A must be repaid before Note B may be repaid. Note B contains a first loss guaranty by the key principal for the $5.5 million loan amount.

The Crossings Apartments. ACM originated this $2.0 million mezzanine loan to Audubon-Glassboro, LLC in June 2003. We purchased this loan from ACM on July 1, 2003 with a portion of the net proceeds from the original offering. The borrowers used the loan proceeds to acquire and renovate a 328-unit multi-family apartment complex located in Glassboro, Gloucester County, New Jersey.

The loan bears interest at a variable rate of LIBOR plus 7.00%, with a 10.00% floor, and matures in June 2006. Interest payments are due monthly, and the unpaid principal balance is due in full upon maturity. In addition, upon maturity or prepayment of the loan, the borrower must pay deferred interest equal to the amount necessary to provide an aggregate annual internal rate of return of 13.00%. The loan is secured by a pledge of membership interest in the borrowing entity. The loan is subordinate to a $11.0 million first mortgage loan on the property.

The borrower has the option to extend the term of the loan for two 12-month periods upon payment of additional interest of $30,000, for the first extension, and $50,000, for the second extension, if the borrower is in compliance with certain financial covenants.

James Hotel. We originated this $6.6 million mezzanine loan to James Hotel Scottsdale, LLC in August 2003. The borrower is currently using the loan proceeds to renovate this recently acquired 206-room independent hotel located in Scottsdale, Arizona.

The loan bears a variable rate of interest of LIBOR plus 7.00%, with a 9.00% floor and a 10.00% cap. The loan matures in July 2006. The borrower paid a 2.00% origination fee on the date the loan closed. In accordance with our management agreement with ACM, the first 1.00% was paid to ACM and we retained the remaining 1.00%. Interest payments are due monthly, and the principal balance is due in full upon maturity. In addition, upon maturity of the loan, the borrower must pay deferred interest in an amount necessary to generate an aggregate annual internal rate of return of 18.00%. The loan is secured by a pledge of the membership interests in the borrower. The loan is subordinate to a $5.0 million first mortgage lien and a $5.0 million second mortgage lien held by a third party lender.

Of the $6.6 million loan, $2.2 million has been funded and we have retained the remaining $4.4 million in a renovation reserve account. These funds will be disbursed as required for the renovation. For the first ninety days, interest will be earned on only the disbursed proceeds; thereafter, interest will be earned on $6.6 million.

The borrower has the option to extend the term of the loan for one additional 12-month period for additional interest payment of 1.00% on the outstanding principal balance upon such extension.

Partners Portfolio. ACM originated this $4.7 million mezzanine loan to SRH/ LA Chesapeake Apartments L.P., SRH/LA Nottingham, LLC, SRH/LA Hunter, LLC and SRH/LA Melvin, LLC in April 2003. ACM

contributed this loan to us upon consummation of the original offering. The borrowers used the loan proceeds to acquire this 443 unit multi family residential portfolio consisting of two properties in Baltimore, Maryland.

The loan bears interest at a variable rate of (1) in the first year, LIBOR plus 4.50%, with a floor of 6.50% (2) in the second year, LIBOR plus 6.50%, with a floor of 8.50% and (3) in the third year, LIBOR plus 7.50%, with a floor of 9.50%. The loan matures in May 2006. Interest payments are due monthly, and the principal balance is due in full upon maturity. In addition, upon maturity or prepayment of the loan, the borrowers must pay deferred interest of 1.0% on the principal repaid. The loan is secured by a pledge of partnership interests of the above entities and a pledge of the cash flows of certain affiliates of the borrower.

Schron Portfolio B. ACM originated this $8.5 million mezzanine loan to Central Jersey Sub VII LLC in August 2000 and contributed it to us upon consummation of the original offering. The borrower used the loan proceeds to acquire and renovate two multi family properties in New Jersey. The loan has been modified twice, first in October 2002 in connection with the repayment of $5.5 million of outstanding principal, and in May 2003 to extend the term.

The loan bears interest at a variable rate of LIBOR plus 5.25%, with a floor of 6.75%, and matures in April 2005. Interest payments are due monthly, and the principal balance is due in full upon maturity. The loan is secured by the ownership interests of certain affiliates of the borrower. The loan is subordinate to a first mortgage lien with a current unpaid principal balance of approximately $14.0 million.

The borrower has the option to extend the term of the loan for three one-year periods at no fee.

ACM holds an 18% interest in the properties which it did not contribute to us in connection with the asset contribution. This interest is used to partially fund a loan loss guarantee by ACM. See Participating Interests in Our Investments Retained by ACM below.

SMC Portfolio. We originated this $11.5 million mezzanine loan to various entities owned by Sawyer Realty Holdings, LLC in September 2003. The borrowers used the loan proceeds to refinance the existing first mortgage and make certain renovations to this 1,951-unit multi-family residential portfolio consisting of five properties in Baltimore, Maryland.

The loan bears interest at a variable rate of (1) in the first year, LIBOR plus 5.50%, with a floor of 7.50% (2) in the second year, LIBOR plus 6.50%, with a floor of 8.50% and (3) in the third year, if it is extended, LIBOR plus 7.50%, with a floor of 9.50%. The loan matures in September 2005. Interest payments are due monthly, and the principal balance is due in full upon maturity. In addition, upon maturity or prepayment of the loan, the borrower must pay deferred interest of 1.0% on the principal repaid. The loan is secured by a pledge of the membership interests in the borrowers as well as cash flow from another eight properties with first mortgage financing through ACM s Fannie Mae DUS lending program. The loan is subordinate to $59.2 million of first mortgage liens held by third party lenders.

The borrowers have the option to extend the term of the loan for three 12-month periods, the first of which requires a payment of additional interest of 1% of the outstanding principal balance upon such extension.

Preferred Equity Investments

CDS Texas Portfolio. ACM made this preferred equity investment in December 1998 and contributed it to us upon consummation of the original offering. This investment facilitated the acquisition and renovation of a nine property portfolio (Sea Breeze, Autumn Manor, Malibu, Lake Crest, Santa Fe, La Mesa, Trevino, Apache Arms and Harvard) containing 1,347 units located in Austin and El Paso, Texas. The investment was originally funded in the amount of $11.3 million. Subsequently, the property owner refinanced Lake Crest, Trevino, and Apache Arms and sold Harvard to reduce the principal balance. The current outstanding equity balance is $5.0 million. The properties are also security to debt amounting to $12.8 million held by third party lenders.

The investment bears a preferred return at a variable rate of six month LIBOR plus 4.50%, with a floor of 9.56%. The investment is required to be repurchased in January 2004 and upon such repurchase, the holder of the preferred interest is entitled to receive an additional preferred return of 2.00%.

Devonshire Apartments. ACM made this $2.5 million preferred equity investment in January 2002 in Merchant Devonshire Limited Partnership, the owner of a 180-unit multi family residential property in Holyoke, Massachusetts. ACM contributed this investment to us upon consummation of the original offering. The investment proceeds were used in connection with the acquisition of an office building in Hartford, Connecticut for approximately $23.3 million.

The investment bears a preferred return at a variable rate of LIBOR plus 7.50%, with a floor of 13.50%. The borrower has the option of remitting the preferred return at a pay rate of LIBOR plus 4.50% with a 10.00% floor and to accrue the differential owed. The preferred interest is required to be repurchased in January 2005, although such date may be extended for one, 12-month period without payment of a fee. The property secures a first mortgage lien with a current unpaid principal balance of approximately $5.4 million. In October 2003, this investment, together with all preferred return then due, was repaid in full.

Dutch Village Preferred Equity. ACM made this $7.1 million preferred equity investment in SRH/LA Chesapeake Apartments, L.P., and Partners of Dutch, Inc. We purchased this investment from ACM on July 1, 2003 with a portion of the net proceeds from the original offering.

The investment proceeds will be used to acquire a 544-unit multi-family apartment complex located in Baltimore, Maryland. The investment provides a variable rate return of (1) LIBOR plus 4.50%, with a floor of 6.50%, in the first year, (2) LIBOR plus 6.50%, with a floor of 8.50%, in the second year and (3) LIBOR plus 7.50%, with a floor of 9.50%, in the third year. Although the company is required to redeem the preferred equity investment in November 2006, this date may be extended by the company upon the exercise of three one-year extension periods. Upon the redemption, either on the redemption date or prior to such date, of the preferred equity investment, the company is required to pay an additional return of 1.00% on the original investment amount. The property is subject to a first mortgage lien with a current unpaid principal balance of $11.7 million.

Park Place Apartments. ACM made this $3.9 million preferred equity investment in January 2002 in Santa Ana Park Place Associates LLC, the owner of a 196 unit multi family residential building in Santa Ana, California, that also contains 7 retail units. ACM contributed this investment to us upon consummation of the original offering.

The investment proceeds were used to acquire and renovate the property. The owner has completed its improvements and currently has the property on the market. The investment bears a preferred return at a fixed rate of 16.00%, compounded monthly, although the owner has the option of remitting the preferred return at a pay rate of LIBOR plus 5.00%, with a 12.00% per annum floor and to accrue the differential owed, which compounds at an aggregate annual rate of 16.00%. The owner is required to repurchase the preferred interest in January 2005, although such date may be extended for one, 12-month period for a fee of $50,000. The property is subject to a first mortgage lien with a current unpaid principal balance of $10.7 million. As security for the investment, Santa Ana Park Place Corp. and K W Properties executed a guarantee in favor of Park Place LLC. In October 2003, this investment, together with all preferred return then due, was repaid in full.

Schron Portfolio A. ACM made a $19.3 million preferred equity investment in Central Jersey Prime Holdings LLC in May 2003 and contributed it to us upon consummation of the original offering. ACM had originally invested in May 2000 and also had an investment with a related party which was combined with this investment in May 2003. The investment proceeds were originally used to acquire 13 multi-family properties located throughout the state of New Jersey.

The investment bears a preferred return at a variable rate of LIBOR plus 5.25%, with a floor of 6.75%. The investment must be repurchased in April 2005, although the owner has the option to extend this obligation for three one year periods with no additional return. The properties are subject to a first mortgage lien with a current unpaid principal balance of approximately $189.3 million.

ACM holds an 18% interest in the properties which it did not transfer to us in connection with the asset contribution. This interest is used to partially fund a loan loss guarantee by ACM. See Participating Interests in Our Investments Retained by ACM below.

***Villages at Gateway*.** ACM made this $4.3 million preferred equity investment in February 2002 in BP C04 Property Associates, LLC, the owner of a 764 unit multi family residential property in Denver, Colorado. ACM contributed this investment to us upon consummation of the original offering. The owner used the proceeds to acquire and renovate the property. The investment was originally made in two components of $1.5 million and $2.8 million, one of which was repurchased by the owner leaving $2.8 million outstanding.

The investment bears a preferred return at a variable rate of LIBOR plus 6.00%, with a floor of 10.00%. The equity interest must be repurchased by the owner in March 2004, although the owner has the option to extend the repurchase date for one 12-month period at no additional return, followed by two six-month extensions subject to an additional return of $126,000 for the first and $140,000 for the second extension. The property secures a first mortgage lien with a current unpaid principal balance of approximately $23.4 million.

Upon repurchase of the interests, the owner must make an additional distribution, depending upon the year of repurchase: $100,240 during the first year, $300,160 during the second year and $529,760 during the third year and beyond. This additional distribution has not been accrued. Upon receipt of this additional distribution, we will allocate a portion of the amount received to our manager pro rata based on the time frame this investment was held by our manager prior to ACM s asset contribution.

Other Investments

Albion. ACM originated a $12.5 million bridge loan to Albion Associates, LTD in August 1998. The borrower used the loan proceeds to acquire and renovate a 96 room hotel in Miami Beach, Florida.

On March 14, 2001, ACM bifurcated the loan, which at that time had an unpaid principal balance of approximately $2.1 million. The A note, totaling $10.0 million, was sold to a third party and was subsequently securitized in the private market. ACM retained the B note, which currently has an unpaid balance of approximately $2.0 million, bears interest at a fixed rate of 7.39% is amortized over 30 years, and matures in September 2023. However, if the loan is not repaid by September 2008, the interest rate is increased by 5.00% and additional provisions regarding the allocations of the borrower s cash flow become effective. Pursuant to an agreement between ACM and the holder of the A note, the B note is subordinate to the A note with respect to the right to receive payments of interest and principal. In addition, following an event of default, the B note holder is subject to a standstill whereby the B note holder cannot exercise its remedies to realize upon the collateral until such time that all interest, principal, fees and costs are fully repaid to the A note holder.

ACM s Retained Interests in Our Investments

At the time of ACM s origination of three of the assets contributed to us upon consummation of the original offering, the 333 East 34th Street and Schron B mezzanine loans and the Schron A preferred equity investment, each of the property owners related to these investments granted ACM participating interests that share in a percentage of the cash flows of the underlying properties. At the time ACM made the 130 West 30th Street bridge loan also contributed to us, ACM and the borrower also entered into a joint venture in which each partner contributed 50% of the capital and is equally entitled to share in the profits and losses of the venture. Upon contribution of these four investments to us, ACM retained its participating interests in the three investment and its interest in the joint venture with the borrower under the 130 West 30th Street bridge loan, which we refer to collectively as ACM s retained interests. After each of the related investments is repaid or repurchased, ACM may realize value from the associated retained interests. ACM has agreed that if any portion of the outstanding amount of any of these four investments is not paid at the investment s maturity or repurchase date, ACM will pay to us, subject to the limitation described below, the portion of the unpaid amount of the investments up to the total amount then received by ACM due to the realization of any retained interests associated with any other of the four investments. However, ACM will no longer be obligated to make such payments to us when the remaining accumulated principal amount of the four investments, collectively, falls below $5 million and none of the four investments is in default.

The principal amount for each contributed investment protected by this payment obligation is equal to the principal balance of the investment at the time of contribution, plus the investment s interest expense paid by us in cash since contribution, less the investment income and deferred interest or preferred return received by us in cash since contribution.

Operations

Our Manager s Investment Services

Under the management agreement, ACM is responsible for sourcing originations, providing underwriting services and processing approvals for all loans and other investments in our portfolio. ACM also provides certain administrative loan servicing functions with respect to our loans and investments. We are able to capitalize on ACM s well established operations and services in each of these areas as described below.

Origination

Most of our investments originate from ACM. ACM serves its markets directly through its network of 14 sales offices located in Atlanta, Georgia; Bethesda, Maryland; Bloomfield Hills, Michigan; Boca Raton, Florida; Boston, Massachusetts; Chicago, Illinois; Dallas, Texas; Denver, Colorado; Los Angeles, California; Rochester, New York; San Clement, California; New York, New York; San Francisco, California; and Uniondale, New York. These offices are staffed by approximately 20 loan originators who solicit property owners, developers and mortgage loan brokers. In some instances the originators accept loan applications meeting our underwriting criteria from a select group of mortgage loan brokers. While a large portion of ACM s marketing effort occurs at the branch level, ACM also markets its products in industry publications and targeted direct mailings. Our manager markets structured finance products as our product offerings using the same methods.

Once potential borrowers have been identified, ACM determines which financing products best meet the borrower s needs. Loan originators in every branch office are able to offer borrowers the full array of ACM s financing products and our structured finance products. After identifying a suitable product, ACM works with the borrower to prepare a loan application. Upon completion by the borrower, the application is forwarded to ACM s underwriters for due diligence. See Underwriting.

Underwriting

Our manager s loan originators work in conjunction with its underwriters who have the responsibility to perform due diligence on all proposed transactions prior to loan approval and commitment. Upon receipt of each new loan application, the underwriter analyzes it in accordance with the guidelines set forth below in order to determine the loan s conformance and suitability with respect to those guidelines. In general, ACM s underwriting guidelines require it to evaluate the following:

- the historic and in place property revenues and expenses;
- the potential for near term revenue growth and opportunity for expense reduction and increased operating efficiencies; the property s location, its attributes and competitive position within its market;
- the proposed ownership structure, financial strength and real estate experience of the borrower and property management; third party appraisal, environmental and engineering studies;
- market assessment, including property inspection, review of tenant lease files, surveys of property comparables and an analysis of area economic and demographic trends; review of an acceptable mortgagee s title policy and an as built survey;
- construction quality of the property to determine future maintenance and capital expenditure requirements; and
- the requirements for any reserves, including those for immediate repairs or rehabilitation, replacement reserves, tenant improvement and leasing commission costs, real estate taxes and property casualty and liability insurance.

Key factors considered in credit decisions include, but are not limited to, debt service coverage, loan to value ratios and property, financial and operating performance. Consideration is also given to other factors, such as additional forms of collateral and identifying likely strategies to effect repayment. ACM will refine its underwriting criteria based upon actual loan portfolio experience and as market conditions and investor requirements evolve.

Investment Approval Process

ACM applies its established investment approval process to all loans and other investments proposed for our portfolio before submitting each proposal to us for final approval. A written report is generated for every loan or other investment that is submitted to ACM s seven member credit committee for approval. The presentation includes a description of the prospective borrower and any guarantors, the collateral and the proposed use of investment proceeds, as well as borrower and property consolidated financial statements and analysis. In addition, the presentation summarizes an analysis of borrower liquidity, net worth, cash investment, income, credit history and operating experience. If the transaction is approved by a majority of ACM s credit committee, it is presented for approval to our credit committee, which consists of our chief executive officer, our chief credit officer, our executive vice president of structured finance and our executive vice president of asset management. All transactions require the approval of a majority of the members of our credit committee, including the vote of our executive vice president of structured finance.

Following the approval of any such transaction, ACM s underwriting and servicing departments, together with our asset management group, assure that all loan approval terms have been satisfied and that they conform with lending requirements established for that particular transaction. If our credit committee and independent directors reject the loan and the independent directors allow ACM or one of its affiliates to pursue it, ACM will have the opportunity to execute the transaction. See Our Manager and the Management Agreement Rights of First Refusal.

Servicing

ACM services our loans through its internal servicing operations. Our manager currently services an expanding portfolio, consisting of approximately 500 loans with outstanding balances of $2.7 billion through its loan administration department in Buffalo, New York. ACM s loan servicing operations are designed to provide prompt customer service and accurate and timely information for account follow up, financial reporting and management review. Following the funding of an approved loan, all pertinent loan data is entered into ACM s data processing system, which provides monthly billing statements, tracks payment performance and processes contractual interest rate adjustments on variable rate loans. Our manager utilizes the operations of its loan administration department to service our portfolio with the same efficiency, accuracy and promptness. ACM also works closely with our asset management group to ensure the appropriate level of customer service and monitoring of these loans.

Our Asset Management Operations

Our asset management group is comprised of nine employees that comprised the asset management group at ACM. The experience and depth of services of the asset management group enabled ACM to improve the credit quality and yield of its structured finance investments. The asset management group, while at ACM, was responsible for managing over $2.5 billion in assets consisting of more than 500 real estate related investments for ACM. The asset management group has successfully managed numerous transactions, including complex restructurings, refinancings and asset dispositions. Through active participation in the financing and structuring strategies of transactions, many of these transactions have directly created value by generating excess cash flow or by enhancing asset values. Other transactions have dramatically reduced ACM s financial exposure.

The professionals that are part of this group are experienced in managing and servicing many types and classes of assets. Because each property and loan is unique, the asset management group, at the point of origination, customizes an asset management plan with the origination and underwriting teams to track the asset from origination through disposition. The asset management group is committed to effectively communicating to senior management the status of transactions against a pre-established plan, enhancing and preserving capital, as well as avoiding litigation and potential exposure. The asset management group also performs frequent site inspections, conducts

meetings with borrowers and evaluates and participates in the budgeting process, financial review of operations and the asset s renovation plans.

Effective asset and portfolio management is essential to maximizing the performance and value of a real estate/mortgage investment. The asset management group monitors each investment s operating history and assesses potential financial performance to accurately evaluate and ultimately improve operations and financial viability. As an asset and portfolio manager, the asset management group focuses on increasing the productivity of on site property managers and leasing brokers as well. The asset management group also monitors local economic trends, rental and occupancy rates and property competitiveness within its market.

Accurate identification of an investment s current issues and each stockholder s objectives is important in the loan workout and restructuring process. Since existing management may not have the requisite expertise to effectively implement and manage the workout process, the asset management group determines current operating and financial status of an asset or portfolio and performs liquidity analysis of properties and ownership entities and then identifies and evaluates alternatives in order to maximize the value of an investment.

Our asset management group continues to provide its services to ACM on a limited basis pursuant to an asset management services agreement between ACM and us. The asset management services agreement will be effective throughout the term of our management agreement and during the origination period described in the management agreement. In the event the services provided by our asset management group pursuant to this agreement exceed by more than 15% per quarter the level anticipated by our board of directors, we will negotiate in good faith with our manager an adjustment to our manager s base management fee under the management agreement, to reduce the scope of the services, the quantity of serviced assets or the time required to be devoted to the services by our asset management group.

Operating Policies and Strategies

Capital and Leverage Policies. Currently, we are financing our acquisition of mortgage assets through the proceeds of the original offering and through borrowings under our credit facility. In the future, we will finance our acquisition of mortgage assets primarily by borrowing against or leveraging our existing portfolio and using the proceeds to acquire additional mortgage assets. We expect to incur debt such that we will maintain an equity to assets ratio of up to 20%, although the actual ratio may be lower from time to time depending on market conditions and other factors deemed relevant by our manager. Our charter and bylaws do not limit the amount of indebtedness we can incur, and the board of directors has discretion to deviate from or change our indebtedness policy at any time. However, we intend to maintain an adequate capital base to protect against various business environments in which our financing and hedging costs might exceed interest income (net of credit losses) from our investments. These conditions could occur, for example, due to credit losses or when, due to interest rate fluctuations, interest income on our investments lags behind interest rate increases in our borrowings, which are expected to be predominantly variable rate. See Risk Factors Risks Related to our Business.

Liabilities. Our investments are financed primarily at short term borrowing rates through warehouse lines of credit, repurchase agreements, loan agreements, commercial paper borrowings and other credit facilities with institutional lenders. Although we expect that commercial warehouse lines of credit and repurchase agreements will be the principal means of leveraging our investments, we may issue preferred stock or secured or unsecured notes of any maturity if it appears advantageous to do so. We have substantially similar credit facilities as those used by ACM to finance the initial assets. These credit facilities are further described under Liquidity and Capital Resources Sources of Liquidity.

Credit Risk Management. We are exposed to various levels of credit and special hazard risk depending on the nature of our underlying assets and the nature and level of credit enhancements supporting our assets. We originate or purchase mortgage loans that meet minimum debt service coverage standards established by us. ACM, as our manager, and our chief credit officer review and monitor credit risk and other risks of loss associated with each investment. In addition, ACM seeks to diversify our portfolio of assets to avoid undue geographic, issuer, industry and certain other types of concentrations. Our board of directors monitors the overall portfolio risk and reviews levels of provision for loss.

Asset/Liability Management. To the extent consistent with our election to qualify as a REIT, we follow an interest rate risk management policy intended to mitigate the negative effects of major interest rate changes. We minimize our interest rate risk from borrowings by attempting to structure the key terms of our borrowings to generally correspond to the interest rate term of our assets.

Hedging Activities. Although ACM has not found it advantageous to enter into hedging transactions in the past, we may enter into such transactions in the future to protect our investment portfolio from interest rate fluctuations and other changes in market conditions. These transactions may include interest rate swaps, the purchase or sale of interest rate collars, caps or floors, options, mortgage derivatives and other hedging instruments. These instruments may be used to hedge as much of the interest rate risk as ACM determines is in the best interest of our stockholders, given the cost of such hedges and the need to maintain our status as a REIT. ACM may elect to have us bear a level of interest rate risk that could otherwise be hedged when it believes, based on all relevant facts, that bearing such risk is advisable.

Disposition Policies. Although there are no current plans to dispose of properties or other assets within our portfolio, ACM evaluates our asset portfolio on a regular basis to determine if it continues to satisfy our investment criteria. Subject to certain restrictions applicable to REITs, ACM may cause us to sell our investments opportunistically and use the proceeds of any such sale for debt reduction, additional acquisitions or working capital purposes.

Equity Capital Policies. Subject to applicable law, our board of directors has the authority, without further stockholder approval, to issue additional authorized common stock and preferred stock or otherwise raise capital, including through the issuance of senior securities, in any manner and on the terms and for the consideration it deems appropriate, including in exchange for property. Our existing stockholders, including stockholders purchasing in this offering, will have no preemptive right to additional shares issued in any offering, and any offering might cause a dilution of investment. See Description of Stock. We may in the future issue common stock in connection with acquisitions. We also may issue units of partnership interest in our operating partnership in connection with acquisitions of property.

We may, under certain circumstances, repurchase our common stock in private transactions with our stockholders, if those purchases are approved by our board of directors. Our board of directors has no present intention of causing us to repurchase any shares, and any action would only be taken in conformity with applicable federal and state laws and the applicable requirements for qualifying as a REIT, for so long as the board of directors concludes that we should remain a REIT.

Conflicts of Interest Policies. We, our executive officers and ACM face conflicts of interests because of our relationships with each other. Mr. Ivan Kaufman is our chief executive officer and the chief executive officer of ACM and serves on our credit committee and the Kaufman entities own approximately 88% of the beneficial equity interest of ACM. Mr. Frederick C. Herbst is our chief financial officer and the chief financial officer of ACM. In addition, Mr. Herbst, two of our executive vice presidents, Mr. Fred Weber and Mr. Daniel M. Palmier, and two of our directors, Mr. Joseph Martello and Mr. Walter Horn, have minority ownership interests in ACM, and Mr. Martello serves as the trustee of a trust through which Mr. Kaufman owns the majority of his ownership interest in ACM and co-trustee of another Kaufman entity that owns an equity interest in ACM.

We have implemented several policies, through board action and through the terms of our constituent documents and of our agreements with ACM, to help address these conflicts of interest:

Our charter requires that a majority of our board of directors be independent directors and that only 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 policy that decisions concerning our management agreement with ACM, including termination, renewal and enforcement thereof, or concerning any acquisition of assets from ACM or its affiliates or other participation in any transactions with ACM or its affiliates outside of the management agreement must be reviewed and approved by a majority of our independent directors.

Our management agreement provides that our determinations to terminate the management agreement for cause or because the management fees are unfair to us or because of a change in control of our manager will be made by a majority vote of our independent directors.

Our independent directors will periodically review the general investment standards established for ACM under the management agreement.

Our management agreement with ACM provides that ACM may not assign duties under the management agreement, except to certain affiliates of ACM, without the approval of a majority of our independent directors.

Our management agreement provides that decisions to approve or reject investment opportunities rejected by our credit committee that ACM or Mr. Kaufman wish to pursue will be made by a majority of our independent directors.

Other Policies. We intend to operate in a manner that will not subject us to regulation under the Investment Company Act. We may invest in the securities of other issuers for the purpose of exercising control over such issuers and underwrite securities of other issuers, particularly in the course of disposing of their assets.

Future Revisions in Policies and Strategies. Our board of directors has approved the investment guidelines and the operating policies and the strategies set forth in this prospectus. The board of directors has the power to modify or waive these policies and strategies, or amend our agreements with ACM, without the consent of our stockholders to the extent that the board of directors (including a majority of our independent directors) determines that such modification or waiver is in our best interest or the best interest of our stockholders. Among other factors, developments in the market that either affect the policies and strategies mentioned herein or that change our assessment of the market may cause our board of directors to revise its policies and strategies. However, if such modification or waiver involves the relationship of, or any transaction between, us and our manager or any affiliate of our manager, the approval of a majority of our independent directors is also required. We may not, however, amend our charter to change the requirement that a majority of our board consist of independent directors or the requirement that our independent directors approve related party transactions without the approval of two thirds of the votes entitled to be cast by our stockholders.

Policies With Respect to Certain Other Activities

Reporting Policies. Generally speaking, we intend to make available to our stockholders certified annual consolidated financial statements and annual reports. After this offering, we will become subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, referred to as the Exchange Act. Pursuant to these requirements, we will file periodic reports, proxy statements and other information, including audited consolidated financial statements, with the Securities and Exchange Commission.

Our Operating Partnership

We have organized Arbor Realty Limited Partnership, our operating partnership, as a limited partnership under the Delaware Revised Uniform Limited Partnership Act. We serve as the sole general partner of our operating partnership, and own a 72% partnership interest in our operating partnership represented by operating partnership units that we obtained in exchange for our contribution of the net proceeds of the original offering to our operating partnership. The remaining 28% partnership interest in our operating partnership is owned by ACM. In exchange for the contribution of the initial assets to our partnership, ACM received approximately 3.1 million operating partnership uni