

Leveraging Small Multifamily Loans in 2017

How to Grow Your Multifamily Investment
Portfolio and Maximize Returns



Today's Panel

Speakers



Ivan Kaufman

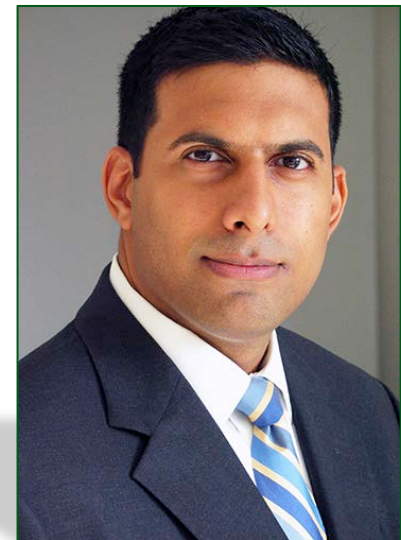
Chairman, President & CEO
Arbor Realty Trust, Inc.



Steve Johnson

Vice President, Small Balance
Loan Business, Freddie Mac

Moderator



Sam Chandan

Silverstein Chair, NYU SPS Schack
& Founder, Chandan Economics



What is a Small Balance Loan?



What is Considered a Small Balance Loan?

Although small multifamily properties are commonly defined as those with five to 50 units, Freddie Mac recently announced a new Small Balance Loan (SBL) program designed for:

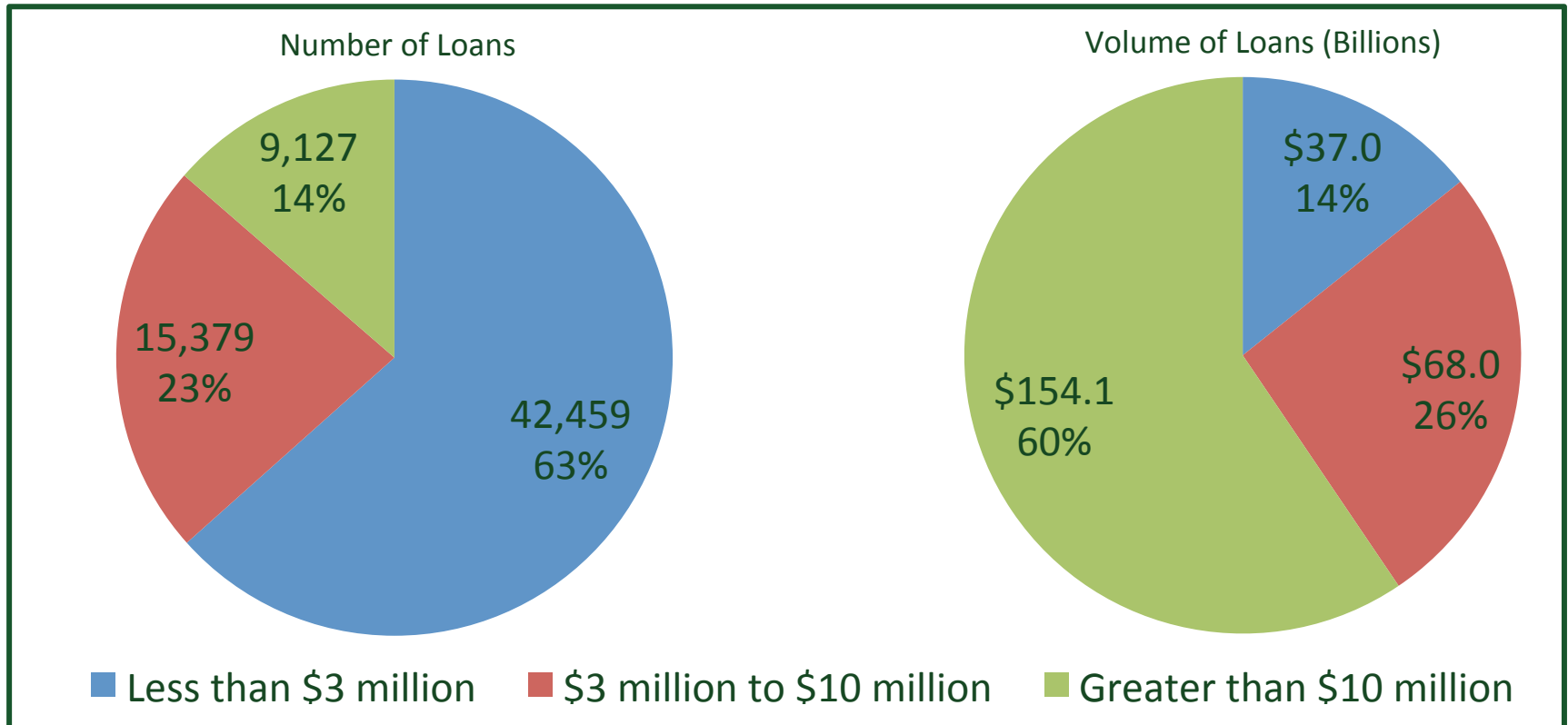
- Multifamily loans ranging from **\$1 million to \$6 million** in all markets (properties with 5+ units).
- Multifamily loans from **\$6 million to \$7.5 million** in Top and Standard markets for properties with 75 units or less.

Sizing the Small Multifamily Loan Market

The small multifamily loan market (properties with 5 to 50 units), which represents 65% of loans but 20% of volume*.

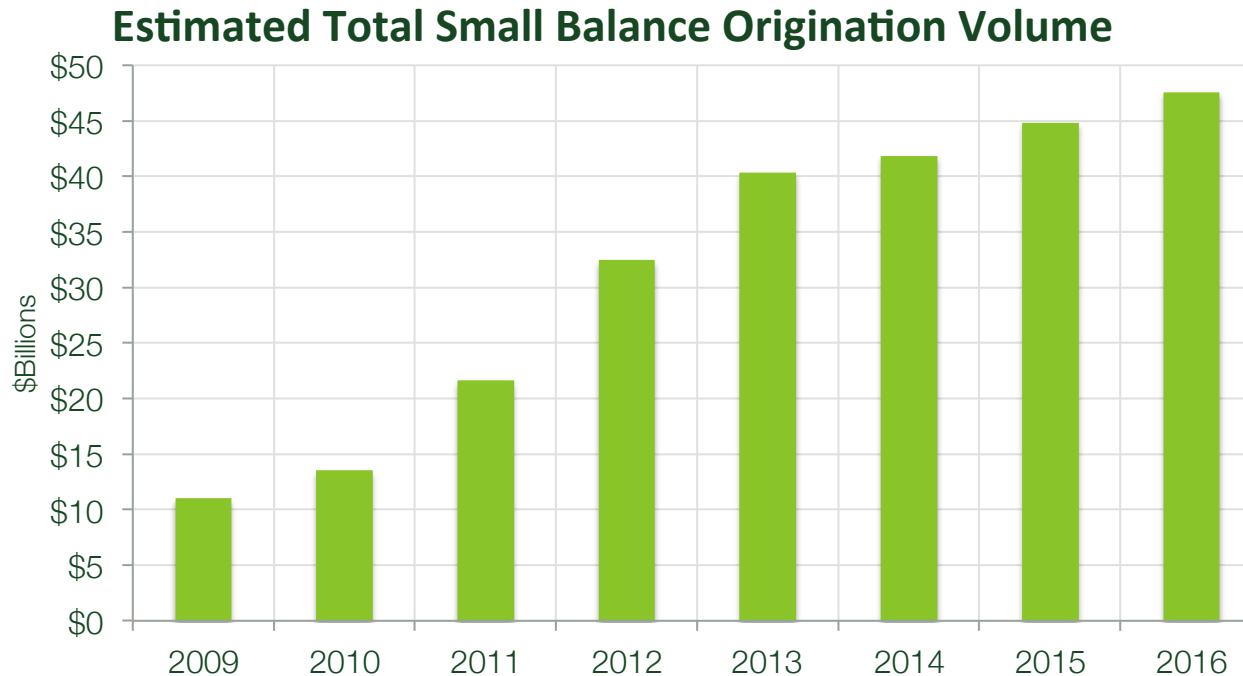
Multifamily Lending by Size 2015

Based on 2015 MBA Annual Report on Multifamily Lending



Sizing the Small Balance Loan Market

The small multifamily loan market (properties with 5 to 50 units) has more than quadrupled since 2009 — from \$11.1B to \$47.6B.



Source: Chandan Economics, ALEX Chatter

Why So Much Growth?

Demand for safe, clean and affordable housing higher than ever

Investors turning to secondary and tertiary markets for value

Rise of the value-add strategy

New, standardized capital sources make financing accessible

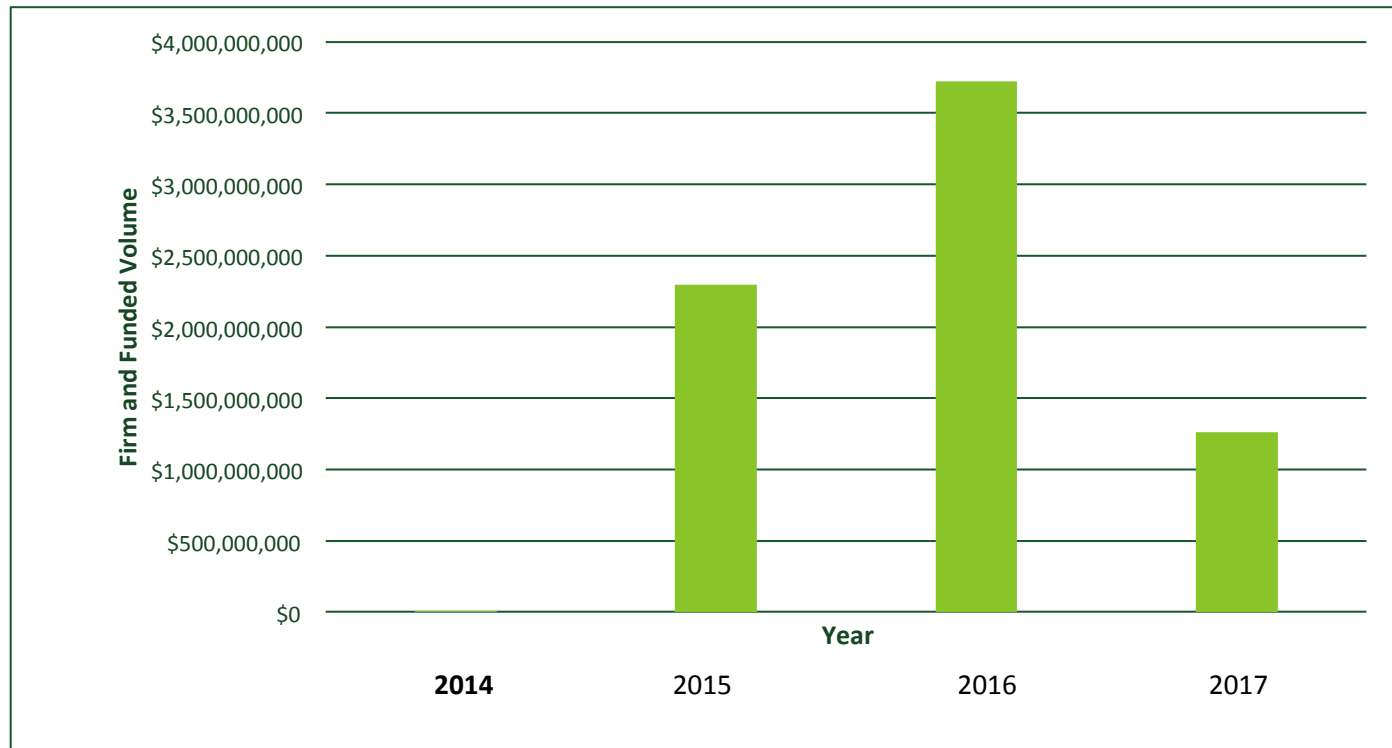
Investors looking for alternatives to the equity markets

Why Did Freddie Mac Launch SBL Program?



Rapid Growth Since 2014 Launch

SBL Program Volume (Inception to Q1 2017)



(Source: Freddie Mac)

Arbor's Long History in the Small Loan Space

- ❖ Arbor (NYSE: ABR) is a national direct lender that provides debt capital for the multifamily and commercial real estate industries.
- ❖ From its beginnings as the multifamily small loan mortgage specialist, Arbor continues to ensure that this once underserved market receives the professional and personalized treatment it deserves.
- ❖ Partnered with Freddie Mac to help launch the Small Balance Loan program which debuted in 2014.
- ❖ Arbor's long history in the small loan space has continued dedication to the market has helped us become the industry's leading small loan lender.
- ❖ Arbor is an industry innovator that's heavily invested in developing technology to streamline multifamily loan origination and processing operations.



Who is the Small Balance Borrower

Key Features of a Small Balance Borrower

Non-institutional

More concentrated in small properties

Geographic focus on secondary & tertiary markets

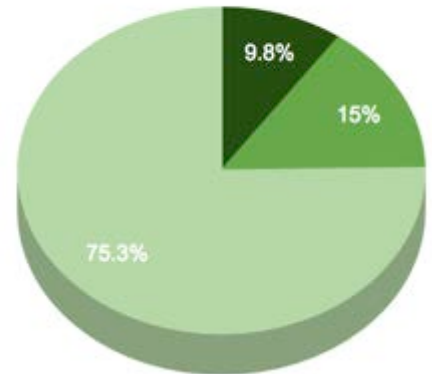
Who is the Small Balance Renter?

Key Features of a Small Balance Renter

Tend to be younger renters — especially those with children — as smaller properties feature more affordable rents and larger unit footprints.

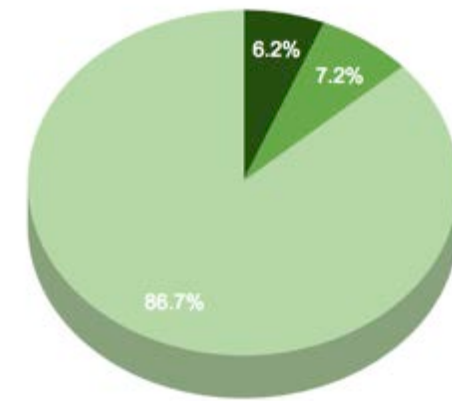
Children in Small Apartment Assets (5 to 49 units)

- Married with Children
- Single with Children
- Households without Children



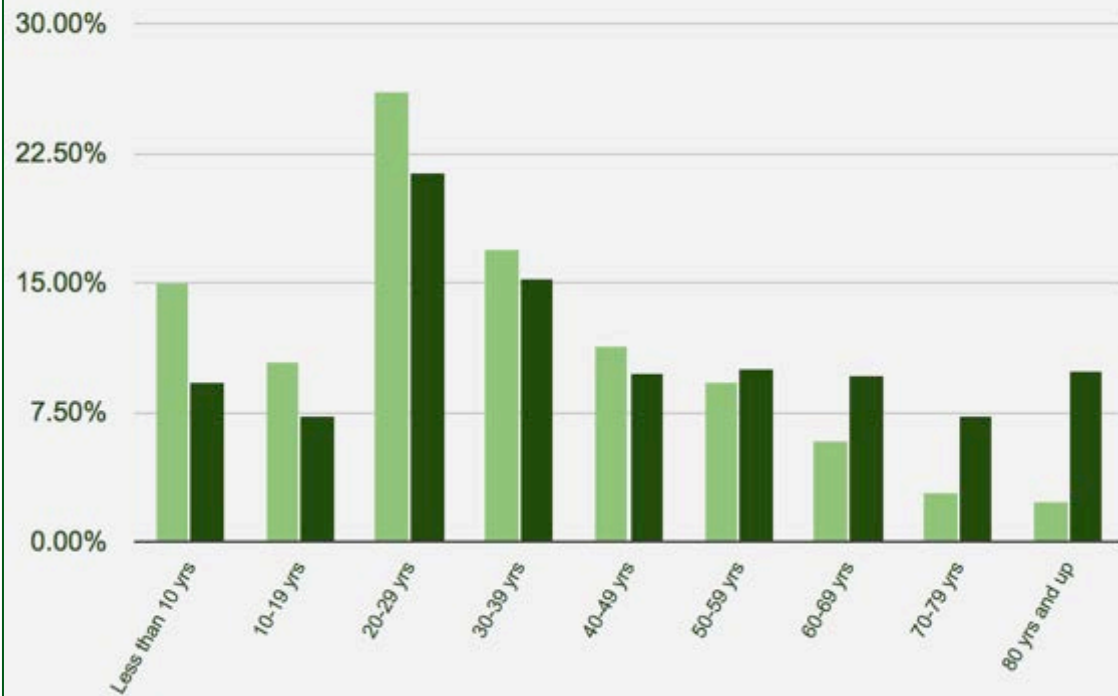
Children in Large Apartment Assets (50+ Units)

- Married with Children
- Single with Children
- Households without Children



Age Distribution of Apartment Residents by Building Size

Small Asset Large Asset





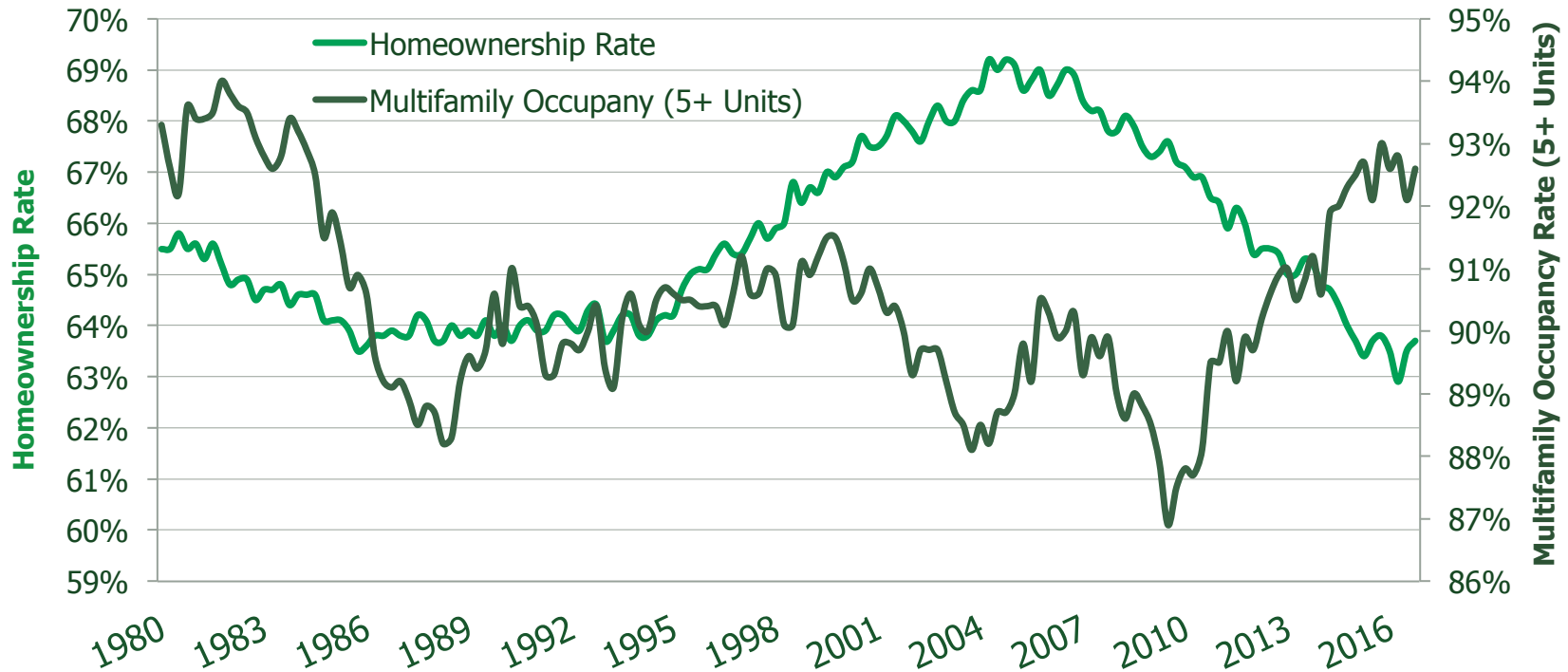
State of the Multifamily Industry



Why is Multifamily So Hot?

- ◆ Dawn of the 'Rentership' Era
- ◆ Millennials and Baby Boomers Renting by Choice
- ◆ Real median household income is not much higher than it was in 2000, but rents have continued to grow

Homeownership Rate vs. Multifamily Occupancy

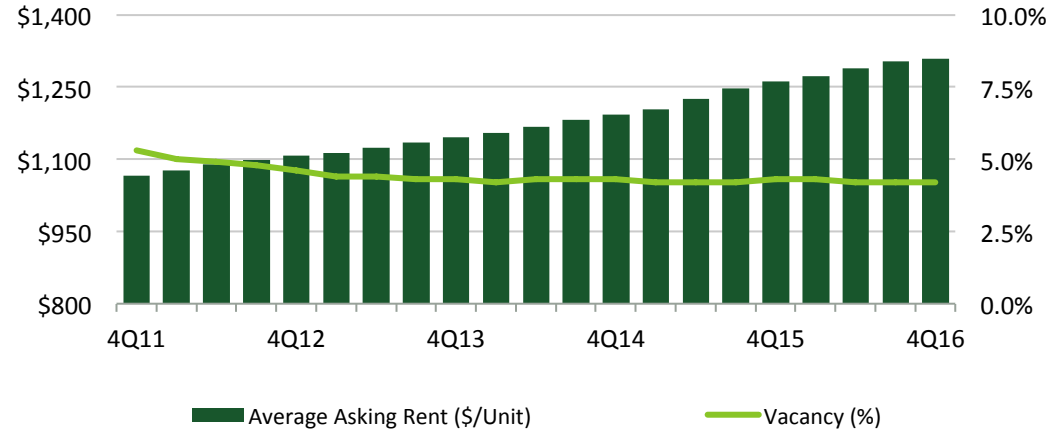


Source: U.S. Census Bureau

Multifamily Market Fundamentals

Asking Rent and Vacancy

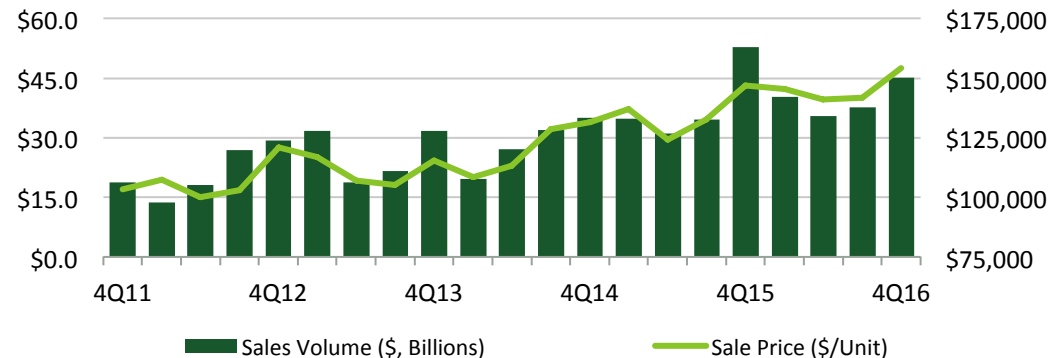
United States, Multifamily



Source: Arbor, Reis

Sales Volume and Price

United States, Multifamily

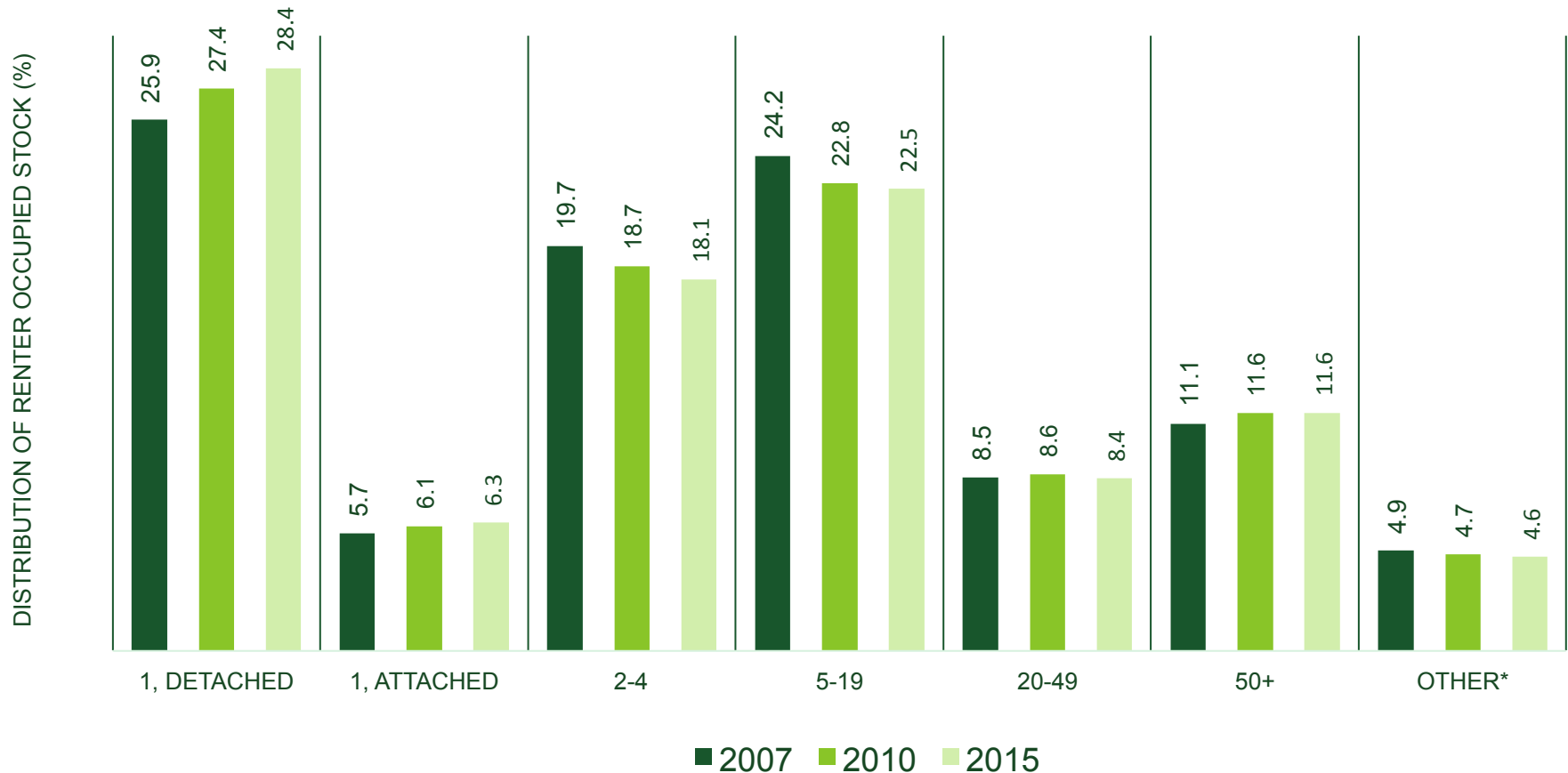


Source: Arbor, Real Capital Analytics

- Multifamily asking rents increased 3.7% year-over-year as of 4Q2016.
- In spite of increased unit deliveries, national vacancy finished at 4.2% — in line with with one year prior.
- Sales volume reached a record-high of \$158.4 billion during 2016.

High Demand for All Types of Rental Housing

U.S. Renter Occupied Stock by Structure



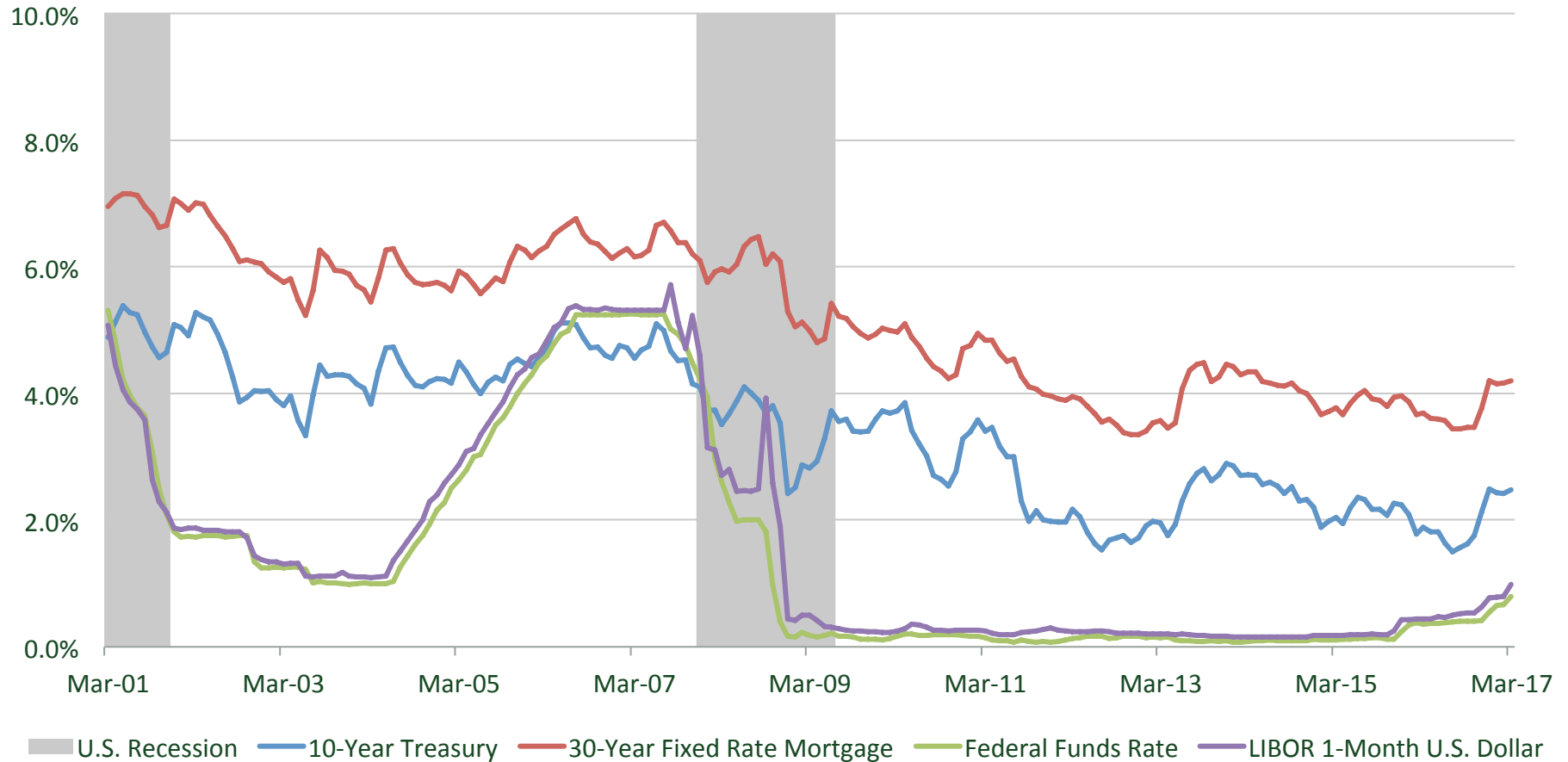
Source: Census Bureau

* Other includes manufactured/mobile homes, boats, RVs, vans etc.

Select Interest Rates

Selected Interest Rates

Monthly, Not Seasonally Adjusted



Source: Arbor, Freddie Mac, Board of Governors of the Federal Reserve System, ICE Benchmark Administration

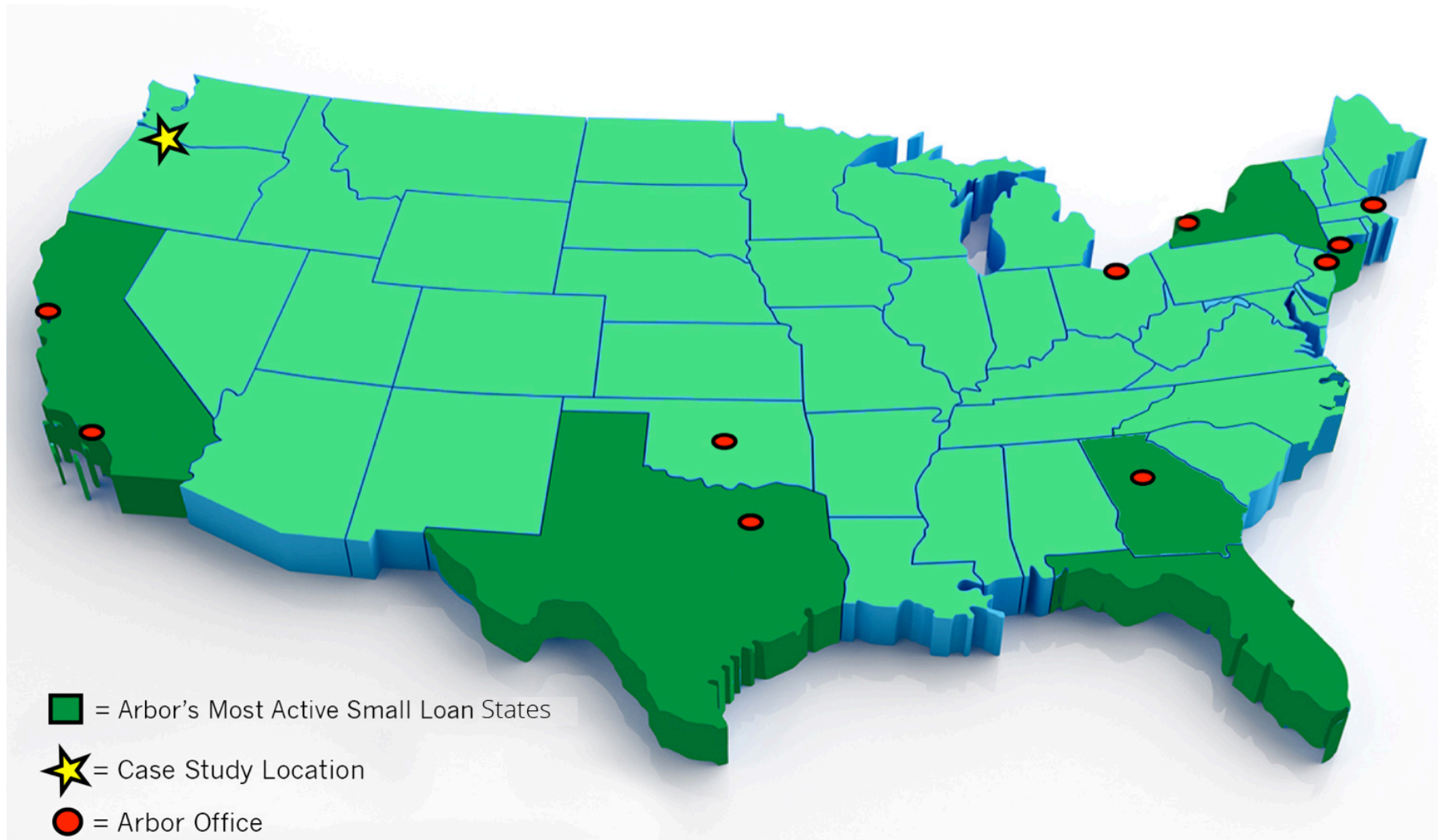
Top Markets by Income Growth

Metropolitan Market	2017 Annualized Growth in Gross Income	2017 Vacancy Rate
Sacramento	6.4%	2.2%
Seattle	5.9%	5.6%
Tacoma	5.8%	3.2%
Portland	4.9%	5.8%
Colorado Springs	4.7%	3.8%
Phoenix	4.5%	5.4%
Tampa	4.4%	5.2%
Chicago	4.4%	3.8%
Jacksonville	4.3%	6.9%
Los Angeles	4.2%	3.7%
United States	3.4%	5.2%

(Source: Freddie Mac projections)

The pace of multifamily rent growth is starting to slow down as new units come online. In 2017, for example, the national vacancy rates is projected to breach 5% for the first time since 2011.

Arbor's Top States for Loans Under \$5MM



(Based on 2016 Agency volume for loans under \$5,000,000.)



Why Pursue Small Balance Financing?



A Closer Look at the Terms

\$1MM to \$6MM Loan Amount for
Properties **Nationwide** with 5+ Units

\$6MM to \$7.5MM Loan Amount for Properties in
Top and Standard Markets with less than 75 units.

5-, 7-, 10- year terms	Fixed-rate or hybrid ARM	Interest-only (part or full)	Up to 80% LTV
30-year amortization	Non- recourse	Assumable	Coupon pricing
	Step-down prepayment	Cash-out options	

Freddie Mac SBL Eligibility

Loan/borrower is...	Yes	Case-by-Case	No
\$1M - \$7.5M	✓		
Duplex, triplex or quadraplex			✓
5 or more units	✓		
Located in a top market	✓		
Located in a non-top market	✓		
Borrower is local and experienced	✓		
Borrower w/ minimal multifamily experience		✓	
Purpose-built Students, Seniors or Military			✓
Property condition: average or better	✓		
Property condition: below average		✓	
Borrower portfolio concentrated in small apts.	✓		
Institutional borrower		✓	

Arbor & Freddie Mac SBL Case Study — Oregon



REFINANCE

- 42 units in Portland, OR
- \$3 million
- \$1.5 million cash-out
- 5-year hybrid ARM
- 1-year interest-only



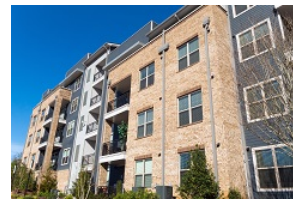
PURCHASE 1

- 22 units in Portland, OR
- \$1.3 million
- 7-year hybrid ARM
- 2-years interest-only



PURCHASE 2

- 20 units in Portland, OR
- \$1.3 million
- 5-year hybrid ARM
- 1-year interest-only



PURCHASE 3

- 26 units in Portland, OR
- \$1.3 million
- 7-year hybrid ARM
- 2-years interest-only



Technology in the Multifamily Loan Space



Meet ALEX (Arbor LoanExpress)

The commercial real estate industry's first online agency lending platform for brokers, borrowers and correspondent lenders.



The screenshot shows the homepage of the ALEX (Arbor LoanExpress) website. The background is a blurred image of a person's hands using a tablet in front of a city skyline. The website layout includes a top navigation bar with the ALEX logo, a phone number, and several menu items. The main content area features a large heading, a descriptive paragraph, and two call-to-action buttons. A cartoon character of a man in a suit is positioned on the right side of the main content area.

alex
ARBOR LOANEXPRESS

(888) 606-0440 Meet ALEX How it Works Our Deals Calculator Blog [Log In](#)

Multifamily finance made easy

The industry's first agency online lending platform for borrowers, brokers and correspondent lenders featuring the fastest loan evaluation time in the market with a full information upload — **3 hours or less!**

[Get Started](#)

[See How it Works](#) 

ALEX Takes the Guesswork out of Processing

Main Street Apartments

13456 (All documents are due on 05/19/2016)

Loan is currently in **Processing**

Incomplete: 2

10%

My Checklist

Outstanding Items 33












Shared Documents

Loan Support

Insurance Requirements ▾

Loan Report

Online Forms

Document Name ⓘ	Action ⓘ	Upload ⓘ	Submission Status ⓘ	Uploaded ⓘ	Approval Status ⓘ	Notes ⓘ
Borrower Sources & Uses	Select ▾		Uploaded	04/19/2016	Approved	
Collections & Vacancy	Select ▾		Email Submission	04/19/2016	Incomplete ⓘ	
Key Principal Financial Statement	Select ▾		Email Submission	04/19/2016	Approved	
Management Entity Profile	Select ▾		Uploaded	04/19/2016	Pending Approval	
On-site Property Expense Summary Form	Select ▾		Submitted	05/31/2016	Pending Approval	
Replacement & Capital Improvement	Select ▾		Email Submission	05/31/2016	Approved	
Tenant Profile Questionnaire	Select ▾		Submitted	05/31/2016	Pending Approval	

Benefits of ALEX

Faster Loan Evaluation

Accessible & User Friendly

E-Signature

Streamlined Documentation

Real-Time Diligence Tracking

Loan Status on the Go

Tips for Getting Started

Advice for Getting Started

- ☐ Pick loan terms that align with your individual goals
- ☐ Select a top property management firm in your market
- ☐ Partner with a more experienced key principal
- ☐ Look to employment growth corridors with room for price appreciation





Q&A



Audience Q&A Session



Ivan Kaufman
Chairman, President & CEO
Arbor Realty Trust, Inc.



Steve Johnson
Vice President, Small Balance
Loan Business, Freddie Mac



Sam Chandan
Silverstein Chair, NYU SPS Schack
& Founder, Chandan Economics

ALEX Chatter – News, Research & Insight

The screenshot shows the ALEX Chatter website. At the top, the logo "alex chatter" is on the left, with the tagline "The Leading Source for Small Multifamily Info". Navigation links "Visit ALEX", "About", "Research", "News", and "Topics" are on the right. The main headline is "Is Job Growth a Good Predictor for Rent Growth?". Below this, there are two featured articles. The first, "Which Small Asset Renter Segments Have the Highest Household Incomes?", includes a thumbnail of a ladder and a city skyline, a brief summary, and a "Read More" link. The second, "Full 'STEAM' Ahead: Skilled Workers Supporting Small Asset Apartment Growth", includes a thumbnail of two men looking at a whiteboard, a brief summary, and a "Read More" link. To the right of these articles are links for "Request a Quote" and a "Mortgage Calculator". At the bottom, there is a "Subscribe to Chatter Updates" section with an email input field and a "Subscribe to Chatter" button, followed by a "Meet the Writers" section listing "Chandan Economics" and "Chris Urso".

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Is Job Growth a Good Predictor for Rent Growth?

RESEARCH

Which Small Asset Renter Segments Have the Highest Household Incomes?

Evaluating household income by renter segments helps apartment investors better position and price their units. In the case of small properties, married couples and individuals sharing rental units have significantly higher incomes. [Read More](#)

22 hours ago

RESEARCH

Full 'STEAM' Ahead: Skilled Workers Supporting Small Asset Apartment Growth

Growth trends for small asset renters in highly skilled occupations are encouraging. These findings align with projected job growth forecasts into the middle of the next decade.

[Read More](#)

5 days ago

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Mortgage Calculator

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mrattiff@arbor.com

Subscribe to Chatter

Meet the Writers

Chandan Economics

Chris Urso

www.ALEXChatter.com

The cover features a photograph of a modern, multi-story apartment building with a red brick facade and white balconies. A large green diagonal banner is overlaid on the top right. The text "Q1 2017 SMALL BALANCE MULTIFAMILY INVESTMENT TRENDS REPORT" is written in white and green. At the bottom, the "alex chatter" logo and the "CHANDAN" logo are displayed.

Q1 2017 SMALL BALANCE MULTIFAMILY INVESTMENT TRENDS REPORT

alex chatter CHANDAN

Go.Arbor.com/Research



Thank you for joining us today.

This concludes our webinar.

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