Proprietary preferred equity advantages

Structuring smart deals: How Arbor's preferred equity supports capital efficiency in today's multifamily market

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Providing competitive current and accrual pay rate structures is essential for any multifamily preferred equity product. In today's capital-constrained market, Arbor Realty Trust's Proprietary Preferred Equity behind Freddie Mac is helping sponsors boost leverage without unnecessary cost or complexity. With Arbor's phased contributions, borrowers have the ability to receive capital in stages — only when they need it — so they avoid paying for unused funds. This aligns capital deployment with actual deal timelines, creating significant savings.

A Fundamental Shift in the Market Leads to Opportunity

As I worked with our Government-Sponsored Enterprise (GSE) partner Freddie Mac to make Arbor the first lender to launch this pioneering product for borrowers, we recognized a fundamental shift in how multifamily sponsors were approaching the capital structure. Stubbornly high interest rates and consistently compressed cap rates in many desirable markets have created a complex environment where traditional financing alone often falls short.

After successfully originating several deals under modified servicing requirements, Freddie Mac recently updated their policies to create a more streamlined approach that empowers borrowers to achieve higher leverage with additional financing. Proprietary preferred equity has emerged not just as a niche solution, but as a strategic component of multifamily financing. It also can help borrowers meet tight acquisition or refinancing deadlines with the fast execution that today's market demands.

The One-Stop-Shop Advantage

In multifamily financing, time is of the essence. Working with separate entities for senior debt and preferred equity can create delays and conflicts that can be particularly problematic.

That's why it's especially beneficial to borrowers that our experienced team manages the entire process with our Proprietary Preferred Equity product, from origination through servicing, providing the continuity and consistency our borrowers value. Arbor's integrated approach eliminates friction points and removes redundancies to create meaningful monetary efficiencies.

Long-Standing Freddie Mac Partnership Adds Value for Borrowers

As this approach demonstrates, Arbor earned our place as a launch partner because of our proven track record and deep understanding of agency lending and preferred equity. When market disruptions made preferred equity more attractive, not all lenders had the institutional knowledge and experience to effectively provide preferred equity behind Freddie Mac mortgages. Recognizing this challenge, Arbor Realty Trust collaborated with the agency on an innovative solution: injecting preferred equity behind Arbor's own Freddie Mac-backed senior mortgages.

Freddie Mac has historically been the agency lender of choice for deals involving preferred equity, having developed sophisticated credit policies and a comprehensive understanding of its value to borrowers. The agency has long permitted third-party providers to place preferred equity behind their senior mortgages, provided those lenders comply with Freddie's credit policies. In 2023, for the first time, Arbor became the first lender authorized to offer our own preferred equity behind Arbor-originated Freddie Mac loans.

Arbor's Proprietary Preferred Equity Terms

Our pioneering and flexible program is available to all borrowers who qualify for a Freddie Mac Conventional senior loan. Preferred equity amounts, which generally range from $3 million to $25 million, have a fixed-rate structure, and proceeds can be used for acquisition or refinancing.

Eligible properties include standard multifamily housing, student housing, manufactured housing communities, cooperative housing, and build-to-rent (BTR) properties.

Each deal is considered for phased contributions of preferred equity throughout the senior loan — up to the maximum allowed by Freddie Mac at origination. We are very excited about the inclusion of phased contributions, because they can create meaningful cost savings, allowing borrowers to pay only on the capital they need when they need it, while providing the financial flexibility sponsors require.

Preferred Equity's Positive Outlook

Initial market response to Arbor's first-of-its-kind Proprietary Preferred Equity product has been strong, exceeding sponsors' expectations and reinforcing the value of partnering with a one-stop-shop lender.

Looking ahead, I expect traditional debt markets will remain cautious, yet optimistic, through 2025, making preferred equity increasingly advantageous for sponsors seeking positive leverage without unnecessarily over-diluting their equity positions. As the multifamily real estate sector evolves, capital efficiency will remain central to successful investment strategies. Our Proprietary Preferred Equity product, backed by Freddie Mac's institutional support, positions Arbor's sponsors to maintain the control and flexibility needed to execute investment strategies effectively.

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