ARBOR REALTY TRUST INC
Form S-11/A
April 02, 2004

As filed with the Securities and Exchange Commission on April 2, 2004

Registration No. 333-110472

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 5

to

FORM S-11

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Arbor Realty Trust, Inc.

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

333 Earle Ovington Boulevard

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

Frederick C. Herbst

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

Copies to:

David B. Goldschmidt **Fred White, III** **Skadden, Arps, Slate, Meagher & Flom LLP** **Four Times Square** **New York, New York 10036-6522** **(212) 735-3000**	**Eric S. Haueter** **James O Connor** **Sidley Austin Brown & Wood LLP** **787 Seventh Avenue** **New York, NY 10019** **(212) 839-5300**

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Securities Being Registered	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, par value $0.01 per share, being registered for sale by Arbor Realty Trust, Inc.	$161,437,500 (1)(2)	
Common Stock, par value $0.01 per share, being registered for sale by the selling stockholder(3)	$ 472,500 (2)(3)	
Total	$161,910,000(1)(2)	$13,847.26(4)

(1) Includes shares that the underwriters have the option to purchase from us to cover over-allotments, if any.
(2) Estimated solely for the purpose of computing the registration fee in accordance with Rule 457(o) of the Securities Act of 1933, as amended.
(3) 22,500 shares of common stock are being registered for sale by the selling stockholder.
(4) Of this amount, $11,670.23 was paid in connection with the initial filing of this registration statement on November 13, 2003 and $727.90 was paid in connection with the filing of the registration statement on February 5, 2004.

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

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EXPLANATORY NOTE

This Registration Statement contains a prospectus for an underwritten offering of shares of our common stock, together with separate pages relating to a prospectus for a concurrent direct offering of our common stock to Kojaian Ventures LLC, of which the sole members are C. Michael Kojaian, one of our directors, and Kojaian Ventures MM, Inc., of which Mr. Kojaian is the sole stockholder. We will refer to Kojaian Ventures LLC as Kojaian. The complete prospectus for the underwritten offering of our common stock follows immediately. Following the prospectus for the underwritten offering are the alternate front and back pages for the prospectus relating to the direct offering of common stock to Kojaian.

The complete prospectus for each of the underwritten offering and the direct offering to Kojaian will be filed with the Securities and Exchange Commission in accordance with Rule 424 under the Securities Act of 1933.

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The information in this preliminary prospectus is not complete and may be changed or supplemented. These securities may not be sold until the registration statement with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS

SUBJECT TO COMPLETION, DATED APRIL 2, 2004

6,272,500 Shares

Arbor Realty Trust, Inc.

Common Stock

This is our initial public offering. We are offering 6,250,000 shares of our common stock and a selling stockholder is offering 22,500 shares of our common stock. We will not receive any proceeds from the sale of our common stock by the selling stockholder.

We expect the public offering price to be between $19.00 and $21.00 per share. Prior to this offering, there has been no public market for our common stock. Our common stock has been approved for listing, subject to notice of issuance, on the New York Stock Exchange under the symbol ABR.

Investing in our common stock involves risks. See Risk Factors beginning on page 19 for a discussion of these risks.

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

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

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

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

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

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

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

We may need to borrow funds under our credit facilities in order to satisfy our REIT distribution requirements, and a portion of our distributions may constitute a return of capital. Debt service on any borrowings for this purpose will reduce our cash available for distribution.

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

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

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

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

	Per Share	Total
Public Offering Price	$	$
Underwriting Discount[(1)]	$	$
Proceeds, before expenses, to Arbor Realty Trust, Inc.[(1)]	$	$
Proceeds, before expenses, to a Selling Stockholder	$	$

(1) See Underwriting Directed Shares for information with respect to shares that may be sold under the directed share program.

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

We have granted the underwriters an option to purchase from us a maximum of 937,500 additional shares of our common stock to cover over-allotment of shares exercisable at any time until 30 days after the date of this prospectus.

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

Wachovia Securities **UBS Investment Bank**

JMP Securities

The date of this prospectus is , 2004.

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You should rely only on the information contained in this prospectus. Neither we nor the underwriters have 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.

Dealer Prospectus Delivery Obligations

Until , 2004, (25 days after the commencement of this offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This delivery is in addition to the dealer s obligation to deliver a prospectus when acting as an underwriter and with respect to their unsold allotments or subscriptions.

PROSPECTUS SUMMARY

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

Arbor Realty Trust, Inc.

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

We actively pursue lending and investment opportunities with property owners and developers who need interim financing until permanent financing can be obtained. Our structured finance investments generally have maturities of two to five years, depending on the type, have extension options when appropriate, and generally require a balloon payment of principal at maturity. Our financings typically range in size from $1 million to $30 million, with interest rates ranging from 4.00% to 7.00% over 30-day LIBOR for mezzanine financings and 3.00% to 6.00% over 30-day LIBOR for bridge financings. Borrowers in the market for these types of loans include owners or developers who seek either to acquire or refurbish real estate or pay down debt and reposition a property for permanent financing. Our investment program emphasizes the following categories of real estate-related activities:

Bridge Financing We offer bridge financing products to borrowers who are typically seeking short term capital to be used in an acquisition of property. The borrower has usually identified an undervalued asset that has been under-managed and/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 predominantly secured by first mortgage liens on the property. Borrowers usually use the proceeds of a conventional mortgage loan to repay a bridge loan.

Mezzanine Financing We offer mezzanine loans, which are loans subordinate to a conventional first mortgage loan and senior to the borrower s equity in a transaction. Our mezzanine financing may take the form of loans secured by pledges of ownership interests in entities that directly or indirectly control the real property or subordinated loans secured by second mortgage liens on the property. 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.

Mortgage-Related Securities We also invest in mortgage-related securities collateralized by pools of commercial or residential mortgage. The mortgage-related securities in which we intend to invest will be limited to whole pool certificates issued by governmental agencies such as the Government National Mortgage Association, or GNMA and government-sponsored entities such as the Federal Home Loan Mortgage Corporation, or FHLMC and the Federal National Mortgage Association, or FNMA, which represent all the certificates issued with respect to the underlying pool of mortgage loans. We refer to these investments as agency-sponsored whole loan pool certificates.

Currently, at least 55% of our assets consist of bridge loans, mortgage-related securities and loans secured by second mortgage liens on underlying properties.

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

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

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

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

As of December 31, 2003, our portfolio had an aggregate outstanding balance of $323.5 million with a weighted average yield of 7.49%. This balance was comprised of $158.8 million of bridge loans with a weighted average interest rate of 5.46%, $129.3 million of mezzanine loans with a weighted average interest rate 10.04%, $33.4 million of preferred equity investments with a weighted average yield of 7.33%, and $2.0 million of other investments with a weighted average interest rate of 7.39%. Our borrowings against our portfolio at December 31, 2003 totaled $172.5 million and had a weighted average interest rate of 3.40%.

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Our Business Strategy

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

- Consolidation in the financial services industry has reduced the number of companies providing multi-family and commercial real estate financing products.
- We believe this consolidation has led to a trend among remaining institutions to focus on larger, more standardized transactions.
- The growth of a market for securitized commercial real estate pools has provided a new source of financing for real estate assets.

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

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

- Provide customized financing;
- Focus on a niche market in smaller loan balances;
- Execute transactions rapidly;
- Manage and maintain credit quality;
- Use Arbor Commercial Mortgage s relationships with existing borrowers and origination infrastructure;
- Offer broader products and expand customer base; and
- Leverage the experience of the executive officers and employees of Arbor Commercial Mortgage and us.

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

Our Manager

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

In connection with the sale of Arbor National Holdings, Mr. Kaufman purchased its commercial mortgage lending operations and the rights to the Arbor name and retained a significant portion of Arbor National Holdings senior management team. This senior management team has guided Arbor Commercial Mortgage s growth from a company originally capitalized with approximately $8 million of equity value to approximately $64 million of equity value as of December 31, 2003, including its

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partnership interest in Arbor Realty Limited Partnership. Arbor Commercial Mortgage is now a full service provider of financial services to owners and developers of multi-family and commercial real estate properties. Arbor Commercial Mortgage has derived revenue from the origination for sale and servicing of government-sponsored and conduit mortgage loans for commercial and multi-family real estate properties as well as from the origination of structured finance loans and investments. Arbor Commercial Mortgage originated over $800 million in government-sponsored and conduit mortgage loans in 2003. Arbor Commercial Mortgage originated over $115 million in structured finance investments from the beginning of 2003 until the contribution of the majority of its structured finance portfolio to us in July 2003. Arbor Commercial Mortgage is currently servicing a portfolio with a principal balance of $3.0 billion, including loans serviced for Arbor Realty Limited Partnership.

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

Arbor Commercial Mortgage s executive officers and employees have extensive experience in originating and managing structured commercial real estate investments. The senior management team has an average of over 20 years experience in the financial services industry. Arbor Commercial Mortgage currently has 129 employees spread among its corporate headquarters in Uniondale, New York, 13 other sales offices located throughout the United States and the servicing administration office in Buffalo, New York.

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

We pay our manager an annual base management fee based on the equity of our operating partnership, as further discussed below. The amount of the base management fee does not depend on the performance of the services provided by our manager or the types of assets it selects for our investment, but the value of our operating partnership s equity will be affected by the performance of these assets. We also pay our manager incentive compensation each fiscal quarter. We have incurred $587,734 in base management fees to Arbor Commercial Mortgage for management services rendered for the period from June 24, 2003 (inception) to December 31, 2003. As of December 31, 2003, we paid $490,956 of these base management fees. We have incurred $97,681 in base management fees for management services rendered in January 2004 and $98,598 in base management fees for management services rendered in February 2004, for a total of $196,278. All amounts incurred have been paid to date. Our manager did not earn incentive compensation for the quarters ended September 30, 2003 or December 31, 2003.

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

Type	Description and Method of Computation	Payable
Base management fee[(1)]	(1) 0.75% per annum of the first $400 million of our operating partnership s equity, (2) 0.625% per annum of our operating partnership s equity between $400 million and $800 million, and (3) 0.50% per annum of our operating partnership s equity in excess of $800 million.	Monthly in arrears in cash
Incentive compensation[(2)]	(1) 25% of the amount by which: (a) our operating partnership s funds from operations per operating partnership unit, adjusted for certain gains and losses, exceeds (b) the product of (x) 9.5% per annum or the Ten Year U.S. Treasury Rate plus 3.5%, whichever is greater, and (y) the weighted average of the book value of the net assets contributed by Arbor Commercial Mortgage to our operating partnership per operating partnership unit, $15.00 (representing the offering price per share of our common stock in the private placement)[(3)], the offering price per share of our common stock (including shares of common stock issued upon exercise of warrants or options) in any subsequent offerings (adjusted for any prior capital dividends or distributions) and the issue price per operating partnership unit for subsequent contributions to our operating partnership, multiplied by (2) the weighted average of our operating partnership s outstanding operating partnership units.	Each fiscal quarter, with at least 25% paid in our common stock, subject to the ownership limits in the charter
Overhead expenses	Compensation of our independent directors, legal, accounting, due diligence tasks and other services that outside professionals perform for us.	Each fiscal quarter in cash
Origination fee income[(4)]	An amount equal to 100% of the origination fees paid by the borrower to us with respect to each bridge loan and mezzanine loan we originate, up to 1% of the loan s principal amount.	Upon closing of each loan
Termination fee[(5)]	If we terminate or elect not to renew the management agreement in order to manage our portfolio internally, we are required to pay a termination fee equal to the base management fee and incentive compensation for the 12-month period preceding the termination. If, without cause, we terminate or elect not to renew the management agreement for any other reason, including a change of control of us, we are required to pay a termination fee equal to two times the base management fee and incentive compensation paid for the 12-month period preceding the termination.	Upon termination

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

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

(3)

We allocated the $75.00 offering price per unit to the five shares of common stock comprising each unit, resulting in an offering price of $15.00 per share of common stock in the private placement. We did not allocate any value to the one warrant underlying each unit because the warrants have an initial exercise price of $15.00 and they are not exercisable, detachable or freely tradable for an indeterminable period of time (i.e., until after the registration and listing of the common stock comprising the units on a national securities exchange or The Nasdaq Stock Market).

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

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

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Our Corporate History

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

In connection with its contribution of the initial assets, Arbor Commercial Mortgage arranged for us to have substantially similar credit facilities as those used by Arbor Commercial Mortgage to finance these assets. In exchange for the asset contribution, we issued to Arbor Commercial Mortgage approximately 3.1 million operating partnership units, each of which Arbor Commercial Mortgage may redeem for one share of our common stock or an equivalent amount in cash, at our election, and approximately 629,000 warrants, each of which entitles Arbor Commercial Mortgage to purchase one additional operating partnership unit at an initial exercise price of $15.00. The operating partnership units and warrants for additional operating partnership units issued to Arbor Commercial Mortgage were valued at approximately $43.9 million at July 1, 2003, based on the price offered to investors in our units in the private placement. Each of the approximately 3.1 million operating partnership units received by Arbor Commercial Mortgage is paired with one share of our special voting preferred stock that entitles the holder to one vote on all matters submitted to a vote of our stockholders. As operating partnership units are redeemed for shares of our common stock or cash, an equivalent number of shares of special voting preferred stock will be redeemed and cancelled. See Description of Stock Special Voting Preferred Stock. As a result of Arbor Commercial Mortgage s asset contribution and the related formation transactions, Arbor Commercial Mortgage owns approximately a 28% limited partnership interest in our operating partnership and the remaining 72% interest in our operating partnership is owned by us. After giving effect to this offering and the concurrent offering to Kojaian Ventures LLC (Kojaian), of which the sole members are C. Michael Kojaian, one of our directors, and Kojaian Ventures MM, Inc., of which Mr. Kojaian is the sole stockholder, Arbor Commercial Mortgage will own approximately a 17% interest in our operating partnership and we will own the remaining 83%. In addition, Arbor Commercial Mortgage has approximately 28% of the voting power of our outstanding stock (without giving effect to the exercise of Arbor Commercial Mortgage s warrants for additional operating partnership units). After giving effect to this offering and the concurrent offering to Kojaian, Arbor Commercial Mortgage will have approximately 17% of the voting power of outstanding stock (without giving effect to the exercise of Arbor Commercial Mortgage s warrants for additional operating partnership units).

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Our Structure

The following chart shows our structure after giving effect to this offering and the concurrent offering to Kojaian, which we refer to as the concurrent offerings:

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

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

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

(4) Arbor Commercial Mortgage holds 3,146,724 shares of our special voting preferred stock, which will entitle it to 17% of the voting power of our outstanding stock upon consummation of the concurrent offerings. These shares of special voting preferred stock are paired with 3,146,724 operating partnership units held by Arbor Commercial Mortgage and will be redeemed upon redemption of these operating partnership units. Assuming the redemption of all Arbor Commercial Mortgage s operating partnership units for shares of our common stock after the consummation of the concurrent offerings, Arbor Commercial

Mortgage would retain 17% of the voting power of our outstanding stock. The 17% figure does not give effect to the exercise of Arbor Commercial Mortgage s 629,345 warrants for additional operating partnership units, each of which is exercisable for an additional partnership unit that will be paired with one share of our special voting preferred stock. Assuming Arbor Commercial Mortgage s exercise of all warrants for additional operating partnership units paired with shares of our special voting preferred stock after the consummation of the concurrent offerings, it would have a 20% partnership interest in our operating partnership and 20% of the voting power of our outstanding stock.

(5) After the concurrent offerings, we will hold an 83% partnership interest in our operating partnership. We hold our partnership interest, representing a voting and economic interest in our operating partnership, through two wholly owned subsidiaries, Arbor Realty GPOP, Inc., the holder of a 0.1% general partner interest, and Arbor Realty LPOP, Inc., the holder of a 82.9% limited partner interest upon consummation of the concurrent offerings. Our only material subsidiaries are Arbor Realty Limited Partnership, Arbor Realty GPOP, Inc., Arbor Realty LPOP, Inc. and Arbor Realty Funding, LLC.

(6) Arbor Commercial Mortgage s 17% partnership interest, representing a voting and economic interest in our operating partnership, does not give effect to the exercise of Arbor Commercial Mortgage s 629,345 warrants for additional operating partnership units, each of which is exercisable for an additional partnership unit that will be paired with one share of our special voting preferred stock. Arbor Commercial Mortgage may acquire up to 3,776,069 shares of our common stock upon redemption of its operating partnership units (including 629,345 operating partnership units issuable upon exercise of warrants for additional operating partnership units) should we elect to issue shares of our common stock upon such redemption.

Summary Risk Factors

An investment in our common stock involves a number of risks. You should consider carefully the risks discussed below and under Risk Factors beginning on page 19 before purchasing our common stock.

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

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

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

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

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

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

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

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

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

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

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

We may need to borrow funds under our credit facilities in order to satisfy our REIT distribution requirements, and a portion of our distributions may constitute a return of capital. Debt service on any borrowings for this purpose will reduce our cash available for distribution.

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

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

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

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

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. We granted Arbor Commercial Mortgage and Ivan Kaufman, as its controlling equity owner, an exemption from this ownership limitation, in connection with Arbor Commercial Mortgage s acquisition of approximately 3.1 million shares of our special voting preferred stock on July 1, 2003.

Distribution Policy

To maintain our qualification as a REIT, we intend to make regular quarterly distributions to our stockholders of at least 90% of our taxable income, which does not necessarily equal net income as calculated in accordance with generally accepted accounting principles. Distributions are authorized by our board of directors and declared by us based upon a variety of factors deemed relevant by our directors, and our distribution policy may change in the future. Our ability to make distributions to our stockholders depends, in part, upon our receipt of distributions from our operating partnership, Arbor Realty Limited Partnership, which may depend, in part, upon the performance of our investment portfolio, and, in turn, upon Arbor Commercial Mortgage s management of our business. In order to maximize the return on our funds, cash generated from operations is generally used to temporarily pay down borrowings under our credit facilities. When making distributions, we generally borrow the required funds by drawing on credit capacity available under our credit facilities. To date, all distributions have been funded in this manner. In 2003, we made distributions of $0.50 per share, and our net income was $0.42 per share. With respect to this distribution, we borrowed funds by drawing on credit capacity available under our credit facilities. In the future, to the extent cash available is less than the distribution, we may be required to borrow additional funds or sell assets in order to meet our REIT distribution requirements. Distributions to our stockholders are generally taxable to our stockholders as ordinary income, although a portion of these distributions may be designated by us as capital gains to the extent they are attributable to capital gain income recognized by us, or may constitute a return of capital to the extent they exceed our earnings and profits as determined for tax purposes.

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

On November 5, 2003, our board authorized and we declared a distribution to our stockholders of $0.25 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 made this distribution on November 18, 2003. On December 19, 2003, our board of directors authorized and we declared a distribution to our shareholders of $0.25 per share of common stock, payable with respect to the quarter ending December 31, 2003, to stockholders of record at the close of business on December 19, 2003. We made this distribution on December 30, 2003. Of the distributions made in 2003, 76% were taxable as ordinary income and 24% represented a return of capital. The portion representing the return of capital arose because the distribution paid, which approximated cash generated from operations, exceeded taxable income for the year.

On March 18, 2004, our board of directors authorized and we declared a distribution to our stockholders of $0.38 per share of common stock, payable with respect to the quarter ended March 31, 2004, to stockholders of record at the close of business on March 18, 2004. We made this distribution on March 31, 2004. Upon completion of the financial statements for the quarter ended March 31, 2004, we will determine what portion of this distribution constituted a return of capital.

Preferred Stock

Pursuant to a pairing agreement that we entered into with our operating partnership and our manager, each operating partnership unit issued to Arbor Commercial Mortgage and its affiliates in connection with the contribution of the initial assets (including operating partnership units issuable upon the exercise of Arbor Commercial Mortgage s warrants) is paired with one share of our special voting preferred stock. No operating partnership unit that is paired with a share of special voting preferred stock may be transferred unless accompanied by such special voting share. A holder of special voting preferred stock is not entitled to any regular or special dividend payments or other distributions, other than a $0.01 per share liquidation preference.

Each share of special voting preferred stock entitles the holder to one vote on all matters submitted to a vote of our stockholders. Therefore, through its ownership of the paired special voting preferred stock, Arbor Commercial Mortgage is currently entitled to a number of votes representing approximately 28% of the voting power of all shares entitled to vote on matters submitted to a vote of our stockholders (without giving effect to the exercise of Arbor Commercial Mortgage s warrants). After giving effect to the concurrent offerings, Arbor Commercial Mortgage will have approximately 17% of the voting power of our outstanding stock (without giving effect to the exercise of Arbor Commercial Mortgage s warrants for additional operating partnership units). The holders of special voting preferred stock have no separate class voting rights except as provided by our charter.

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

Tax Status

We intend to elect to be treated as a REIT for federal income tax purposes. To qualify as a REIT, we must meet various tax law requirements, including, among others, requirements relating to the nature of our assets, the sources of our income, the timing and amount of distributions that we make and the composition of our stockholders. As a REIT, we generally are not subject to federal income tax on income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax at regular corporate rates, and we may be precluded from qualifying as a REIT for the subsequent four taxable years following the year during which we lost our qualification. Further, even to the extent that we qualify as a REIT, we will be subject to tax at normal corporate rates on net income or capital gains not distributed to our stockholders, and we may be subject to other taxes, including payroll taxes, and state and local income, franchise, property, sales and other taxes. Moreover, we may have subsidiary entities that are subject to federal income taxation and to various other taxes. Any dividends received from us will generally, with limited exceptions, not be eligible for taxation at the preferred capital gain rates that currently apply, pursuant to legislation enacted in 2003, to dividends received by individuals from taxable corporations. See Federal Income Tax Considerations.

Conflicts of Interest

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

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

Arbor Commercial Mortgage holds a 28% limited partnership interest in our operating partnership as a result of the contribution of the initial assets. After giving effect to the concurrent offerings, Arbor Commercial Mortgage will own approximately a 17% interest in our operating partnership and we will own the remaining 83%. Arbor Commercial Mortgage also owns approximately 3.1 million shares of our special voting preferred stock that entitle it to 28% of the voting power of our outstanding stock (without giving effect to the exercise of Arbor Commercial Mortgage s warrants). After giving effect to the concurrent offerings, Arbor Commercial Mortgage will have approximately 17% of the voting power of our outstanding stock (without giving effect to the exercise of Arbor Commercial Mortgage s warrants for additional operating partnership units).

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

Private Placement

On July 1, 2003, we issued and sold 1,610,000 of our units, each consisting of five shares of our common stock and one warrant to purchase an additional share of common stock at an initial exercise price of $15.00 per share. 1,327,989 of these units were sold to JMP Securities LLC, as initial purchaser, and were simultaneously resold by JMP Securities in transactions exempt from the registration requirements of the Securities Act of 1933, as amended, to persons reasonably believed by JMP Securities to be qualified institutional buyers (as defined in Rule 144A under the Securities Act) and to a limited number of institutional accredited investors (as defined in Rule 501 under the Securities Act). The remaining 282,011 units were sold directly by us to individual accredited investors. Certain investors in the private placement included institutions and individuals affiliated with us and JMP Securities. JMP Securities is an underwriter in this offering.

Registration Rights

In connection with the private placement, we entered into a registration rights agreement with JMP Securities. Pursuant to that agreement, we have included in a registration statement, of which this prospectus is a part, 22,500 shares of common stock proposed to be offered by the selling stockholder named in this prospectus. These shares of common stock offered by the selling stockholder pursuant to this prospectus are listed under The Offering.

At the time of the private placement we also entered into a registration rights agreement with Arbor Commercial Mortgage whereby we granted Arbor Commercial Mortgage certain demand and other registration rights with respect to shares of common stock that may be issued to Arbor Commercial Mortgage upon redemption of the 3,146,724 operating partnership units issued to Arbor Commercial Mortgage and 629,345 operating partnership units issuable to Arbor Commercial Mortgage upon exercise of its warrants for additional operating partnership units.

The Offering

Common stock offered by us in this offering	6,250,000 shares.[1]
Common stock offered by a stockholder selling in this offering	22,500 shares.
Common stock offered by us to Kojaian in the concurrent offering[2]	500,000 shares.
Total	6,772,500 shares.
Common stock to be outstanding after the concurrent offerings	14,949,567 shares.[3]
Offering price	We estimate the public offering price of our common stock in this offering and the concurrent offering to Kojaian, or the concurrent offerings, to be $20.00 per share, which is the midpoint of the range listed on the cover page of this prospectus, for a total of $135.5 million.
Use of proceeds	We estimate that the net proceeds from our sale of 6,750,000 shares of common stock in the concurrent offerings, at an assumed initial public offering price of $20.00 per share, which is the midpoint of the range listed on the cover page of this prospectus, after deducting the underwriting discount and other estimated offering expenses, will be approximately $125.3 million. If the underwriters exercise their over- allotment option in full, we estimate that the net proceeds, after deducting the underwriting discount and other estimated offering expenses, of the sale of common stock by us will be approximately $142.7 million. We estimate that the net proceeds from the sale of 22,500 shares of common stock by the selling stockholder at an assumed initial public offering price of $20.00 per share, which is the midpoint of the range listed on the cover page of this prospectus, after deducting the underwriting discount, will be approximately $.4 million. We will not receive any proceeds from the sale of shares of our common stock by the selling stockholder. We intend to use all of the net proceeds of the concurrent offerings to repay indebtedness under our warehouse credit agreement and master repurchase agreements. We anticipate that we will use the additional borrowing capacity created by the repayments under these credit facilities to fund our lending business in connection with newly originated and existing loans in our portfolio as the need arises.
New York Stock Exchange symbol	ABR

(1) The underwriters have reserved up to 5% of the shares of common stock for our directors, officers employees and officers and employees of Arbor Commercial Mortgage and their families, and other

persons associated with us who express an interest in purchasing these shares of common stock in this offering at the public offering price. For more information, see Underwriting Directed Shares.

(2) Concurrently with this offering, we are offering shares of our common stock to Kojaian Ventures LLC, of which the sole members are C. Michael Kojaian, one of our directors, and Kojaian Ventures MM, Inc., of which Mr. Kojaian is the sole stockholder. We will refer to Kojaian Ventures LLC as Kojaian throughout this prospectus. The offering to Kojaian is conditional upon the occurrence of this offering.

(3) The number of shares to be outstanding after the concurrent offerings excludes (a) 937,500 shares to be issued if the underwriters exercise their over-allotment option in full, (b) 35,500 shares authorized and reserved for issuance under our stock incentive plan, (c) 6,000 shares issuable upon the exercise of warrants held by the selling stockholder that are immediately exercisable upon the consummation of the concurrent offerings, (d) 1,604,000 shares issuable upon the exercise of warrants held by holders of our units and (e) 3,776,069 shares of our common stock issuable upon redemption of Arbor Commercial Mortgage s operating partnership units (including 629,345 operating partnership units issuable upon exercise of warrants for additional operating partnership units).

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Summary Selected Consolidated Financial Information

of Arbor Realty Trust, Inc. and Subsidiaries

The following tables present selected historical consolidated financial information as of December 31, 2003 and for the period from June 24, 2003 (inception) to December 31, 2003, which we refer to in this prospectus as the period ended December 31, 2003. The selected historical consolidated financial information presented below under the captions Consolidated Income Statement Data and Consolidated Balance Sheet Data have been derived from our audited, 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 Income Statement Data for the period ended December 31, 2003 is not necessarily indicative of any other interim period. 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 Arbor Realty Trust, Inc. and Subsidiaries and our historical consolidated financial statements, including the related notes, included elsewhere in this prospectus.

	Period from June 24, 2003 (inception) to December 31, 2003
Consolidated Income Statement Data:	
Interest income	$10,012,449
Other income	156,502
Total revenue	10,168,951
Total expenses	5,452,865
Net income	3,407,919
Earnings per share, basic and diluted(1)	0.42
Dividends declared per common share(2)	0.50

	At December 31, 2003
Consolidated Balance Sheet Data:	
Loans and investments, net	$286,036,610
Related party loans, net	35,940,881
Total assets	338,164,432
Notes payable and repurchase agreements	172,528,471
Total liabilities	183,416,716
Minority interest	43,631,602
Total stockholders equity	111,116,114

	Period from June 24, 2003 (inception) to December 31, 2003
Other Data:	
Total originations	$186,289,922

(1) The warrants underlying the units issued in the private placement at $75.00 per unit have an initial 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 private placement and approximates the market value of our common stock at December 31, 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, our board authorized and we declared a distribution to our stockholders of $0.25 per share of common stock, payable with respect to the quarter ending September 30, 2003, to common stockholders of record at the close of business on November 5, 2003. We made this distribution on November 18, 2003. On December 19, 2003, our board of directors authorized and we declared a distribution to our stockholders of $0.25 per share of common stock, payable with respect to the quarter ending December 31, 2003, to stockholders of record at the close of business on December 19, 2003. We made this distribution on December 30, 2003.

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Summary Selected Consolidated Financial Information

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

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

The tables on the following page present selected historical consolidated financial information of the structured finance business of Arbor Commercial Mortgage at the dates and for the periods indicated. The structured finance business did not operate as a separate legal entity or business division or segment of Arbor Commercial Mortgage, but as an integrated part of Arbor Commercial Mortgage s consolidated business. Accordingly, the statements of revenue and direct operating expenses do not include charges from Arbor Commercial Mortgage for corporate general and administrative expense because Arbor Commercial Mortgage considered such items to be corporate expenses and did not allocate them to individual business units. These expenses included costs for Arbor Commercial Mortgage s executive management, corporate facilities and overhead costs, corporate accounting and treasury functions, corporate legal matters and other similar costs. The selected consolidated financial information presented under the caption Consolidated Statement of Revenue and Direct Operating Expenses Data for the years ended December 31, 2002 and 2001, the six months ended June 30, 2003 and under the caption Consolidated Statement of Assets and Liabilities Data as of December 31, 2002 and 2001 have been derived from the audited consolidated financial statements of the structured finance business of Arbor Commercial Mortgage included elsewhere in this prospectus. The historical consolidated financial information presented under the caption Consolidated Statement of Revenue and Direct Operating Expenses Data for the six months 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 consolidated financial information presented under the caption Consolidated Statement of Revenue and Direct Operating Expenses Data for the year ended December 31, 2000 and the caption Consolidated Statement of Assets and Liabilities Data as of December 31, 2000 have also been derived from the audited consolidated financial statements of the structured finance business of Arbor Commercial Mortgage. The selected consolidated financial information presented under the caption Consolidated Statement of Revenue and Direct Operating Expenses Data for the years ended December 31, 1999 and 1998 and the caption Consolidated Statement of Assets and Liabilities Data as of December 31, 2000, 1999 and 1998 have been derived from the unaudited consolidated financial statements of the structured finance business of Arbor Commercial Mortgage.

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

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

Consolidated Statement of Revenue and Direct Operating Expenses Data:

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

Consolidated Statement of Assets and Liabilities Data:

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

Other Data (Unaudited):

	Six Months Ended June 30,		Year Ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
Total originations	$117,965,000	$30,660,000	$130,043,000	$86,700,000	$108,378,000(2)	$120,378,900(2)	$230,718,353(2)

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

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

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

RISK FACTORS

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

Risks Related to Our Business

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

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

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

The historical consolidated financial statements included in this prospectus for the two years ended December 31, 2002 and at December 31, 2002 and 2001 and the six months ended June 30, 2003 and 2002 relate to the structured finance business of Arbor Commercial Mortgage and may not reflect what our results of operations, financial condition and cash flows would have been had we operated as a separate, stand-alone entity during the periods presented. This historical financial information includes assets in the structured finance portfolio of Arbor Commercial Mortgage that were not contributed to us. It also includes employee compensation and benefit expenses for the costs of originations, underwriting services and the servicing of all our contributed assets that we would not have incurred had we operated as a separate entity during the periods presented because they would have been borne by Arbor Commercial Mortgage under the terms of the management agreement. This historical financial information does not include the management fees that we pay our manager.

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

The structured finance business of Arbor Commercial Mortgage never operated as a separate business division or segment of Arbor Commercial Mortgage. The historical consolidated financial statements of the structured finance business of Arbor Commercial Mortgage presented in this prospectus do not reflect the historical financial information of Arbor Commercial Mortgage s entire business because it operates two business lines in addition to the structured finance business that was contributed to us. These other business lines generate revenues and expenses, which are included in Arbor Commercial Mortgage s historical financial statements, but are not included in the historical financial information included in this prospectus. We prepared the historical consolidated financial statements included in this prospectus for the two years ended December 31, 2002 and at December 31, 2002 and 2001 and the six months ended June 30, 2003 and 2002 from Arbor Commercial Mortgage s historical accounting records. The revenues, expenses, assets, liabilities and cash flows during each respective period that pertained to Arbor Commercial Mortgage s structured finance business were allocated to us. All of these allocations are based on assumptions that management believes are reasonable under the circumstances. However, these allocations may not be indicative of the revenues, expenses, assets, liabilities and cash flows that would have existed or resulted if we had operated as a separate entity during the periods presented.

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

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

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

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

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

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

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

We are generally required to distribute to our stockholders at least 90% of our taxable income each year to continue to qualify as a REIT, and we must distribute all of our taxable income in order to avert any corporate income taxes on retained income. As a result, our retained earnings available to fund the 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 and mortgage-related securities will be limited if we cannot obtain additional financing substantially similar to the credit facilities we currently have, including interest rates and advance rates. Market conditions may make it difficult to obtain financing on favorable terms or at all.

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

The financial institutions that finance our investments pursuant to our $250 million warehouse credit facility and our $50 million repurchase agreement require that Arbor Commercial Mortgage manage our operations pursuant to the management agreement as a condition to making advances to us under these credit facilities. Additionally, if Arbor Commercial Mortgage ceases to be our manager, each of the financial institutions under these credit facilities has the right to terminate their facility and their obligation to advance funds to us in order to finance our future investments. If Arbor Commercial Mortgage ceases to be our manager for any reason and we are not able to obtain financing under these credit facilities, our growth may be limited.

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

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

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

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

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

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

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

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

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

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

All of the initial assets contributed by Arbor Commercial Mortgage and substantially all of the assets currently in our portfolio do not have prepayment protection. Since July 2003, eight of the investments contributed by Arbor Commercial Mortgage, totaling $71.2 million, were repaid in full prior to maturity.

Increased levels of prepayments on the mortgages underlying our mortgage related securities might decrease our net interest income or result in a net loss.

Pools of mortgage loans underlie the mortgage related securities that we acquire. We generally will receive payments from the payments that are made on these underlying mortgage loans. When we acquire mortgage related securities, we anticipate that the underlying mortgages will prepay at a projected rate generating an expected yield. When borrowers prepay their mortgage loans faster than expected, this results in corresponding prepayments on the mortgage related securities reducing the expected yield.

Prepayment rates generally increase when interest rates fall and decrease when interest rates rise, but changes in prepayment rates are difficult to predict. Prepayment rates also may be affected by other factors, including, without limitation, conditions in the housing and financial markets, general economic conditions and the relative interest rates on adjustable-rate and fixed-rate mortgage loans. No strategy can completely insulate us from prepayment or other such risks.

Our investment strategy involves risk of default and delays in payments.

We may incur losses if there are payment defaults under the mortgage related securities that we may acquire. Our mortgage related securities will be government or agency certificates. Agency certificates are mortgage related securities issued by GNMA, Federal National Mortgage Association, or FNMA and the Federal Home Loan Mortgage Corporation , or FHLMC. Payment of principal and interest underlying securities issued by GNMA are guaranteed by the U.S. government. FNMA and FHLMC mortgage related securities are guaranteed as to payment of principal and interest by the respective agency issuing the security. It is possible that guarantees made by FHLMC or FNMA would not be honored in the event of default on the underlying securities. Legislation may be proposed to change the relationship between certain agencies, such as FNMA or FHLMC, and the federal government. This may have the effect of reducing the actual or perceived credit quality of mortgage related securities issued by these agencies. As a result, such legislation could increase the risk of loss on investments in FNMA and/or FHLMC mortgage related securities. We currently intend to continue to invest in such securities, even if such agencies relationships with the federal government changes.

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

We borrow funds under our credit facilities to fund the origination of our structured finance investments. We will also use our existing credit facilities to purchase mortgage-related securities. Our investments may have maturities that are different from the maturities for the credit facilities under which we borrow to finance them. If the credit facilities under which we borrow funds to finance our investments mature and we are required to repay these amounts before the related investment matures, we would have to seek new financing for these investments that may not be on as favorable terms as our existing credit facilities 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.

In order to close transactions in a time frame that meets our customers needs we may perform underwriting analyses in a very short period of time, which may result in credit decisions based on limited information.

From time to time, we gain a competitive advantage by being able to analyze and close transactions within a very short period of time. Our underwriting guidelines require a thorough analysis of many factors, including the underlying property s financial performance and condition, geographic market assessment, experience and financial strength of the borrower and future prospects of the property within the market. If we make the decision to extend credit to a borrower prior to the completion of one or more of these analyses, we may fail to identify certain credit risks that we would otherwise have identified.

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 December 31, 2003, 32%, 14%, 12%, 8% and 8% of the outstanding balance of the structured finance investments we hold had underlying properties in New York, Maryland, Florida, 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. In order to qualify for the tax benefits accorded to REITs, we intend to pay quarterly dividends and to make distributions to our stockholders in amounts such that we distribute all or substantially all of our taxable income each year, subject to certain adjustments. However, our ability to make distributions may be adversely affected by the risk factors described in this prospectus. In the event of a downturn in our operating results and financial performance or unanticipated declines in the value of our asset portfolio, we may be unable to declare or pay quarterly dividends or make distributions to our stockholders. The timing and amount of dividends are in the sole discretion of our board of directors, which considers, among other factors, our earnings, financial condition, debt service obligations and applicable debt covenants, REIT qualification requirements and other tax considerations and capital expenditure requirements as our board may deem relevant from time to time.

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

- the profitability of the investment of the net proceeds of the private placement;
- our ability to make profitable structured finance investments;
- defaults in our asset 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.

A change in any one of these factors could affect our ability to make distributions. If we are not able to comply with the restrictive covenants and financial ratios contained in our credit facilities, our ability to make distributions to our stockholders may also be impaired. We cannot assure you that we will be able to make distributions to our stockholders in the future or that the level of any distributions we make will increase over time.

In addition, distributions to stockholders are generally taxable to our stockholders as ordinary income, but a portion of these distributions may be designated by us as long-term capital gains to the extent they are attributable to capital gain income recognized by us, or may constitute a return of capital to the extent they exceed our earnings and profits as determined for tax purposes.

We may need to borrow funds under our credit facilities in order to satisfy our REIT distribution requirements, and a portion of our distributions may constitute a return of capital. Debt service on any borrowings for this purpose will reduce our cash available for distribution.

We may need to borrow funds to meet the REIT requirement that we distribute at least 90% of our taxable income each year to our stockholders if our cash flows from operations are not sufficient to cover the distribution requirements or because there are differences in timing between the recognition of taxable income and the actual receipt of income in cash. Our warehouse credit facility and master repurchase agreements allow us to borrow up to a maximum amount against each of our investments financed under these credit facilities. If we have not borrowed the maximum allowable amount against any of these investments, we may borrow funds under our credit facilities up to these maximum amounts in order to satisfy REIT distribution requirements. Any required debt service will reduce cash and net income available for operations or distribution to our stockholders.

In order to maximize the return on our funds, cash generated from operations is generally used to temporarily pay down borrowings under credit facilities whose primary purpose is to fund our new loans and investments. When making distributions, we borrow the required funds by drawing on credit capacity available under our credit facilities. To date, all distributions have been funded in this manner and our distributions have not exceeded cash-based income. If distributions exceed the amount of cash-based income, we may be required to borrow additional funds, which, in turn, would reduce the amount of funds available for other purposes.

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

We believe that we conduct and we intend to 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 entities that directly or indirectly own the underlying real property, rather than a mortgage on the underlying property itself, and ownership of equity interests in owners of real property may not qualify for purposes of the 55% test depending on the type of entity. Mortgage-related securities that do not represent all of the certificates issued with respect to an underlying pool of mortgages may also not qualify for purposes of the 55% test. Therefore, our ownership of these types of debt instruments and equity interests may be limited by the provisions of the Investment Company Act. To the extent that we do not comply with the SEC staff s 55% test or another exemption or exclusion from registration under the Investment Company Act or other interpretations under the Investment Company Act, we may be deemed to be an investment company. If we fail to maintain an exemption or other exclusion from registration as an investment company we could, among other things, be required either (a) to substantially change the manner in which we conduct our operations to avoid being required to register as an investment company or (b) to register as an investment company, either of which could have an adverse effect on us and the market price of our common stock. If we were required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the Investment Company Act) portfolio composition, including restrictions with respect to diversification and industry concentration and other matters.

ERISA may restrict investments by plans in our common stock.

A plan fiduciary considering an investment in our common stock should consider, among other things, whether such an investment might constitute or give rise to a prohibited transaction under ERISA, the Internal Revenue Code or any substantially similar federal, state or local law and whether an exemption from such prohibited transaction rules is available. See ERISA Considerations.

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. All of our outstanding debt, which as of December 31, 2003, was $172.5 million, consists of variable rate debt under the warehouse credit agreement and the master repurchase agreements that we use to finance our loans and other investments. 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.

Our warehouse credit agreement and master repurchase agreements contain covenants which prohibit us from effecting a change in control or disposing of or encumbering assets being financed and restrict us from making any material amendment to our underwriting guidelines without approval of the lender. We are also required to maintain financial ratios under these agreements including minimum net worth, minimum debt-to-equity and minimum liquidity ratios. If we violate these covenants in any of these 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 these 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.

We leverage our portfolio, which may adversely affect our return on our investments and may reduce cash available for distribution.

We leverage our portfolio through borrowings, generally through the use of warehouse credit facilities and repurchase agreements. The percentage of our leverage varies depending on our ability to obtain credit facilities and the lender s estimate of the stability of the portfolio s cash flow. We currently have a policy limiting our leverage to 80% of the value of our assets on an aggregate basis unless approval to exceed the 80% limit is obtained from our board of directors. Our return on our investments and cash available for distribution to our stockholders may be reduced to the extent that changes in market conditions cause the cost of our financing to increase relative to the income that can be derived from the assets acquired.

Our debt service payments reduce the net income available for distributions to stockholders. We may not be able to meet our debt service obligations and, to the extent that we cannot, we risk the loss of some or all of our assets to foreclosure or sale to satisfy our debt obligations.

A decrease in the value of the assets may lead to a requirement that we repay certain borrowings. We may not have the funds available to satisfy such repayments.

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 Arbor Commercial Mortgage and its controlling equity owner, Mr. Kaufman.

Mr. Ivan Kaufman is our chairman and chief executive officer and the president and chief executive officer of our manager. Further, Mr. Kaufman and the Kaufman entities together beneficially own approximately 88% of the outstanding membership interests of Arbor Commercial Mortgage. Arbor Commercial Mortgage owns approximately 3.1 million operating partnership units, representing a 28% limited partnership interest in our operating partnership and warrants to purchase 629,345 additional operating partnership units. After giving effect to the concurrent offerings, Arbor Commercial Mortgage will own approximately a 17% interest in our operating partnership and we will own the remaining 83% (without giving effect to the exercise of Arbor Commercial Mortgage s warrants for additional operating partnership units). The operating partnership units are redeemable for cash or, at our election, for shares of our common stock generally on a one-for-one basis. Each of the operating partnership units Arbor Commercial Mortgage owns is paired with one share of our special voting preferred stock, each of which entitle Arbor Commercial Mortgage to one vote on all matters submitted to a vote of our stockholders. Therefore, Arbor Commercial Mortgage is currently entitled to approximately 3.1 million votes, or 28% of the voting power of our outstanding stock. We granted Arbor Commercial Mortgage and Mr. Kaufman, as its controlling equity owner, an exemption from the ownership limitation contained in our charter, in connection with Arbor Commercial Mortgage s acquisition of approximately 3.1 million shares of our special voting preferred stock on July 1, 2003. After giving effect to the concurrent offerings, Arbor Commercial Mortgage will have approximately 17% of the voting power of our outstanding stock (without giving effect to the exercise of Arbor Commercial Mortgage s warrants for additional operating partnership units). 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.

We may engage in hedging transactions that may limit our gains or result in losses.

We may use derivatives to hedge our liabilities and this has certain risks, including:

- losses on a hedge position may reduce the cash available for distribution to stockholders and such losses may exceed the amount invested in such instruments;

- counterparties to a hedging arrangement could default on their obligations; and

- we may have to pay certain costs, such as transaction fees or brokerage costs.

Our board of directors has adopted a general policy with respect to our use of interest rate swaps, the purchase or sale of interest rate collars, caps or floors, options, mortgage derivatives and other hedging instruments in order to hedge as much of the interest rate risk as our manager 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. Our board s policy does not set forth specific policies and procedures for the use of these instruments. We may use these hedging instruments in our risk management strategy to limit the effects of changes in interest rates on our operations. A hedge may not be effective in eliminating all of the risks inherent in any particular position. Our profitability may be adversely affected during any period as a result of the use of derivatives.

Risks Related to Conflicts of Interest

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

We have only twelve employees, including Mr. Fred Weber, Mr. Daniel M. Palmier, Mr. John C. Kovarik and a nine-person asset management group, and are dependent upon our manager, Arbor

Commercial Mortgage, 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, Mr. Kaufman and the Kaufman entities together beneficially own approximately 88% of the outstanding membership interests of Arbor Commercial Mortgage and Messrs. Herbst, Weber, Palmier, Martello and Horn, collectively hold a 5% ownership interest in Arbor Commercial Mortgage. Mr. Martello also serves as the trustee of one of the Kaufman entities that holds a majority of the outstanding membership interests in Arbor Commercial Mortgage and co-trustee of another Kaufman entity that owns an equity interest in our manager. Arbor Commercial Mortgage holds a 28% limited partnership interest in our operating partnership and 28% of the voting power of our outstanding stock (without giving effect to the exercise of Arbor Commercial Mortgage s warrants for additional operating partnership units). Upon consummation of the concurrent offerings, Arbor Commercial Mortgage will hold a 17% limited partnership interest in our operating partnership and have 17% of the voting power of our outstanding stock.

We may enter into transactions with Arbor Commercial Mortgage outside the terms of the management agreement with the approval of majority vote of the independent members of our board of directors. Transactions required to be approved by a majority of our independent directors include, but are not limited to, our ability to purchase securities and mortgage and other assets from Arbor Commercial Mortgage or to sell securities and assets to Arbor Commercial Mortgage. Arbor Commercial Mortgage 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 Arbor Commercial Mortgage may also make loans to the same borrower or to borrowers that are under common control. Additionally, our policies and those of Arbor Commercial Mortgage may require us to enter into intercreditor agreements in situations where loans are made by us and Arbor Commercial Mortgage 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 Arbor Commercial Mortgage 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 Arbor Commercial Mortgage holds an equity interest.

Arbor Commercial Mortgage has contributed loans to us that are secured by properties in which Arbor Commercial Mortgage owns equity interests in the borrower. Every transaction that we enter into with an entity in which Arbor Commercial Mortgage holds equity interests raises a potential 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 compensation 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 compensation 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 compensation 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 concurrent offerings 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. Our manager is entitled to a base management fee, which is based on the equity of our operating partnership. The amount of the base management fee does not depend on the performance of the services provided by our manager or the types of assets it selects for our investment, but the value of our operating partnership s equity will be affected by the performance of these assets. Our manager is also 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.

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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 authorities 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 an 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, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes, such as mortgage recording taxes. See Federal Income Tax Considerations Taxation of Arbor Realty Taxation of REITs in General. 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.

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.

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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%. 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.

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

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, including entities, 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 exercisable 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.

We granted Arbor Commercial Mortgage and Mr. Kaufman, as its controlling equity owner, an exemption from the ownership limitation contained in our charter, in connection with Arbor Commercial Mortgage s acquisition of approximately 3.1 million shares of our special voting preferred stock on July 1, 2003.

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. Under current law, any income that we generate from derivatives or other transactions intended to hedge our interest rate risks will generally constitute income that does not qualify for purposes of the 75% income requirement applicable to REITs, and will also be treated as nonqualifying income for purposes of the REIT 95% income test unless specified requirements are met. In addition, any income from foreign currency or other hedges would generally constitute nonqualifying income for purposes of both the 75% and 95% REIT income tests under current law. See Federal Income Tax Considerations Taxation of Arbor Realty Derivatives and Hedging Transactions. As a result of these rules, we may have to limit our use of hedging techniques that might otherwise be advantageous, which could result in greater risks associated with interest rate or other changes than we would otherwise incur.

Risks Related to the Offering

There may not be an active market for our common stock, which may cause our common stock to trade at a discount and make it difficult to sell the common stock you purchase.

Prior to the concurrent offerings, there has been no public market for our common stock. We cannot assure you that an active trading market for our common stock will develop or be sustained after the concurrent offerings. The initial public offering price for our common stock will be determined by negotiations between the underwriters and us. We cannot assure you that the initial public offering price will correspond to the price at which our common stock will trade in the public market subsequent to the concurrent offerings or that the price of our shares available in the public market will reflect our actual financial performance.

Our common stock has been approved for listing, subject to notice of issuance, on the New York Stock Exchange under the symbol ABR. Quotation through the New York Stock Exchange would not ensure that an actual market will develop for our common stock. Accordingly, no assurance can be given as to (i) the likelihood that an actual market for our common stock will develop, (ii) the liquidity of any such market, (iii) the ability of any holder to sell shares of our common stock, or (iv) the prices that may be obtained for our common stock.

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 of voting stock 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. Prior to the concurrent offerings, 8,199,567 shares of our common stock are outstanding, 1,610,000 shares are authorized for issuance upon exercise of the warrants for shares of common stock, 35,500 shares are reserved and authorized for issuance under our stock incentive plan and 3,776,069 shares are authorized for issuance upon redemption of operating partnership units, including 629,345 operating partnership units issuable upon exercise of warrants for additional operating partnership units. After giving effect to the concurrent offerings, there will be 14,949,567 shares of common stock outstanding. Of the shares of our common stock currently outstanding, 22,500 shares of common stock are being registered pursuant to the registration statement of which this prospectus is a part. We have agreed to register the remaining 8,027,500 shares comprising our units and 1,610,000 shares underlying warrants comprising our units for resale by the remaining holders of our units within 60 days of the consummation of this offering, which is the lock-up period applicable to those shares as described under Registration Rights and Lock-Up Agreements Lock-Up Agreements below. We may also register the 149,500 shares of restricted common stock issued to our directors, executive officers, employees and certain employees of Arbor Commercial Mortgage pursuant to our stock incentive plan after the expiration of the 180 day lock-up period for our directors and executive officers. If Arbor Commercial Mortgage redeems its 3,776,069 operating partnership units (including 629,345 operating partnership units issuable upon exercise of warrants for additional operating partnership units) and we elect to issue shares of our common stock upon such redemption, an additional 3,776,069 shares would be eligible for future sale. We have granted registration rights to Arbor Commercial Mortgage relating to the resale of shares of common stock that we may issue upon redemption of its 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 or this offering to limit the amount of common stock sold into the market.

We will agree with the underwriters 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 date of this prospectus, subject to certain exceptions. Our directors and officers, Arbor Commercial Mortgage and certain members of the senior management of Arbor Commercial Mortgage will agree, with limited exceptions, for a period of 180 days after the date of this prospectus, and the selling stockholder and remaining holders of units will agree, with limited exceptions, for a period of 60 days after the date of this prospectus, that they will not, without the prior written consent of Wachovia Capital Markets, LLC, directly or indirectly, offer to sell, sell or otherwise dispose of any shares of our common stock or any securities convertible into, or exercisable or exchangeable for, shares of our common or our other capital stock, other than the shares of common stock sold by the selling stockholder in this offering.

Arbor Commercial Mortgage and each of the persons serving as our directors and executive officers at the consummation of the private placement 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 Securities 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 private placement, subject to certain exceptions.

Wachovia Capital Markets, LLC and JMP Securities, respectively, 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 shares and 260,750 units, including 1,303,750 shares of common stock and 260,750 warrants comprising the units, will be available for sale into the market, subject only to applicable securities rules and regulations, which could reduce the market price for our common stock.

We may allocate the net proceeds from the concurrent offerings in ways with which you may not agree.

Our business plan is general in nature and is subject to change based upon changing conditions and opportunities. Our management has significant flexibility in applying the total $125.3 million in net proceeds we expect to receive in the concurrent offerings ($142.7 million if the underwriters over-allotment option is exercised in full). Because the net proceeds is not required to be allocated to any specific investment or transaction, you cannot determine at this time the value or propriety of our application of the proceeds, and you and other stockholders may not agree with our decisions. See Use of Proceeds for a more detailed description of how management intends to apply the proceeds from the concurrent offerings.

We have not established a minimum dividend payment level and there are no assurances of our ability to pay dividends in the future.

We intend to pay quarterly dividends and to make distributions to our stockholders in an amount such that all or substantially all of our taxable income in each year, subject to certain adjustments, is distributed. We have not established a minimum dividend payment level and our ability to pay dividends may be adversely affected by the risk factors described in this prospectus. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status 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.

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

One of the factors that investors may consider in deciding whether to buy or sell shares of our common stock is our dividend rate as a percentage of our share price relative to market interest rates. If the market price of our common stock 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 common stock. For instance, if market rates rise without an increase in our dividend rate, the market price of our common stock 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.

Investors in the concurrent offerings will suffer immediate and substantial dilution.

The initial public offering price of our common stock is higher than the net tangible book value per share of our common stock outstanding immediately after the concurrent offerings. Our net tangible book value per share as of December 31, 2003 was approximately $13.55. Net tangible book value per share as of December 31, 2003 represents the amount of our total tangible assets minus our total liabilities, divided by the 8,199,567 shares of our common stock that were outstanding on December 31, 2003. Investors who purchase our common stock in the concurrent offerings will pay a price per share that substantially exceeds the net tangible book value per share of our common stock. If you purchase our common stock in the concurrent offerings, you will experience immediate and substantial dilution of $4.19 in the net tangible book value per share of our common stock, based upon an assumed initial public offering price of $20.00 per share, which is the midpoint of the range listed on the cover page of this prospectus. Investors who purchase our common stock in the concurrent offerings will have purchased 45.15% of the shares outstanding immediately after the offering, but will have paid 52.33% of the total consideration for those shares.

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.

Wachovia will receive benefits from this offering in addition to its underwriting discount.

Assuming the underwriters do not exercise their over-allotment option, approximately $25 million of the net proceeds, representing approximately 20% of the total estimated net proceeds from the concurrent offerings, will be used to repay outstanding indebtedness under a master repurchase agreement with an affiliate of Wachovia Capital Markets, LLC, an underwriter in this offering. See Use of Proceeds and Underwriting Other Relationships. This use of proceeds gives the affiliate of Wachovia Capital Markets, LLC an interest in the successful completion of this offering beyond the underwriting discounts and commissions Wachovia Capital Markets, LLC will receive from this offering and could affect the ability of such underwriter to perform its obligations in an objective manner.

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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 common stock.

When we use words such as will likely result, may, shall, will, believe, expect, anticipate, project, intend, estimate, goa similar 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.

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USE OF PROCEEDS

We estimate that the net proceeds from our sale of 6,750,000 shares of common stock in the concurrent offerings, at an assumed initial public offering price of $20.00 per share, which is the midpoint of the range listed on the cover page of this prospectus, after deducting the underwriting discount and other estimated offering expenses, will be approximately $125.3 million. If the underwriters exercise their over-allotment option in full, we estimate that the net proceeds, after deducting the underwriting discount and other estimated offering expenses, of the offering of common stock by us will be approximately $142.7 million. We will not receive any proceeds from the sale of shares of our common stock by the selling stockholder.

We intend to use all of the net proceeds of the concurrent offerings to repay indebtedness under our warehouse credit agreement and master repurchase agreements. We anticipate that we will use the additional borrowing capacity created by the repayments under these credit facilities to fund our lending business in connection with newly originated and existing loans in our portfolio as the need arises. As of March 31, 2004, $200.3 million was outstanding under our $150 million master repurchase agreement, which was recently increased to $250 million of borrowing capacity on a temporary basis. This facility matures in December 2006 and has a weighted average interest rate of 3.94%. This repurchase agreement is with an affiliate of Wachovia Capital Markets, LLC, an underwriter in this offering. Assuming the underwriters do not exercise their over-allotment option, we intend to use approximately $25 million of the net proceeds, representing approximately 20% of the total estimated net proceeds from the concurrent offerings, to repay outstanding indebtedness under this master repurchase agreement. As of March 31, 2004, the outstanding balance under our $100 million master repurchase agreement, which matures on December 31, 2004, was $48.9 million with a weighted average interest rate of 3.60%. As of March 31, 2004, $132.3 million was outstanding under our primary $250 million warehouse credit agreement, which matures on December 31, 2004, with a weighted average interest rate of 3.64%. During the last year, we borrowed money under these facilities to fund our lending business as required in connection with newly originated and existing loans in our portfolio.

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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 Taxation of Arbor Realty Annual Distribution Requirements.

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 Taxation of Arbor Realty Annual Distribution Requirements. 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 Arbor Commercial Mortgage s management of our business. Distributions are made in cash to the extent that cash is available for distribution. In order to maximize the return on our funds, cash generated from operations is generally used to temporarily pay down borrowings. When making distributions, we generally borrow the required funds by drawing on credit capacity available under our credit facilities. Our distributions have not exceeded cash-based net income (defined for this purpose as net income plus a non-cash stock based incentive compensation expense) and we do not anticipate that distributions will significantly exceed cash-based net income in the future. In 2003, we made distributions of $0.50 per share, and our net income, which was reduced by non-cash stock based incentive compensation expense, was $0.42 per share. With respect to this distribution, we borrowed funds by drawing on credit capacity available under our credit facilities. In the future, to the extent cash available is less than the distribution, we may be required to borrow additional funds or sell assets in order to meet our REIT distribution requirements.

Distributions to stockholders are generally taxable to our stockholders as ordinary income, although a portion of these distributions may be designated by us as capital gains to the extent they are attributable to capital gain income recognized by us, or may constitute a return of capital to the extent they exceed our earnings and profits as determined for tax purposes. 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 Taxation of REITs in General, Federal Income Tax Considerations Taxation of Arbor Realty Annual Distribution Requirements 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 Arbor Commercial Mortgage which does not have any preferential dividend, except a $0.01 per share liquidation preference upon a liquidation or redemption.

On November 5, 2003, our board authorized and we declared a distribution to our stockholders of $0.25 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 made this distribution on November 18, 2003. On December 19, 2003, our board of directors authorized a distribution to our stockholders of $0.25 per share of common stock, payable with respect to the quarter ending December 31, 2003, to stockholders of record at the close of business on December 19, 2003. We made this distribution on December 30, 2003. Of the distributions paid in 2003, 76% were taxable as ordinary income and 24% represented a return of capital. The portion representing the return of capital arose because the distribution paid, which approximated cash generated from operations, exceeded taxable income for the year.

On March 18, 2004, our board of directors authorized and we declared a distribution to our stockholders of $0.38 per share of common stock, payable with respect to the quarter ended March 31, 2004, to stockholders of record at the close of business on March 18, 2004. We made this distribution on March 31, 2004. Upon completion of the financial statements for the quarter ended March 31, 2004, we will determine what portion of this distribution constituted a return of capital.

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CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2003, on an actual basis and as adjusted to give effect to our sale of common stock in the concurrent offerings at an assumed initial public offering price of $20.00 per share and the application of the estimated net proceeds that we expect to receive from our sale of common stock in the concurrent offerings as described under Use of Proceeds. This table should be read together with Use of Proceeds, Management s Discussion and Analysis of Financial Condition and Results of Operations of Arbor Realty Trust, Inc. and Subsidiaries and our consolidated financial statements and related notes included elsewhere in this prospectus.

	As of December 31, 2003	
	Actual	As Adjusted
	(In thousands, except per share data)	
Cash and cash equivalents	$ 6,116	6,116
Long term debt	172,528	47,278
Minority interest	43,632	43,632
Stockholders equity		
Preferred stock, par value $0.01 per share, 100,000,000 shares authorized; 3,146,724 shares issued and outstanding, actual and as adjusted	31	31
Common stock, par value $0.01 per share, 500,000,000 shares authorized; 8,199,567 shares issued and outstanding, actual; 14,949,567 shares issued and outstanding, as adjusted[(1)]	82	150
Additional paid in capital	112,216	237,398
Distributions in excess of earnings	(692)	(692)
Deferred compensation	(521)	(521)
Total stockholders equity	$ 111,116	236,366
Total capitalization	$ 333,392	333,392

(1) Assumes the underwriters over-allotment option is not exercised. Includes 6,750,000 shares of common stock issued in the concurrent offerings. Excludes 35,500 shares authorized and reserved for issuance under our stock incentive plan.

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DILUTION

Our net tangible book value as of December 31, 2003 was approximately $111.1 million, or $13.55 per share of our common stock. Net tangible book value per share represents the amount of our total tangible assets minus our total liabilities, divided by the 8,199,567 shares of our common stock that were outstanding on December 31, 2003. After giving effect to the sale of 6,750,000 shares of our common stock in the concurrent offerings, each at an assumed initial public offering price of $20.00 per share, which is the midpoint of the range listed on the cover page of this prospectus, our net tangible book value on December 31, 2003 would have been approximately $236,366 million, or $15.81 per share. This represents an immediate increase in net tangible book value of $2.26 per share to our existing stockholders and an immediate dilution of $4.19 per share to new investors who purchase our common stock in the concurrent offerings at the initial public offering price. The following table shows this immediate per share dilution:

Initial public offering price per share		$20.00
Net tangible book value per share on December 31, 2003, before giving effect to the concurrent offerings	$13.55	
Increase in net tangible book value per share attributable to the concurrent offerings	2.26	
Pro forma net tangible book value per share on December 31, 2003, after giving effect to the concurrent offerings		15.81
Dilution in pro forma net tangible book value per share to new investors		$ 4.19

The discussion and table above exclude 49,833 shares of our common stock subject to restricted stock awards, which are not vested.

The following table summarizes, as of December 31, 2003, the differences between the average price per share paid by our existing stockholders and by new investors purchasing shares of common stock in the concurrent offerings at an assumed initial public offering price of $20.00 per share, before deducting the underwriting discount and estimated offering expenses payable by us in this offering:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	8,199,567	54.85%	$122,993,505	47.67%	$15.00
New investors	6,750,000	45.15%	135,000,000	52.33%	$20.00
Total	14,949,567	100.00%	$257,993,505	100.00%	$17.26

If the underwriters fully exercise their over-allotment option, the number of shares of common stock held by existing holders will be reduced to 51.61% of the aggregate number of shares of common stock outstanding after the concurrent offerings and the number of shares of common stock held by new investors will be increased to 7,687,500, or 48.39%, of the aggregate number of shares of common stock outstanding after the concurrent offerings.

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PRICE RANGE OF UNITS

We issued 1,610,000 units on July 1, 2003 in a private offering. 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 February 28, 2004, there were approximately 143 beneficial owners of our units. This figure does not reflect the beneficial ownership of shares held in nominee name.

The table below reflect the high and low prices of trades of our units known to us for each of the months indicated.

Month	High	Low
July 2003	$75.250	$69.750
August 2003		
September 2003		
October 2003	$75.250	$75.125
November 2003	$76.000	$76.000
December 2003		
January 2004		
February 2004		
March 2004		

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SELECTED CONSOLIDATED FINANCIAL INFORMATION

OF ARBOR REALTY TRUST, INC. AND SUBSIDIARIES

The following tables present selected historical consolidated financial information as of December 31, 2003 and for the period ended December 31, 2003. The selected historical consolidated financial information presented below under the captions Consolidated Income Statement Data and Consolidated Balance Sheet Data have been derived from our audited, 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 Income Statement Data for the period ended December 31, 2003 is not necessarily indicative of any other interim period. 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.

	Period from June 24, 2003 (inception) to December 31, 2003
Consolidated Income Statement Data:	
Interest income	$ 10,012,449
Other income	156,502
Total revenue	10,168,951
Total expenses	5,452,865
Net income	3,407,919
Earnings per share, basic and diluted(1)	0.42
Dividends declared per common share(2)	0.50

	At December 31, 2003
Consolidated Balance Sheet Data:	
Loans and investments, net	$ 286,036,610
Related party loans, net	35,940,881
Total assets	338,164,432
Notes payable and repurchase agreements	172,528,471
Total liabilities	183,416,716
Minority interest	43,631,602
Total stockholders equity	111,116,114

	Period from June 24, 2003 (inception) to December 31, 2003
Other Data:	
Total originations	$ 186,289,922

(1) The warrants underlying the units issued in the private placement at $75.00 per unit have an initial 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 private placement and approximates the market value of our common stock at December 31, 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, our board authorized and we declared a distribution to our stockholders of $0.25 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 made this distribution on November 18, 2003. On December 19, 2003, our board of directors authorized and we declared a distribution to our stockholders of $0.25 per share of common stock, payable with respect to the quarter ending December 31, 2003, to stockholders of record at the close of business on December 19, 2003. We made this distribution on December 30, 2003.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION OF THE STRUCTURED FINANCE

BUSINESS OF ARBOR COMMERCIAL MORTGAGE, LLC AND SUBSIDIARIES

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

The tables on the following page present selected historical consolidated financial information of the structured finance business of Arbor Commercial Mortgage at the dates and for the periods indicated. The structured finance business did not operate as a separate legal entity or business division or segment of Arbor Commercial Mortgage but as an integrated part of Arbor Commercial Mortgage s consolidated business. Accordingly, the statements of revenue and direct operating expenses do not include charges from Arbor Commercial Mortgage for corporate general and administrative expense because Arbor Commercial Mortgage considered such items to be corporate expenses and did not allocate them to individual business units. These expenses included costs for Arbor Commercial Mortgage s executive management, corporate facilities and overhead costs, corporate accounting and treasury functions, corporate legal matters and other similar costs. The selected consolidated financial information presented under the caption Consolidated Statement of Revenue and Direct Operating Expenses Data for the years ended December 31, 2002 and 2001, the six months ended June 30, 2003 and under the caption Consolidated Statement of Assets and Liabilities Data as of December 31, 2002 and 2001 have been derived from the audited consolidated financial statements of the structured finance business of Arbor Commercial Mortgage included elsewhere in this prospectus. The selected consolidated financial information presented under the caption Consolidated Statement of Revenue and Direct Operating Expenses Data for the six months 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 consolidated financial information presented under the caption Consolidated Statement of Revenue and Direct Operating Expenses Data for the year ended December 31, 2000 and the caption Consolidated Statement of Assets and Liabilities Data as of December 31, 2000 have also been derived from the audited consolidated financial statements of the structured finance business of Arbor Commercial Mortgage. The selected consolidated financial information presented under the caption Consolidated Statement of Revenue and Direct Operating Expenses Data for the years ended December 31, 1999 and 1998 and the caption Consolidated Statement of Assets and Liabilities Data as of December 31, 2000, 1999 and 1998 have been derived from the unaudited consolidated financial statements of the structured finance business of Arbor Commercial Mortgage.

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

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

Consolidated Statement of Revenue and Direct Operating Expenses Data:

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

Consolidated Statement of Assets and Liabilities Data:

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

Other Data (Unaudited):

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

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

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

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

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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 also invest in mortgage-related securities. We conduct substantially all of our operations through our operating partnership.

Our operating performance is primarily driven by several factors:

Net interest income earned on our investments Net interest income represents the amount by which the interest income earned on our assets exceeds the interest expense incurred on our borrowings. If the yield earned on our assets increases, this will have a positive impact on earnings. Similarly, if the cost of borrowings decreases, this will have a positive impact on earnings. Net interest income is also directly impacted by the size of our asset portfolio.

Credit quality of our assets Effective asset and portfolio management is essential to maximizing the performance and value of a real estate/mortgage investment. Maintaining the credit quality of our loans and investments is of critical importance. Loans that do not perform in accordance with their terms may have a negative impact on earnings.

Cost control We seek to minimize our operating costs, which consist primarily of employee compensation and related costs and other general and administrative expenses. As the size of the portfolio increases, certain of these expenses, particularly employee compensation expenses, may increase.

On July 1, 2003, Arbor Commercial Mortgage 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 Arbor Commercial Mortgage were transferred to our operating partnership. These assets, liabilities and employees represent a substantial portion of Arbor Commercial Mortgage s structured finance business. We are externally managed and advised by Arbor Commercial Mortgage and pay Arbor Commercial Mortgage a management fee in accordance with a management agreement. Arbor Commercial Mortgage will also originate, underwrite and service all structured finance assets on behalf of our operating partnership.

Concurrently with Arbor Commercial Mortgage 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. The offering price per unit was $75.00, and gross proceeds from the private financing totaled $120.2 million. From the $120.2 million of gross proceeds from the private placement, we repaid $105.6 million of borrowings under our warehouse credit facility and repurchase agreements, purchased two mezzanine loans and one preferred equity investment from Arbor Commercial Mortgage for $6.7 million, paid offering expenses of $7.6 million and funded $0.3 million of operating capital. Gross proceeds from the private placement combined with the concurrent equity contribution by Arbor Commercial Mortgage totaled approximately $164.1 million in equity capital. Offering expenses paid or accrued totaled $10.1 million, resulting in stockholders equity and minority interest of $154.0 million as a result of the private placement.

Sources of Operating Revenues

We derive our operating revenues primarily through interest received from making real estate-related bridge and mezzanine loans and preferred equity investments. For the period ended December 31, 2003, interest represented approximately 98% of our total revenues. 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 also derive operating revenues from other income that represents loan structuring and miscellaneous asset management fees associated with our loans and investments portfolio. For the period ended December 31, 2003, revenue from other income represented approximately 2% of our total revenue.

We will also derive interest income from our investments in mortgage related securities.

Gain on Sale of Loans and Real Estate and Income from Equity Affiliates

We may derive income 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.

We may also derive income from equity affiliates relating to joint ventures that were formed with equity partners to acquire, develop and/or sell real estate assets. Such investments are recorded under the equity method. We record our share of net income from the underlying properties in which we invest through these joint ventures.

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.

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.

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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 Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46 Consolidation of Variable Interest Entities (FIN 46), which requires a variable interest entity, a VIE, to be consolidated by its primary beneficiary. The primary beneficiary is the party that absorbs a majority of the VIE s anticipated losses and/or a majority of the expected returns.

In December 2003, the FASB revised FIN 46 (FIN 46-R), delaying the effective date for certain entities created before February 1, 2003 and making other amendments to clarify the application of the guidance. In adopting FIN 46 and in anticipation of adopting FIN 46-R, we have evaluated our loans and investments and investments in equity affiliates made to entities created after February 1, 2003 to determine whether they are VIE s. As a result of this evaluation, we determined that our mezzanine loans, preferred equity investments and investments in equity affiliates were potential variable interests. For each of these investments, we have evaluated 1) the sufficiency of the fair value of the entities equity investments at risk to absorb losses, 2) that as a group the holders of the equity investments at risk have a) the direct or indirect ability through voting rights to make decisions about the entities significant activities, b) the obligation to absorb the expected losses of the entity and their obligations are not protected directly or indirectly, c) the right to receive the expected residual return of the entity and their rights are not capped, 3) the voting rights of some of these investors are proportional to their obligations to absorb the expected losses of the entity, their rights to receive the expected returns of the equity, or both, and 4) that substantially all of the entities activities do not involve or are not conducted on behalf of an investor that has disproportionately few voting rights. For these investments we have determined that the entities have sufficient equity at risk and, accordingly, they are not VIE s. As such, we have continued to account for the mezzanine loans and preferred equity investments and investments in equity investments as a loan, joint venture or real estate, as appropriate.

We are still in the process of evaluating our investments made into entities created before February 1, 2003 and a definitive conclusion cannot be reached until the evaluation has been completed.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statement of Financial Accounting Standards No. 5 (SFAS No. 5), Accounting for Contingencies, Statement of Financial Accounting Standards No. 57, Related Party Disclosures, Statement of Financial Accounting Standards No. 107, Disclosures about Fair Value of Financial Instruments and rescinded FASB Interpretation No. 34, Disclosure of Indirect Guarantees of Indebtedness of Others, an Interpretation of SFAS No. 5. It requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee regardless of whether it receives separately identifiable consideration (i.e., a premium). The new disclosure requirements were effective December 31, 2002. The adoption of FIN 45 did not have a material impact on our consolidated financial statements, nor is it expected to have a material impact in the future.

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Results of Operations

Period from June 24, 2003 (inception) to December 31, 2003

The following table sets forth our results of operations for the period ended December 31, 2003:

	Period from June 24, 2003 (inception) to December 31, 2003
Revenue:	
Interest income	$ 10,012,449
Other income	156,502
Total revenue	10,168,951
Expenses:	
Interest expense	1,669,731
Employee compensation and benefits	940,336
Stock based compensation	1,721,367
Selling and administrative	533,697
Management fee	587,734
Total expenses	5,452,865
Income before minority interest	4,716,086
Income allocated to minority interest	1,308,167
Net income	$ 3,407,919

Revenue. Interest income was $10.0 million. The average balance of the loan and investment portfolio was $254.9 million during the period ended December 31, 2003. The average yield on these assets was 7.68%.

Other income was $157,000, which represents loan structuring and miscellaneous asset management fees associated with our loans and investments portfolio.

Expenses. Interest expense was $1.7 million. The average balance of debt financing was $92.5 million during the period ended December 31, 2003. The average cost of these borrowings was 3.53%. Our average leverage for the period ended December 31, 2003 was 36%, resulting in our interest margin on a levered basis being 10.27%.

Employee compensation and benefits expense was $940,000, which represents salaries, benefits and incentive compensation for the 12 employees employed by us during the period ended December 31, 2003.

Stock-based compensation expense was $1.7 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 for the period ended December 31, 2003 represents the full expense of the vested shares and a ratable portion of the expense of the unvested shares.

Selling and administrative expense was $534,000. This amount is comprised primarily of professional fees, including legal and accounting services.

Management fees were $588,000. 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; however, the requirements for incentive compensation were not satisfied and no incentive compensation was recorded in the period.

Income Allocated to Minority Interest. Income allocated to minority interest was $1.3 million. 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.

In order to maximize the return on our funds, cash generated from operations is generally used to temporarily pay down borrowings under credit facilities whose primary purpose is to fund our new loans and investments. When making distributions, we borrow the required funds by drawing on credit capacity available under our credit facilities. To date, all distributions have been funded in this manner. All funds borrowed to make distributions have been repaid by funds generated from operations. The average duration of indebtedness from the point of distributions to repayment was 10.3 days and the maximum amount of indebtedness incurred to make distributions was approximately $4.3 million.

Gross proceeds from the private placement on July 1, 2003 totaled $120.2 million, which combined with Arbor Commercial Mortgage s equity contribution of $43.9 million, resulted in total contributed capital of $164.1 million. From the $120.2 million of gross proceeds from the private placement, we repaid $105.6 million of borrowings under our warehouse credit facility and repurchase agreements, purchased two mezzanine loans and one preferred equity investment from Arbor Commercial Mortgage for $6.7 million, paid offering expenses of $7.6 million and funded $0.3 million of operating capital. We paid or accrued offering expenses of $10.1 million, resulting in stockholders equity and minority interest of $154.0 million as a result of the private placement.

We also maintain liquidity through one warehouse credit agreement and two master repurchase agreements with three different financial institutions with which Arbor Commercial Mortgage had similar financing facilities and an additional master repurchase agreement that we entered into with another financial institution in December 2003.

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. In addition to LIBOR-based interest obligations, 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 March 31, 2004, the outstanding balance under this facility was $132.3 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 Arbor Commercial Mortgage to us on July 1, 2003. On March 31, 2004, the outstanding balance under this facility was $48.9 million. In February 2004, we entered into an amendment to this repurchase agreement, which extended the term of this facility until December 31, 2004. Under the terms of this amendment, $3.2 million of borrowings related to the CDS Portfolio preferred equity investment was repaid on March 31, 2004. In addition, the interest rates on the borrowings related to the Schron A preferred equity investment and the Tropical Gardens and Palmetto Villas Apartments bridge loans were adjusted to one-month LIBOR plus 3.50%, 2.25% and 2.50%, respectively. We do not believe the revised terms will have a material impact on our results of operations.

We have a $50.0 million master repurchase agreement with a third financial institution, dated as of July 1, 2003, which matures in November 2005. This facility has not yet been utilized.

We have a $150.0 million master repurchase agreement with a fourth financial institution (which is an affiliate of Wachovia Capital Markets, LLC, an underwriter for this offering), dated as of December 23, 2003 with a term of three years and an interest rate based on LIBOR. In December 2003, we entered into a temporary repurchase agreement arrangement with this financial institution to finance three mezzanine loans that were originated in December 2003. In January 2004, we transferred the financing of these three loans from the temporary facility to the $150.0 million facility. As of March 31, 2004, $200.3 million was outstanding under this facility. Effective March 2, 2004, we amended this facility on a temporary basis. The amendment provides for an increase in the facility size from $150 million to $250 million. Borrowings may be taken up to 100% of our asset amount at a cost of 2.0% greater than the existing cost of funds. To date, no advances have been made subject to this amendment. In the event there are advances under this amendment in the future, we anticipate such advances will be repaid with proceeds from this offering.

The warehouse credit agreement and the three master repurchase agreements require that we pay interest monthly, based on our pricing over LIBOR. The amount of our pricing over LIBOR varies depending upon the structure of the loan or investment financed pursuant to the warehouse credit agreement or the master repurchase agreement. Our pricing over LIBOR is summarized in the table on the following page.

The warehouse credit agreement and the three 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. These liquidity needs, which are present in the short-term and long-term, include ongoing commitments to repay borrowings, fund future investments, fund operating costs and fund distributions. 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 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 (LIBOR refers to one-month LIBOR):

	Warehouse Facility	Repurchase Agreement	Repurchase Agreement	Repurchase Agreement[(1)]
Total Facility Amount	$250,000,000	$100,000,000	$50,000,000	$ 150,000,000
Sublimits based on Investment Type				
Bridge Loan Sublimit Amount	$125,000,000	N/A	$50,000,000	N/A
Maximum Advance Rate[(2)]	85%[(3)]	80%	80%	70%-80%[(4)]
Pricing over LIBOR	2.00%	2.00%	1.25%	1.75%-2.875% [(4)]
Profit Share[(5)]	20.0%			
Mezzanine Loans/ Preferred Equity Sublimit Amount	$175,000,000	$ 25,000,000	$50,000,000	$ 90,000,000
Maximum Advance Rate[(2)]	80%[(6)]	65%	75%	55%-70%[(4)]
Pricing over LIBOR	2.75%	2.75%	2.50%	2.10%-3.225% [(4)]
Profit Share[(5)]	20.0%			
Note Acquisitions Sublimit Amount	$125,000,000			
Maximum Advance Rate[(6)]	80%[(7)]			
Pricing over LIBOR	2.50%			
Property Acquisitions Total Line	$125,000,000			
Maximum Advance Rate	80%			
Pricing over LIBOR	2.50%			
Financial Covenants:				
Minimum Net Worth	$115,000,000(8)	$ 45,000,000(8)	(9)	$ 75,000,000
Leverage (Debt to Net Worth) Ratio must not Exceed	6 to 1	8 to 1	6 to 1	4 to 1
Minimum Liquidity[(10)]	$ 3,000,000	N/A	N/A	$ 15,000,000

(1) This repurchase agreement is with an affiliate of Wachovia Capital Markets, LLC, an underwriter in this offering. We have increased our borrowing capacity under this facility on a temporary basis up to $250 million.

(2) 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.

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

(4) Advance rates and pricing over LIBOR vary due to the type of asset financed.

(5) Certain investments included in contribution of the initial assets are financed under prior profit sharing agreements between the financial institution and Arbor Commercial Mortgage with profit sharing percentages ranging from 17.5% to 45% of net interest income of the loans and investments financed.

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

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

(8) Minimum net worth is defined as net worth of our operating partnership.

(9) Minimum net worth is equal to 75% of the highest level reached over the preceding twelve consecutive calendar months.

(10) Minimum liquidity is defined as liquid assets and available financing under the facilities.

In addition to the financial covenants presented in the table above, our warehouse credit agreement and master repurchase agreements contain covenants that prohibit us from effecting a change in control or disposing of or encumbering assets being financed and restrict us from making any material amendment to our underwriting guidelines without approval of the lender. The concurrent offerings will not be considered a change in control for purposes of these agreements. Furthermore, the credit facilities include various covenants not deemed to be restrictive including preservation of company existence, conduct of business, compliance with applicable laws, financial statement reporting requirements, maintenance of paper records and files and loan performance and servicing date reporting requirements. If we violate these covenants in any of these 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 these 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. As of December 31, 2003 we are in compliance with all covenants and restrictions.

Contractual Commitments

Pursuant to our management agreement with Arbor Commercial Mortgage, we pay Arbor Commercial Mortgage an annual base management fee based on the equity of our operating partnership, as further discussed below. The amount of the base management fee does not depend on the performance of the services provided by our manager or the types of assets it selects for our investment, but the value of our operating partnership s equity will be affected by the performance of these assets. We also pay our manager incentive compensation each fiscal quarter. We have incurred $587,734 in base management fees to Arbor Commercial Mortgage for management services rendered for the period ended December 31, 2003. As of December 31, 2003, we paid $490,956 of these base management fees. We have incurred $97,681 in base management fees for management services rendered in January 2004 and $98,598 in base management fees for management services rendered in February 2004, for a total of $196,278. All amounts incurred have been paid to date. Our manager did not earn incentive compensation for the quarters ended September 30, 2003 or December 31, 2003. The table below summarizes the calculation of the base management fee, incentive compensation and other fees and expenses payable to our manager pursuant to the management agreement.

Type	Description and Method of Computation	Payable
Base management fee[1]	(1) 0.75% per annum of the first $400 million of our operating partnership s equity (2) 0.625% per annum of our operating partnership s equity between $400 million and $800 million, and (3) 0.50% per annum of our operating partnership s equity in excess of $800 million.	Monthly in arrears in cash

Type	Description and Method of Computation	Payable
Incentive compensation[2]	(1) 25% of the amount by which: (a) our operating partnership s funds from operations per operating partnership unit, adjusted for certain gains and losses, exceeds (b) the product of (x) 9.5% per annum or the Ten Year U.S. Treasury Rate plus 3.5%, whichever is greater, and (y) the weighted average of the book value of the net assets contributed by Arbor Commercial Mortgage to our operating partnership per operating partnership unit, $15.00 (representing the offering price per share of our common stock in the private placement), [3] the offering price per share of our common stock (including any shares of common stock issued upon exercise of warrants or options) in any subsequent offerings (adjusted for any prior capital dividends or distributions) and the issue price per operating partnership unit for subsequent contributions to our operating partnership, multiplied by (2) the weighted average of our operating partnership s outstanding operating partnership units.	Each fiscal quarter, with at least 25% paid in our common stock, subject to the ownership limits in the character
Overhead expenses	Compensation of our independent directors, legal, accounting, due diligence tasks and other services that outside professionals perform for us.	Each fiscal quarter in cash
Origination fee income[4]	An amount equal to 100% of the origination fees paid by the borrower to us with respect to each bridge loan and mezzanine loan we originate, up to 1% of the loan s principal amount.	Upon closing of each loan
Termination fee[5]	If we terminate or elect not to renew the management agreement in order to manage our portfolio internally, we are required to pay a termination fee equal to the base management fee and incentive compensation for the 12-month period preceding the termination. If, without cause, we terminate or elect not to renew the management agreement for any other reason, including a change of control of us, we are required to pay a termination fee equal to two times the base management fee and incentive compensation paid for the 12-month period preceding the termination.	Upon termination

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

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

(3) We allocated the $75.00 offering price per unit to the five shares of common stock comprising each unit, resulting in an offering price of $15.00 per share of common stock in the private placement. We did not allocate any value to the one warrant underlying each unit because the warrants have an initial exercise price of $15.00 and they are not exercisable, detachable or freely tradable for an indeterminable period of time (i.e., until after the registration and listing of the common stock comprising the units on a national securities exchange or The Nasdaq Stock Market).

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

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

The incentive compensation fee will be measured annually in arrears; provided, however, Arbor Commercial Mortgage shall receive quarterly installments thereof in advance. The quarterly installments will be calculated based on the results for the period of twelve months ending on the last day of the fiscal quarter with respect to which such installment is payable. Each quarterly installment payment will be deemed to be an advance of a portion of the incentive fee payable for the year. At least 25% of this incentive compensation fee is paid to Arbor Commercial Mortgage in shares of our common stock. For purposes of determining the number of shares to be paid to our manager to satisfy the common stock portion of the incentive management fee prior to the date our shares are publicly traded, each share of common stock shall have a value equal to the book value per share of common stock on the last day of the fiscal quarter with respect to which the incentive fee is being paid. For purposes of determining the number of shares to be paid to Arbor Commercial Mortgage to satisfy the common stock portion of the incentive compensation fee from and after the date our common shares are publicly traded, each common share shall have a value equal to the average closing price per common share based on the last twenty days of the fiscal quarter with respect to which the incentive compensation fee is being paid. The incentive compensation fee will be accrued as it is earned. In accordance with Issue 4(b) of EITF 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services, the expense incurred for incentive fee to be paid in common stock is determined using the amount of stock calculated as noted above and the quoted market price of the stock on the last day of each quarter. At December 31, we will remeasure the incentive fee expense paid to Arbor Commercial Mortgage in shares of our common stock in accordance with the guidance provided by Issue 4(a) of EITF 96-8, which discusses how to measure at the measurement date when certain terms are not known prior to the measurement date. Accordingly, expense recorded related to common stock issues as a portion of incentive fee is adjusted to reflect the fair value of the stock on the measurement date when the final calculation of total incentive fee is determined. In the event the calculated incentive compensation fee for the full year is an amount less than the total of the installment payments made to our manager for the year, Arbor Commercial Mortgage will refund to us the amount of such overpayment in cash regardless of whether such installments were paid in cash or common stock. In such case, we would record a negative incentive compensation fee expense in the quarter when such overpayment is determined.

Related Party Transactions

Related Party Loans

Arbor Commercial Mortgage has a 50% non-controlling interest in a joint venture, which was formed to acquire, develop and/or sell real estate assets. At December 31, 2003, Arbor Commercial Mortgage s investments in this joint venture were approximately $2.6 million. At December 31, 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 one month LIBOR and matures in May 2006. 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 one month 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 Arbor Commercial Mortgage 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, of which $1.1 million was funded as of December 31, 2003, 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 $486,000, for the period ended December 31, 2003.

Our $16.0 million bridge loan to the joint venture was contributed by Arbor Commercial Mortgage at book value, which approximates fair value. At the time of contribution, Arbor Commercial Mortgage also agreed to provide a limited guaranty of the loan s principal amount based on any profits realized on its retained 50% interest in the joint venture with the borrower and Arbor Commercial Mortgage s participating interests in borrowers under three other contributed structured finance assets.

At the time of Arbor Commercial Mortgage s origination of three of the structured finance assets that it contributed to us on July 1, 2003 at book value, which approximates fair value, each of the property owners related to these contributed assets granted Arbor Commercial Mortgage participating interests that share in a percentage of the cash flows of the underlying properties. Upon contribution of the structured finance assets, Arbor Commercial Mortgage 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. Arbor Commercial Mortgage agreed that if any portion of the outstanding amount of any of these four contributed assets (which had an aggregate balance of $48.3 million as of December 31, 2003) is not paid at the its maturity or repurchase date, Arbor Commercial Mortgage 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 Arbor Commercial Mortgage due to the realization of any profits on its retained interests associated with any other of the four contributed assets. However, Arbor Commercial Mortgage 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.

As of December 31, 2003, we had a $13.75 million first mortgage loan and a $1.2 million second mortgage loan, each of which bear interest at a variable rate of one month LIBOR plus 4.25% and mature in March 2004, outstanding to a not-for-profit corporation that holds and manages investment property from the endowment of a private academic institution. Two of our directors are members of the board of trustees of the borrower and that institution. Interest income recorded from these loans was approximately $402,000 for the period ended December 31, 2003.

In addition, Arbor Commercial Mortgage received a brokerage fee for services rendered in arranging a loan facility for a borrower. Arbor Commercial Mortgage credited $146,918 of this brokerage fee to us, representing our proportionate share of the loan facility provided to the borrower. This amount is included in other assets at December 31, 2003, and was received in January 2004.

Related Party Formation Transactions

Arbor Commercial Mortgage 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. Arbor Commercial Mortgage has agreed to indemnify us and our operating partnership against breaches of those representations and warranties. In connection with its asset contribution Arbor Commercial Mortgage has also agreed to guaranty a portion of the principal amount of four contributed assets in which Arbor Commercial Mortgage has retained a participating interest or a joint venture interest in the borrower.

In exchange for Arbor Commercial Mortgage s asset contribution, we issued to Arbor Commercial Mortgage approximately 3.1 million operating partnership units, each of which Arbor Commercial Mortgage may redeem for one share of our common stock or an equivalent amount in cash, at our election, and approximately 629,000 warrants, each of which entitles Arbor Commercial Mortgage to purchase one additional operating partnership unit at an initial exercise price of $15.00. The operating partnership units and warrants for additional operating partnership units issued to Arbor Commercial Mortgage were valued at approximately $43.9 million at July 1, 2003, based on the price offered to investors in our units in the private placement, adjusted for the initial purchaser s discount. We also granted Arbor Commercial Mortgage 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 Arbor Commercial Mortgage is paired with one share of our special voting preferred stock that entitles the holder to one vote on all matters submitted to a vote of our stockholders. As operating partnership units are redeemed for shares of our common stock or cash an equivalent number of shares of special voting preferred stock will be redeemed and cancelled. As a result of Arbor Commercial Mortgage asset contribution and the related formation transactions, Arbor Commercial Mortgage owns approximately a 28% limited partnership interest in our operating partnership and the remaining 72% interest in our operating partnership is owned by us. In addition, Arbor Commercial Mortgage has approximately 28% of the voting power of our outstanding stock (without giving effect to the exercise of Arbor Commercial Mortgage warrants for additional operating partnership units). Upon consummation of the concurrent offerings, Arbor will hold a 17% limited partnership interest in our operating partnership and 17% of the voting power of our outstanding stock.

We and our operating partnership have entered into a management agreement with Arbor Commercial Mortgage pursuant to which Arbor Commercial Mortgage has agreed to provide us with structured finance investment opportunities and loan servicing as well as other services necessary to operate our business. 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 Arbor Commercial Mortgage a portion of the origination fees that we receive on loans we originate with Arbor Commercial Mortgage pursuant to this agreement.

Under the terms of the management agreement, Arbor Commercial Mortgage is also required to provide us with a right of first refusal with respect to all structured finance transactions identified by Arbor Commercial Mortgage or its affiliates. We have agreed not to pursue, and to allow Arbor Commercial Mortgage 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 Arbor Commercial Mortgage pursuant to which our asset management group provides asset management services to Arbor Commercial Mortgage. 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

Since December 31, 2003, we have made nine new loans totaling $212.3 million. These new loans are summarized in the table below.

Name	Loan Amount (thousands)	Amount Funded (thousands)	Interest Rate	Initial Term	Loan Type	LIBOR Floor
1775 Broadway	$ 35,000	$ 35,000	LIBOR + 5.75%	24 months	Mezzanine	1.75%
Volvo Building	5,100	4,640	LIBOR + 6.00%	36 months	Bridge	1.50%
260 Madison Ave.	30,000	30,000	LIBOR + 7.50%	24 months	Mezzanine	n/a
60 Spring Street	47,900	40,384	LIBOR + 5.00%	12 months	Bridge	1.10%
60 Spring Street	11,400	10,316	LIBOR + 6.00%	12 months	Mezzanine	1.10%
Harrington Farms	12,500	12,500	LIBOR + 5.50%	24 months	Junior participating interest	n/a
Melvin Park Apts	10,400	10,400	LIBOR + 3.00%	36 months	Bridge	1.50%
Habitat Hotel	30,000	20,000	LIBOR + 5.50%	24 months	Bridge	1.50%
The Sagamore Hotel	30,000	30,000	LIBOR + 4.00%	60 months	Bridge	n/a
	$212,300	$193,240				

We purchased the 260 Madison Ave. mezzanine loan from an affiliate of Wachovia Capital Markets, LLC, an underwriter in this offering. We also purchased a junior participating interest in the Harrington Farms bridge loan held by an affiliate of Wachovia Capital Markets, LLC.

In addition in March 2004, we purchased $57.4 million (including $0.1 million of purchased interest) of agency-sponsored whole pool mortgage related securities. Pools of FNMA and FHLMC adjustable rate residential mortgage loans underlie these mortgage related securities. We will receive payments from the payments that are made on these underlying mortgage loans. The loans have a fixed rate of interest for three years and adjust annually thereafter. These loans have a weighted average coupon rate of 3.79%. Of these mortgage-related securities, $20.6 million were issued by FNMA and $36.7 million were issued by FHLMC. We financed $55.5 million under our existing master repurchase agreement with an affiliate of Wachovia Capital Markets, LLC, an underwriter for this offering, at one month LIBOR plus 0.10% and funded the remaining $1.9 million with our own capital.

Since December 31, 2003, the following loans totaling $17.9 million were repaid in full, including all current and deferred interest, prior to their scheduled maturity:

Dylan Hotel This bridge loan had an outstanding balance of $14.0 million when it was repaid. At that time, we held a balance of $11.9 million on the loan and a third party held a $2.1 million participation interest in the loan.

60 Spring Street This $6.0 million mezzanine loan was originated by us in December 2003. In connection with our refinancing of this mezzanine loan and the existing first mortgage lien, this loan was repaid in full and replaced with the $47.9 million bridge loan and the $11.4 million mezzanine loan described above.

In addition, since December 31, 2003, 333 East 34th Street, a $10 million mezzanine loan originated in January 2002, was paid down and now has an outstanding balance of approximately $200,000 and Partners Portfolio Tranch A, a $14.2 million bridge loan, originated in April 2003, was paid down and now has an outstanding balance of approximately $1.3 million.

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 December 31, 2003, and assuming the balances of these assets and liabilities remain unchanged for the subsequent months, a 1% increase in LIBOR would not materially change 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 are less than the amount of liabilities that would subject to an interest rate adjustment. A 1% decrease in LIBOR would increase our annual net income and cash flows by approximately $1.1 million 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.

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 Arbor Commercial Mortgage, 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 also invest in mortgage related securities. 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 Arbor Commercial Mortgage contributed a portfolio of structured finance investments and related liabilities to our operating partnership. In addition, certain employees of Arbor Commercial Mortgage related to its structured finance business became our employees. These assets, liabilities and employees represented a substantial portion of Arbor Commercial Mortgage 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 Arbor Commercial Mortgage is not a separate legal entity and the assets and liabilities associated with Arbor Commercial Mortgage 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 Arbor Commercial Mortgage s consolidated historical accounting records.

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

The 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 Arbor Commercial Mortgage. 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 Arbor Commercial Mortgage.

Since the structured finance business never operated as a separate business division or segment of Arbor Commercial Mortgage, 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 from interest 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. Interest represented 83% and 93% of total revenue for the six months ended June 30, 2003 and June 30, 2002, respectively. Interest represented 93%, 90% and 94% of total revenue for the years ended December 31, 2002, December 31, 2001 and December 31, 2000, respectively.

We also derive operating revenue from other income that includes several types of income that are recorded upon receipt. Certain of our loans and investments provide for additional payments based on the borrower s operating cash flow, appreciation of the underlying collateral, payments calculated based on timing of when the loan pays off and changes in interest rates. Such amounts are not readily determinable and are recorded as other income upon receipt. Other income also includes the recognition of deferred revenue on loans that prepay, asset management fees related to our loans and investment portfolio and satisfactions on impaired loans in excess of carrying values. Other income represented 17% and 7% of total revenue for the six months ended June 30, 2003 and June 30, 2002, respectively. Other income represented 7%, 10% and 6% of total revenue for the years ended December 31, 2002, December 31, 2001 and December 31, 2000, respectively.

Gain on Sale of Loans and Real Estate and Income from Equity Affiliates

We also derive income 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 income from equity affiliates relating to joint ventures that Arbor Commercial Mortgage s structured finance business formed with equity partners to lend to, acquire, develop and/or sell real estate assets. These investments are recorded under the equity method. We record our share of net income from the underlying properties invested in through these joint ventures.

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 Arbor Commercial Mortgage 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.

Arbor Commercial Mortgage s structured finance business historically invested in preferred equity interests that allowed Arbor Commercial Mortgage 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 Arbor Commercial Mortgage 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	
	2003	2002	Amount	Percent
Interest income	$7,688,465	$7,482,750	$ 205,715	3%
Other income	1,552,414	553,625	998,789	180%
Total revenue	$9,240,879	$8,036,375	$1,204,504	15%

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.

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 $97,000, 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.

Gain on Sale of Loans and Real Estate and Income from Equity Affiliates. The following table sets forth our gain on sale of loans and real estate and income from equity affiliates:

	Six Months Ended June 30,		(Decrease)	
	2003	**2002**	**Amount**	**Percent**
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)	

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.

Years Ended December 31, 2002 and 2001

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

	Year Ended December 31,		(Decrease)	
	2002	**2001**	**Amount**	**Percent**
Interest income	$14,532,504	$14,667,916	$(135,412)	(1)%
Other income	1,090,106	1,668,215	(578,109)	(35)%
Total revenue	$15,622,610	$16,336,131	($ 713,521)	(4)%

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.

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.

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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.

Gain on Sale of Loans and Real Estate and Income from Equity Affiliates. The following table sets forth our gain on sale of loans and real estate and income from equity affiliates:

	Year Ended December 31,		Increase/ (Decrease)	
	2002	2001	Amount	Percent
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)%

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 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.

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%
Other income	1,668,215	652,970	1,015,245	155%
Total revenue	$16,336,131	$11,360,521	$4,975,610	44%

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.

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.

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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 Arbor Commercial Mortgage 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.

Gain on Sale of Loans and Real Estate and Income from Equity Affiliates. The following table sets forth our gain on sale of loans and real estate and income from equity affiliates:

	Year Ended December 31,		Increase/ (Decrease)	
	2001	2000	Amount	Percent
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)%

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.

Pro Forma Effect of Arbor Commercial Mortgage 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 Arbor Commercial Mortgage. 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 placement totaled $120.2 million. In exchange for a commensurate equity ownership in our operating subsidiary, Arbor Commercial Mortgage 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 Arbor Commercial Mortgage s

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structured finance business as of June 30, 2003. In addition, certain employees of Arbor Commercial Mortgage were transferred to us.

We are externally managed and advised by Arbor Commercial Mortgage and pay Arbor Commercial Mortgage a management fee in accordance with the terms of the management agreement. Arbor Commercial Mortgage 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 Arbor Commercial Mortgage 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 Arbor Commercial Mortgage under terms of the management agreement. Similarly, selling and 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 Arbor Commercial Mortgage 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 (1) 25% of the amount that our funds from operations per operating partnership unit, adjusted for certain gains and losses, exceeds the product of (x) 9.5% per annum or the Ten Year U.S. Treasury Rate plus 3.5%, whichever is greater and (y) the weighted average of the book value of the net assets contributed by Arbor Commercial Mortgage to our operating partnership per operating partnership unit, the offering price per share in the private placement, the offering price per share of our common stock in subsequent offerings and the issue price per operating partnership unit for subsequent contributions to our operating partnership, multiplied by (2) the weighted average of our operating partnership s outstanding units.

This pro forma information does not reflect the results of the private placement. However, gross proceeds from the private placement totaled $120.2 million, which combined with Arbor Commercial Mortgage s equity contribution of $43.9 million, resulted in total contributed capital of $164.1 million. Offering expenses of $10.1 million were paid or accrued by us, resulting in stockholders equity and minority interest of $154.0 million as a result of the private placement.

The pro forma consolidated financial information is limited to adjustments that are directly attributable to the private placement, expected to have a continuing impact on us and are factually supportable. These adjustments are based on the assumption that certain compensation and benefits expenses and certain selling and administrative expenses incurred by the structured finance business of Arbor Commercial Mortgage would not have been incurred if we had been in operation during the periods presented. The pro forma financial results do not include what the impact would have been had the gross proceeds from the private placement been available to the structured finance business of Arbor Commercial Mortgage during the entire period. Had these proceeds been available to the structured finance business of Arbor Commercial Mortgage during the entire period, there would have been an impact on certain revenues and expenses, including the management fees payable pursuant to the management agreement. The management fees are calculated based on such factors as funds from operations and equity of our operating partnership, each as defined in the management agreement. Such amounts represent speculative and forward-looking information that is not factually supportable.

The financial statements of the structured finance business of Arbor Commercial Mortgage include the results of operations of the structured finance business segment of Arbor Commercial Mortgage and are not limited to the results of the structured finance assets that were transferred to Arbor Realty Trust. Accordingly, the results of certain investments in equity affiliates that were not transferred to Arbor Realty Trust have been included in the financial statements of the structured finance business of Arbor Commercial Mortgage because they were included in the structured finance business segment even though the operating results from these equity affiliates have not been material to the structured finance business segment as a whole. In addition, Arbor Commercial Mortgage retained certain transactions in its structured finance portfolio with a net book value of approximately $27.8 million, primarily because they were not deemed to be suitable investments for Arbor Realty Trust. Had these retained assets been excluded from the financial statements of the structured finance business of Arbor Commercial Mortgage, additional adjustments to the expense base would have been necessary to estimate what expenses would have been had these assets not been in the portfolio. Such adjustments would have been speculative. Lastly, operating results for assets that matured before the contribution of structured finance assets to Arbor Realty Trust, but were in the portfolio of assets of the structured finance business of Arbor Commercial Mortgage during the reporting period are also included in these statements.

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

On July 1, 2003 we completed the private placement, resulting in gross proceeds of $120.2 million. Gross proceeds from the private placement combined with the concurrent equity contribution by Arbor Commercial Mortgage totaled approximately $164.1 in equity capital.

Subsequent to and as a result of the private placement, substantially all of the operations of the structured finance business of Arbor Commercial Mortgage have been conducted by us. Therefore, a description of the liquidity and capital resources of the structured finance business of Arbor Commercial Mortgage 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

Arbor Commercial Mortgage 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, Arbor Commercial Mortgage 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, Arbor Commercial Mortgage 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 Arbor Commercial Mortgage and 50% by the key principal of the joint venture. The loan requires monthly interest payments based on one month LIBOR and matures in May 2006. Arbor Commercial Mortgage 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 one month 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 Arbor Commercial Mortgage 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, Arbor Commercial Mortgage invested approximately $818,000 in exchange for a 12.5% non-controlling interest in a joint venture, which were formed to acquire, develop and/or sell real estate assets. This investment is accounted for under the equity method. In June, 2003, Arbor Commercial

Mortgage made two mezzanine loans secured by a second lien position in the ownership interests of the borrower and the property to these joint ventures totaling $6.0 million outstanding. The loans require monthly interest payments based on one month 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

Arbor Commercial Mortgage 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. Arbor Commercial Mortgage has agreed to indemnify us and our operating partnership against breaches of those representations and warranties.

In exchange for Arbor Commercial Mortgage s asset contribution, we issued to Arbor Commercial Mortgage approximately 3.1 million operating partnership units, each of which Arbor Commercial Mortgage may redeem for one share of our common stock or an equivalent amount in cash, at our election, and approximately 629,000 warrants, each of which entitles Arbor Commercial Mortgage to purchase one additional operating partnership unit at an initial exercise price of $15.00. The operating partnership units and warrants for additional operating partnership units issued to Arbor Commercial Mortgage were valued at approximately $43.9 million at July 1, 2003, based on the price offered to investors in our units in the private placement, adjusted for the initial purchaser s discount. We have also granted Arbor Commercial Mortgage 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 Arbor Commercial Mortgage is paired with one share of our special voting preferred stock that entitles the holder to one vote on all matters submitted to a vote of our stockholders. As operating partnership units are redeemed for shares of our common stock or cash an equivalent number of shares of special voting preferred stock will be redeemed and cancelled. As a result of Arbor Commercial Mortgage s asset contribution and the related formation transactions, Arbor Commercial Mortgage owns approximately a 28% limited partnership interest in our operating partnership and the remaining 72% interest in our operating partnership is owned by us. In addition, Arbor Commercial Mortgage has approximately 28% of the voting power of our outstanding stock (without giving effect to the exercise of Arbor Commercial Mortgage s warrants for additional operating partnership units).

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

We and our operating partnership have also entered into a services agreement with Arbor Commercial Mortgage pursuant to which our asset management group provides asset management services to Arbor Commercial Mortgage. 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.

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Quantitative and Qualitative Disclosures about Market Risk

Since the consummation of the private placement and the related formation transactions, substantially all of the operations of the structured finance business of Arbor Commercial Mortgage have been conducted by us. Therefore, quantitative and qualitative disclosures about market risk relating to the structured finance business of Arbor Commercial Mortgage 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.

ARBOR REALTY TRUST, INC.

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

On July 1, 2003, Arbor Commercial Mortgage 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 Arbor Commercial Mortgage s credit facilities, giving effect to notes payable equal to the financing amount available for each contributed investment under Arbor Commercial Mortgage s credit facilities, and supported by $43.9 million in equity.

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

We believe the financing of multi-family and commercial real estate offers significant growth opportunities that demand customized financing solutions. Arbor Commercial Mortgage has granted us a right of first refusal to pursue all structured finance investment opportunities identified by Arbor Commercial Mortgage. Arbor Commercial Mortgage will continue to provide and service multi-family and commercial mortgage loans under Fannie Mae, Federal Housing Administration and conduit commercial lending programs. We believe that the customer relationships established from these lines of business may generate additional real estate investment opportunities for our business. Our portfolio currently contains loans and investments that we originated and loans and investments that we purchased from third parties or from affiliates.

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

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. We believe that after the closing of structured finance transactions, the asset management group s experience in managing complex restructurings, refinancings and asset dispositions will help to improve the credit quality and yield on managed investments.

In connection with Arbor Commercial Mortgage s contribution of the initial assets, Arbor Commercial Mortgage arranged for us to have substantially similar credit facilities as those used by Arbor Commercial Mortgage to finance these assets. In exchange for Arbor Commercial Mortgage s asset contribution, we issued to Arbor Commercial Mortgage approximately 3.1 million operating partnership units, each of which Arbor Commercial Mortgage may redeem for one share of our common stock or an equivalent amount in cash, at our election, and approximately 629,000 warrants, each of which entitles Arbor Commercial Mortgage to purchase one additional operating partnership unit at an initial exercise price of $15.00. The operating partnership units and warrants for additional operating partnership units issued to Arbor Commercial Mortgage were valued at approximately $43.9 million at July 1, 2003, based on the price offered to investors in our units in the private placement, adjusted for the initial purchaser s discount. Each of the approximately 3.1 million operating partnership units received by Arbor Commercial Mortgage is paired with one share of our special voting preferred stock that entitles the holder to one vote on all matters submitted to a vote of our stockholders. As operating partnership units are redeemed for shares of our common stock or cash an equivalent number of shares of special voting preferred stock will be redeemed and cancelled. See Description of Stock Special Voting Preferred Stock.

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

- Consolidation in the financial services industry has reduced the number of companies providing multi-family and commercial real estate financing products.
- We believe this consolidation has led to a trend among remaining institutions to focus on larger, more standardized transactions.
- The growth of a market for securitized commercial real estate pools has provided a new source of financing for real estate assets.

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

Our 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 who have demonstrated a history of enhancing the value of the properties they operate, but whose options may be limited by conventional bank financing and who may benefit from the sophisticated structured finance products we offer. Historically, Arbor Commercial Mortgage 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.

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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.

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.

Use Arbor Commercial Mortgage s Relationships with Existing Borrowers. We capitalize on Arbor Commercial Mortgage s reputation in the commercial real estate finance industry. Arbor Commercial Mortgage has relationships with over 400 distinct borrowers nationwide. Since Arbor Commercial Mortgage s originators offer Arbor Commercial Mortgage s senior mortgage loans as well as our structured finance products, we are able to benefit from Arbor Commercial Mortgage 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 Arbor Commercial Mortgage 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 Arbor Commercial Mortgage could previously offer.

Leverage the Experience of Executive Officers and Employees of Arbor Commercial Mortgage and Us. Our executive officers and employees, and those of Arbor Commercial Mortgage, 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 Arbor Commercial Mortgage.

Our Investment Guidelines

Our board of directors has 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.

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Our investment guidelines provide that on a daily basis our management will monitor the amount and percentage of bridge loans, mezzanine loans, preferred equity investments and mortgage-related securities and that the board of directors will monitor the amount and percentage of such assets as of the last day of each month.

Our investment guidelines also provide that no more than 15 percent of our assets may be invested in mortgage-related securities. There is no limit within the 15 percent on the amount which may be invested in the mortgage-related securities of the FHLMC, the FNMA or the GNMA, nor is there a limit on the amount which may be purchased in any series or issue.

Any investment that falls outside these guidelines may only be entered into upon approval of the board of directors. 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 and/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 predominantly secured by first mortgage liens on the property. The term of the loan typically is up to five years. Historically, interest rates have ranged from 3.00% to 6.00% 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 financing in the form of loans which are subordinate to a conventional first mortgage loan and senior to the borrower s equity in a transaction. Our mezzanine financing may take the form of loans secured by pledges of ownership interests in entities that directly or indirectly control the real property or subordinated loans secured by second mortgage liens on the property. 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 $5 million to $30 million and have terms of up to seven years. Historically, interest rates 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.

We intend to hold our mezzanine loans through our operating partnership or subsidiaries that are pass-through entities for tax purposes. However, we may hold some of our mezzanine loans in a taxable subsidiary corporation if necessary for REIT or other tax compliance.

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.

Mortgage-Related Securities. We also invest in mortgage-related securities collateralized by pools of commercial or residential mortgages. The mortgage-related securities in which we invest will be limited to whole loan pool certificates issued by GNMA, FNMA and FHLMC, or agency-sponsored whole loan pool certificates. See Investments in Mortgage Related Securities for a description of these certificates and the types of mortgages underlying them.

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 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.

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Regulatory Aspects of Our Investment Strategy

We believe that we conduct and we intend to conduct our business at all times in a manner that avoids registration as an investment company under the Investment Company Act. There is an exemption from registration for entities that are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. This exemption generally requires us to maintain at least 55% of our assets directly in qualifying real estate assets. Assets that qualify for purposes of this 55% test include, among other things, real estate, mortgage loans and agency-sponsored whole loan pool certificates. Our investment guidelines provide that no more than 15% of our assets may consist of any type of the mortgage-related securities and that the percentage of our investments in mortgage-related securities as compared to our structured finance investments be monitored on a regular basis.

Our bridge loans secured by first mortgage liens on the underlying properties and our loans secured by second mortgage liens on the underlying properties generally qualify for purposes of this 55% test. We believe that our bridge loans and certain of our other assets caused in excess of 55% of our assets as of December 31, 2003 to qualify for purposes of the 55% test. To provide additional assurance in this regard, in March 2004, we purchased $57.4 million (including $.1 million of purchased interest) of agency-sponsored whole loan pool certificates. Because of the purchase, at least 55% of our assets now consist of bridge loans, mortgage-related securities and loans secured by second mortgage liens on underlying properties. We financed these purchases primarily through borrowings under our existing credit facilities. The percentage of our assets that we invest in agency-sponsored whole loan pool certificates may decrease if we determine that we do not need to purchase such certificates for purposes of meeting the 55% test. If the SEC takes a position or makes an interpretation more favorable to us, we may have greater flexibility in the investments we make.

We are limited by the Investment Company Act with respect to our investments in mortgage-related securities to the securities for which a government agency such as GNMA or a federally chartered corporation, such as FHLMC or FNMA, guarantees payments of principal or interest on the securities. We are also limited in that we may only invest in mortgage-related securities that have the entire interest of each mortgage entirely in that security.

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 Effect of Subsidiary Entities Taxable Subsidiaries.

Our Real Estate Assets

We own a diversified portfolio of structured finance investments consisting principally of bridge and mezzanine loans as well as preferred equity investments. $132.1 million of $213.1 million of the loan or investment balance of the initial assets contributed by Arbor Commercial Mortgage are currently outstanding and constitutes a significant portion of our existing portfolio. Since the commencement of our operations in July 2003, we have originated structured finance loans and investments and purchased additional loans and investments from Arbor Commercial Mortgage.

At December 31, 2003, we had 33 loans and investments in our portfolio, totaling $324 million. These loans and investments were for 22 multi-family properties, three hotels, two commercial properties, two office properties, two retail properties, one co-op and one residential property. 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.

The yield for the period ended December 31, 2003 was 7.68% on average assets of $255 million. This yield is computed by dividing the interest income earned for the period ended December 31, 2003 by the average assets during the period ended December 31, 2003 and annualizing the result. Our cost of funds for the period ended December 31, 2003 was 3.53% on average borrowings of $93 million. This cost of funds is computed by dividing the interest expense incurred during the period ended December 31, 2003 by the average borrowing during the period ended December 31, 2003 and annualizing the results. Our average equity (average assets less average borrowings) invested for the period ended December 31, 2003 was $162 million, resulting in average leverage for the period ended December 31, 2003 of 36%. The net interest income earned for the period ended December 31, 2003 yielded a 10.27% annualized return on the average equity invested during the period ended December 31, 2003. This yield is computed by dividing the net interest (interest income less interest expense) earned during the period ended December 31, 2003 by the average equity (computed as average assets minus average borrowings) invested during the period ended December 31, 2003 and annualizing the results. 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. However, our leverage will not exceed 80% of the value of our assets in the aggregate unless approval to exceed the 80% limit is obtained from our board of directors.

The table on the following page lists the principal terms of each of our bridge and mezzanine loans, preferred equity investments and other real estate-related assets and the financing relating to each individual investment, each as of December 31, 2003.

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OUR REAL ESTATE ASSETS

As of December 31, 2003

Property Information			Investment Information					Funding Information				
Name	**Type**	**Location**	**Balance[1]**	**Origination Date**	**Maturity Date**	**Interest Pay Rate Index[2]**	**Interest Rate[3]**	**Balance**	**Interest Rate Index**	**Interest Rate[4]**	**Profit Share[4]**	**Advance Rate**
Bridge Loans:												
80 Evergreen Ave	Commercial	Brooklyn, NY	$ 4,800,000	10/2003	10/2006	Libor + 4.75%	5.92%				No	
130 West 30th	Multifamily	New York, NY	$ 16,000,000	9/2001	5/2006	Libor + 2.25%	3.42%	$ 13,600,000	Libor + 2.00%	2.62%	Yes	85.00%
1025 5th Avenue	Co-op	New York, NY	$ 1,100,000	10/2002	10/2004	10.00%	10.00%				No	
Concord and Henry	Multifamily	Massachusetts	$ 2,899,875	4/2003	4/2004	Libor + 5.50% Floor 7.00%	7.00%	$ 2,319,900	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%)			(1.575%)		
			$ 11,900,000				3.50%			1.575%		
Fairfax Gardens Apts	Multifamily	Baltimore, MD	$ 6,825,340	12/2003	12/2005	Libor + 6.50% Floor 8.00%	8.00%				No	
Gainesville Outlet Mall	Retail	Gainesville, TX	$ 4,800,000	12/2003	3/2004	Libor + 8.50% Floor 9.50%	9.67%				No	
Grand Plaza	Multifamily	Las Vegas, Nevada	$ 25,140,436	11/2002	12/2004	Libor + 3.00% Floor 5.25%	5.25%	$ 20,161,344	Libor + 2.00%	3.12%	No	80.19%
Indiana Portfolio[5]	Multifamily	Indiana	$ 14,809,391	2/2003	3/2004	Libor + 4.25%	5.42%	$ 10,400,000	Libor + 2.25%	3.37%	No	70.23%
Lakeshore Club Apts A	Multifamily	Tampa, Florida	$ 21,500,000	10/2003	10/2005	Libor + 3.50% Floor 5.00%	5.00%		Libor + 2.00%		Yes	
Lakeshore Club Apts B	Multifamily	Tampa, Florida	$ 5,500,000	10/2003	10/2005	Libor + 6.50% Floor 8.50%	8.50%		Libor + 2.00%		Yes	
Palmetto Villas Apts	Multifamily	Ontario, California	$ 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	Multifamily	Baltimore, Maryland										
Tranche A			$ 14,200,000	4/2003	5/2006	Libor + 3.50% Floor 5.00%	5.00%	$ 11,983,726	Libor + 2.00%	3.12%	Yes	84.39%
			$ 4,725,569	4/2003	5/2006		6.50%				Yes	

Tranche B						Libor + 4.50% (Year 1); Libor + 6.50% (Year 2); Libor + 7.50% (Year 3) Libor Floor 2.00%			Libor + 3.00% Libor Floor 2.00% Floor 2.00%			
Tropical Gardens	Multifamily	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%
Walbridge Terrace	Multifamily	San Francisco, California	$ 6,200,000	7/2003	7/2004	Libor + 4.50% Floor 6.00%	6.00%	$ 5,270,000	Libor + 2.00%	3.12%	No	85.00%
Westbury Square	Residential	Westbury, NY	$ 450,000	12/2003	7/2004	Libor + 8.00% Floor 12.00%	12.00%				No	
Bridge Loans												
Total			$158,780,611				5.46%	$87,878,970		2.90%		
Mezzanine Loans:												
60 Spring St	Multifamily	New York, NY	$ 5,250,000	12/2003	12/2005	Libor + 6.00% Libor Floor 1.17%	7.17%				No	
130 West 30th St	Multifamily	New York, NY	$ 5,131,490	6/2003	5/2006	Libor + 7.00% Floor 10.00%	10.00%		Libor + 2.25% Floor 1.75%		Yes	
333 E. 34th Street	Multifamily	New York, NY	$ 10,000,000	1/2002	2/2004	Libor + 3.00% Floor: 8.00%	8.00%		Libor + 4.00% Libor 2.00%		Yes	
450 West 33rd St	Office	New York, NY	$ 30,000,000	12/2003	1/2006	12.30% Fixed	12.30%	$18,866,670	Libor + 2.60%	3.74%	No	62.89%
450 West 33rd St	Office	New York, NY	$ 15,000,000	12/2003	1/2006	Libor + 11.50% Libor Floor 1.50%	13.00%	$ 9,433,330	Libor + 2.60%	3.74%	No	62.89%
Mezzanine Loans (Continued)												

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Property Information			Investment Information					Funding Information				
Name	**Type**	**Location**	**Balance[1]**	**Origination Date**	**Maturity Date**	**Interest Pay Rate Index[2]**	**Interest Rate[3]**	**Balance**	**Interest Rate Index**	**Interest Rate[4]**	**Profit Share[4]**	**Advance Rate**
930 Flushing Ave.	Commercial	Brooklyn, NY	$ 3,500,000	6/2003	6/2006	Libor + 3.50% Floor 5.00%	5.00%				No	
The Crossings	Multifamily	Glassboro, New Jersey	$ 2,000,000	6/2003	5/2006	Libor + 7.00% Floor 10.00%	10.00%	$ 1,700,000	Libor + 3.00% Libor Floor 2.00%	5.00%	Yes	85.00%
James Hotel	Hotel	Scottsdale, Arizona	$ 6,640,000	8/2003	8/2006	Libor + 7.00% Floor 9.00% Cap 10.00%	9.00%				No	
Maple Leaf	Multifamily	New Orleans, LA	$ 2,300,000	11/2003	11/2006	Libor + 7.00% Floor 10.00%	10.00%				No	
Prime Portfolio	Retail	Various	$ 35,000,000	12/2003	1/2006	Libor + 8.50% Floor 9.50%	9.67%	$ 21,875,000	Libor + 2.50%	3.67%	No	62.50%
Schron B	Multifamily	New Jersey	$ 3,000,000	7/2003	4/2005	Libor + 5.25% Floor 6.75%	6.75%		Libor + 4.00% Libor Floor 2.00%		No	
SMC Portfolio	Multifamily	Baltimore, Maryland	$ 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%	$ 9,216,000	Libor + 2.75% Libor Floor 1.75%	4.50%	Yes	80.00%
Mezzanine Loans Total			**$ 129,341,490**				**10.04%**	**$ 61,091,000**		**3.86%**		
Preferred Equity:												
CDS Portfolio[5]	Multifamily	Texas	$ 4,253,742	12/1998	1/2005	Libor + 4.50% Floor 9.56%	9.56%	$ 3,190,306	Libor + 2.75%	3.87%	No	75.00%
Dutch Village	Multifamily	Baltimore, Maryland	$ 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%	$ 4,686,671	Libor + 3.00% Libor Floor 2.00%	5.00%	Yes	66.25%
Schron A	Multifamily	New Jersey	$ 19,300,000	6/2003	4/2005	Libor + 5.25% Floor 6.75%	6.75%	$ 13,907,297	Libor + 2.75%	3.87%	No	72.06%
Villages at Gateway	Multifamily	Denver, Colorado	$ 2,800,000	2/2002	3/2004	Libor + 6.00% Floor 10.00%	10.00%	$ 1,774,227	Libor + 2.25%	3.37%	Yes	63.37%
Preferred Equity Total			**$ 33,428,173**				**7.33%**	**$ 23,558,501**		**4.06%**		

Other Investments:										
Albion	Hotel	Miami, Florida	$ 1,967,867	3/2001	8/2023	7.39% Fixed	7.39%			No
Other Total			**$ 1,967,867**				**7.39%**	**$ 0**	**0.00%**	
Total			**$323,518,140**				**7.49%**	**$172,528,471**	**3.40%**	

(1) The balances in this column represent the net balance of each loan and investment which equals the outstanding principal amount of the loan or investment, excluding the unearned portions of revenue, at December 31, 2003.

(2) References to LIBOR are to one-month LIBOR unless specifically stated otherwise.

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

(4) 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.

(5) LIBOR for this loan refers to six-month LIBOR.

A description of the terms and characteristics of each of the investments listed in the table above follows. References to LIBOR are to one-month LIBOR unless specifically stated otherwise.

Bridge Loans

80 Evergreen. We originated this $4.8 million bridge loan to Stanev Associates, LLC in October 2003. This loan bears a variable rate of interest on one-month LIBOR plus 4.75% and will mature in October 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. The borrower has the option to extend the term of the loan for two 12-month periods with no change in the rate of interest. This bridge loan refinanced the $2.5 million mezzanine loan made by Arbor Commercial Mortgage and purchased by us in August 2003 and a $1.6 million first mortgage lien held by a third party lender relating to 80 Evergreen. The borrower used the $2.5 million mezzanine loan proceeds to acquire and make repairs to a 77,680 square foot warehouse/industrial space located in Brooklyn, New York.

In August 2003, we also purchased a 12.5% preferred interest in a joint venture which owns and operates 80 Evergreen and 930 Flushing Avenue for approximately $818,000. The borrower under the 80 Evergreen bridge loan is an affiliate of the joint ventures.

130 West 30th Street. Arbor Commercial Mortgage 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 private placement. 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 Arbor Commercial Mortgage 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 Arbor Commercial Mortgage 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 with no change in the rate of interest.

Arbor Commercial Mortgage 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 Arbor Commercial Mortgage. See Arbor Commercial Mortgage s Related Interest in Our Investments below and Management s Discussion & Analysis of Financial Condition and Results of Operations of Arbor Realty Trust, Inc. and Subsidiaries Related Party Transactions Related Party Loans elsewhere in this prospectus.

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

This loan matures in October 2004 and has an interest rate of 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. Arbor Commercial Mortgage 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 private placement. 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% of 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 with no change in the rate of interest if the loan has an outstanding principal balance of not more than $1.5 million at the time the extension is requested. In December 2003 the borrower made a principal payment of $2.1 million, reducing the outstanding loan balance to $2.9 million.

Dylan Hotel. Arbor Commercial Mortgage 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. Arbor Commercial Mortgage contributed this bridge loan to us upon the consummation of the private placement. 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.

Arbor Commercial Mortgage 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 Arbor Commercial Mortgage, less a 0.50% management fee payable to Arbor Commercial Mortgage.

In January 2004, this bridge loan, together with all interest due, was repaid in full.

Fairfax Gardens. We originated this $6.8 million bridge loan to Greens at Forest Park, LLC in December 2003. The borrower used the proceeds to acquire a 191-unit, garden-style apartment complex located in Baltimore, Maryland and fund a $3.9 million capital improvement program.

The loan bears interest at a variable rate of LIBOR plus 6.50%, with a floor of 8.0%, and matures in December 2005. The borrower paid a 1.25% origination fee on the date the loan closed. In accordance with our management agreement with Arbor Commercial Mortgage, the first 1.00% was paid to Arbor Commercial Mortgage and we retained the remaining 0.25%. 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 1.25% of the principal being paid. 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% of the original principal balance.

Gainesville Outlet Mall. We originated this $4.8 million bridge loan to Gainesville Outlet Mall, LLC in December 2003. The borrower used the proceeds to acquire the Gainesville Outlet Mall, which is a 315,660 square foot factory outlet center located in Gainesville, Texas.

The loan bears interest at a variable rate of LIBOR plus 8.50% with a floor of 9.50%, with a term of 30 days. The borrower paid a 2.00% origination fee, net of a broker fee, on the date the loan closed. In accordance with our management agreement with Arbor Commercial Mortgage, the first 1.00% of the origination fee was paid to Arbor Commercial Mortgage and we retained the remaining 1.00%. 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.

The borrower had executed his option to extend the term of the loan for two 30-day periods at a rate of 12%, maturing on March 2004. In March 2004, the borrower was granted two 30-day period extension options at a rate of 15% with a maturity date of May 2004.

Grand Plaza. Arbor Commercial Mortgage 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 private placement. 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 $25.1 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 with no change in the rate of interest.

Indiana Portfolio. In February 2003, Arbor Commercial Mortgage originated a $13.75 million bridge loan to NSH Affordable Housing of Indiana, Inc., a not-for-profit corporation that holds and manages investment property from the endowment of the North Shore Hebrew Academy High School. Two of our directors, Mr. Kaufman and Dr. Helmreich, are members of the board of trustees of North Shore Hebrew Academy High School and NSH Affordable Housing of Indiana, Inc. Arbor Commercial Mortgage contributed this loan to us upon the consummation of the private placement. The borrower used the loan proceeds to acquire four affordable housing multi family properties located in Evansville, Indianapolis and Marion, Indiana. See Management s Discussion & Analysis of Financial Condition and Results of Operations of Arbor Realty Trust, Inc. and Subsidiaries Related Party Transactions Related Party Loans.

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.

Arbor Commercial Mortgage also originated a separate $1.2 million bridge loan to the same borrower to fund renovations on the four properties described above and contributed it to us upon consummation of this offering. 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 December 31, 2003, the outstanding principal balance was approximately $1.1 million. This loan is secured by a second mortgage lien on the properties.

In March 2004, the borrower was granted a one-year extension option with no change in the rate of interest, which matures March 2005.

Lakeshore Club Apartments. We originated this $27 million bridge loan to Egypt Lake LP in October 2003. The borrower used the proceeds to retire an existing first mortgage lien and our prior mezzanine loan to the borrower. The property recently underwent a $6.6 million renovation.

The loan is tranched into two separate notes with different interest rates. Note A, in the amount of $21.5 million, bears interest at a variable rate of LIBOR plus 3.50%, with a floor of 5.00%. Note B, in the amount of $5.5 million, bears interest at a variable rate of LIBOR plus 6.50%, with a floor of 8.50%. The loan matures in October 2005. The borrower paid a 1.50% origination fee on both Note A and Note B on the date the loan closed. In accordance with our management agreement with Arbor Commercial Mortgage, the first 1.00% was paid to Arbor Commercial Mortgage and we retained the remaining 0.50% with respect to each tranche. 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 1.50% of the principal amount being paid. The loan is secured by a first mortgage lien, a pledge of 100% of the ownership interest in the borrowing entity, as well as a first loss payment guaranty from the key principals of $5.5 million.

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The borrower has the option to extend the term of the loan for one 12-month period at the initial interest rate for additional interest of 1% of the outstanding balance of each loan at the time of extension.

Palmetto Villas Apartments. Arbor Commercial Mortgage 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 private placement. 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 0.50% on the outstanding principal balance upon each such extension.

Partners Portfolio. Arbor Commercial Mortgage originated this $18.9 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. Arbor Commercial Mortgage contributed this loan to us upon the consummation of the private placement. The borrowers used the loan proceeds to acquire an 834-unit multi-family residential portfolio, consisting of five properties in Baltimore, Maryland and fund a $2.4 million capital improvement program.

The loan has two tranches with different interest rates. Tranche A of the loan, in the amount of $14.2 million, bears interest at a variable rate of LIBOR plus 3.50% with a floor of 5.00%. Tranche B of the loan, in the amount of $4.7 million, 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 1.00% of the principal repaid. The loan is secured by a first mortgage lien on three of the properties and a pledge of all the limited partnership interests in the owners of two other properties.

The Tranche A loan was paid down in March 2004 and now has an outstanding balance of approximately $1.3 million.

Tropical Gardens Apartments. Arbor Commercial Mortgage 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 private placement. 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.

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 Arbor Commercial Mortgage, the first 1.00% was paid to Arbor Commercial Mortgage 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 Arbor Commercial Mortgage in which case, the deferred interest will be waived, and Arbor Commercial

Mortgage will reduce the management fee payable by us to Arbor Commercial Mortgage 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.

Westbury Square. We originated this $450,000 bridge loan to Westbury Square, LLC in December 2003. The borrower used the proceeds to acquire this 0.45-acre parcel of developed land, in Westbury, New York. The borrower will be seeking construction financing in order to develop loft style Townhouse units on the land.

The loan bears interest at a variable rate of LIBOR plus 8.00%, with a floor of 12.00%, 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 Arbor Commercial Mortgage, the first 1.00% was paid to Arbor Commercial Mortgage and we retained the remaining 1.00%. Interest payments are due monthly and the principal balance is due in full upon maturity. The loan is secured by an absolute and unconditional personal guaranty by certain affiliates of the borrower.

Mezzanine Loans

60 Spring St. We originated this $6.0 million mezzanine loan to Spring-Lafayette, LLC in December 2003. Of the $6.0 million loan, $5.25 million was funded to the borrower and $750,000 funded an interest reserve. The borrower used the proceeds to provide additional funding needed to acquire and convert a 13-story office building in New York, New York into 40 residential condominium units and approximately 10,000 square feet of ground floor retail space.

The loan bears interest at a variable rate of LIBOR plus 6.00%, with a LIBOR floor of 1.17% and matures in December 2005. The borrower paid a 2.00% origination fee on the date the loan closed. In accordance with our management agreement with Arbor Commercial Mortgage, the first 1.00% was paid to Arbor Commercial Mortgage 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 or prepayment of the loan, the borrower must pay deferred interest equal to the amount necessary to generate a monthly compounded internal rate of return of 12.00%. The loan is secured by a pledge of 100% of the ownership interests in the mortgage borrower, as well as a full recourse guarantee executed by one of the key principals. The loan is subordinate to a first mortgage lien of approximately $45.6 million held by a third party lender.

In connection with our refinancing of this mezzanine loan and the first mortgage lien in February 2004, this loan was repaid in full and replaced with a $47.9 million bridge loan and a $11.4 million mezzanine loan made by us. The bridge loan bears a variable rate of interest of LIBOR plus 5.00% with a LIBOR floor of 1.10% and the mezzanine loan bears a variable rate of interest of LIBOR plus 6.00% with a LIBOR floor of 1.10%. The loans mature in January 2005.

The borrower has the option to extend the term of the loan for one 12-month period for additional interest of 1.00%.

130 West 30th Street. In connection with Arbor Commercial Mortgage s refinancing of the $16.0 million bridge loan to 130 West 30th, LLC in June 2003, Arbor Commercial Mortgage 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 Arbor Commercial Mortgage on July 1, 2003 with a portion of the net proceeds from the private placement.

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, of which $1.1 million was funded as of December 31, 2003 and is earning interest, will be earned as the $4.0 million is drawn down. The unfunded portion of 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. Arbor Commercial Mortgage originated this $10.0 million mezzanine loan to 333 East 34th, LLC in January 2002 and contributed it to us upon consummation of the private placement. The borrower used the loan proceeds to acquire and renovate a multi family residential building located in New York. The borrower has converted 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 was scheduled to mature in February 2004. The borrower has executed its option to extend the loan for a 12-month period. 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. Interest payments are due monthly, and the principal balance is due in full upon maturity. The loan is secured by a pledge of 85% 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 two additional 12-month periods, the first of which requires a payment of additional interest of $300,000.

Arbor Commercial Mortgage holds a 15% membership interest in 333 East 34th, LLC, the borrower under the mezzanine loan, 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 Arbor Commercial Mortgage. See Arbor Commercial Mortgage s Retained Interests in Our Investments. below.

This loan was paid down in March 2004 and now has an outstanding balance of approximately $200,000.

450 West 33rd Street. In December 2003, we originated a $30 million mezzanine loan to 450 Partners Mezz III LLC, the owner of 100% of the membership interests in 450 Partners Mezz II LLC, and a $15 million mezzanine loan to 450 Partners Mezz II LLC, the owner of 100% of the membership interests in 450 Partners Mezz I LLC. The borrowers used the proceeds from the loans to recapitalize and refinance a 1.7 million-square-foot office building in Manhattan.

The $30 million loan bears interest at a fixed rate of 12.30% and matures in January 2006. The borrower has three options to extend the maturity date of the loan for one year each; no extension fee is required for the exercise of such options. The borrower paid a 1.00% origination fee on the date the loan closed and, in accordance with our management agreement with Arbor Commercial Mortgage, this amount was paid to Arbor Commercial Mortgage. Interest payments are due monthly; beginning in 2005, principal payments are due monthly based on an 18-year amortization schedule, and the remaining principal balance is due in full upon maturity. The mezzanine loan is secured by a pledge by 450 Partners Mezz III LLC, of 100% of the membership interests in 450 Partners Mezz II LLC. This loan is subordinate to a $200 million first mortgage and a $70 million mezzanine loan with third party lenders and to our $15 million mezzanine loan described below.

The $15 million loan bears interest at a variable rate of LIBOR plus 14.92%, with a LIBOR floor of 1.50%**,** and matures in January 2006. The borrower has three options to extend the maturity date of the loan for one year each; each of such extensions is conditioned on the achievement of a certain net operating income for the property, and each of the second and third extension options requires the payment of a fee of 0.125% of the outstanding balance of the loan. The borrower paid a 1.00% origination fee on the date the loan closed and, in accordance with our management agreement, this amount was paid

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to Arbor Commercial Mortgage. We are required to pay BN Holdings LLC, an unrelated party, as a structuring fee, the portion of each monthly interest payment which results from a LIBOR spread in excess of 11.50%. Interest payments are due monthly, and the principal balance is due in full upon maturity. The mezzanine loan is secured by a pledge by 450 Partners of Mezz II LLC, of 100% membership interests in 450 Partners Mezz I LLC. This loan is subordinate to a $200 million first mortgage and a $70 million mezzanine loan with third party lenders.

At the closing of the loans, we made a $3 million investment in the entity that controls the borrowers and arranged for an additional $12 million of equity to be invested by third parties. In connection with our investment, we received an approximately 24% profits participation in the property and we were designated the co-managing member of the entity that controls the property. We sold our $3 million equity investment in January 2004 and retained our profits participation and position as co-managing member.

930 Flushing Avenue. Arbor Commercial Mortgage originated this $3.5 million mezzanine loan in June 2003. We purchased this loan from Arbor Commercial Mortgage 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 June 2006. The borrower pays interest at a rate of LIBOR plus 3.50% with a 5.00% floor and the difference is accrued and payable at maturity. 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 $7.8 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 upon payment of additional interest equal to 3.00% of the outstanding principal balance upon exercise of each extension.

In August 2003, we also purchased a 12.5% preferred interest in a joint venture which owns and operates 80 Evergreen and 930 Flushing Avenue for approximately $818,000. The borrower under the 930 Flushing Avenue mezzanine loan is an affiliate of the joint ventures.

The Crossings Apartments. Arbor Commercial Mortgage originated this $2.0 million mezzanine loan to Audubon Glassboro, LLC in June 2003. We purchased this loan from Arbor Commercial Mortgage on July 1, 2003 with a portion of the net proceeds from the private placement. 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 May 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 held by a third party lender.

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 August 2006. The borrower paid a 2.00% origination fee on the date the loan closed. In accordance with our management agreement with Arbor Commercial Mortgage, the first 1.00% was paid to Arbor Commercial Mortgage 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.

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.

Maple Leaf. We originated this $2.3 million mezzanine loan to Audubon-Algiers Partners, LLC in November 2003. A portion of the proceeds of the loan were used to make a capital contribution into Algiers Holdings II, LLC, which then made a capital contribution to Algiers Holdings I, LLC, which then made a capital contribution to Audubon-Algiers, LLC. $130,000 of the proceeds were placed in an interest reserve, and the borrower used the remainder of the proceeds to acquire a multi-family residential building located in New Orleans, Louisiana and fund a $1.3 million capital improvement plan.

The loan bears a variable rate of interest of one-month LIBOR plus 7.00%, with a floor of 10.00%. The loan matures in November 2006. The borrower paid a 3.00% origination fee on the date the loan closed. In accordance with our management agreement with Arbor Commercial Mortgage, the first 1.00% was paid to Arbor Commercial Mortgage and we retained the remaining 2.00%. Interest payments are due monthly, and the principal balance is due in full upon maturity. Upon maturity of the loan, the borrower must pay deferred interest in an amount sufficient to provide Arbor with an annualized rate of return of 13%, exclusive of additional interest for extensions. The loan is secured by a pledge of the membership interest in Audubon-Algiers Holdings II, LLC. The loan is subordinate to an approximately $6.57 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 at the initial interest rate provided the borrower pays us additional interest of $34,500 for the exercise of each of the options.

Prime Retail Portfolio. We originated this $35 million mezzanine loan to Prime Outlets Member LLC, or POM in December 2003. We also acquired, for total consideration of $2.1 million, indirect equity interests in Prime Outlets Acquisition Company LLC, or POAC, the indirect parent of POM, in December 2003. The borrower used the proceeds of the loan to finance POAC s acquisition of Prime Retail, Inc. In 2003, POAC merged with Prime Retail Inc. and is the surviving entity of the merger. As successor to Prime Retail Inc., POAC now owns and/or controls 36 factory outlet centers and one office building totaling approximately 10.2 million square feet of gross leasable area in 26 states. Prior to its merger with POAC, Prime Retail Inc. was a publicly held REIT engaged in the ownership, leasing, marketing and management of outlet centers throughout the United States and Puerto Rico. POM, through subsidiary entities, owns ten of POAC s outlet properties.

This mezzanine loan bears interest at a variable rate of LIBOR plus 8.50%, with a floor of 9.50%, and matures in January 2006. The borrower paid a 1.67% origination fee, net of a broker fee paid to one of the partners of the borrower. In accordance with our management agreement with Arbor Commercial Mortgage, the first 1.00% of the origination fee was paid to Arbor Commercial Mortgage, and we retained the remaining 0.67%. Interest payments on the loan are due monthly, and the principal balance is amortized over 12.5 years. The borrower has the option to extend the term of the loan for three 12-month periods. In order to exercise the second and third extension options, the borrower must pay additional interest of 0.50% of the then outstanding principal balance.

The loan is secured by a pledge of the equity interests in the entities that directly or indirectly own the ten underlying properties. In addition, the loan is guaranteed by POAC and another affiliate, and the guarantors obligations are secured by pledges of their interests in POM and in certain other assets, including two other properties that are currently being marketed for sale.

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We have the following indirect equity interests in POAC:

- a 7.50% indirect profits interest with a capital interest,
- a 25% carried profits interest after specified returns have been achieved, and
- a right to a preferred allocation and distribution of POAC s income in an amount that, when added to the interest paid by POM on the mezzanine loan, results in a combined return of 12.50%.

The interests described in second and third bullet points above are held through AR Prime Holdings LLC, in which we hold two-thirds of the ownership interests. Third parties own the remaining one-third.

Schron Portfolio B. Arbor Commercial Mortgage originated this $8.5 million mezzanine loan to Central Jersey Sub VI LLC and Central Jersey Sub VII LLC in July 2000 and contributed it to us upon consummation of the private placement. 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 with no change in the rate of interest. Upon maturity or prepayment of the loan, the borrower must pay deferred interest in an amount sufficient to provide the lender with an annualized internal rate of return of 14.0%.

Arbor Commercial Mortgage 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 Arbor Commercial Mortgage. See Arbor Commercial Mortgage s Retained Interests in Our Investments below.

SMC Portfolio. We originated this $11.5 million mezzanine loan to SRH/LA Baltimore Properties L.P. in September 2003. The borrowers used the loan proceeds to refinance the existing mezzanine debt 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 extension periods, if applicable, 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% of the principal repaid. The loan is secured by a pledge of the membership interests in the property owners as well as excess cash flow from another eight properties with first mortgage financing through Arbor Commercial Mortgage s Fannie Mae DUS lending program. The loan is subordinate to $59.0 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. Arbor Commercial Mortgage made this preferred equity investment in December 1998 and contributed it to us upon consummation of the private placement. 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. As of December 31, 2003, the outstanding equity balance was $4.3 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 2005 and upon such repurchase, the holder of the preferred interest is entitled to receive an additional preferred return of 2.00%.

Dutch Village Preferred Equity. Arbor Commercial Mortgage made this $7.1 million preferred equity investment in Dutch Village, LLC. We purchased this investment from Arbor Commercial Mortgage on July 1, 2003 with a portion of the net proceeds from the private placement.

The investment proceeds were 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 companies in which we have made this investment are 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% of the purchase price of the redeemed preferred interest. The property is subject to a first mortgage lien with a current unpaid principal balance of $11.7 million held by a third party lender.

Schron Portfolio A. Arbor Commercial Mortgage made a $19.3 million preferred equity investment in Central Jersey Prime Holdings LLC in June 2003 and contributed it to us upon consummation of the private placement. Arbor Commercial Mortgage 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 $188.9 million.

Arbor Commercial Mortgage 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 Arbor Commercial Mortgage. See Arbor Commercial Mortgage s Retained Interests in Our Investments below.

Villages at Gateway. Arbor Commercial Mortgage made this $4.3 million preferred equity investment in February 2002 in BP-C0 4 Property Associates, LLC, the owner of a 764 unit multi family residential property in Denver, Colorado. Arbor Commercial Mortgage contributed this investment to us upon consummation of the private placement. 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 Arbor Commercial Mortgage s asset contribution.

In March 2004, the borrower was granted a one-year extension at no additional return.

Other Investments

Albion. Upon consummation of the private placement, Arbor Commercial Mortgage contributed to us the B note of a bifurcated bridge loan that it made to Albion Associates, LTD in August 1998. The borrower used the proceeds of the original loan to acquire and renovate a 96 room hotel in Miami Beach, Florida.

The B note 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 restrictions on the use of the borrower s cash flow become effective. Pursuant to an agreement with the holder of the A note, a third party lender, 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.

Arbor Commercial Mortgage s Retained Interests in Our Investments

At the time of Arbor Commercial Mortgage s origination of three of the assets contributed to us upon consummation of the private placement, 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 Arbor Commercial Mortgage participating interests that share in a percentage of the cash flows of the underlying properties. At the time Arbor Commercial Mortgage made the 130 West 30th Street bridge loan also contributed to us, Arbor Commercial Mortgage 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, Arbor Commercial Mortgage retained its participating interests in the three investments and its interest in the joint venture with the borrower under the 130 West 30th Street bridge loan, which we refer to collectively as Arbor Commercial Mortgage s retained interests. After each of the related investments is repaid or repurchased, Arbor Commercial Mortgage may realize value from the associated retained interests. Arbor Commercial Mortgage 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, Arbor Commercial Mortgage 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 Arbor Commercial Mortgage due to the realization of any retained interests associated with any other of the four investments. However, Arbor Commercial Mortgage 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.

Investments in Mortgage Related Securities

In March 2004, we purchased $57.4 million (including $0.1 million of purchased interest) of agency-sponsored whole loan pool certificates. Because of such purchase, at least 55% of our assets now consist of bridge loans, mortgage-related securities and loans secured by secured mortgage liens on underlying property. We financed these purchases primarily through borrowings under our existing credit facilities. The percentage of our assets that we invest in agency-sponsored whole loan pool certificates may decrease if we determine that we do not need to purchase such certificates for purposes of meeting the 55% test required for exemption on exclusion from registration under the Investment Company Act. If the SEC takes a position or makes an interpretation favorable to us, we may have greater flexibility in the investment we make.

We may purchase agency-sponsored whole loan pool certificates containing both fixed rate and adjustable rate mortgages. The adjustable rate mortgages include adjustable-rate FHLMC ARM and FNMA ARM certificates, which generally have evidenced pools of mortgage loans with monthly, semi-annual or annual interest adjustments and GNMA ARM certificates, which adjust annually in relation to the Treasury index.

Interests in pools of mortgage-related securities differ from other forms of bonds, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or specified call dates. Instead, these securities provide a monthly payment which consists of both interest and principal payments. In effect, these payments are a pass-through of the monthly payments made by the individual borrowers on their residential or commercial mortgage loans, net of any fees paid to the issuer or guarantor of such securities. Additional payments are caused by repayments of principal resulting from the sale of the underlying property, refinancing or foreclosure, net of fees or costs which may be incurred. Some mortgage-related securities (such as securities issued by GNMA) are described as modified pass-through. These securities entitle the holder to receive all interest and principal payments owed on the mortgage pool, net of certain fees, at the scheduled payment dates regardless of whether or not the mortgagor actually makes the payment.

The rate of prepayments on underlying mortgages will affect the price and volatility of a mortgage-related security, and may have the effect of shortening or extending the effective maturity of the security beyond what was anticipated at the time of purchase. To the extent that unanticipated rates of prepayment on underlying mortgages increase the effective maturity of a mortgage-related security, the volatility of such security can be expected to increase.

The yield and maturity characteristics of mortgage-related securities differ from traditional debt securities. A major difference is that the principal amount of the obligations may normally be prepaid at any time because the underlying assets (*i.e.*, loans) generally may be prepaid at any time. The relationship between prepayments and interest rates may give some mortgage-related securities less potential for growth in value than conventional fixed-income securities with comparable maturities. In addition, in periods of falling interest rates, the rate of prepayments tends to increase. During such periods, the reinvestment of prepayment proceeds by us will generally be at lower rates than the rates that were carried by the obligations that have been prepaid. Because of these and other reasons, a mortgage-related security s total return and maturity may be difficult to predict precisely. To the extent that we purchase mortgage-related securities at a premium, prepayments (which may be made without penalty) may result in loss of our principal investment to the extent of premium paid.

GNMH Certificates

The principal governmental guarantor of mortgage-related securities is GNMA. GNMA is a wholly owned United States Government corporation within the Department of Housing and Urban Development. GNMA is authorized to guarantee, with the full faith and credit of the United States Government, the timely payment of principal and interest on securities issued by institutions approved by GNMA (such as savings and loan institutions, commercial banks and mortgage bankers) and backed by pools of mortgages insured by the Federal Housing Administration, or the FHA, or guaranteed by the Department of Veterans Affairs, or the VA.

GNMA certificates that qualify as real estate under the Investment Company Act are backed by single-family mortgage loans. The interest rate paid on GNMA certificates may be a fixed rate or an adjustable rate. The interest rate on GNMA certificates issued under GNMA s standard ARM program adjusts annually in relation to the Treasury index.

Government-related guarantors (*i.e.*, not backed by the full faith and credit of the United States government) include the Federal National Mortgage Association, or FNMA and the Federal Home Loan Mortgage Corporation, or FHLMC.

FNMA Certificates

FNMA is a privately-owned, federally-chartered corporation organized and existing under the Federal National Mortgage Association Charter Act. FNMA guarantees to the registered holder of a FNMA certificate that it will distribute amounts representing scheduled principal and interest on the mortgage loans in the pool underlying the FNMA certificate, whether or not received, and the full principal amount of any such mortgage loan foreclosed or otherwise finally liquidated, whether or not the principal amount is actually received. The obligations of FNMA under its guarantees are solely those of FNMA and are not backed by the full faith and credit of the United States.

FNMA certificates that qualify as real estate under the Investment Company Act are backed by pools of single-family mortgage loans. FNMA certificates may pay interest at a fixed rate or an adjustable rate. Each series of FNMA ARM certificates bears an initial interest rate and margin tied to an index based on all loans in the related pool, less a fixed percentage representing servicing compensation and FNMA s guarantee fee. The specified index used in different series has included the Treasury Index, the 11th District Cost of Funds Index published by the Federal Home Loan Bank of San Francisco, LIBOR and other indices. The majority of series of FNMA ARM certificates issued to date have evidenced pools of mortgage loans with monthly, semi-annual or annual interest rate adjustments.

FHLMC Certificates

FHLMC is a privately-owned government-sponsored enterprise created pursuant to an Act of Congress on July 24, 1970. The principal activity of FHLMC consists of the purchase of mortgage loans or participation interests in mortgage loans and the resale of the loans and participations in the form of guaranteed mortgage-backed securities. FHLMC guarantees to each holder of FHLMC certificates the timely payment of interest at the applicable pass-through rate and ultimate collection of all principal on the holder s pro rata share of the unpaid principal balance of the related mortgage loans, but does not guarantee the timely payment of scheduled principal of the underlying mortgage loans. The obligations of FHLMC under its guarantees are solely those of FHLMC and are not backed by the full faith and credit of the United States.

FHLMC certificates that qualify as real estate under the Investment Company Act are backed by pools of single-family mortgage loans. FHLMC certificates may pay interest at a fixed rate or an adjustable rate. The interest rate paid on adjustable-rate FHLMC certificates, or FHLMC ARMs adjusts periodically within 60 days prior to the month in which the interest rates on the underlying mortgage loans adjust. The interest rates paid on certificates issued under FHLMC s standard ARM programs adjust in relation to the Treasury index. Other specified indices used in FHLMC ARM programs include the 11th District Cost of Funds Index published by the Federal Home Loan Bank of San Francisco, LIBOR and other indices. Interest rates paid on fully-indexed FHLMC ARM certificates equal the applicable index rate plus a specified number of basis points. The majority of series of FHLMC ARM certificates issued to date have evidenced pools of mortgage loans with monthly, semi-annual or annual interest adjustments.

Operations

Our Manager s Investment Services

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

Origination

Our manager will source the origination of most of our investments. Arbor Commercial Mortgage 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, each of which are employed by our manager, 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 Arbor Commercial Mortgage s marketing effort occurs at the branch level, Arbor Commercial Mortgage 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, Arbor Commercial Mortgage 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 Arbor Commercial Mortgage s financing products and our structured finance products. After identifying a suitable product, Arbor Commercial Mortgage works with the borrower to prepare a loan application. Upon completion by the borrower, the application is forwarded to Arbor Commercial Mortgage s underwriters for due diligence. See Underwriting below.

Underwriting

Our manager s loan originators work in conjunction with underwriters who are also employed by our manager. These underwriters 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, Arbor Commercial Mortgage 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. Arbor Commercial Mortgage will refine its underwriting criteria based upon actual loan portfolio experience and as market conditions and investor requirements evolve.

Investment Approval Process

Arbor Commercial Mortgage 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 Arbor Commercial Mortgage 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 Arbor Commercial Mortgage 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, Arbor Commercial Mortgage 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 Arbor Commercial Mortgage or one of its affiliates to pursue it, Arbor Commercial Mortgage will have the opportunity to execute the transaction. See Our Manager and the Management Agreement The Management Agreement Rights of First Refusal.

Servicing

Arbor Commercial Mortgage 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. Arbor Commercial Mortgage 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 Arbor Commercial Mortgage 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. Arbor Commercial Mortgage 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 Arbor Commercial Mortgage. The experience and depth of services of the asset management group enabled Arbor Commercial Mortgage to improve the credit quality and yield of its structured finance investments. The asset management group, while at Arbor Commercial Mortgage, was responsible for managing over $2.5 billion in assets consisting of more than 500 real estate related investments for Arbor Commercial Mortgage. 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 Arbor Commercial Mortgage 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 Arbor Commercial Mortgage on a limited basis pursuant to an asset management services agreement between Arbor Commercial Mortgage 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 private placement 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 Arbor Commercial Mortgage to finance the initial assets. These credit facilities are further described under Management s Discussion & Analysis of Financial Condition and Results of Operations of Arbor Realty Trust, Inc. and Subsidiaries 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. Arbor Commercial Mortgage, as our manager, and our chief credit officer review and monitor credit risk and other risks of loss associated with each investment. In addition, Arbor Commercial Mortgage 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 Arbor Commercial Mortgage 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 Arbor Commercial Mortgage 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. In general, income from hedging transactions does not constitute qualifying income under current law for purposes of the REIT gross income requirements. To the extent, however, that we enter into a hedging contract to reduce interest rate risk on indebtedness incurred to acquire or carry real estate assets, any income that we derive from the contract would be qualifying income for purposes of the REIT 95% gross income test, but not for the 75% gross income test. See Federal Income Tax Considerations Taxation of Arbor Realty Derivatives and Hedging Transactions. Arbor Commercial Mortgage 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, Arbor Commercial Mortgage 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, Arbor Commercial Mortgage 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 the concurrent offerings, 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 Arbor Commercial Mortgage 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 Arbor Commercial Mortgage and serves on our credit committee and Mr. Kaufman and the Kaufman entities own approximately 88% of the outstanding membership interests of Arbor Commercial Mortgage. Mr. Frederick C. Herbst is our chief financial officer and the chief financial officer of Arbor Commercial Mortgage. 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 Arbor Commercial Mortgage, and Mr. Martello serves as the trustee of a trust through which Mr. Kaufman owns the majority of his ownership interest in Arbor Commercial Mortgage and co-trustee of another Kaufman entity that owns an equity interest in Arbor Commercial Mortgage.

We have implemented several policies, through board action and through the terms of our constituent documents and of our agreements with Arbor Commercial Mortgage, 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 Arbor Commercial Mortgage, including termination, renewal and enforcement thereof or our participation in any transactions with Arbor Commercial Mortgage or its affiliates outside of the management agreement, including our ability to purchase securities and mortgage or other assets from or to sell securities and assets to Arbor Commercial Mortgage, must be reviewed and approved by a majority of our independent directors.

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 Arbor Commercial Mortgage under the management agreement.

Our management agreement with Arbor Commercial Mortgage provides that Arbor Commercial Mortgage may not assign duties under the management agreement, except to certain affiliates of Arbor Commercial Mortgage, 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 Arbor Commercial Mortgage 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 Arbor Commercial Mortgage, 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.

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 private placement to our operating partnership. The remaining 28% partnership interest in our operating partnership is owned by Arbor Commercial Mortgage. After giving effect to the concurrent offerings, Arbor Commercial Mortgage will own approximately a 17% interest in our operating partnership and we will own the remaining 83%. In exchange for the contribution of the initial assets to our partnership, Arbor Commercial Mortgage received approximately 3.1 million operating partnership units and 629,345 warrants, each of which entitles Arbor Commercial Mortgage to purchase one additional operating partnership unit for two years from the date of issue. Arbor Commercial Mortgage s operating partnership units, including units issued upon exercise of the warrants, each is paired to one share of our special voting preferred stock and is redeemable, at the option of Arbor Commercial Mortgage, for cash, or at our election, our common stock, generally on a one for one basis, at any time after the earlier of (1) two years following the closing of the private placement and (2) six months (180 days) following the effectiveness of the registration statement of which this prospectus is a part. However, Arbor Commercial Mortgage is limited at any given time to redeeming (whether for cash or stock) a number of units such that, if we were to issue shares of our common stock to satisfy the redemption right, Arbor Commercial Mortgage would not exceed the REIT-related ownership limitations contained in our charter.

Competition

Our net income depends, in large part, on our manager s ability to originate structured finance investments with spreads over our borrowing costs. In originating these investments, our manager competes with other mortgage REITs, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, other lenders, governmental bodies and other entities, some of which may have greater financial resources and lower costs of capital available to them. In addition, there are numerous mortgage REITs with asset acquisition objectives similar to ours, and others may be organized in the future. The effect of the existence of additional REITs may be to increase competition for the available supply of structured finance assets suitable for purchase by us. Competitive variables include market presence and visibility, size of loans offered and underwriting standards. To the extent that a competitor is willing to risk larger amounts of capital in a particular transaction or to employ more liberal underwriting standards when evaluating potential loans, our origination volume and profit margins for our investment portfolio could be impacted. Our competitors may also be willing to accept lower returns on their investments and may succeed in buying the assets that we have targeted for acquisition. Although management believes that we are well positioned to continue to compete effectively in each facet of our business, there can be no assurance that we will do so or that we will not encounter further increased competition in the future that could limit its ability to compete effectively.

Employees

We currently have eleven employees, including Mr. Kovarik, our chief credit officer, Mr. Weber, our executive vice president of structured finance, Mr. Palmier, our executive vice president of asset management, and a eight person asset management group. Mr. Kaufman, who serves as our chief executive officer and Mr. Herbst, who serves as our chief financial officer, each of whom is a full time employee of our manager, perform the duties required pursuant to the management agreement with our manager and our bylaws.

Legal Proceedings

We are not involved in any litigation nor, to our knowledge, is any litigation threatened against us.

Mr. Kaufman and entities controlled by Mr. Kaufman, but unrelated to us and our manager, are involved in certain litigation actions in connection with the development and operation by those entities of a gaming casino in northern New York State on behalf of the St. Regis Mohawk Indian Tribe. Mr. Kaufman and those entities have instituted litigation actions to recover damages and monies owed pursuant to contracts and are also vigorously defending various actions subsequently brought by others relating to the gaming casino. Neither we nor our manager is a party to any of these actions and we do not believe these actions will have a material adverse effect on us or our manager.

OUR MANAGER AND THE MANAGEMENT AGREEMENT

Manager

We have chosen to be externally managed by Arbor Commercial Mortgage to take advantage of the existing business relationships, operational and risk management systems, expertise and economies of scale associated with Arbor Commercial Mortgage s current business operations. Arbor Commercial Mortgage is a national commercial real estate finance company, which was founded in 1993 as a subsidiary of Arbor National Holdings, which was primarily an originator and servicer of single-family residential mortgage loans. Our chief executive officer, Mr. Ivan Kaufman, is also Arbor Commercial Mortgage s chief executive officer and controlling equity owner, and was the co-founder, chairman and majority stockholder of Arbor National Holdings. Under Mr. Kaufman s direction, Arbor National Holdings grew to 25 branches in 11 states and funded more than $4 billion in loans in its last full year of operations. Arbor National Holdings became a public company in 1992 and was sold to BankAmerica in 1995. As chairman and chief executive officer of Arbor National Holdings, Mr. Kaufman developed significant experience operating and managing a publicly traded company.

In connection with the sale of Arbor National Holdings, Mr. Kaufman purchased its commercial mortgage lending operations and the rights to the Arbor Commercial Mortgage name and retained a significant portion of Arbor National Holdings senior management team. This senior management team has guided Arbor Commercial Mortgage s growth from a company originally capitalized with approximately $8.0 million, to its equity value, including its partnership interest in Arbor Realty Limited Partnership, of approximately $64 million as of December 31, 2003. Arbor Commercial Mortgage is now a full service provider of financial services to owners and developers of commercial and multi-family real estate properties. Arbor Commercial Mortgage has derived revenue from the origination for sale and servicing of government-sponsored and conduit mortgage loans for commercial and multi-family real estate properties as well as from the origination of structured finance loans and investments. Arbor Commercial Mortgage originated over $800 million in government-sponsored and conduit mortgage loans in 2003. Arbor Commercial Mortgage originated over $115 million in structured finance investments from the beginning of 2003 until the contribution of the majority of its structured finance portfolio to us in July 2003. Arbor Commercial Mortgage is currently servicing a portfolio with a principal balance of $3.0 billion, including loans serviced for Arbor Realty Limited Partnership.

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

Arbor Commercial Mortgage s executive officers and employees have extensive experience in originating and managing structured commercial real estate investments. The senior management team has an average of over 20 years experience in the financial services industry. Arbor Commercial Mortgage currently has 129 employees spread among its corporate headquarters in Uniondale, New York and 14 offices located throughout the United States.

At December 31, 2003, Mr. Kaufman and the Kaufman entities together beneficially owned approximately 88% of the outstanding membership interests in Arbor Commercial Mortgage. Our chief financial officer, our executive vice presidents of structured finance and asset management and our secretary collectively own an approximately 3.5% membership interest in Arbor Commercial Mortgage. One of our directors, Mr. Martello, owns an approximately 1.3% membership interest in Arbor Commercial Mortgage and serves as the trustee of one of the Kaufman entities that owns a majority of the outstanding membership interests in Arbor Commercial Mortgage and co-trustee of another Kaufman entity that owns an equity interest in Arbor Commercial Mortgage. In exchange for Arbor Commercial Mortgage s contribution of the initial assets and related liabilities to our operating partnership, our operating partnership issued to Arbor Commercial Mortgage approximately 3.1 million units of limited partnership interest and 629,345 warrants to purchase additional units of limited partnership interest at an initial exercise price of $15.00 each, each of which are redeemable, at our election, for cash or one share of our common stock. Each of the approximately 3.1 million operating partnership units received by Arbor

Commercial Mortgage, is paired with one share of our special voting preferred stock that has one vote on all matters submitted to a vote of the stockholders.

We have granted our non-employee executive officers and other employees of our manager who provide services to us awards of 128,500 shares of restricted stock in the aggregate, representing 1.6% of the number of shares of common stock currently outstanding. Our manager and its employees have a total beneficial ownership in our common stock of approximately 33%, taking into account (1) operating partnership units that are held of record by Arbor Commercial Mortgage and that may be acquired by Arbor Commercial Mortgage upon exercise of warrants for additional operating partnership units, (2) the restricted stock awards to certain executive officers and employees of our manager who provide services to us and (3) units purchased in the private placement by such individuals and others affiliated with our manager. Our manager is entitled to receive an annual base management fee from us and may receive incentive compensation based on certain performance criteria and certain other fees.

The executive offices of our manager are located at 333 Earle Ovington Boulevard, Suite 900, Uniondale, New York 11553 and the telephone number of its executive offices is (516) 832-8002.

Officers of Our Manager

The following table sets forth certain information with respect to the executive officers of our manager.

Name	Age	Position with Our Manager
Ivan Kaufman	43	Chief Executive Officer and President
Frederick C. Herbst	46	Chief Financial Officer
Ronald D. Gaither	46	Chief Operating Officer
Walter K. Horn	60	General Counsel
John Caulfield	39	Senior Vice President Capital Markets

Ivan Kaufman. Mr. Kaufman has served as our chairman of the board, chief executive officer and president since June 2003. Mr. Kaufman has been chief executive officer and president of Arbor Commercial Mortgage since its inception in 1993. In 1983, he co-founded a predecessor of Arbor National Holdings and its residential lending subsidiary, Arbor National Mortgage Inc. which became a public company in 1992 and was sold to BankAmerica in 1995. As chairman and chief executive officer of Arbor National Holdings, Mr. Kaufman developed significant experience operating and managing a publicly traded company. From January 1998 to April 2000, Mr. Kaufman was also the president of Massena Management, LLC, the general partner of President R.C.-St. Regis Management Company, which entered into a management agreement with the St. Regis Mohawk Tribe to finance, construct and manage a casino on the tribe s reservation in Hogansburg, New York. Mr. Kaufman was named regional Entrepreneur of the Year by Inc. Magazine for outstanding achievements in financial services in 1990. He was appointed to the National Advisory Board of Fannie Mae in 1994. Mr. Kaufman has also served on Fannie Mae s regional advisory and technology boards, as well as the board of directors of the Empire State Mortgage Bankers Association.

Frederick C. Herbst. Mr. Herbst has served as our chief financial officer and treasurer since June 2003. Mr. Herbst has been chief financial officer of Arbor Commercial Mortgage since joining the company in November 1999. He is a member of Arbor Commercial Mortgage s executive committee and is responsible for all aspects of Arbor Commercial Mortgage s financial operations, including financial reporting, tax planning, budgeting and the appropriate utilization of Arbor Commercial Mortgage s capital. From October 1998 until he joined Arbor Commercial Mortgage in November 1999, Mr. Herbst was chief financial officer with The Hurst Companies, Inc., where he was responsible for all financial operations, including financial reporting, budgeting and banking relationships. Previously, Mr. Herbst was controller with The Long Island Savings Bank, FSB, vice president finance with Eastern States Bankcard Association and senior manager with Ernst & Young. Mr. Herbst became a certified public accountant in 1983.

Ronald D. Gaither. Mr. Gaither is a member of Arbor Commercial Mortgage s executive committee and is the senior credit officer. Before joining Arbor Commercial Mortgage in March 1999, he was the chief credit officer for PNC Mortgage Corporation in Chicago. During his tenure, he served on the board of directors of PNC Mortgage Reinsurance Corporation. Mr. Gaither also served on the Affordable Housing Advisory Board with Freddie Mac. Mr. Gaither has held senior management positions with Amerin Guaranty, Prudential Home Mortgage and First Union National Bank.

Walter K. Horn. Mr. Horn has served as our secretary, general counsel and one of our directors since his appointment in November 2003. Mr. Horn is also a member of Arbor Commercial Mortgage s executive committee and is responsible for providing all legal services for Arbor Commercial Mortgage. Previously, Mr. Horn was general counsel with Arbor National Holdings from 1991 until its sale in 1995 and has continued in a similar capacity with Arbor Commercial Mortgage. From January 1998 to April 2000, Mr. Horn was the general counsel and secretary of Massena Management, LLC, the general partner of President R.C.-St. Regis Management Company, which entered into a management agreement with the St. Regis Mohawk Tribe to finance, construct and manage a casino on the tribe s reservation in Hogansburg, New York. Mr. Horn s experience also includes serving as general counsel with Resource One, Inc. and Long Island Trust Company.

John Caulfield. Mr. Caulfield is a member of Arbor Commercial Mortgage s executive committee and is responsible for all capital markets activities, including interest rate, risk management and secondary marketing activities for Arbor Commercial Mortgage. Mr. Caulfield s responsibilities include the pricing and selling of Fannie Mae MBS/ DUS and conduit loans and managing Arbor Commercial Mortgage s pipeline to ensure timely underwriting and funding. Before joining Arbor Commercial Mortgage in 1995, Mr. Caulfield was vice president of secondary marketing with Arbor National Holdings.

The Management Agreement

We and our operating partnership entered into a management agreement with Arbor Commercial Mortgage, pursuant to which Arbor Commercial Mortgage has agreed to provide us with structured finance investment opportunities and loan servicing as well as other services necessary to operate our business. We employ only three executive officers and eight individuals who provide asset management services for our portfolio of investments. Our chief executive officer, chief financial officer and our secretary are not our employees. We rely to a significant extent on the facilities and resources of our manager to conduct our operations.

The management agreement requires our manager to manage our business affairs in conformity with the policies and the general investment guidelines that are approved and monitored by our board of directors. Our manager s management is under the direction of our board of directors.

Our directors will periodically review the investment guidelines and our investment portfolio but do not review each proposed investment. In conducting their periodic reviews, the directors rely on information provided to them by our manager. Transactions entered into by our manager may be difficult or impossible to unwind by the time they are reviewed by the directors.

Mr. Kaufman, our chairman and chief executive officer, and Mr. Herbst, our chief financial officer, also serve as chief executive officer and chief financial officer, respectively, of our manager, and we were formed by our manager. As a result, 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 the agreement had been negotiated with an unaffiliated third party. In addition, Walter Horn, who is the general counsel of our manager, became our secretary after the private placement.

Management Services

Pursuant to the terms of the management agreement, our manager is required to provide a dedicated management team, including a chief executive officer, chief financial officer and secretary, Messrs. Kaufman, Herbst and Horn, respectively, to provide the management services to us, the members of which team will devote such of their time to the management of us as our independent directors reasonably deem necessary and appropriate, commensurate with our level of activity from time to time.

Our manager is responsible for our day to day operations and performs (or causes to be performed) such services and activities relating to our assets and operations as may be appropriate, including, without limitation, the services described below.

Management Oversight

Providing executive and administrative personnel, office space and office services required in rendering services to us;

Administering our day to day operations and functions necessary to our management as may be agreed upon by our manager and the board of directors, including the collection of interest, fee and other income, the payment of our debts and obligations, the payment of dividends or distributions to our stockholders and maintenance of appropriate back office infrastructure to perform such administrative functions;

Serving as our consultant with respect to the periodic review of the investment criteria and parameters for our investments, borrowings and operations for the approval of our board of directors;

Counseling us in connection with policy decisions to be made by our board of directors;

Using commercially reasonable efforts to cause expenses incurred by us or on our behalf to be reasonable and customary and within any budgeted parameters or expense guidelines set by our board of directors from time to time;

Advising us as to our capital structure and capital raising;

Coordinating and managing operations of any joint venture or co-investment interests held by us and conducting all matters with the joint venture or co investment partners;

Communicating on our behalf with the holders of any of our equity or debt securities as required to satisfy the reporting and other requirements of any governmental bodies or agencies or trading markets and to maintain effective relations with such holders;

Handling and resolving all claims, disputes or controversies (including all litigation, arbitration, settlement or other proceedings or negotiations) in which we may be involved or to which we may be subject arising out of our day to day operations, subject to such limitations or parameters as may be imposed from time to time by our board of directors; and

Evaluating and recommending to our board of directors, and engaging in potential hedging activities on our behalf, consistent with our status as a REIT and with the investment guidelines.

Origination and Investment Expertise

Building borrower relationships, originating investment opportunities with those borrowers and analyzing and underwriting possible investment opportunities for eventual submission to our credit committee;

Assisting us in developing criteria for investment commitments that are specifically tailored to our investment objectives and making available to us its knowledge and experience with respect to mortgage loans, real estate and other real estate related assets; and

Investing or reinvesting any money of ours, including investing in short term investments pending investment in long term asset investments.

Regulatory Compliance

Assisting us in complying with all regulatory requirements applicable to us in respect of our business activities, including preparing or causing to be prepared all consolidated financial statements required under applicable regulations and contractual undertakings and all reports and documents, if any, required under the Securities Exchange Act;

Taking all necessary actions to enable us to make required tax filings and reports, including soliciting stockholders for required information to the extent provided by the REIT provisions of the Code and the Treasury Regulations promulgated thereunder;

Counseling us regarding the maintenance of our status as a REIT and monitoring compliance with the various REIT qualification tests and other rules set out in the Code and the Treasury Regulations promulgated thereunder;

Causing us to retain qualified accountants and legal counsel, as applicable, to assist in developing appropriate accounting procedures, compliance procedures and testing systems with respect to financial reporting obligations and compliance with the REIT provisions of the Code and the Treasury Regulations promulgated thereunder and to conduct quarterly compliance reviews with respect thereto;

Counseling us regarding the maintenance of our exemption from the Investment Company Act and monitoring compliance with the requirements for maintaining an exemption from that Act;

Causing us to qualify to do business in all applicable jurisdictions and to obtain and maintain all appropriate licenses; and

Using commercially reasonable efforts to cause us to comply with all other applicable laws.

Pursuant to the management agreement, our manager does not assume any responsibility other than to render the services called for thereunder and is not responsible for any action of our board of directors in following or declining to follow our managers advice or recommendations. Our manager, its directors and its officers are not liable to us, any subsidiary of ours, our directors, our stockholders or any subsidiary s stockholders for acts performed in accordance with and pursuant to the management agreement, except by reason of acts constituting bad faith, willful misconduct, gross negligence, or breach of their duties under the management agreement and except for claims by manager s employees relating to the terms and conditions of their employment. Pursuant to the management agreement, we agree to indemnify our manager, its directors and its officers with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts of our manager not constituting bad faith, willful misconduct, gross negligence, or breach of duties, performed in good faith in accordance with and pursuant to the management agreement but excluding claims by the manager s employees relating to the terms and conditions of their employment. Our manager agrees to indemnify us, our directors and officers with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts of our manager constituting bad faith, willful misconduct, gross negligence or breach of its duties under the management agreement and any claims by the manager s employees relating to the terms and conditions of their employment. Our manager also carries errors and omissions and other customary insurance.

Term

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

Our Termination Rights

After the initial two-year term, we will be able to terminate the management agreement without cause for any reason upon six months prior written notice to Arbor Commercial Mortgage. If we terminate the management agreement without cause, or we give Arbor Commercial Mortgage notice of non-renewal, in order to manage our operations internally, we will be required to pay our manager a termination fee equal to the base management fee and the incentive compensation earned during the 12-month period preceding the termination. If, without cause, we terminate the management agreement or elect not to renew it for any other reason, including a change of control of us but excluding a change in control of our manager, we will be required to pay a termination fee equal to two times the base management fee and the incentive compensation earned during the 12-month period preceding the termination.

Notwithstanding the paragraph above, if we provide our six month notice of termination without cause because our independent directors have determined that the management fees are unfair, then Arbor Commercial Mortgage may agree to perform its management services at the fees our independent directors determine to be fair and the management agreement will not terminate. If Arbor Commercial Mortgage does not agree to perform its management services for those fees, or if Arbor Commercial Mortgage so agrees but then gives us notice that it wishes to renegotiate the fees, then we and Arbor Commercial Mortgage must negotiate in good faith and if we cannot agree on a revised fee structure at the end of our six-month notice period, the agreement will terminate and we must pay the termination fees described above.

We also have the right to terminate the management agreement for cause upon prior written notice to Arbor Commercial Mortgage with the approval of our board of directors including the consenting vote of a majority of our independent directors. In such a case, we would not be required to pay a termination fee. Cause is defined as fraud, misappropriation of funds, willful violation of the management agreement, gross negligence, breach by our manager of a material term of the management agreement that is not timely cured, the removal by us of Mr. Ivan Kaufman as our chief executive officer for cause, or a change in control of our manager (other than a change in control because of a public offering of our manager).

Arbor Commercial Mortgage s Termination Rights

Arbor Commercial Mortgage has the right to terminate the management agreement (effective upon expiration of the cure period) upon a breach of a material term of the management agreement by us that is not timely cured. Arbor Commercial Mortgage also has the right to terminate the management agreement after the initial two-year term without cause on six months prior written notice to us. Except in connection with a change in control of Arbor Commercial Mortgage within the first three years as described below, Arbor Commercial Mortgage will not be obligated to pay us a termination fee if it terminates or elects not to renew the management agreement.

Change of Control of Arbor Commercial Mortgage

Within the initial two-year term and the first one-year renewal term of the management agreement, if:

Arbor Commercial Mortgage or its successor elects not to renew or to terminate the management agreement within two years after a change in control of Arbor Commercial Mortgage or the execution of an agreement that will cause a change in control of Arbor Commercial Mortgage, or

Arbor Commercial Mortgage gives us a notice of non-renewal or termination, then experiences a change of control or executes an agreement that will cause a change in control of Arbor Commercial Mortgage in one year, then Arbor Commercial Mortgage or its successor will have to pay us a fee in an amount equal to two times the base management fee and the incentive compensation earned during the 12-month period preceding the termination or non renewal notice.

We are able to terminate the management agreement upon 30 days prior written notice to Arbor Commercial Mortgage, without payment of a fee, if:

Mr. Kaufman is no longer chief executive officer of Arbor Commercial Mortgage, but not by reason of his death, disability or incapacity, or

a change of control of Arbor Commercial Mortgage occurs.

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As defined in the management agreement, change of control of Arbor Commercial Mortgage shall not include any public offering of the capital stock of Arbor Commercial Mortgage.

Assignment

Neither we nor Arbor Commercial Mortgage are able to assign its rights or obligations under the management agreement without the consent of the other party. However, Arbor Commercial Mortgage may, without our consent, assign the management agreement to an affiliate (meaning any entity controlling, controlled by or under common control with Arbor Commercial Mortgage, and control means the direct or indirect ownership of at least 51% of the beneficial equity interests and voting power of such entity) whose day to day business and operations are managed and supervised by Mr. Kaufman, provided that Arbor Commercial Mortgage shall be fully responsible to us for all errors or omissions of such assignee. Our manager is also be permitted to subcontract or assign certain of its duties under the management agreement to any affiliate of our manager that meets the foregoing qualification.

Management Fees and Incentive Compensation

Since we employ only three executive officers and eight other employees, we rely to a significant extent on the facilities and resources of our manager to conduct our operations. For performing services under the management agreement, Arbor Commercial Mortgage receives a base management fee and incentive compensation calculated as described below. Our manager uses the proceeds from its base management fee in part to pay compensation to its officers and employees who, notwithstanding that some of them are also our officers, receive no direct compensation from us, other than restricted stock that may be granted pursuant to our stock incentive plan.

Base Management Fee. Our manager receives an annual base management fee based on the equity of our operating partnership, as further discussed below. The amount of the base management fee does not depend of the performance of the services provided by our manager or the types of assets its selects for our investment, but the value of our operating partnership s equity will be affected by the performance of these assets. The base management fee is payable monthly in arrears in cash, calculated monthly as a percentage of our equity and equal to 0.75% per annum of the equity up to $400 million, 0.625% per annum of the equity between $400 million and $800 million and 0.50% per annum of the equity in excess of $800 million. For purposes of calculating the base management fee, the term equity means the month end value computed in accordance with generally accepted accounting principles of (1) total partners equity in our operating partnership, plus or minus (2) any unrealized gains, losses or other items that do not affect realized net income. We have incurred $587,734 in base management fees to Arbor Commercial Mortgage for management services rendered for the period ended December 31, 2003. As of December 31, 2003, we paid $490,956 of these base management fees. We have incurred $97,681 in base management fees for management services rendered in January 2004 and $98,598 in base management fees for management services rendered in February 2004, for a total of $196,278. All amounts incurred have been paid to date.

Incentive Compensation. Our manager is entitled to receive incentive compensation in installments each fiscal quarter. In addition, our manager is entitled to receive incentive compensation each fiscal quarter in an annual amount equal to the product of:

(1) 25% of the dollar amount by which:

the sum of: (i) our operating partnership s Funds From Operations (before the incentive compensation) per operating partnership unit (based on the weighted average number of operating partnership units outstanding, including operating partnership units issued to us equal to the number of shares of our common stock issued by us) for such quarter and (ii) gains (or losses) from debt restructuring and sales of property per operating partnership unit (based on the weighted average number of units outstanding, including operating partnership units issued to us equal to the number of shares of our common stock issued by us) for such quarter; exceeds the product of (i) the weighted average (based on shares of our common stock and operating partnership units) of (a) the per operating partnership unit book value of the net assets contributed by Arbor Commercial Mortgage, (b) the $15.00 offering price per share of our common stock in the private placement, (c) the offering price per share (including shares of common stock issued upon exercise of warrants or options) of any subsequent offerings by us of our common stock (adjusted for any prior capital dividends or distributions) and (d) the issue price per operating partnership unit for subsequent contributions to our operating partnership, and (ii) the greater of (x) 9.50% per annum and (y) the Ten Year U.S. Treasury Rate plus 3.50% per annum; multiplied by

(2) the weighted average number of operating partnership units outstanding, including operating partnership units issued to us equal to the number of shares of our common stock issued by us.

The incentive compensation will be measured in fiscal quarters for the remainder of 2003. Our manager did not earn any incentive compensation for the quarters ended September 30, 2003 or December 31, 2003. Beginning on January 1, 2004, the incentive management fee will be measured over a full fiscal year, subject to recalculation and potential reconciliation at the end of each fiscal year.

Funds From Operations as defined by National Association of Real Estate Investment Trusts means net income, computed in accordance with generally accepted accounting principals, excluding gains (or losses) from debt restructuring and sales of property, plus depreciation and amortization on real estate assets, and after adjustments for unconsolidated partnerships and joint ventures. Funds from operations does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income as an indication of our performance or to cash flows as a measure of liquidity or ability to make distributions.

The manager s incentive compensation is based, in part, on the $15.00 offering price per share of common stock in the private placement. We allocated the $75.00 offering price per unit in the private placement to the five shares of common stock comprising each unit, resulting in this offering price per share. We did not allocate any value to the one warrant underlying each unit because the warrants have an initial exercise price of $15.00 and they are not exercisable, detachable or freely tradable for an indeterminable period of time (i.e., until after the registration and listing of the common stock comprising the units on a national securities exchange or The Nasdaq Stock Market).

As used in calculating the manager s incentive compensation, the term Ten Year U.S. Treasury Rate means the arithmetic average of the weekly average yield to maturity for actively traded current coupon U.S. Treasury fixed interest rate securities (adjusted to constant maturities of 10 years) published by the Federal Reserve Board during a quarter, or, if such rate is not published by the Federal Reserve Board, any Federal Reserve Bank or agency or department of the federal government selected by us. If we determine in good faith that the Ten Year U.S. Treasury Rate cannot be calculated as provided above, then the rate shall be the arithmetic average of the per annum average yields to maturities, based upon closing asked prices on each business day during a quarter, for each actively traded marketable U.S. Treasury fixed interest rate security with a final maturity date not less than eight nor more than 12 years from the date of the closing asked prices as chosen and quoted for each business day in each such quarter in New York City by at least three recognized dealers in U.S. government securities selected by us.

The management agreement provides that at least 25% of our manager s incentive compensation is to be paid in shares of our common stock (subject to the ownership limitations contained in our charter) and the balance in cash. However, our manager is able to elect to receive a greater percentage of its incentive compensation in the form of our common stock. We may provide for registration rights for shares of common stock used to pay our manager s incentive compensation. Under our management agreement, Arbor Commercial Mortgage agrees that it may not elect to receive shares of our common stock as payment of its incentive compensation, except in accordance with all applicable securities exchange rules and securities laws (including prohibitions on insider trading). In addition, Arbor Commercial Mortgage is not able to receive our stock in payment of fees, whether automatically or by

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Arbor Commercial Mortgage s election, if it would cause Arbor Commercial Mortgage or Mr. Kaufman to beneficially own an amount of our common stock in violation of the ownership limitations in our charter.

For purposes of determining the number of shares to be delivered in satisfaction of the incentive compensation to be paid with our common stock, we will value our shares at the average per share closing price based on the period of 20 days ending on and including the last day of the applicable fiscal quarter.

In evaluating investments and other management strategies, the opportunity to earn incentive return 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 a higher incentive return. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our invested portfolio.

The following examples illustrate how we calculate our manager s incentive compensation in accordance with the management agreement. These calculations are for illustrative purposes only and do not reflect our actual operating results.

Example 1:

Assumptions:	
Adjusted Annual FFO Per OP Unit[(1)]	$2.00
Hurdle Rate[(2)]	9.50%
Weighted Average Book Value Per OP Unit[(3)]	$14.70
Weighted Average OP Units Outstanding[(4)]	11,196,724

Calculation of Incentive compensation:	= 25% × (Adjusted Annual FFO Per OP Unit - (Hurdle Rate × Weighted Average Book Value Per OP Unit)) × Weighted Average OP Units Outstanding = 25% × ($2.00 - (9.50% × $14.70)) × 11,196,724 = 25% × ($2.00 - $1.3965) × 11,196,724 = 25% × $0.6035 × 11,196,724 = $1,689,306

Example 2:

Assumptions:	
Adjusted Annual FFO Per OP Unit[(1)]	$1.00
Hurdle Rate[(2)]	9.50%
Weighted Average Book Value Per OP Unit[(3)]	$14.70
Weighted Average OP Units Outstanding[(4)]	11,196,724

Calculation of Incentive compensation:	= 25% × (Adjusted Annual FFO Per OP Unit - (Hurdle Rate × Weighted Average Book Value Per OP Unit)) × Weighted Average OP Units Outstanding = 25% × ($1.00 - (9.50% × $14.70)) × 11,196,724 = 25% × ($1.00 - $1.3965) × 11,196,724 = 25% × -$0.3965 × 11,196,724 = Negative calculation results in no incentive compensation

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(1) Adjusted Annual FFO per OP Unit means our operating partnership s funds from operations per operating partnership unit, adjusted for certain gains and losses.

(2) Hurdle Rate means 9.5% per annum or the 10 year Treasury Rate plus 3.5%, whichever is greater.

(3) Weighted Average Book Value Per OP Unit means the weighted average of the book value of the net assets contributed by Arbor Commercial Mortgage to Arbor Realty Limited Partnership per operating partnership unit, the offering price per share of our common equity in the private placement and subsequent offerings and the issue price per operating partnership unit for subsequent contributions to Arbor Realty Limited Partnership.

(4) Weighted Average OP Units Outstanding means the weighted average of Arbor Realty Limited Partnership s outstanding operating partnership units.

The incentive compensation fee will be measured annually in arrears; provided, however, Arbor Commercial Mortgage shall receive quarterly installments thereof in advance. The quarterly installments will be calculated based on the results for the period of twelve months ending on the last day of the fiscal quarter with respect to which such installment is payable. Each quarterly installment payment will be deemed to be an advance of a portion of the incentive fee payable for the year. In the event the calculated incentive compensation for the full year is an amount less than the total of the installment payments made to Arbor Commercial Mortgage for the year, Arbor Commercial Mortgage will refund to us the amount of such overpayment in cash. In such case, we would record a negative incentive fee expense in the quarter when such overpayment is determined.

Reimbursement of Expenses

Our manager is responsible for all costs incident to the performance of its duties under the management agreement, including compensation of our manager s employees, rent for facilities and other overhead expenses.

The expenses required to be paid by us or for which we reimburse our manager include, but are not limited to:

legal, accounting and auditing fees and expenses of third parties for services rendered for us that are paid by the manager;

the compensation, benefits and expenses of our independent directors and employees;

travel and other out of pocket expenses of our employees in connection with the purchase, financing or sale of our investments;

the costs of printing and mailing proxies and reports to stockholders;

costs to obtain liability insurance to indemnify our directors and officers, the manager and its employees and directors and the underwriters;

key man life insurance costs for our chief executive officer; and

the compensation and expenses of our custodian and transfer agent, if any.

We are also required to pay or reimburse our manager for all expenses incurred on behalf of us in connection with:

raising of capital or the incurrence of debt,

interest expenses,

taxes and license fees,

litigation and

extraordinary or non recurring expenses.

Expense reimbursements to our manager are be made quarterly.

Restricted Stock Awards

We have granted to certain executive officers and employees of our manager who provide services to us 128,500 shares of restricted stock pursuant to our stock incentive plan. We have also reserved up to 35,500 shares for future grants to directors, officers and certain of our employees and certain employees of our managers. Two-thirds of the shares granted vested immediately and the remaining one-third will vest ratably over three years at a rate of 33.33% on each of the subsequent three anniversary dates of the date of grant. These restricted shares provide a means of performance based compensation in order to provide an additional incentive for our manager s employees to enhance the value of our common stock.

Origination Fees

With respect to each bridge loan and mezzanine loan originated during the term of the management agreement, we agreed with Arbor Commercial Mortgage that we will (1) pay Arbor Commercial Mortgage an amount equal to 100% of the origination fees paid by the borrower to us, up to 1% of the loan s principal amount, and (2) retain 100% of the origination fees paid by the borrower in excess of 1% of the loan s principal amount.

Additional Interest

Under the management agreement, we receive any additional interest and other payments due upon maturity of any loan and fees paid by borrowers under bridge and mezzanine loans originated during the term of the management agreement, except that origination fees are allocated according the agreement described in the paragraph above. We have agreed with Arbor Commercial Mortgage that we are entitled to deduct from the applicable monthly installment of the base management fee due to Arbor Commercial Mortgage an amount equal to 50% of any otherwise payable additional interest due upon maturity of any of our loans if such interest is waived in accordance with the provision of the applicable loan agreement because the borrower refinances one of our structured finance investments with a Fannie Mae, FHA or conduit commercial loan originated by Arbor Commercial Mortgage.

Rights of First Refusal

Arbor Commercial Mortgage and Mr. Kaufman, through his non-competition agreement with us, have granted us a right of first refusal to pursue all opportunities identified by them or their affiliates related to structured finance investments in or with respect to commercial or multi-family real estate properties that are consistent with our investment objectives and guidelines and would not adversely affect our status as a REIT. If such investment opportunities are identified, Arbor Commercial Mortgage or Mr. Kaufman, as the case may be, will give our credit committee written notice and description of the investment opportunity. Our credit committee, which will consist of Mr. Kaufman, our chief executive officer, Mr. Weber, our executive vice president of structured finance, Mr. Palmier, our executive vice president of asset management, and Mr. Kovarik, our chief credit officer, may either accept or reject the investment opportunity by a majority vote. If the committee rejects the opportunity, then Arbor Commercial Mortgage or Mr. Kaufman, as the case may be, will be able to present the opportunity to our independent directors. If our independent directors, by majority vote, reject the opportunity and allow Arbor Commercial Mortgage or one of its affiliates to pursue it, then Arbor Commercial Mortgage or the affiliate, as the case may be, will be able to do so on the same terms offered to us. If the terms of the investment opportunity materially change so that the benefits thereof are materially beneficial to Arbor Commercial Mortgage than such terms to us would have been under the transaction described in the original offer, then Arbor Commercial Mortgage must offer the revised investment opportunity to our

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credit committee and, if rejected, to our independent directors, who may again accept or reject the opportunity on our behalf. Arbor Commercial Mortgage will be able to pursue the revised opportunity on the terms offered to us if our independent directors reject the revised opportunity and approve Arbor Commercial Mortgage s pursuit of such opportunity.

During the term of the management agreement, we have agreed not to pursue, and to allow Arbor Commercial Mortgage to pursue, among other transactions and investment opportunities, opportunities related to multi-family and commercial mortgage loans that meet the underwriting and approval guidelines of FNMA, FHA and conduit commercial lending programs secured by first liens on real property. We may also pursue investments in mortgage-related securities, including agency-sponsored whole loan pool certificates.

Mr. Kaufman s Non-Competition Agreement

Pursuant to his non-competition agreement with us, Mr. Kaufman has also agreed that:

as long as he is serving as our chief executive officer or, during the term of the management agreement and the origination period described below, an affiliate of Arbor Commercial Mortgage, he will not pursue structured finance lending opportunities (and will refer those opportunities to us), unless our independent board members affirmatively approve the pursuit by Arbor Commercial Mortgage or one of its affiliates of structured finance lending opportunities that they have rejected on our behalf, See Rights of First Refusal above;

if he is no longer an affiliate of Arbor Commercial Mortgage and, within the first five years of the term of the management agreement, he is no longer our chief executive officer other than by reason of (1) his termination of his position for good reason, (2) our termination of him without cause, or (3) a change of control of Arbor Commercial Mortgage (which shall not be deemed to include any public offering of stock by Arbor Commercial Mortgage), he will not engage in the structured finance lending business for a period of one year after the earlier of his departure from us or the regular expiration of the one year origination period described below; and

if there is a change of control of Arbor Commercial Mortgage within the first three years of the term of the management agreement, and he is no longer an affiliate of Arbor Commercial Mortgage and leaves us without good reason in that three year period, he will not engage in the structured finance lending business for one year after the date of his departure from us.

Mr. Kaufman s non-competition agreement also prohibits Mr. Kaufman from soliciting our customers or employees during its term.

Origination Period

For a period of one year following the expiration or termination of the management agreement due to our notice of non-renewal or termination without cause or our manager s termination for cause:

our manager and Mr. Kaufman agree to originate structured finance transactions for us, and

we have granted them the exclusive right to provide these origination services to us.

If we terminate the management agreement for cause (including because of a change in control of the manager), or if the manager terminates or elects not to renew the management agreement without cause, we will be able to accept origination services from others during the origination period.

With respect to each bridge loan and mezzanine loan originated during the origination period, we have agreed with Arbor Commercial Mortgage that we will (1) pay Arbor Commercial Mortgage an amount equal to 100% of the origination fees paid by the borrower to us, up to 1% of the loan s principal amount, and (2) retain 100% of the origination fees paid by the borrower in excess of 1% of the loan s principal amount.

We, Arbor Commercial Mortgage and, through his non-competition agreement, Mr. Kaufman have also agreed that (1) our right of first refusal to pursue all structured finance investment opportunities regarding commercial or multi-family real estate properties that are identified by Arbor Commercial Mortgage, Mr. Kaufman (so long as he is an affiliate of Arbor Commercial Mortgage) or their affiliates and (2) Arbor Commercial Mortgage s right of exclusivity regarding Fannie Mae, FHA and conduit commercial lending programs will each continue to apply during the origination period.

If such structured finance investment opportunities are identified during the origination period, Arbor Commercial Mortgage and, so long as he is an affiliate of Arbor Commercial Mortgage, Mr. Kaufman will give our credit committee written notice and description of the investment opportunity. Our credit committee will be able to either accept or reject the investment opportunity. If the committee rejects the opportunity, then Arbor Commercial Mortgage or Mr. Kaufman, as the case may be, will be able to present the opportunity to our independent directors. If our independent directors, by majority vote, reject the opportunity on behalf of us and approve Arbor Commercial Mortgage s pursuit of that opportunity, then Arbor Commercial Mortgage may pursue the opportunity on the same terms offered to us. If the terms of the investment opportunity materially change, then Arbor Commercial Mortgage will be able to offer the revised investment opportunity to our credit committee and, if rejected, to our independent directors, who will be able to again be able to accept or reject the opportunity on behalf of us. Arbor Commercial Mortgage will be able to pursue the opportunity on the terms offered to us, if our independent directors reject the revised opportunity and approve Arbor Commercial Mortgage s pursuit of such opportunity.

MANAGEMENT

Our Directors and Executive Officers

Our board of directors consists of seven directors, four of whom are independent directors. See Corporate Governance Board of Directors and Committees below. Pursuant to our charter, the 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. Upon the expiration of their current terms, directors of each class will be elected to serve a term of three years and until their successors are elected and qualify each year and one class of directors will be elected by the stockholders. The following table sets forth certain information about our directors and executive officers.

Name	Age	Position with Us	Class
Ivan Kaufman	43	Chairman of the Board of Directors, Chief Executive Officer and President	Class II
Frederick C. Herbst	46	Chief Financial Officer and Treasurer	
John C. Kovarik	45	Chief Credit Officer	
Daniel M. Palmier	42	Executive Vice President Asset Management	
Fred Weber	43	Executive Vice President Structured Finance	
Jonathan A. Bernstein	57	Independent Director	Class I
William Helmreich	58	Independent Director	Class III
C. Michael Kojaian	43	Independent Director	Class II
Melvin F. Lazar	65	Independent Director	Class II
Walter K. Horn	60	General Counsel, Secretary and Director	Class III
Joseph Martello	48	Director	Class I

Information for each of our executive officers and directors is set forth below. For information regarding Messrs. Kaufman, Herbst and Horn, see Our Manager and the Management Agreement Officers of Our Manager.

John C. Kovarik. Mr. Kovarik was hired to serve as our chief credit officer in October 2003. From 1997 until October 2003, Mr. Kovarik was Senior Vice President and Chief Credit Officer of RER Resources, a commercial real estate consulting, underwriting and asset management services provider based in Virginia, where he was responsible for underwriting income property secured loans and managing teams providing acquisition underwriting. Mr. Kovarik has over twenty years of experience in credit, financial analysis and commercial real estate underwriting for various types of commercial properties.

Daniel M. Palmier. Mr. Palmier has served as our executive vice president of asset management since June 2003. Since 1997, he has provided, and continues to provide, services to Arbor Commercial Mortgage in his capacity as a continuing member of Arbor Commercial Mortgage s executive committee. From 1997 until the consummation of the private placement, he directed Arbor Commercial Mortgage s asset management group, where he was responsible for asset management and formulation of value enhancement and disposition strategies of Arbor Commercial Mortgage s debt and equity positions, with particular concentration on structured finance assets. Before joining Arbor Commercial Mortgage in 1997, Mr. Palmier was a vice president with Lehman Brothers Holdings Inc., where he was involved with asset management, restructuring, refinancing, development, leasing and disposition of commercial, retail and residential properties and mortgages. Mr. Palmier, a certified public accountant, has more than 18 years experience in various aspects of real estate management and practice.

Fred Weber. Mr. Weber has served as our executive vice president of structured finance since June 2003. He also continues to provide services to Arbor Commercial Mortgage in his capacity as a continuing member of Arbor Commercial Mortgage s executive committee. Mr. Weber was employed by Arbor Commercial Mortgage from May 1999 until the consummation of the private placement. At Arbor Commercial Mortgage, Mr. Weber oversaw Arbor Commercial Mortgage s structured finance and principal transaction group, where he was responsible for origination, underwriting and closing coordination of debt and equity financing for various asset types and classes of commercial real estate nationwide. He has been involved in the mortgage banking industry for more than 16 years and has extensive real estate finance and acquisition experience. Mr. Weber is a member of the real estate finance committee of the Real Estate Board of New York. From July 1997 through February 1999, Mr. Weber was a partner and co-head of the real estate department with Kronish, Lieb, Weiner & Hellman. Previously, Mr. Weber was a partner with the law firm of Weil, Gotshal & Manges.

Jonathan A. Bernstein. Mr. Bernstein has served as one of our directors since June 2003. Mr. Bernstein is of counsel at Pryor, Cashman, Sherman & Flynn, where he is head of the real estate department, specializing in finance and focusing on REITs and structured financing involving real estate. Mr. Bernstein joined Pryor Cashman in 1993. He serves as an advisor to REITs and investment banks in the real estate area. Mr. Bernstein is also the vice chairman and a director of TractManager LLC, an internet based software company, with offices in Saddle Brook, New Jersey and Chattanooga, Tennessee, specializing in contract management in the health care area, and he is a partner of the Shore Club Hotel in Miami, Florida.

William Helmreich. Dr. Helmreich has served as one of our directors since June 2003. Dr. Helmreich is the founder, and since 1980, owner and president of Byron Research and Consulting, a market research firm specializing in financial research, political polling, legal consulting, and issues relating to food products and real estate. He is a professor of Sociology at City College of New York and the CUNY Graduate Center where he teaches sociology of marketing and consumer behavior. Since 2000, Dr. Helmreich has also been retained as chairman for Academic Affairs for North Shore Hebrew Academy. He is a member of the board of Transaction Inc., North Shore Hebrew Academy, North Shore Hebrew Academy High School and NSH Affordable Housing of Indiana, Inc., as well as other not-for-profit boards, and was, for many years, a senior vice president of Good Earth Teas.

C. Michael Kojaian. Mr. Kojaian has served as one of our directors since June 2003. Since 1998 Mr. Kojaian has been the chief operating officer of the Kojaian group of companies, a national multi-faceted real estate development investment and asset management organization. Mr. Kojaian is the chairman of the board of Grubb & Ellis, a commercial real estate advisory firm, a member of the board of directors of Flagstar Bank and the United States President s Export Council.

Melvin F. Lazar. Mr. Lazar has served as one of our directors since his appointment in November 2003. Mr. Lazar is the founder of Lazar Levine & Felix LLP, certified public accountants, was its managing partner from 1969 until September 2002, and is still an employee of the firm. Mr. Lazar specializes in business valuations and merger and acquisition activities. Mr. Lazar serves on the board of directors of Enzo Biochem, Inc., a publicly-held biotechnology company, Active Media Services, Inc., a privately-held corporate barter company, and CECO Environmental Corp., a publicly-held provider of innovative solutions to industrial ventilation and air quality problems.

Joseph Martello. Mr. Martello has served as one of our directors since June 2003. Mr. Martello is currently chief operating officer of Arbor Management, LLC, the managing member of Arbor Commercial Mortgage, where he is responsible for management of the investment portfolio and overseeing the day-to-day operations. From 1995 to 1999, Mr. Martello was chief financial officer of Arbor Commercial Mortgage. From 1990 to 1995, Mr. Martello was the chief financial officer of Arbor National Holdings, Inc. Prior to that, he was a senior manager with the international accounting and consulting firm of Ernst & Young for eleven years. Mr. Martello is a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants where he is a former executive member of the board of directors of the Suffolk County chapter.

Corporate Governance Board of Directors and Committees

Our business is ultimately managed through the oversight and direction of our board of directors, which has established investment guidelines for Arbor Commercial Mortgage to follow in its day to day management of our business. At least a majority of our board of directors are independent, with independence being defined in our charter, and are nominated by our nominating/ corporate governance committee.

Our board consists of seven directors, three of whom are affiliated with Arbor Commercial Mortgage, Messrs. Kaufman, Martello and Horn, and four of whom are independent directors, Messrs. Bernstein, Kojaian and Lazar and Dr. Helmreich. The directors keep informed about our business at meetings of the board and its committees and through supplemental reports and communications. Our independent directors expect to meet regularly in executive sessions without the presence of our corporate officers.

Our board has established four committees, the principal functions of which are briefly described below. Matters put to a vote at any one of our four committees must be approved by a majority of the directors on the committee who are present at a meeting at which there is a quorum or by unanimous written consent of the directors on that committee.

Audit Committee

Our board of directors has established an audit committee, which is composed of three of our independent directors, Messrs. Bernstein, Lazar and Dr. Helmreich. Mr. Lazar serves as chairman of the audit committee. The audit committee assists the board in overseeing (1) our accounting and financial reporting processes; (2) the integrity and audits of our consolidated financial statements; (3) our compliance with legal and regulatory requirements; (4) the qualifications and independence of our independent auditors; and (5) the performance of our independent auditors and any internal auditors.

Compensation Committee

Our board of directors has established a compensation committee, which is composed of Messrs. Bernstein, Kojaian and Lazar and Dr. Helmreich. On March 2, 2004, Mr. Kojaian was appointed as a member and the chairman of the compensation committee. The principal functions of the compensation committee will be to (1) evaluate the performance of our officers, (2) review the compensation payable to our officers, (3) evaluate the performance of Arbor Commercial Mortgage, (4) review the compensation and fees payable to Arbor Commercial Mortgage under our management agreement and (5) administer the issuance of any stock issued to our employees or, the employees of Arbor Commercial Mortgage who provide services to us.

Nominating/Corporate Governance Committee

Our board of directors has established a nominating/ corporate governance committee, which is composed of Messrs. Bernstein and Lazar and Dr. Helmreich. Dr. Helmreich serves as chairman of the nominating/ corporate governance committee. The nominating/ corporate governance committee will be responsible for seeking, considering and recommending to the board qualified candidates for election as directors and recommending a slate of nominees for election as directors at the annual meeting. It will also periodically prepare and submit to the board for adoption the committee s selection criteria for director nominees. It will review and make recommendations on matters involving general operation of the board and our corporate governance, and annually will recommend to the board nominees for each committee of the board. In addition, the committee annually facilitates the assessment of the board of directors performance as a whole and of the individual directors and reports thereon to the board.

Independent Director Committee

Our board of directors has established an independent director committee, which is composed of all of our independent directors, Messrs. Bernstein, Kojaian and Lazar and Dr. Helmreich. The independent director committee is responsible for considering and voting upon matters as to which the board of directors determines Arbor Commercial Mortgage or its affiliates (other than us or our subsidiaries) or any of our directors (other than an independent director) or officers has a conflict of interest, including the approval of transactions between us and Arbor Commercial Mortgage.

Director Compensation

Each of our independent directors are paid a director s fee of $25,000 per year. Each independent director who serves as a committee chairman of the audit, compensation or nominating/corporate governance committee is paid an additional fee of $3,000. Each independent director is also paid a fee of $2,000 for each board or committee meeting that he attends. Each independent director is also paid a fee of $1,000 for each telephone board or committee meeting that he attends. In addition, we reimburse all directors for reasonable out of pocket expenses incurred in connection with their services on the board of directors.

Our stock incentive plan provides for grants of restricted stock and other equity based awards with respect to our common stock. On July 1, 2003, Messrs. Bernstein, Kojaian, Martello and Dr. Helmreich each received 1,000 shares of our restricted common stock. Upon their appointment to the board, Messrs. Horn and Lazar each received 1,000 shares of our restricted common stock. Two-thirds of the restricted stock granted to these directors vested immediately upon the date of grant and the remaining one-third will vest ratably over three years from the date of grant at a rate of 33.33% on each of the subsequent three anniversary dates of the date of grant.

Executive Compensation

Because our management agreement provides that our manager assumes principal responsibility for managing our affairs, certain of our executive officers, who are employees of our manager, do not receive compensation from us for serving as our executive officers. However, in their capacities as officers or employees of our manager, or its affiliates, they devote such portion of their time to our affairs as is required for the performance of the duties of our manager under the management agreement. Mr. Ivan Kaufman, our chairman of the board of directors, president and chief executive officer serves as the chairman and chief executive officer of Arbor Commercial Mortgage. Mr. Frederick C. Herbst, our chief financial officer, also serves as chief financial officer of our manager. Walter Horn, our secretary and general counsel also serves as secretary and general counsel of Arbor Commercial Mortgage. Each of Messrs. Kaufman, Herbst and Horn receive their compensation from our manager.

On July 1, 2003, we granted Mr. Kaufman and Mr. Herbst, 120,000 shares and 4,000 shares, respectively, of restricted stock pursuant to our stock incentive plan, two-thirds of which vested immediately and the remaining one-third of which will vest ratably over three years at a rate of 33.33% on each of the subsequent three anniversary dates of the date of grant. On November 5, 2003, we granted Mr. Horn 1,000 shares of restricted stock pursuant to our stock incentive plan with the same vesting schedule. Our manager has informed us that, because the services to be performed by its officers or employees in their capacities as such is not performed exclusively for us, it cannot segregate and identify that portion of the compensation awarded to, earned by or paid to our executive officers by the manager that relates solely to their services to us.

Three of our officers, Mr. Fred Weber, our executive vice president of structured finance, Mr. Daniel M. Palmier, our executive vice president of asset management and Mr. John C. Kovarik, our chief credit officer, are employed and paid directly by us. Each of Mr. Weber and Mr. Palmier receive annual compensation of $360,000, plus a bonus to be determined at the discretion of the compensation committee of our board of directors, which will not exceed $140,000 per year. On July 1, 2003, we granted each of Messrs. Palmier and Weber 7,000 shares of restricted stock pursuant to our stock incentive plan, two-thirds of which vested immediately and the remaining one-third of which will vest ratably over three years at a rate of 33.33% on each of the subsequent three anniversary dates of the date of grant. Mr. Kovarik receives annual compensation of $150,000 plus a bonus to be determined at the discretion of the compensation committee of our board of directors, which will not exceed $75,000 per year. We began

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compensating our employee executive officers at the annual rates set forth above upon the commencement of our operations on July 1, 2003.

The following table sets forth the total compensation amounts paid to our chief executive officer and each of our other executive officers who are directly employed and compensated by us for the year ended December 31, 2003.

		Annual Compensation			Long-Term Compensation			
					Awards		Payouts	
Name and Principal Position(a)	Year (b)	Salary ($)(c)	Bonus ($)(1)(d)	Other Annual Compensation ($)(2)(e)	Restricted Stock Award (s)($)(2)(f)	Securities Underlying Options/ SARs (#)(g)	LTIP Payouts ($)(h)	All Other Compensation ($)(i)
Ivan Kaufman Chief Executive Officer & President	2003			$1,200,000	$600,000(3)			
John Kovarik Chief Credit Officer	2003	$ 27,885(4)						
Dan Palmier Executive Vice President Asset Management	2003	$180,000(5)		$ 70,000	$ 35,000(6)			$2,562(7)
Fred Weber Executive Vice President Structured Finance	2003	$180,000(8)		$ 70,000	$ 35,000(9)			$2,603(10)

(1) Messrs. Kovarik, Palmier and Weber may also earn bonuses for the year ended December 31, 2003. The compensation committee of our board of directors intends to make these determinations and we will disclose any such amounts after these determinations are made.

(2) On July 1, 2003, we granted 120,000, 7,000 and 7,000 shares of restricted stock to Messrs. Kaufman, Palmier and Weber, respectively, pursuant to our stock incentive plan. None of these executive officers paid any value for these grants of restricted shares. Dividends have been and will be paid on these restricted shares whether or not vested at the same rate and in the same manner as paid to our other common stockholders. As of the date of grant and at December 31, 2003, two-thirds of the shares granted to each of these executive officers were fully vested. The remaining one third of these restricted shares will vest ratably over three years at a rate of 33.33% on each of the subsequent three anniversary dates of the date of grant. The dollar amounts included in column (e) represent the total fair market value at the date of grant of fully vested shares of restricted stock granted to each of these executive officers. The dollar amounts included in column (f) represent the value of the shares granted to each of these executive officers pursuant to our stock incentive plan on July 1, 2003 that were not vested on the date of grant and that will vest according to the aforementioned schedule.

(3) The value of the unvested portion of Mr. Kaufman s restricted stock included in this column (f) as of December 31, 2003 was $600,000.

(4) Mr. Kovarik was hired in October, 2003 and earns a salary of $150,000 per year. The amount given is his pro rata salary paid for the year ended December 31, 2003.

(5) Mr. Palmier began working for us when we commenced operations on July 1, 2003 and earns a salary of $360,000 per year. The amount given is his pro rata salary paid for the year ended December 31, 2003.

(6) The value of the unvested portion of Mr. Palmier s restricted stock included in this column (f) as of December 31, 2003 was $35,000.

(7) Of the $2,562 total, $2,400 was granted to Mr. Palmier as a match to money invested by him in his 401(k) plan, and $162 were granted in the form of basic term life insurance.

(8) Mr. Weber began working for us when we commenced operations on July 1, 2003 and earns a salary of $360,000 per year. The amount given is his pro rata salary paid for the year ended December 31, 2003.

(9) The value of the unvested portion of Mr. Weber s restricted stock included in this column (f) as of December 31, 2003 was $35,000.

(10) Of the $2,603 total, $2,400 was granted to Mr. Weber as a match to money invested by him in his 401(k) plan, and $203 dollars were granted in the form of basic term life insurance.

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Mr. Kaufman s Non-Competition Agreement

Pursuant to his non-competition agreement with us, Mr. Kaufman has also agreed:

- not to pursue any structured finance investment opportunities, except if our independent board members affirmatively approve the pursuit by Arbor Commercial Mortgage or one of its affiliates of structured finance opportunities that they have rejected on our behalf;
- if he is no longer an affiliate of Arbor Commercial Mortgage and, within the first five years of the term of the management agreement, he is no longer our chief executive officer other than by certain reasons, he will not engage in the structured finance lending business for a period of one year after the earlier of his departure from us or the regular expiration of the one year origination period; and
- if there is a change of control of Arbor Commercial Mortgage within the first three years of the term of the management agreement, and he is no longer an affiliate of Arbor Commercial Mortgage and leaves us without good reason in that three year period, he will not engage in the structured finance lending business for one year after the date of his departure from us.

Mr. Kaufman s non-competition agreement also prohibits Mr. Kaufman from soliciting our customers or employees during its term. See Our Manager and the Management Agreement Mr. Kaufman s Non Competition Agreement.

Stock Incentive Plan

We have adopted the Arbor Realty Trust, Inc. 2003 Omnibus Stock Incentive Plan, referred to in this prospectus as the stock incentive plan, to provide incentives to attract and retain the highest qualified directors, officers, employees, advisors, consultants and other personnel, including our manager and employees of our manager. The stock incentive plan is administered by our full board of directors or a committee appointed by our board of directors.

The stock incentive plan permits the granting of restricted stock awards. Under the stock incentive plan, 185,000 shares of common stock are reserved for issuance pursuant to restricted stock awards, subject to adjustment upon certain corporate transactions, and 147,500 restricted shares were issued upon consummation of the private placement. The initial awards were made to each of our initial directors, our chief executive officer, our chief financial officer, certain of our employees and certain employees of our manager who provide services to us. The remaining shares were reserved for issuance of restricted stock awards in the future. In addition, 1,000 restricted shares were issued to each of Messrs. Horn and Lazar upon their appointment to the board of directors.

A restricted stock award is an award of shares of common stock that is subject to restrictions on transferability and such other restrictions, if any, as our board of directors or committee may impose at the date of grant. Of the shares subject to the initial awards, two-thirds vested immediately and one-third will vest ratably over three years at a rate of 33.33% on each of the subsequent three anniversary dates of the date of grant. Future grants of restricted stock will be subject to vesting schedules as determined by our board of directors or the committee. The restrictions may lapse separately or in combination at such times, under such circumstances, including, without limitation, a specified period of employment or the satisfaction of pre-established criteria, in such installments or otherwise, as our board of directors or a committee of our board of directors may determine. Except to the extent restricted under the award agreement relating to the restricted stock, a participant granted restricted stock has all of the rights of a stockholder, including, without limitation, the right to vote and the right to receive dividends on the restricted shares. Although dividends are paid on all restricted stock, whether or not vested, at the same rate and on the same date as on shares of our common stock, holders of restricted stock are prohibited from selling such shares until they vest.

Our board of directors may amend, alter or discontinue the stock incentive plan, but cannot take any action that would impair the rights of a participant without such participant s consent. To the extent

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necessary and desirable, the board of directors must obtain approval of the stockholders, for any amendment that would:

- other than through adjustment as provided in the stock incentive plan, increase the total number of shares of our common stock reserved for issuance under the stock incentive plan; or

- change the class of officers, directors, employees, consultants and advisors eligible to participate in the stock incentive plan.

Our board of directors (or a committee appointed by our board of directors to act as administrator of the stock incentive plan) may amend the terms of any award granted under the stock incentive plan, prospectively or retroactively, but, generally may not impair the rights of any participant without his or her consent.

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REGISTRATION RIGHTS AND LOCK-UP AGREEMENTS

In accordance with a registration rights agreement that we entered into with JMP Securities in connection with the private placement, we have included in the registration statement, of which this prospectus is a part, 22,500 shares of common stock proposed to be offered by the selling stockholder who purchased the units originally issued and sold in the private placement. The registration rights agreement is described below. The summary of the registration rights agreement is not complete and is subject to and qualified in its entirety by reference to the registration rights agreement, a copy of which is filed as an exhibit to the registration statement of which this prospectus is a part. JMP Securities is an underwriter in this offering.

Under our registration rights agreement with JMP Securities, we agreed to file with the SEC by December 31, 2003, either a registration statement on the appropriate form under the Securities Act providing for the initial public offering of our common stock, referred to as an IPO registration statement or a registration statement on the appropriate form under the Securities Act providing for the resale pursuant to Rule 415 under the Securities Act from time to time by the holders of the securities issued and sold in the private placement, referred to as a shelf registration statement. We must use our best efforts to cause the registration statement of which this prospectus is a part to become effective by December 31, 2003, but in no case later than June 30, 2004.

We would be obligated to pay additional dividends to the holders of securities that are eligible to be registered under the registration rights agreement if:

- we had not filed with the Securities and Exchange Commission by December 31, 2003 either a shelf or IPO registration statement;
- an IPO registration statement is filed with the Securities and Exchange Commission but is not declared effective by June 30, 2004;
- after the earlier of the withdrawal or abandonment of the offering pursuant to the IPO registration statement, we have not filed a shelf registration statement with the SEC prior to the later of December 31, 2003 and 30 days after such withdrawal or abandonment;
- a sale of our common stock pursuant to an IPO registration statement has not taken place and a shelf registration statement has not been declared effective by June 30, 2004;
- a sale of our common stock pursuant to an IPO registration statement takes place, after which we are still obligated to file a shelf registration statement, and we do not file a shelf registration statement within 180 days after the completion of the sale of common stock under the IPO registration statement or that shelf registration is not declared effective within 80 days of its filing; or
- after our IPO registration statement or our shelf registration statement, as applicable, has been declared effective, it ceases to be effective or usable in connection with resales during a period in which it is required to be effective without being immediately succeeded by an additional registration statement or a post-effective amendment to our registration statement.

We refer to each of the events listed above as a registration failure. During the first quarter immediately following a registration failure, we would be obligated to pay additional dividends at a rate of $0.0625 per share of common stock representing or underlying any registrable security, escal