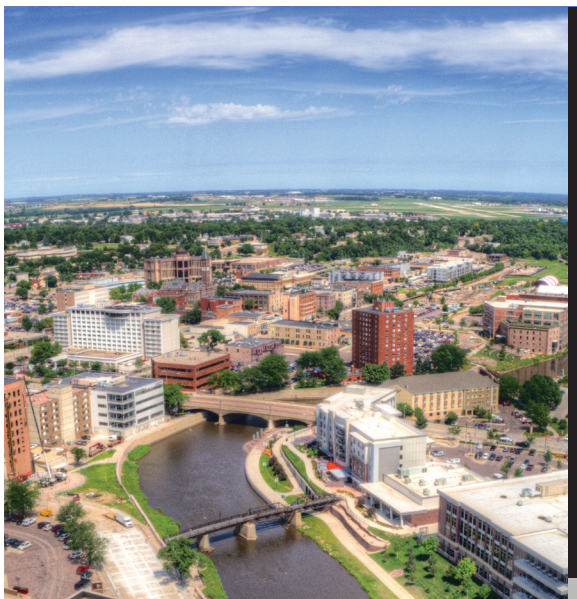


CASE STUDY

REALIZED INVESTMENT

SIOUX FALLS MULTIFAMILY PORTFOLIO

This case study highlights a successfully exited multifamily investment opportunity that was offered to ArborCrowd investors.



16.15%

Realized Net IRR

13 mos.

Actual Hold Period

\$3.2MM

ArborCrowd Raise

\$4MM

Membership Interest Sale Price

ArborCrowd is the first real estate crowdfunding platform to be launched by a real estate institution, opening an exclusive network to a new class of investors. ArborCrowd allows individuals to invest in commercial real estate opportunities that were previously only available to institutional investors.



Sioux Falls Investment Summary

Investment Summary

Property Type	Multifamily
Total Initial Capitalization	\$50.06MM
ArborCrowd Equity	\$3MM
Sponsor Equity	\$9.56MM

Returns Summary

Projected Net IRR.....	12%-14%
Projected Hold Period	3-5 Years
Realized Net IRR	16.15%
Actual Hold Period	13 mos.

Deal Analysis

ArborCrowd exited the Sioux Falls Multifamily Portfolio in May 2020 through a sale to the sponsor of its interest in the joint venture that owns the portfolio, generating a net internal rate of return (IRR) of 16.15% in 13 months and exceeding initial projections of a net 12% – 14% IRR over a three- to five-year hold period.

ArborCrowd's leadership made the decision to exit the investment based on a variety of factors, one being that the sponsor sought to make changes to the business plan that were too much of a deviation from the original business plan and could have materially impacted the initial projected returns and investment horizon.

The successful exit occurred despite unexpected challenges that emerged due to economic disruption from the COVID-19 pandemic, reflecting the strength of ArborCrowd's relationships and deep-rooted asset management experience.

Property Overview

The Sioux Falls Multifamily Portfolio consists of 707 units spread among 18 Class B properties throughout the city of Sioux Falls, SD.

- Location:** The properties are all within four miles of downtown Sioux Falls, providing quick access to local amenities and services. They are also in close proximity to the city's various public parks, which have pools, dog parks, bike trails, and tennis and basketball courts, as well as key sites, such as The Empire Mall, and the Sanford USD Medical Center, the city's largest employer with more than 10,000 workers. Additionally, the properties are all within 10 miles of one another, enabling the sponsor's management team to reach each of the properties in under 15 minutes from anywhere in the city.
- Unit Mix:** The portfolio includes a mix of studio, one-, two-, and three-bedroom units.
- Amenities:** The portfolio benefits from various amenities, which include playgrounds, private patios and decks, and common area laundry.

707
Number of Units

18
Number of Properties

Sioux Falls, SD
Location

Market Overview

The Sioux Falls metropolitan statistical area was the fourth fastest growing metro economy in the United States when the deal was launched on ArborCrowd's platform in March 2019. It had an estimated population of 264,552 in 2018, which was a 17.4% increase from 2010.¹ It was projected to add another 20,000 people by 2023.²

Sioux Falls had proven to be a resilient market historically. During the Great Recession, the region's economy fared well despite the harsh realities of the global downturn. When the national unemployment rate peaked at 10% in October 2009, it was just 4.7% in Sioux Falls.³

Similarly, the Sioux Falls metro area employment was strong when ArborCrowd launched the investment, boasting a 3.1%



unemployment rate while the U.S. national rate was 4%.³ The median household income at \$67,500 was also higher than the national median household income of \$57,652.¹

Additionally, Sioux Falls' economy was not reliant on any one employment sector. Healthcare accounted for 20% of the workforce, and retail, manufacturing and finance each were approximately 10%.³

1: U.S. Census Bureau

2: Experian Marketing Solutions

3: U.S. Bureau of Labor Statistics as of January 2019

Business Plan

Affiliates of Tzadik Management, led by deal sponsor Adam Hendry, acquired the portfolio in October 2018 in four simultaneous transactions for a combined purchase price of \$41.94 million, and an ArborCrowd affiliate invested in the portfolio in January 2019. The properties were previously owned and operated by multiple non-institutional investors. The business plan focused on unlocking the upside potential within the properties by combining them into one portfolio with an identifiable brand and image, implementing institutional management to create efficiencies and reduce costs, and by completing an extensive renovation plan.



Professional Management: The sponsor aimed to bring the properties under one managerial umbrella to create economies of scale. They would then implement an institutional property management strategy, including improved leasing volume, consistent property maintenance, steady collections, competitive rental pricing, expense control, enhanced tenant communication, construction management, and proper record keeping.

Value-Add: By completing an extensive \$5.2 million renovation plan, featuring modernized units and upgraded exterior and common areas, the portfolio's buildings would stand out in the marketplace, leading to an increase in leasing and higher rental premiums. The renovation plan allocated \$2.1 million (\$2,800/unit) of the total budget to modernize the portfolio's 707 units as leases turned over. The remaining \$3.1 million was budgeted for mechanical, electrical and plumbing work; heating, ventilation and air conditioning upgrades; roof repairs, and new landscaping, lighting, and signage; repairs to stairwells, sidewalks, sidings, patios and balconies; parking lot and garage repairs; and refurbishing of on-site playgrounds.



Business Plan Execution

The operational overhaul commenced after the properties were acquired and renovations began in April 2019.

- **Operational Efforts:** Local real estate management staff was recruited for the portfolio's renovation efforts, and the properties were placed under one centralized management team.
- **Unit Renovations:** By the fourth quarter of 2019, nearly 400 units were renovated, which included new flooring, lighting, plumbing fixtures, and painting.
- **Exterior Work:** Renovations to building exteriors, including lighting, siding, windows, breezeways, stairwells, and playgrounds, were completed in various buildings.

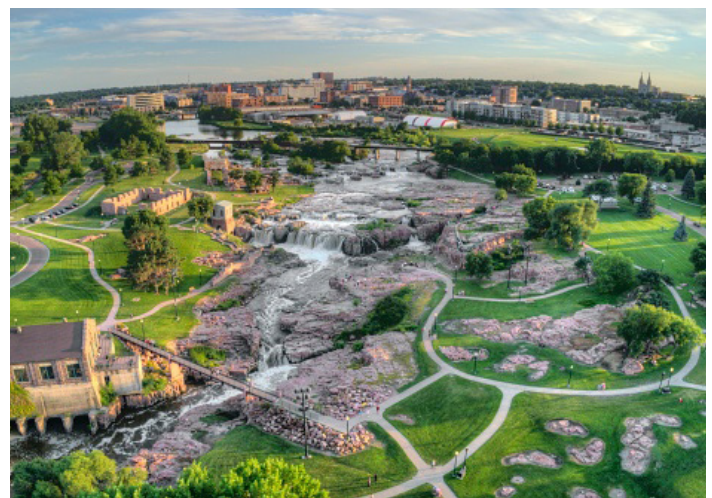
Unit Renovation Highlights

- New countertops
- Floor replacements
- New cabinets
- New appliances
- New plumbing fixtures
- New bathroom vanities and sinks
- New lighting fixtures
- New doors

Business Plan Pivot

A key component of the business plan was to replace the fragmented non-institutional ownership with an institutional management team to create operating efficiencies and reduce expenses. While renovation work was completed generally on schedule despite worse than anticipated winter conditions, certain operating efficiencies were not achieved, resulting in operating expenses exceeding expectations, some of which were outside of the sponsor's control. Additionally, while the sponsor was generally able to achieve the projected rent premiums on renovated units, these premiums were partially offset by rent concessions in the market.

The sponsor ultimately decided to change the course of the business plan. The new business plan proposed to ArborCrowd would have included the sale of several assets and the placement of long-term debt on the remaining portfolio, which would have likely precluded exiting the investment within the initial investment horizon and could have impacted projected returns. The above in



addition to the economic turmoil from the COVID-19 outbreak, led ArborCrowd's leadership to determine the sponsor's pivot was too much of a deviation from the original business plan, and they were able to negotiate an exit of the investment in May 2020 through a sale of its ownership interest in the portfolio, generating strong profits for investors in a challenging market environment.

About ArborCrowd

ArborCrowd is the first real estate crowdfunding platform to be launched by a real estate institution, opening an exclusive network to a new class of investors.

As part of The Arbor Family of Companies, which includes Arbor Realty Trust (NYSE: ABR), a leading publicly traded commercial mortgage real estate investment trust (REIT), and real estate private equity firm Arbor Management Acquisition Company, ArborCrowd is backed by more than 30 years of leadership experience.



Adam Kaufman
Co-Founder & COO



Questions?

If you have any questions about this case study, please email **InvestorRelations@ArborCrowd.com** or call **844-365-1200**, and an ArborCrowd team member will promptly return your inquiry.

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