Apollo Commercial Real Estate Finance, Inc.
Form S-11/A
September 14, 2010
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**As filed with the Securities and Exchange Commission on September 14, 2010**

**Registration No. 333-166478**

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 20549**

**AMENDMENT NO. 1 TO**

**FORM S-11**

**FOR REGISTRATION UNDER**

**THE SECURITIES ACT OF 1933 OF SECURITIES**

**OF CERTAIN REAL ESTATE COMPANIES**

# APOLLO COMMERCIAL REAL ESTATE FINANCE, INC.

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

**c/o Apollo Global Management, LLC**

**9 West 57th Street, 43rd Floor**

**New York, New York 10019**

**(212) 515-3200**

**(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)**

**John J. Suydam, Esq.**

**Vice President and Secretary**

**ACREFI Management, LLC**

**9 West 57th Street, 43rd Floor**

**New York, New York 10019**

**(212) 515-3200**

**(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)**

***Copies to:***

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**Approximate date of commencement of proposed sale to the public:**

As soon as practicable after the effective date of this Registration Statement.

If any of the Securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box: ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) 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. ¨

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. ¨

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. ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

| | |
|---|---|
| Large accelerated filer ¨ | Accelerated filer ¨ |
| Non-accelerated filer x<br>(do not check if a smaller reporting company) | Smaller reporting company ¨ |

**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, as amended, or until this registration statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.**

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**The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale of the securities is not permitted.**

**Subject to Completion**

**Preliminary Prospectus, dated September 14, 2010**

# *6,000,000 shares*

# *Common Stock*

Apollo Commercial Real Estate Finance, Inc., a Maryland corporation, is a commercial real estate finance company that originates, acquires, invests in and manages performing commercial first mortgage loans, commercial mortgage backed securities, mezzanine financings and other commercial real estate-related debt investments in the United States. We are externally managed and advised by ACREFI Management, LLC, a Delaware limited liability company and an indirect subsidiary of Apollo Global Management, LLC, which, together with its subsidiaries, we refer to as Apollo.

We are offering 6,000,000 shares of our common stock pursuant to this prospectus. All of the shares of our common stock offered by this prospectus are being sold by us. Our common stock is listed on the New York Stock Exchange under the symbol ARI.

On September 13, 2010, the last reported sales price for our common stock on the New York Stock Exchange was $17.53 per share.

We intend to elect to be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes, commencing with our taxable year ended December 31, 2009. We believe that we are organized and have operated in a manner that allows us to qualify for taxation as a REIT under the Internal Revenue Code commencing with our taxable year ended December 31, 2009, and we intend to continue to be organized and to operate in such a manner. To assist us in qualifying as a REIT, among other purposes, stockholders are generally restricted from owning more than 9.8% by value or number of shares, whichever is more restrictive, of the outstanding shares of our common or capital stock. Different ownership limits apply to Apollo, an institutional investor, and certain of their respective affiliates which collectively may hold up to 25% of our common stock as well as an institutional investor and certain of its specified affiliates which collectively may hold up to 15% of our common stock. In addition, our charter contains various other restrictions on the ownership and transfer of our common stock; see *Description of Capital Stock Restrictions on ownership and transfer*.

| | Per share | Total |
|---|---|---|
| Public offering price | $ | $ |
| Underwriting discounts and commissions | $ | $ |
| Proceeds, before expenses, to us | $ | $ |

We have granted the underwriters the right to purchase up to 900,000 additional shares of our common stock from us at the public offering price, less the underwriting discount, within 30 days after the date of this prospectus to cover overallotments, if any.

**Investing in our common stock involves risks. See *Risk Factors* beginning on page 22 of this prospectus. You should also read carefully the risk factors described in our Securities and Exchange Commission filings, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, before investing in our common stock.**

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

The shares of common stock sold in this offering will be ready for delivery on or about

**J.P. Morgan** **Citi** **Wells Fargo Securities** **BofA Merrill Lynch**

**Barclays Capital**

**Raymond James** **RBC Capital Markets**

Prospectus dated September , 2010.

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You should rely only on the information contained in this prospectus, any free writing prospectus prepared by us or information to which we have referred you, including any information incorporated by reference. We have not, and the underwriters have not, authorized anyone to provide you with additional information or information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of shares of our common stock.

You should assume that the information appearing in this prospectus and any free writing prospectus prepared by us is accurate only as of their respective dates or on the date or dates which are specified in these documents. Our business, financial condition, results of operations and prospects may have changed since those dates.

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# Prospectus summary

*This summary highlights some of the information in this prospectus. It does not contain all of the information that you should consider before investing in our common stock. You should read carefully the more detailed information set forth under Risk Factors and the other information included in this prospectus, and the information incorporated by reference into this prospectus, including our audited consolidated financial statements and the accompanying notes in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009. Except where the context suggests otherwise, the terms company, we, us and our refer to Apollo Commercial Real Estate Finance, Inc., a Maryland corporation, together with its consolidated subsidiaries; references in this prospectus to Apollo refer to Apollo Global Management, LLC, together with its subsidiaries; and references in this prospectus to our Manager refer to ACREFI Management, LLC, a Delaware limited liability company and an indirect subsidiary of Apollo Global Management, LLC. References in this prospectus to assets under management refer to assets under management as defined in Appendix I. Unless indicated otherwise, the information in this prospectus assumes the common stock to be sold in this offering is to be sold at $17.53 per share, which is the last reported sale price of our common stock on the New York Stock Exchange on September 13, 2010 and no exercise by the underwriters of their overallotment option to purchase up to an additional 900,000 shares of our common stock.*

## Our company

Apollo Commercial Real Estate Finance, Inc. is a commercial real estate finance company that originates, acquires, invests in and manages performing commercial first mortgage loans, commercial mortgage-backed securities, or CMBS, mezzanine financings and other commercial real estate-related debt investments in the United States. We refer to these asset classes as our target assets.

Our principal business objective is to capitalize on both the current lack of debt capital available for commercial real estate assets and fundamental changes that have occurred in the commercial real estate finance industry to provide attractive risk adjusted returns to our stockholders over the long term, primarily through dividends and secondarily through capital appreciation. We completed our initial public offering, or IPO, and a related private placement, or the Private Placement, on September 29, 2009, pursuant to which we raised aggregate gross proceeds of approximately $210 million. As of August 31, 2010, we had deployed substantially all of the IPO and the Private Placement proceeds and borrowed approximately $379 million, resulting in a portfolio comprised, on an amortized cost basis, of approximately $110 million of first mortgage loans, $409 million of CMBS and $59 million of mezzanine loans. As of August 31, 2010, we had up to $61 million of borrowing capacity under a $100 million repurchase facility with JPMorgan Chase Bank, N.A., or the JPM repurchase facility and $215 million of borrowing capacity under a $250 million repurchase facility with Wells Fargo Bank, N.A., or the Wells repurchase facility.

We are externally managed and advised by ACREFI Management, LLC, or our Manager, an indirect subsidiary of Apollo Global Management, LLC. Apollo is a leading global alternative asset manager in private equity, credit-oriented capital markets and real estate. As of December 31, 2009, Apollo had total assets under management of $53.6 billion. Our Manager is led by an

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experienced team of senior real estate professionals, including Joseph F. Azrack, who also serves as our President and Chief Executive Officer, Stuart A. Rothstein, who serves as our Chief Financial Officer, Treasurer and Secretary and Scott Weiner, who serves as our Manager s Chief Investment Officer. Our Manager also benefits from the extensive investment, finance and managerial expertise of Apollo s private equity, credit-oriented capital markets and real estate investment professionals. We believe our relationship with Apollo provides us with significant advantages in sourcing, evaluating, underwriting and managing investments in our target assets.

We believe that the current market environment presents a compelling opportunity to achieve attractive risk adjusted returns in senior performing commercial real estate debt investments. Beginning in mid-2007, global financial markets encountered a series of events from the collapse of the sub-prime mortgage market to the ensuing dramatic widening of credit spreads and corresponding broad-scale freezing of corporate lending. These events led to a significant dislocation in capital markets and created a severe shortage of debt capital across markets, a deleveraging of the entire global financial system and a severe decline in the market values of mortgage, real estate-related and other financial assets. As a result of these conditions, many traditional commercial real estate mortgage loan and securities investors withdrew from the market or significantly curtailed their lending activities, resulting in a severe contraction in market liquidity and a sharp reduction in the availability of credit for real estate-related assets. The resulting illiquidity has negatively affected both the terms and the availability of financing for all real estate-related assets, and has generally resulted in real estate-related assets trading at significantly lower prices and higher yields compared to prior periods.

We estimate that from 2011 to 2015, approximately $1.5 trillion of commercial real estate loans are scheduled to mature and that markets are likely to face a void of several hundred billion dollars over this period that must be filled by new mortgage lenders since the supply of debt from traditional lending sources is anticipated to be less than the volume necessary to refinance maturing real estate loans. In the second quarter of 2010, although commercial and multifamily mortgage loan originations were 2% higher than during the second quarter of 2009, such originations remained 83% lower than in the second quarter of 2007.

During 2009 and the first half of 2010, the demand for new capital to refinance maturing commercial mortgage debt was tapered by the volume of extensions that were granted by lenders across the commercial mortgage loan industry. For example, the number of fixed-rate conduit and fusion loans for which the trustee published an extension of the maturity date was 130 through the first half of 2010 and 120 in 2009, compared to six in 2008 and four in 2007. In addition, in 2009, the Internal Revenue Service and the Department of the Treasury issued guidance which provided loan servicers with increased flexibility in relation to their ability to modify commercial mortgage loans held by Real Estate Mortgage Investment Conduits, or REMICs, opening the door to previously unavailable loan restructurings. Despite this trend, we were able to deploy substantially all of the IPO and the Private Placement proceeds in our target asset classes. In addition, we believe that as the economic recovery continues the volume of short-term loan extensions and restructurings will be reduced, resulting in increased demand for new capital to replace maturing loans and opportunities for us to originate first mortgage loans in the market.

We also believe that the supply of new capital to meet this increasing demand will continue to be constrained by the historically low activity levels in the CMBS market. The volume of issuances of newly created CMBS dropped from $230 billion in 2007 to $2.7 billion in 2009 and was recorded at $3.9 billion for year-to-date through August 20, 2010. This decline has had a concomitant impact on the supply of capital for new commercial mortgage lending since the net proceeds from newly created CMBS issuances are applied to purchase commercial mortgage loans from loan originators. We believe that lower levels of CMBS issuances will enhance our first mortgage origination business. We further believe that any increase in CMBS issuances will likely be at lower loan-to-value ratios and will therefore continue to provide us with opportunities to originate mezzanine financings with respect to those parts of the financing capital structure which are unsuitable to be sold as part of CMBS.

To identify attractive opportunities within our target assets, we rely on the expertise of our Manager and its affiliates as well as their platform, which integrates real estate experience with private equity and capital markets experience, in transaction sourcing, underwriting, and execution as well as in asset operation, management and disposition. In implementing our investment strategy, we utilize our Manager s expertise and relationships in sourcing transactions and in underwriting, execution, financing, management and disposition.

We are a Maryland corporation that was organized in 2009. We intend to elect to be taxed as a REIT for U.S. federal income tax purposes, commencing with our taxable year ended December 31, 2009. We believe that we are organized and have operated in a manner that allows us to qualify for taxation as a REIT under the Internal Revenue Code commencing with our taxable year ended December 31, 2009, and we intend to continue to be organized and to operate in such a manner. We generally will not be subject to U.S. federal income taxes on our taxable income to the extent that we annually distribute all of our taxable income to stockholders and maintain our intended qualification as a REIT. We operate our business in a manner that permits us to maintain our exemption from registration under the Investment Company Act of 1940, as amended, or the 1940 Act.

## Our IPO and subsequent developments

***Investment activities***

On September 29, 2009, we closed our IPO and the Private Placement, raising in the aggregate gross proceeds of approximately $210 million. As of August 31, 2010, we had deployed substantially all of the IPO and the Private Placement proceeds, resulting in a portfolio comprised of the following assets:

- $110 million of first mortgage loans:

  - A $32 million five-year fixed rate first mortgage loan secured by a well-located, 151 room hotel in downtown Manhattan, NY. The loan has an appraised loan-to-value of 55%, an interest rate of 8.25% and a 30-year amortization schedule.

  - A $28 million five-year fixed rate first mortgage loan secured by a fully occupied 73,419 square feet office condominium located in a premier Manhattan, NY office building. The loan has an appraised loan-to-value of 54%, an interest rate of 8.00% and a 30-year amortization schedule.

  - A $26 million five-year fixed rate first mortgage loan secured by a well-located, full-service, 263 room hotel in the greater Washington, D.C. area. The loan has an appraised loan-to-value of 58%, an interest rate of 9.00% and a 25-year amortization schedule.

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A $24 million two-year fixed rate first mortgage loan secured by a recently constructed 155 room boutique hotel in midtown Manhattan, NY. The loan has an appraised loan-to-value of 40%, an interest rate of 8.00% with no amortization. The franchise agreement with the operator of the hotel may be terminated at no cost.

We have financed two of our first mortgage loans resulting in borrowings of approximately $39 million under the JPM repurchase facility resulting in a weighted average internal rate of return of approximately 10.4%. We anticipate that over time, consistent with our financing strategy, we will increase our borrowing levels in connection with our investments in first mortgage loans.

$59 million in mezzanine loans:

A $30 million senior mezzanine loan and a $20 million junior mezzanine loan originated as part of a $625 million newly originated financing for Inland Western Retail Real Estate Trust. In total, the financing package consisted of a $500 million first mortgage loan and $125 million of mezzanine loans. Both the senior and junior mezzanine loans are ten-year fixed rate loans with coupon interest rates of 12.2% and 14.0%, respectively, resulting in a weighted average current coupon to us of 12.9%. A geographically diverse portfolio of 55 retail properties collateralizes the financing. The senior mezzanine loan has an appraised loan-to-value of 68.9% and the junior mezzanine loan has an appraised loan-to-value of 73.6%.

A $9 million mezzanine loan originated as part of a $42 million 10-year financing package collateralized by a 506,590 square foot Class A office building in Troy, Michigan. The mezzanine loan has a 10-year term, an appraised loan-to-value of approximately 70%, an interest rate of 13.0% and a 25-year amortization schedule.

$409 million of CMBS:

$361 million of AAA-rated legacy CMBS with an aggregate amortized cost of approximately $369 million and a weighted average coupon of 5.6%. The CMBS are financed through borrowings under the Term Asset-Backed Securities Loan Facility, or the TALF, program resulting in a weighted average internal rate of return of approximately 13.4%.

$39 million of AAA-rated legacy CMBS with an aggregate amortized cost of approximately $40 million and a weighted average coupon of 5.6%. The CMBS are financed through borrowings under the Wells repurchase facility, resulting in a weighted average internal rate of return of approximately 11.1%.

***Financing activities***

Since the closing of the IPO, we have entered into the following financing arrangements:

We have financed the acquisition of CMBS with an amortized cost of approximately $369 million through borrowings aggregating $305 million under the Term Asset-Backed Securities Loan Facility program. The Term Asset-Backed Securities Loan Facility loans are not cross-collateralized and are non-recourse, with interest payable monthly, and the principal due after either three or five years. The weighted average interest rate on the Term Asset-Backed Securities Loan Facility borrowings was 2.8%. As of August 31, 2010, the CMBS had a weighted average maturity of 21 months and the Term Asset-Backed Securities Loan Facility loans which finance the CMBS had a weighted average maturity of 31 months. We believe this financing provides an average of a 10-month cushion with respect to the extension risk on the CMBS.

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A $100 million repurchase facility with JPMorgan Chase Bank, N.A. providing us with up to $100 million of borrowing capacity in order to finance the origination and acquisition of first mortgage loans and CMBS. Advances under this repurchase facility bear interest at a spread of 3.00% over one-month LIBOR with no floor. This repurchase facility has a term of one year, with two one-year extensions available at our option, subject to certain restrictions. As of August 31, 2010, we had approximately $39 million of borrowings outstanding under the JPM repurchase facility.

A $250 million repurchase facility with Wells Fargo Bank, N.A., or Wells Fargo, in order to finance the acquisition of AAA-rated CMBS. Advances under this facility bear interest at a spread of 1.25% over one-month LIBOR with no floor. We intend to enter into interest rate swap and interest rate cap agreements to mitigate interest rate risks with respect to the Wells repurchase facility. The purchase price of the CMBS is determined on a per asset basis by applying an advance rate schedule agreed upon by us and Wells Fargo. This facility has a one year term with two one-year extensions available at our option, subject to certain restrictions. As of August 31, 2010, we had approximately $35 million of borrowings outstanding under the Wells repurchase facility.

***Our portfolio***

The following table sets forth certain information regarding our investments as of August 31, 2010:

| Asset type<br>(In thousands) | Cost basis | Borrowings | Invested equity at cost | Weighted average IRR[(2)] |
|---|---|---|---|---|
| First mortgage loans[(1)] | $ 109,843 | $ (38,681) | $ 71,162 | 10.4%[(3)] |
| Mezzanine loans | 58,995 | | 58,995 | 13.0% |
| AAA CMBS (Financed with TALF borrowings)[(4)] | 368,744 | (305,439) | 63,305 | 13.4% |
| AAA CMBS (Financed with Wells repurchase facility)[(4)] | 40,089 | (34,745) | 5,344 | 11.1% |
| Invested Equity at August 31, 2010 | $ 577,671 | $ (378,865) | $ 198,806 | 12.1% |

(1) We anticipate that over time we will increase our borrowing levels in connection with our investments in first mortgage loans. Borrowings under the JPM repurchase facility bear interest at LIBOR plus 300 basis points, or 3.3% at August 31, 2010.

(2) Internal rate of return, or IRR, is the annualized effective compounded return rate that accounts for the time-value of money and represents the rate of return on an investment over a holding period expressed as a percentage of the investment. It is the discount rate that makes the net present value of all cash outflows (the costs of investment) equal to the net present value of cash inflows (returns on investment). It is derived from the negative and positive cash flows resulting from or produced by each transaction (or for a transaction involving more than one investment, cash flows resulting from or produced by each of the investments), whether positive, such as investment returns, or negative, such as transaction expenses or other costs of investment, taking into account the dates on which such cash flows occurred or are expected to occur, and compounding interest accordingly. The IRRs for the investments are calculated on a weighted average basis assuming no extensions, dispositions, early prepayments or defaults. We have also assumed that the costs of financing will remain constant over the life of our investments.

(3) IRR calculation assumes that the cost of financing on two of our first mortgage loans is the average of the forward LIBOR curve over the term of the investment plus 300 basis points. The IRR calculation further assumes that the JPM repurchase facility will remain available over the life of these investments.

(4) TALF borrowings are non-recourse. The Company has agreed to provide a limited guarantee of up to 15% of the outstanding obligations of its indirect wholly-owned subsidiary under the Wells repurchase facility, or a maximum of $37,500.

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As of August 31, 2010, our capital has been deployed as follows (in thousands):

***Distributions to stockholders***

On August 11, 2010, we declared a dividend of $0.40, which represents a 14.3% increase over our prior quarterly dividends. To date, our board of directors has authorized and we have declared the following dividends:

| Declaration date | Record date | Payment date | Amount |
|---|---|---|---|
| March 17, 2010 | March 31, 2010 | April 12, 2010 | $ 0.35 |
| May 12, 2010 | June 30, 2010 | July 12, 2010 | $ 0.35 |
| August 11, 2010 | September 30, 2010 | October 12, 2010 | $ 0.40 |

## Our Manager and Apollo

We are externally managed and advised by our Manager, an indirect subsidiary of Apollo Global Management, LLC. Our Manager is a direct subsidiary of Apollo Global Real Estate Management, L.P., which is an indirect subsidiary of Apollo Global Management, LLC. Apollo Global Real Estate Management, L.P. is registered as an investment adviser with the Securities and Exchange Commission, or the SEC. Pursuant to the terms of the management agreement between us and our Manager, dated as of September 23, 2009, or the Management Agreement, our Manager is responsible for administering our business activities and day-to-day operations and providing us with our management team and appropriate support personnel.

Our Manager has access to Apollo s senior management team which has extensive experience in identifying, financing, analyzing, hedging and managing real estate and real estate-related equity, debt and mezzanine investments, as well as a broad spectrum of other private equity and capital markets investments. Our Manager is led by our President and Chief Executive Officer, Joseph F. Azrack, and the rest of its senior management team, including Stuart A. Rothstein, our Chief Financial Officer, Treasurer and Secretary and Scott Weiner, our Manager s Chief Investment Officer. Our Manager formed an Investment Committee which advises and consults with our Manager s senior management team with respect to our investment strategy, investment portfolio holdings, sourcing, financing and leverage strategies and investment guidelines, and approves our investments. In addition to Messrs. Azrack, Rothstein and Weiner, our Manager s Investment Committee consists of Apollo senior executives, including Eric L. Press (Partner in Apollo s private equity business), Marc Rowan (Managing Partner of Apollo), Henry

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Silverman (Chief Operating Officer of Apollo) and James Zelter (Managing Partner of Apollo s capital markets business). See *Our Manager and the Management Agreement Biographical information* for biographical information regarding these individuals.

Founded in 1990, Apollo is a leading global alternative asset manager with a contrarian and value-oriented investment approach in private equity, credit-oriented capital markets and real estate. Apollo has a flexible mandate that enables it to invest opportunistically across a company s capital structure throughout economic cycles. Apollo s contrarian nature is reflected in (1) many of the businesses in which it invests, which are often in industries that its competitors typically avoid, (2) the often complex structures Apollo employs in some of its investments and (3) its experience in investing during periods of uncertainty or distress in the economy or financial markets when many of its competitors reduce their investment activity. Apollo has a long-standing presence in the real estate market and extensive relationships with the real estate investment, corporate, lending and brokerage communities. Apollo s experience and these relationships are valuable sources for deal flow and real estate market intelligence. Apollo is led by its managing partners, Leon Black, Joshua Harris and Marc Rowan, who have worked together for more than 20 years and lead a team of 398 employees, including 135 investment professionals as of December 31, 2009. This team possesses a broad range of transactional, financial, managerial and investment skills. Apollo has offices in New York, London, Los Angeles, Frankfurt, Singapore, Luxembourg, Hong Kong and Mumbai.

We believe that Apollo s integrated approach towards investing distinguishes it from other alternative asset managers. Apollo had total assets under management of $53.6 billion as of December 31, 2009.

We believe our relationship with Apollo provides us with significant advantages in sourcing, evaluating, underwriting and managing investments. Apollo has long-standing relationships with its investors, as well as extensive corporate finance and lending relationships, all of which we believe facilitate attractive and creative means to originate transactions and finance our business.

## Our business strengths and competitive advantages

The following summarizes the key strengths and competitive advantages of our business:

***In-place portfolio offers stable attractive yields***

We are in the process of building a diversified portfolio of performing commercial first mortgage loans, CMBS and mezzanine financings. As of August 31, 2010, we had deployed substantially all of the IPO and the Private Placement proceeds and borrowed approximately $379 million, resulting in a portfolio comprised, on an amortized cost basis, of approximately $110 million of first mortgage loans, $409 million of CMBS and $59 million of mezzanine loans. For a discussion regarding the yields for the various assets and asset types in our portfolio, please see Our IPO and subsequent developments Investment activities.

***Experienced management team***

Apollo Global Real Estate Management, L.P., our Manager s parent entity, is the real estate investment management group of Apollo. Led by Joseph F. Azrack, who is also our President and Chief Executive Officer, Apollo Global Real Estate Management, L.P. has assembled a multi-disciplinary team of real estate investment professionals, including Stuart A. Rothstein, our Chief Financial Officer, Treasurer and Secretary and Scott Weiner, our Manager s Chief Investment Officer, that works integrally with other Apollo investment groups to source, underwrite and structure investments in commercial real estate assets, companies and operating platforms. Members of Apollo Global Real Estate Management, L.P. have participated in numerous transactions representing a variety of real estate investments, real estate mergers and acquisitions, initial public offerings of real estate operating companies, innovative project and corporate real estate financings, as well as individual property acquisitions and financings.

***Portfolio of recent investments***

We have deployed substantially all of the proceeds from our IPO and the Private Placement. Our portfolio consists solely of investments which we acquired or originated since December 2009. We believe we have a competitive advantage relative to other existing comparable mortgage REITs and lenders because we do not have a legacy portfolio of lower-return or problem real estate assets that could potentially dilute our returns and distract our Manager s focus from our investment strategy.

***Superior sourcing capabilities***

Through our Manager, we can utilize Apollo s extensive proprietary relationships in the public and private real estate ownership, development, financing and services communities. These relationships are complemented by those of Apollo s corporate private equity and capital markets partners in multiple industry categories.

***Significant benefits from our relationship with Apollo***

Apollo operates as an integrated investment platform with a free flow of information across its businesses. Apollo s investment professionals interact frequently across its businesses on a formal and informal basis. We believe Apollo s integrated investment model, which offers its clients and partners deep industry relationships, market intelligence and execution capabilities, distinguishes it from other alternative asset managers. Through our Manager, we are able to leverage Apollo s perspective and expertise in debt capital markets. Apollo has a longstanding presence in real estate markets and extensive relationships with the real estate investment, corporate, lending and brokerage communities. This experience and these relationships are valuable sources for deal flow and real estate market intelligence.

We believe that Apollo s broad participation in debt capital markets provides our Manager with insights to evaluate opportunities across the spectrum of our target assets, including performing commercial first mortgage loans, CMBS, mezzanine financings and other commercial real estate-related debt investments, and identify those opportunities offering the most compelling risk-return profile.

Apollo has consistently invested capital throughout economic cycles by focusing on opportunities that were often overlooked by other investors. We believe that our ability to leverage the Apollo platform and the knowledge and experience that Apollo s professionals have garnered in building businesses around new strategies and across market cycles benefits our Manager s sourcing, evaluation and structuring of performing commercial mortgage loans.

***Alignment of our interests with Apollo s, our officers and our Manager s interests***

We have taken steps to structure our relationship with Apollo and our Manager so that our interests and those of Apollo, our officers and our Manager, are closely aligned. Concurrent with the consummation of our IPO, we completed the Private Placement in which Apollo and certain

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of its affiliates, including our officers, purchased 500,000 shares of our common stock at a purchase price of $20.00 per share for aggregate proceeds of $10 million. As a result of the Private Placement, Apollo and certain of its affiliates beneficially owned 4.69% of our outstanding common stock as of June 30, 2010, excluding shares of our common stock to be issued upon the settlement of outstanding and vested restricted stock units. The shares of our common stock purchased in the Private Placement are subject to a lock up agreement with us that runs through September 23, 2010. Further, as of June 30, 2010, our independent directors, our officers and our Manager s personnel had been granted 270,864 shares of restricted common stock and/or restricted stock units, which represented approximately 2.51% of the outstanding number of shares of our common stock. Additionally, certain affiliates of Apollo, our officers and directors have agreed to a lock-up with the representatives of the underwriters pursuant to which they may not sell their shares of our common stock or securities convertible into or exchangeable into shares of our common stock for a period of 90 days after the date of this prospectus. We believe that the significant investment in us by Apollo and certain of its affiliates, and our officers and our Manager s and its personnel s equity ownership in us, aligns our interests with those of Apollo and our officers and our Manager, which creates an incentive for Apollo, our officers and our Manager to maximize returns for our stockholders.

***Our investment strategy***

Our principal business objective is to capitalize on both the current lack of debt capital available for commercial real estate assets and fundamental changes that have occurred in the commercial real estate finance industry to provide attractive risk adjusted returns to our stockholders over the long term, primarily through dividends and secondarily through capital appreciation.

To identify attractive opportunities within our target assets, we rely on the expertise of our Manager and its affiliates as well as their platform, which integrates real estate experience with private equity and capital markets, in transaction sourcing, underwriting, execution as well as asset operation, management and disposition. In implementing our investment strategy, we utilize our Manager s expertise and relationships in sourcing transactions and in underwriting, execution, financing, management and disposition. Our Manager s Investment Committee makes investment, financing, asset management and disposition decisions on our behalf. See Our Manager and the Management Agreement Investment committee for a detailed description of the composition and role of our Manager s Investment Committee.

In the near to medium term, we expect to continue to deploy our capital through the origination and acquisition of performing commercial first mortgage loans, CMBS, mezzanine financings and other commercial real-estate debt investments at attractive risk-adjusted yields. We will target investments that are secured by institutional quality real estate. Our underwriting will include a focus on stressed in-place cash flows, debt yields, debt service coverage ratios, loan-to-values, property quality and market and sub-market dynamics. We also expect our Manager to continue to take advantage of opportunistic pricing dislocations created by distressed sellers or distressed capital structures where a lender or holder of a loan or security is in a compromised situation due to the relative size of its portfolio, the magnitude of nonperforming loans, or regulatory/rating agency issues driven by potential capital adequacy or concentration issues. In pursuing investments with attractive risk-reward profiles, our Manager incorporates its views of the current and future economic environment, its outlook for real estate in general and particular asset classes and its assessment of the risk-reward profile derived from its underwriting and cash flow analysis, including taking into account relative valuation, supply and demand fundamentals, the level of interest rates, the shape of the yield curve,

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prepayment rates, financing and liquidity, real estate prices, delinquencies, default rates, recovery of various sectors and vintage of collateral. In general, our Manager pursues a value-driven approach (which is focused on real estate supply and demand fundamentals) to underwriting and diligence, consistent with Apollo s historical investment strategy. Each prospective investment receives a rigorous, credit-oriented evaluation towards determining the risk/return profile of the opportunity and the appropriate pricing and structure for the prospective investment. Our Manager has implemented underwriting standards founded on fundamental market and credit analyses with a focus on current and sustainable cash flows. Our Manager s underwriting standards place a particular emphasis on due diligence of the sponsor/borrower. All investment decisions are made with a view to maintaining our qualification as a REIT and our exemption from registration under the 1940 Act.

In order to capitalize on the changing sets of investment opportunities that may be present in the various points of an economic cycle, we may expand or refocus our investment strategy by emphasizing investments in different parts of the capital structure and different sectors of real estate. Our investment strategy may be amended from time to time, if recommended by our Manager and approved by our board of directors. If we amend our investment strategy, we are not required to seek stockholder approval.

## Our target assets

Our target assets include the following types of performing commercial first mortgage loans, CMBS, mezzanine financings and other commercial real estate-related debt investments in the United States:

***First mortgage loans***: performing commercial whole mortgage loans secured by a first mortgage lien on commercial property, which are structured to either permit us to retain the entire loan, or sell the lower yielding senior portions of the loans and retain the higher yielding subordinate investment. We may seek, in the future, to enhance the returns of all or a senior portion of our commercial mortgage loans through securitizations, should the market for securitized commercial mortgage loans recover. Our strategy does not include the purchase of loans that are non-performing or distressed at the time of purchase.

***CMBS***: securities which are collateralized by commercial mortgage loans. To date, we have acquired only Aaa/AAA legacy CMBS; however we may, in the future, also acquire investment grade CMBS (which are rated Aaa/AAA through Baa3/BBB- by nationally recognized statistical rating organizations) as well as CMBS which are below investment grade (that is, below Baa3/BBB-) issued on or after September 1, 2009.

***Mezzanine financings:***

*Mezzanine loans*: loans made to property owners that are secured by pledges of the borrower s ownership interests, in whole or in part, in entities that directly or indirectly own the real property. These loans occupy a junior position in the capital structure of the borrower in comparison to secured mortgage loans, but a senior position in comparison to the borrower s equity in the property.

*Preferred equity*: typically unsecured equity interests in entities that directly or indirectly own the real property. Holders of preferred equity have priority relative to common equity holders on cash flow distributions and proceeds from capital events. In addition, preferred equity holders may enhance their position and protect their equity position with covenants that limit the entity s activities and grant the holders an exclusive right to control the property after an event of default. The preferred equity we intend to target will function like mezzanine loans in that they will normally carry a put or other similar right that requires repayment of the investment after a fixed period of time and will occupy a junior position in the capital structure of the borrower in comparison to secured mortgage loans, but a senior position in comparison to the borrower s common equity in the property. We expect to invest in preferred equity as an alternative to mezzanine loans in situations in which the underlying mortgage debt restricts junior debt in the borrower s capital structure or in which it is otherwise structurally preferable. Preferred equity does not ordinarily afford the holder with the full range of protections of a creditor.

*B-Notes*: interests in commercial real estate loans secured by a first mortgage on a single large commercial property or group of related properties and that are subordinated in right of payment to a senior interest in such loans. Such a junior or subordinated interest in a loan is commonly referred to in the real estate finance industry as a B-Note and the senior interest is referred to as an A-Note. We may retain B-Notes from first mortgage loans we acquire or originate and contribute the A-Notes to commercial mortgage securitizations in circumstances where our Manager believes there is an opportunity to sell the A-Notes at a lower yield, thus creating a solid risk-adjusted return for the retained B-Notes and generating attractive financing terms for our assets.

In addition, we invest selectively and opportunistically in the following non-core asset classes:

*Commercial real estate corporate debt*: corporate bank debt and corporate bonds of commercial real estate operating or finance companies, including REITs, which may be in the form of a term loan or a revolving credit facility and generally secured by the company s assets. We may acquire corporate bonds that are rated below investment grade (that is, below Baa3/BBB-), as well as investment grade corporate bonds (that is, rated Aaa/AAA through Baa3/BBB-). Corporate bonds may be secured by the company s assets or may not provide for any security. We may also acquire other REIT securities, including convertible bonds, which meet our investment guidelines.

*Miscellaneous Assets*: other mortgage assets, if necessary, to maintain our qualification as a REIT or our exemption from registration as an investment company under the 1940 Act.

The allocation of our capital among our target assets will depend on prevailing market conditions at the time we invest and may change over time in response to different prevailing market conditions, including with respect to interest rates and general economic and credit market conditions.

## Our financing strategy

We use borrowings as part of our financing strategy. Although we are not required to maintain any particular leverage ratio, we expect that the amount of leverage we incur will be consistent with our intention of keeping our total borrowings within a conservative range, as determined by our Manager, taking into account a variety of factors, which may include the anticipated liquidity and price volatility of the target assets in our investment portfolio, the potential for losses and extension risk in our portfolio, the gap between the duration of our assets and liabilities, including

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hedges, the availability and cost of financing our assets, the creditworthiness of our financing counterparties, the health of the U.S. economy and commercial and residential mortgage markets, the outlook for the level, slope, and volatility of interest rate movement, the credit quality of our target assets and the collateral underlying our target assets. Consistent with our strategy of keeping our total borrowings within a conservative range, we expect that our leverage will be in an amount that is approximately 35% of the value of our total assets on a portfolio basis, except financings through government sponsored debt programs, such as the Term Asset-Backed Securities Loan Facility in connection with which we have incurred significantly more leverage. In utilizing leverage, we will seek to enhance equity returns while limiting interest rate exposure.

As of August 31, 2010, we had secured 16 Term Asset-Backed Securities Loan Facility loans aggregating $305 million collateralized by CMBS with an amortized cost of approximately $369 million. The Term Asset-Backed Securities Loan Facility loans are not cross-collateralized and are non-recourse, with interest payable monthly, and the principal due after either three or five years. The weighted average interest rate on the Term Asset-Backed Securities Loan Facility borrowings was 2.8%. As of August 31, 2010, the CMBS had a weighted average maturity of 21 months and the Term Asset-Backed Securities Loan Facility loans which finance the CMBS had a weighted average maturity of 31 months. We believe this financing provides an adequate cushion with respect to the extension risk on the CMBS.

The U.S. Treasury and the Federal Reserve Bank of New York, or FRBNY, announced that no new Term Asset-Backed Securities Loan Facility loans for legacy CMBS would be made after March 31, 2010, and no new Term Asset-Backed Securities Loan Facility loans for newly originated CMBS would be made after June 30, 2010. We are no longer able to utilize the Term Asset-Backed Securities Loan Facility as a source of investment financing for legacy CMBS or for newly originated CMBS.

In January 2010, we entered into a repurchase facility with JPMorgan Chase Bank, N.A. providing us with up to $100 million in order to finance the origination and acquisition of first mortgage loans and CMBS. Advances under the JPM repurchase facility bear interest at a spread of 3.00% over one-month LIBOR with no floor. The JPM repurchase facility has a term of one year, with two one-year extensions available at our option, subject to certain restrictions. The JPM repurchase facility contains customary terms and conditions for repurchase facilities of this type, including, but not limited to: (1) negative covenants relating to restrictions on our operations which would cease to allow us to qualify as a REIT and (2) financial covenants to be met by us when the repurchase facility is being utilized, including a minimum consolidated tangible net worth covenant ($125 million), a maximum total debt to consolidated tangible net worth covenant (3:1), a minimum liquidity covenant (the greater of 10% of total consolidated recourse indebtedness and $12.5 million) and a minimum net income covenant ($1 during any four consecutive fiscal quarters). As of August 31, 2010, we had approximately $39 million of borrowings outstanding under the JPM repurchase facility.

In August 2010, we entered into a repurchase agreement through an indirect wholly- owned subsidiary with Wells Fargo Bank, N.A., pursuant to which we may borrow up to $250 million in order to finance the acquisition of AAA-rated CMBS. The Wells repurchase facility has a term of one year, with two one-year extensions available at our option, subject to certain restrictions. Advances under the Wells repurchase facility bear interest at a spread of 1.25% over one-month LIBOR with no floor. The purchase price of the CMBS is determined on a per asset basis by applying an advance rate schedule agreed upon by us and Wells Fargo. The Wells repurchase facility contains customary terms and conditions for repurchase facilities of this type, including, but not limited to: (1) negative covenants intended to restrict us from failing to qualify as a REIT and (2) financial covenants to be met by us, including a minimum net asset value covenant (which shall not be less than an amount equal to (i) $100 million, (ii) 75% of the greatest net asset value during the prior calendar quarter, and (iii) 65% of the greatest net asset value during the prior calendar year), a maximum total debt to consolidated tangible net worth covenant (8:1), a minimum liquidity covenant ($2.5 million), and a minimum EBITDA to interest expense covenant (1.5:1). We have agreed to provide a limited guarantee of up to 15%, or a maximum of $37.5 million, of the obligations of our indirect wholly-owned subsidiary under the Wells repurchase facility. As of August 31, 2010, we had approximately $35 million of borrowings outstanding under the Wells repurchase facility. We intend to enter into interest rate swaps and interest rate cap agreements in order to mitigate interest rate risk with respect to our borrowings under the Wells repurchase facility. For more information regarding our hedging strategy, see Hedging strategy.

In addition to our current Term Asset-Backed Securities Loan Facility financings and the repurchase facilities, in the future we expect to access additional repurchase agreements as well as more traditional borrowings such as credit facilities. To the extent market conditions improve and markets stabilize over time, we expect to increase our borrowing levels. In the future, in addition to this offering, we may seek to raise further equity capital or issue debt securities in order to fund our future investments.

## Hedging strategy

Subject to maintaining our qualification as a REIT, we may, from time to time, utilize derivative financial instruments to mitigate the effects of fluctuations in interest rates and its effects on our asset valuations. We also may engage in a variety of interest rate management techniques that seek to mitigate changes in interest rates or other potential influences on the values of our assets. We may attempt to reduce interest rate risk and to minimize exposure to interest rate fluctuations through the use of match funded financing structures, when appropriate. We expect these instruments will allow us to minimize, but not eliminate, the risk that we have to refinance our liabilities before the maturities of our assets and to reduce the impact of changing interest rates on our earnings.

## Summary risk factors

An investment in shares of our common stock involves various risks. You should consider carefully the risks discussed below and under *Risk Factors* before purchasing our common stock. If any of the following risks occur, our business, financial condition or results of operations could be materially and adversely affected. In that case, the trading price of our common stock could decline, and you may lose some or all of your investment.

We are dependent on our Manager and its key personnel for our success and upon their access to Apollo s investment professionals and partners. We may not find a suitable replacement for our Manager if our Management Agreement is terminated, or if key personnel leave the employment of our Manager or Apollo or otherwise become unavailable to us.

Our Management Agreement was negotiated between related parties and its terms, including fees payable to our Manager, may not be as favorable to us as if they had been negotiated with an unaffiliated third party.

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The termination of our Management Agreement may be difficult and costly, which may adversely affect our inclination to end our relationship with our Manager.

Our Manager manages our portfolio pursuant to very broad investment guidelines and our board of directors does not approve each investment decision made by our Manager, which may result in our making riskier investments.

There are various conflicts of interest in our relationship with Apollo which could result in decisions that are not in the best interests of our stockholders.

We have a limited operating history and may not be able to operate our business successfully, find suitable investments, or generate sufficient revenue to sustain distributions to our stockholders.

We operate in a competitive market for investment opportunities and future competition may limit our ability to acquire desirable investments in our target assets and could also affect the pricing of these securities.

We may change our operational policies (including our investment guidelines, strategies and policies) with the approval of our board of directors but without stockholder consent at any time, which may adversely affect the market value of our common stock and our ability to make distributions to our stockholders.

We cannot at the present time predict the unintended consequences and market distortions that may stem from far-ranging governmental intervention in the economic and financial system or from regulatory reform of the oversight of financial markets.

Our access to private sources of financing may be limited and thus our ability to potentially enhance our returns may be adversely affected.

We may not achieve our targeted internal rate of return on our investments which may lead to future returns that may be significantly lower than anticipated.

We may increase the amount of leverage we use in our financing strategy which would subject us to greater risk of loss.