

RISK AND FINANCING

The lease and debt risk review

A practical management report for joining lease events, financing deadlines and transparent sensitivity calculations.

A practical framework for real estate asset managers. Read the evidence, agree the next step, and keep the outcome traceable.

Open access | 9 minute read | realestate.managent.com

Executive brief

Lease events and financing deadlines are often reviewed in different meetings. A combined calendar helps management see when a vacancy, a renewal negotiation or a capital project could affect a financing review. The calendar should link each event to its original document and accountable owner.

This report provides a review framework and synthetic calculations. It makes no prediction about market rents, future interest rates or asset values. Contractual definitions, guarantees and notice obligations require review by the responsible professionals.

- Bring lease notice deadlines and loan maturities into one calendar.
- Identify which income supports each financing obligation.
- Keep scenario assumptions separate from observed records.

1. Build an event register

For each lease, record expiry, break conditions, the deadline to serve any notice, guarantee expiry and the next indexation review. Include the source clause and latest amendment. For debt, record outstanding balance, maturity, amortization, rate basis, hedging arrangements and covenant test dates.

Link events to assets, lenders and responsible people. Group the next three, six, twelve and twenty-four months, but retain the precise dates. A maturity bucket is useful for prioritization; it cannot replace the date that a decision or notice is due.

A missing guarantee or notice period is an unresolved field, not a zero-risk event. Put it in an exception queue with an owner and a review date.

2. Reconcile the financing view

Match balances with the latest lender statement or approved financing schedule. Check whether a loan is secured on a single asset, a vehicle or several assets. Avoid allocating a portfolio loan to each building in a way that duplicates the same debt.

Document the definitions used for loan-to-value and debt-service coverage. A simple analytical LTV divides outstanding debt by supplied valuation; a simple DSCR divides the relevant income measure by debt service. The lender's contract may define both differently, including treatment of reserves, fees and eligible income.

The ECB's supervisory discussion of commercial real estate bullet loans emphasizes refinancing and collateral-value risk. That is a reason to review scenarios and source quality, not a forecast that any particular loan will fail.

3. Test sensitivities with clear boundaries

Prepare a base case and a small number of named sensitivities. A rate change applied to the entire outstanding balance is a deliberately simplified test. Separate fixed-rate debt, floating debt, hedges, amortization and fees before turning it into a cash-flow forecast.

Test an income change independently of a rate change, then a combined case. Label whether a value change is an assumption or a supplied valuation. Keep the original base case so management can understand which input caused the result.

Review covenant headroom against the agreed contract definitions. A sensitivity is a discussion aid; it does not establish a breach, refinancing offer or investment recommendation.

4. Prepare the review pack

The pack should contain the source register, calendar, current balances, assumptions, sensitivities and decisions requested. Explain missing information on the first page. Name the person responsible for discussing the pack with the lender and the person who can approve any commitment.

Where a lease event affects the case, show the rent and timing assumptions behind it. Where capex is expected to support income, distinguish approved investment from an unapproved proposal. Keep proposed mitigations visible without treating them as completed actions.

5. Keep the review alive

Update the calendar when a signed amendment, lender statement or approved valuation changes the source. Archive the previous position. Review overdue actions alongside newly detected risks and close an item only when evidence supports the recorded status.

The useful management outcome is a reliable list of decisions with adequate preparation time. It is not a reassuring traffic-light score that conceals missing clauses or outdated valuations.

- Review event exceptions each month.

- Refresh source dates before lender discussions.
- Keep executed outcomes and draft mitigations separate.

Worked example

Illustrative financing sensitivity

Synthetic debt EUR 10 million and supplied valuation EUR 20 million give analytical LTV of 50%.
Supplied annual NOI EUR 1 million divided by EUR 600,000 annual debt service gives DSCR of 1.67.
If the full balance reprices by 100 basis points, additional annual interest is EUR 100,000 before hedges, amortization and fees. Contractual ratios may differ.

Synthetic assumptions; not a loan offer or contractual test

Your review checklist

- ☐ Lease notice and event dates are separate.
- ☐ Loan balances reconcile to current statements.
- ☐ Security scope and contractual definitions are documented.
- ☐ Rate, income and valuation scenarios have explicit assumptions.
- ☐ Review packs have owners and decision dates.

Sources and scope

This is original Managent guidance. Timetables and calculations are illustrative planning tools. They are not industry survey findings, market forecasts or measured client outcomes. Review assumptions and contractual requirements with the people responsible for the portfolio.

ECB Banking Supervision: On-site insights for CRE bullet loan lenders

Supervisory context for refinancing risk and collateral-value monitoring. Calculations and workflows in this report are original illustrative examples.