



Pretend and Extend: A Deep Dive into Commercial Real Estate Lending's Hidden Crisis.

CHAPTER 05: THE ILLUSION OF APPRAISED VALUE: WHY STATIC PDFS DON'T TELL THE FULL STORY SEPTEMBER 8, 2025 | REAGAN SCHWARZLOSE, FRICS | MAI | CRE | CCIM

In the loan files of America's banks, thousands of commercial real estate appraisals rest like archaeological artifacts—dense, carefully formatted documents that capture market conditions from a world that no longer exists. These static reports, often months old by the time they influence lending decisions, represent one of the most persistent blind spots in modern risk management. While office buildings empty and cap rates expand in real time, these PDF valuations continue to anchor credit decisions with assumptions that became obsolete before the ink dried.

This reliance on point-in-time appraisals constitutes a systematic vulnerability that contributed meaningfully to the extend-and-pretend behaviors characterizing commercial real estate lending from 2022 through 2024. When loan committees possessed appraisals showing robust property values based on pre-pandemic assumptions, the gap between documented value and economic reality created both the opportunity and institutional cover for avoiding difficult decisions about asset quality.

Static Reports in a Dynamic Market

Traditional commercial real estate appraisal methodology emerged from an era when property fundamentals evolved gradually. An office property appraised in 2018 based on 92% occupancy and predictable rent escalations could reasonably retain those characteristics for years. The post-pandemic environment demolished these assumptions with unprecedented speed.

Office properties that maintained consistent occupancy for generations suddenly confronted vacancy rates

exceeding 40% as hybrid work shifted from temporary adaptation to permanent operations. Retail environments faced fundamental alterations in consumer behavior that rendered historical patterns largely irrelevant. Industrial properties experienced demand volatility that traditional models struggled to anticipate.

These transformations exposed the core limitation of point-in-time valuations: their inability to anticipate structural shifts or adjust quickly to evolving conditions. A downtown office tower appraised at \$75 million in early 2020 might retain that valuation in institutional records for years, even as market evidence suggested 35% value declines.

The challenge extends beyond timing misalignment. Traditional appraisals rely on comparable sales that may represent transactions under fundamentally different market conditions. Cap rate expansion represents another dimension where static valuations struggle. As interest rates increased rapidly through 2022-2023, appropriate discount rates shifted substantially. Properties appraised using cap rates of 4.5% to 6.0% suddenly faced market expectations of 7.5% to 10.0%, representing value declines of 25% to 45% even without changes in underlying performance.

How This Contributes to Extend-and-Pretend

The persistence of outdated valuations created both psychological foundation and regulatory justification for widespread extend-and-pretend behavior. When credit files contained appraisals demonstrating substantial equity cushions based on pre-crisis assumptions, loan committees found institutional support for justifying

maturity extensions and avoiding impairment recognition.

The Federal Reserve Bank of New York's analysis revealed how systematically financial institutions avoided marking down asset values despite clear deterioration evidence. We show that banks "extended-and-pretended" their impaired CRE mortgages in the post-pandemic period to avoid writing off their capital, leading to credit misallocation and a buildup of financial fragility. Static appraisals enabled this behavior by providing seemingly objective documentation supporting optimistic asset valuations.

Consider typical loan committee deliberations: a commercial mortgage shows declining income and occupancy, yet the file contains an appraisal from 24 months earlier demonstrating 140% loan-to-value coverage. Committee members could reference this "independent" valuation as evidence supporting maturity extension rather than forcing workout or loss recognition. The research documented specific manifestations. We find that weakly capitalized banks assign a 0.9 percentage point lower probability of default to similar distressed loans compared to well-capitalized banks, a sizable effect given that the mean probability of default for distressed loans is 4.8%. Static appraisals provided framework for these optimistic assessments.

Most significantly, static valuations prevented institutions from utilizing property performance data as early warning systems. Rather than triggering proactive management when income declined or market positioning weakened, outdated appraisals provided false reassurance that allowed problems to compound without intervention.

The Alternative: Transparent, Data-Driven Valuation

Contemporary markets demand valuation methodologies that respond to rapidly evolving conditions through continuous monitoring rather than periodic snapshots. Modern valuation systems continuously monitor property-level performance metrics, local market conditions, tenant behavior patterns, and broader economic indicators, providing more complete and current assessment than traditional point-in-time evaluations.

Real-time net operating income monitoring represents one of the most valuable components. Rather than extrapolating from historical rent rolls, these systems track actual collections, tenant improvements, leasing velocity, and operating expenses as they develop. This granular monitoring provides early warning signals months before traditional appraisal cycles would detect changes.

Forward-looking scenario analysis represents perhaps the most significant advancement. Rather than extrapolating historical trends, modern systems model various market scenarios and assess potential impact under different conditions. For office properties, this includes modeling different remote work adoption rates and space utilization patterns. The integration of borrower behavior analytics adds another dimension. By monitoring payment patterns, financial reporting quality, and operational metrics, these systems identify emerging borrower stress not immediately apparent in property-level data.

Technology's Role: Field-to-Report Integration

Modern valuation technology addresses the fundamental disconnect between property inspection, market analysis, and report generation. Contemporary field inspection extends beyond traditional photography to encompass systematic condition assessments that automatically integrate into analytical frameworks, ensuring physical conditions are accurately reflected in valuation models.

The integration of inspection data with market analytics represents significant advancement. When inspectors identify maintenance requirements or configuration inefficiencies, these observations immediately flow into cash flow projections and value calculations, preventing analytical disconnects.

Four Corners Valuations exemplifies this integrated approach by

seamlessly connecting field inspections with analytical platforms incorporating real-time market data and borrower performance metrics. This synthesis ensures property conditions, market dynamics, and borrower behavior are consistently reflected in valuation outputs without traditional information gaps.

The Institutional Imperative

The evolution from static appraisals to dynamic valuation systems demands fundamental transformation in how institutions utilize property valuation within risk management frameworks. Organizations treating valuation as periodic compliance rather than continuous monitoring will find themselves increasingly disadvantaged in identifying threats, capitalizing on opportunities, and maintaining stakeholder confidence.

Regulatory expectations continue evolving to emphasize understanding current market conditions and emerging risk factors rather than maintaining periodic appraisal documentation. Institutions proactively adopting sophisticated valuation approaches position themselves favorably for evolving expectations while demonstrating commitment to robust risk management. The competitive landscape increasingly favors organizations demonstrating superior risk identification and management through comprehensive valuation intelligence. Institutions with dynamic systems can identify vulnerabilities earlier, respond more effectively to changes, and provide stakeholders greater confidence in asset quality assessments.

Final Call to Action

The commercial real estate industry has reached a critical juncture where traditional valuation approaches no longer adequately serve modern risk management demands. The illusion of precision provided by static PDF reports has been exposed as insufficient for navigating rapidly changing conditions and sophisticated stakeholder expectations.

Are your current systems providing real-time portfolio insights, or merely satisfying compliance with outdated information? This question will increasingly determine your organization's capacity to identify problems early and respond effectively to market changes.

Four Corners Valuations offers comprehensive solutions

through our integrated approach connecting field inspections, market analytics, and continuous monitoring into unified valuation processes. Our technology platform provides the transparency, accuracy, and responsiveness that contemporary markets demand while maintaining regulatory compliance and professional standards.

Rather than accepting static appraisal limitations, partner with Four Corners to implement dynamic valuation systems providing continuous insights into asset performance, market conditions, and emerging risk factors. Contact Four Corners Valuations today to begin your transition from static compliance documents to dynamic risk management tools that provide the visibility and insight necessary to thrive in increasingly complex market environments.



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+1.480.440.2842 www.fourcv.com



Reagan R. Schwarzlose

FRICS | MAI | CRE | CCIM

CEO | Principal

+1-480-440-2842 Ext. 06

rschwarzlose@fourcv.com

www.fourcv.com