



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

### CHAPTER 16:

### TRANSPARENT LOAN WORKOUTS: A PLAYBOOK

NOVEMBER 24, 2025 | REAGAN SCHWARZLOSE, FRICS | MAI | CRE | CCIM

Loan workouts in commercial real estate have traditionally been characterized by information asymmetry, valuation disputes, and adversarial positioning. Borrowers claim properties retain substantial value while lenders suspect deterioration. Both parties operate from outdated appraisals or self-serving assumptions, and the resulting impasse consumes months or years while properties languish and losses accumulate.

A growing number of sophisticated lenders have adopted a fundamentally different approach. These institutions recognize that transparent, market-based revaluation creates the foundation for faster, cleaner, and more constructive resolutions. This article outlines a practical playbook for how leading lenders are successfully using real-time valuation insights to guide workouts and restructurings, reducing losses, avoiding protracted litigation, and returning capital to productive use.

#### Why Valuation Clarity Is the Foundation

Without agreement on collateral value, loan workouts devolve into guesswork or power struggles. Lenders operate from one set of assumptions while borrowers present their own projections based on different cap rates, absorption timelines, or expense forecasts. Neither party has confidence in the other's numbers, and negotiations stall over fundamental disagreements about economic reality.

Field-driven, independent valuations provide the essential remedy to this impasse. Particularly in distressed sectors such as office or transitional multifamily, desktop

analyses cannot capture property-specific conditions that determine value. Physical inspection reveals deferred maintenance, tenant quality, competitive positioning, and operational challenges that spreadsheet assumptions miss. Independent valuations conducted by professionals with no financial interest in the outcome establish a credible baseline that both lenders and borrowers can accept as the starting point for negotiation.

Clean valuations also reduce reliance on litigation as a resolution mechanism. When both parties understand the true collateral value, they can rationally assess their alternatives. This clarity transforms workouts from zero-sum contests into problem-solving exercises where creative solutions become possible. The reputational cost of foreclosure-driven strategies further reinforces the value of transparent workouts. Institutions known for fair dealing based on honest valuations attract better borrowers and maintain constructive relationships with legal counsel, brokers, and other market participants.

#### Hallmarks of a Transparent Workout Process

Leading lenders have developed consistent practices that distinguish transparent workouts from traditional adversarial approaches. Early engagement of valuation professionals represents the critical first step. Rather than waiting until default or maturity, sophisticated lenders trigger revaluation when early warning indicators emerge, including declining debt service coverage ratios, significant tenant departures, or approaching maturity dates when refinancing appears unlikely.

Clear distinction between different valuation standards prevents confusion. Market value, liquidation value, and as-is versus stabilized scenarios each serve different analytical purposes. Transparent workout processes explicitly identify which standard applies to each analysis and how different scenarios affect recovery projections.

Disclosure of valuation assumptions to all parties in the negotiation builds trust and enables informed decision-making. When lenders share the cap rates, expense assumptions, market rent projections, and comparable sales that underpin their valuations, borrowers can assess whether those assumptions reflect market reality. This transparency demonstrates confidence in the analysis and invites constructive dialogue about points of disagreement.

Use of consistent valuation methodology across portfolios ensures fairness and reduces legal risk. When lenders apply different standards to similar situations, they create vulnerability to claims of arbitrary treatment. Consistency also facilitates portfolio-level decision-making by allowing special asset teams to compare situations using common metrics.

#### Examples of Smart Restructurings

A regional bank confronted a distressed suburban office portfolio where the borrower faced imminent maturity with no viable refinancing path. Rather than forcing foreclosure, the bank commissioned an independent valuation that revealed the property was worth significantly less than the loan balance but substantially more than

liquidation value. The bank worked with the borrower to recast the debt at a reduced principal amount reflecting as-is market value, extended the maturity, and adjusted the interest rate. The borrower contributed additional equity to fund near-term capital improvements, and the bank accepted warrants providing upside participation. This structure allowed the borrower to retain the asset while providing the bank with better recovery than foreclosure would have yielded.

Another lender used transparent valuation to facilitate equity partner introduction. A multifamily property in transition faced lease-up challenges and capital needs exceeding the borrower's capacity. Updated valuation revealed that the property retained substantial value at stabilization but that the existing capital structure could not support the required investment. The lender agreed to accept a discounted payoff from a new equity partner who would recapitalize the property, allowing the original borrower to exit and the lender to achieve better recovery than a contested foreclosure would have provided.

Transparent valuation also enables borrower-controlled redevelopment when properties face obsolescence. An outdated retail center could not support refinancing in its current configuration. Independent valuation confirmed that the property's highest and best use had shifted to mixed-use redevelopment. Rather than foreclosing, the lender negotiated a restructuring that reduced the debt to reflect as-is retail value, extended the term to allow redevelopment planning, and provided the borrower with clear milestones. This approach preserved the borrower's development expertise while protecting the lender's interest through covenants tied to observable progress.

### Role of Legal Counsel and Advisors

Attorneys and borrower advocates play essential roles in facilitating transparent workouts by helping clients understand valuation findings and negotiate terms that reflect economic reality. Legal counsel on both sides must evaluate whether to contest valuation findings or accept them as the basis for negotiation. When valuations are conducted by credible independent professionals using

defensible methodologies, attorneys serve their clients best by advising acceptance and focusing energy on structuring terms rather than disputing values.

Borrower advisors and asset managers contribute to transparency by helping sponsors understand their true economic position and alternatives. Skilled advisors help clients recognize that fighting inevitable conclusions wastes resources that could be deployed toward salvaging value or positioning for future opportunities. When both sides acknowledge true market value, creativity rather than conflict drives resolution.

### Internal Protocols to Institutionalize the Process

Lenders seeking to institutionalize transparent workout practices should develop formal protocols that remove uncertainty about when and how revaluation occurs. Clear triggers for revaluation should be documented in credit policy, including debt service coverage ratios falling below defined levels, significant tenant departures, missed debt service payments, or maturity dates within twelve months.

Defined approval authority clarifies who must review and sign off on workout strategies based on valuation findings. Documentation requirements should specify what analysis must accompany workout proposals, including comparative scenarios showing projected recoveries under different resolution paths.

Engagement protocols for third-party valuation professionals should address selection criteria, scope of work requirements, and independence standards. Lenders should maintain pre-approved lists of qualified valuation firms and rotate assignments to avoid familiarity concerns. Documentation of valuation assumptions creates transparency that facilitates negotiation and establishes records for regulatory examination.

Integration with legal risk reviews ensures that workout terms comply with applicable regulations and minimize exposure to lender liability claims. Portfolio triage frameworks allow special asset teams to prioritize resources efficiently by categorizing situations based on severity, collateral type, and strategic importance.

### Conclusion: Building Trust Through Truth

Transparent loan workouts grounded in honest, market-based valuation represent a fundamental shift from adversarial posturing to collaborative problem-solving. The playbook outlined here provides a practical framework for institutionalizing transparent workout practices through early engagement of valuation professionals, clear communication of assumptions, consistent methodology, and formal protocols.

The call to action for special asset teams, workout officers, and restructuring attorneys is to adopt these principles and advocate for formal policies that make transparency the institutional standard. Banks and non-bank lenders should develop written procedures that specify when revaluation occurs, who conducts it, how findings are communicated, and what approval processes govern workout decisions.

Four Corners Valuations partners with banks, legal teams, and borrower advisors to deliver objective, defensible valuations that unlock stalled negotiations. Our field-based assessments provide the common language that allows all parties to move from uncertainty to resolution. By grounding workout discussions in current market reality rather than outdated assumptions, we enable lenders to structure clean workouts that minimize losses while providing borrowers with viable paths forward.



### Reagan R. Schwarzlose

FRICS | MAI | CRE | CCIM

CEO | Principal

+1-480-440-2842 Ext. 06

rschwarzlose@fourcv.com

www.fourcv.com