



The Future of Collateral Risk: Building Intelligent Credit Infrastructure

CHAPTER 09:

LEASE ROLLOVER RISK INTELLIGENCE: THE HIDDEN RISK INSIDE TENANT SCHEDULES

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Lease rollover risk is one of the most important forward-looking indicators of collateral stability. A property may look healthy today, but if a significant share of income rolls over within the next 12 to 36 months, the lender may be exposed to value deterioration, refinance risk, and borrower stress before the next valuation cycle.

The Hidden Risk Inside the Rent Roll

Many credit reviews treat the rent roll as a static snapshot. Loan officers confirm current occupancy, verify that tenants are paying, and move on. This is incomplete. The rent roll is not only a record of current income. It is a forward-looking risk map.

Lease expirations, tenant concentration, renewal risk, and gaps between in-place rents and current market rates can materially change collateral value long before a loan default occurs. A property that appears stable in a current review may be quietly accumulating rollover exposure that will surface as an income disruption, a valuation decline, or a refinance gap within the next two to three years. Institutions that do not read the rent roll for its forward-looking content are missing one of the most accessible risk signals available to them.

Why Lease Rollover Matters to Collateral Value

Lease rollover affects collateral risk through several interconnected channels. When tenants vacate or renegotiate, net operating income declines, sometimes sharply and sometimes in a sustained way de-

pending on market leasing conditions. Occupancy stability, which is one of the primary inputs in any income-based valuation, becomes uncertain. When income is uncertain, market value is uncertain, and when market value is uncertain, refinance feasibility is uncertain.

Beyond the income and value effects, rollover creates direct liquidity demands on the borrower. Re-leasing a commercial space typically requires tenant improvement allowances and leasing commissions, both of which represent capital outflows at the same time that income may be reduced or absent. A borrower who is financially strained may be unable to fund those costs, which in turn slows re-leasing, extends vacancy, and deepens the income shortfall.

Appraisers evaluating a property with near-term rollover exposure will reflect that uncertainty in their conclusions. A stabilized property commands a different valuation than one facing significant lease expirations in a soft market, even if current occupancy and income appear similar. Value is often most vulnerable when current income looks stable but future income is genuinely at risk.

Key Lease Rollover Risk Indicators

Effective rollover risk monitoring requires moving beyond total occupancy to examine the specific composition and timing of lease obligations. Institutions should track the percentage of rentable area and per-

centage of total income expiring within 12, 24, and 36 months respectively. These two figures often diverge, and the income figure is the more critical one from a debt service and valuation perspective.

Tenant concentration by revenue contribution matters significantly. A property where a single tenant accounts for 30 or 40 percent of income represents a fundamentally different risk profile than a diversified tenancy, even at the same overall occupancy level. The credit quality of major tenants, and any known changes in their financial condition or business strategy, should be monitored as a component of collateral review.

In-place rent relative to current market rent is an important indicator in both directions. Rents that are significantly above market create renewal risk because tenants have a financial incentive to vacate or negotiate aggressively. Rents that are below market may support renewal probability but also limit the income upside available to stabilize a property after vacancy. Renewal probability, tenant improvement and leasing commission exposure, industry-specific tenant risk, co-tenancy clauses or termination rights, and known downsizing or relocation trends among existing tenants should all be captured and monitored systematically as part of the collateral record.

The Difference Between Occupancy and Income Durability

High occupancy does not always mean low risk.

A building may be 90 percent occupied today but have 40 percent of its income expiring within the next 18 months. If market conditions are soft, if the tenants with expiring leases have signaled that they are evaluating alternatives, or if the borrower lacks the capital to fund competitive lease renewals, that apparently healthy property carries substantial forward-looking risk.

Lenders must learn to distinguish between current occupancy as a reported metric, contracted income durability as a forward-looking measure, renewal probability based on tenant behavior and market conditions, and market re-leasing risk based on comparable leasing activity in the relevant submarket. A property with high current occupancy and poor income durability requires a very different monitoring posture than a property with the same occupancy and strong long-term lease commitments. Treating the two as equivalent because they share the same occupancy percentage is a failure of collateral intelligence.

Asset Class Differences

Lease rollover risk is not uniform across property types, and institutions should calibrate their monitoring frameworks to reflect those differences.

In office properties, rollover risk is amplified by structural shifts in space utilization, widespread tenant downsizing activity, long re-leasing timelines in most markets, and high tenant improvement costs that require significant capital commitment before new income is secured. The combination of these factors means that office lease expirations carry more uncertainty and longer recovery timelines than in most other property types.

In retail properties, anchor tenant rollover presents risks that extend beyond the anchor itself. Co-tenancy clauses, which allow smaller tenants to reduce rent or terminate leases if an anchor vacates, can create cascading income disruption from a single

lease expiration. The health of the anchor and the proximity of its lease expiration should be treated as a portfolio-level risk indicator for the entire property.

In industrial properties, rollover risk may be lower in supply-constrained markets with strong demand. However, properties where rents were signed at peak market levels face meaningful risk if market rents have since declined, because lease renewal negotiations will reflect current conditions rather than the original underwriting assumptions.

In multifamily properties, lease rollover is continuous and shorter in term, but risk manifests through concession trends, rent compression in response to competitive supply, and occupancy volatility in oversupplied submarkets. Single-tenant net lease properties represent a specific category of binary rollover risk, where a single lease expiration can eliminate substantially all of the property's income in a single event.

Integrating Lease Rollover Into Credit Monitoring

Lease rollover data should be integrated into collateral intelligence systems as a structured, monitored input rather than a document reviewed at underwriting and revisited only when a problem has already developed. Institutions should capture lease expiration schedules in structured data fields accessible at the portfolio level, build rollover concentration dashboards that flag properties with significant near-term income exposure, and connect rollover data with debt service coverage and refinance analysis so that the income risk and the credit risk are evaluated together.

Properties with rollover exposure that exceeds defined policy thresholds before their maturity date should require updated valuation review as a routine credit administration matter. Tracking tenant credit changes, market leasing conditions in rele-

vant submarkets, and known industry-level trends affecting major tenants completes the picture.

Trigger-Based Actions for Lease Rollover Risk

Rollover risk monitoring is only effective when it produces defined institutional responses rather than informal awareness. Institutions should establish clear triggers connected to specific actions. When more than 25 percent of a property's income is scheduled to expire within 12 months, that should trigger senior credit review. A major tenant expiration within 18 months should prompt an updated leasing analysis and a borrower conversation about renewal strategy and capital planning. Significant below-market or above-market rent exposure should trigger a valuation sensitivity review. Anchor tenant non-renewal in a retail property should initiate immediate collateral reassessment. Any lease rollover scheduled to occur before loan maturity should trigger a refinance feasibility review to ensure that projected income at the time of refinancing will support the required debt level.

The Rent Roll Is a Risk Forecast

The rent roll is not a leasing document. It is one of the clearest forward-looking indicators of collateral performance available to a lender. The information required to anticipate income disruption, collateral value pressure, and borrower liquidity stress is frequently visible in the lease schedule well before any of those problems materialize in financial statements or payment behavior.

Institutions that read the rent roll as a risk forecast, rather than a snapshot of current conditions, will engage borrowers earlier, update valuations more intelligently, and avoid being surprised by income deterioration that was already visible in the lease data. The future of collateral risk management requires treating lease information not as a background document, but as active intelligence.

Four Corners Valuations helps institutions interpret

lease rollover exposure as part of broader collateral intelligence. Through structured evaluation workflows, market-based rent analysis, and property-specific risk review, we help lenders understand not only what a property earns today, but how durable that income may be tomorrow.

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