

ASSET UNDERWRITING / BORROWER FIELD GUIDE

Development and adaptive reuse underwriting guide

Reconcile monthly costs, equity, debt draws, interest and the permanent financing exit.

Development and adaptive reuse require two financing cases: enough money to reach completion and a credible way to repay or refinance the construction debt. A balanced total budget can still fail if costs arrive before equity or draws. Prepare a monthly cost-to-complete and funding schedule, then size the exit independently using supportable completed-property cash flow.

Define the complete project and its uncertainty

Reconcile acquisition, hard costs, soft costs, financing, carrying costs and contingency to a controlled scope. Separate allowances for known but unpriced work from contingency for uncertainty. Adaptive reuse may involve physical, legal and financial constraints; HUD's historical conversion research supplies context, not proof that a particular building is feasible. Qualified professionals must establish the actual permitted scope and cost evidence.

Follow cash rather than commitment headlines

Record when equity must be funded, which costs are eligible for debt, how draws are approved and when reimbursements arrive. Track funded principal separately from total commitment. Interest depends on the funded balance and accrual convention, and capitalized interest can consume remaining availability. A future reimbursement does not pay an invoice due today unless an identified party advances the interim cash.

Test completion and exit separately

Update the remaining cost estimate when scope, timing or commitments change. Model a delay with its incremental carry and interest without adding costs already in the budget twice. Then underwrite completed-property NOI, reserves, debt service, value and the takeout assumptions independently. A completion certificate or leased building does not establish that permanent financing can repay the construction balance and exit costs.

Use this guide with the matching Excel model. Illustrative assumptions are editable; no lender approval, market quote or universal threshold is represented.

FIELD GUIDE / 02

What the lender needs to understand

Preparation questions and evidence to resolve them. Actual requests and acceptance standards depend on the lender and transaction.

01 / Is the cost budget complete and current?

Detailed sources and uses, contracts, allowances, contingency ledger and change log.

02 / Which approvals and scope remain unresolved?

Design, permit, entitlement and qualified-professional issue register.

03 / When can each loan dollar actually fund?

Executed draw rules, eligible-cost schedule, inspections and reimbursement timeline.

04 / Who funds overruns and timing gaps?

Verified equity, support obligations and monthly cash forecast.

05 / How is interest calculated and funded?

Draw schedule, rate/accrual convention and remaining interest availability.

06 / What supports the permanent exit?

Independent stabilized cash-flow, value and takeout scenario with a repayment gap test.

Turn the request list into an evidence ledger

For each material question, record the document and date, the responsible owner, the unresolved fact, the party who can accept it, and the financing consequence if it remains unresolved. A file delivered to a lender is not necessarily an accepted answer.

Evidence state: requested / received / reconciled / accepted / still conditional. Preserve the lender response and avoid treating an unanswered question as approval.

FIELD GUIDE / 03

Document checklist: cash flow and collateral

Use a consistent cutoff date. Mark missing items, conflicts and explanations rather than simply counting files.

Cash flow and operations

Document / evidence request	Received / open
Detailed development budget separated into acquisition, hard, soft and financing uses.	[] _____
Monthly cost schedule tied to contracts and remaining commitments.	[] _____
Change-order, allowance and contingency ledger avoiding duplicate costs.	[] _____
Draw history, funded principal and remaining commitment reconciliation.	[] _____
Interest assumptions and monthly accrued/funded interest schedule.	[] _____
Completed-property operating forecast with leasing and reserve support.	[] _____

Property and collateral

Document / evidence request	Received / open
Site control, title, survey and actual legal development rights.	[] _____
Plans, approvals and permit status with unresolved conditions.	[] _____
Engineering, environmental and existing-condition reports.	[] _____
Construction contract, scope, schedule and contractor qualifications.	[] _____
Adaptive-reuse investigations and priced responses to identified conditions.	[] _____
Utilities, access and shared-infrastructure obligations.	[] _____

Reconciliation note

The schedules should agree with the source documents or identify the exact reason for a difference. Keep the source amount, the adjustment and the lender-accepted amount visible as separate fields.

FIELD GUIDE / 04

Document checklist: sponsor and closing

Confirm who provides the money, when it is available and what evidence permits the transaction to fund.

Sponsor and execution

Document / evidence request	Received / open
Sponsor and contractor experience with comparable scope and delivery risk.	☐ _____
Entity structure, borrowing authority and support parties.	☐ _____
Verified equity with timing, restrictions and other commitments disclosed.	☐ _____
Completion, carry and other support obligations reviewed by counsel.	☐ _____
Portfolio funding needs and contingent guarantees.	☐ _____
Decision authority for change orders, scope changes and additional capital.	☐ _____

Closing and funding

Document / evidence request	Received / open
Executed loan cost eligibility, draw, inspection and reimbursement conditions.	☐ _____
Equity-funding sequence and evidence of required initial contributions.	☐ _____
Lien, title, insurance and other closing/draw requirements.	☐ _____
Reserve controls and treatment of unused or exhausted interest funds.	☐ _____
Conditions for conversion, extension, release or permanent takeout.	☐ _____
Monthly funding bridge and named responsibility for every uncovered amount.	☐ _____

Before committing the next dollar

- ☐ Resolve the scope and cost-to-complete before claiming the project is fully funded.
- ☐ Identify the maximum cumulative equity need on actual draw timing.
- ☐ Test the exit balance against independent takeout capacity and closing costs.

FIELD GUIDE / 05

Use the model and reconcile the result

development-adaptive-reuse-underwriting-model.xlsx | Summary, Assumptions, Project Plan, Operations, Debt and Funding, Review

- 1. Use Assumptions!D5 for Base (1) or Downside (2). Enter the monthly cost and draw schedule in Project Plan!D10:J21; preserve formula cells and an untouched workbook copy.
- 2. In Debt and Funding, construction interest is cash paid, not capitalized. One dated draw per month uses actual days/365, including its draw day; opening principal accrues for the whole month.
- 3. Advances are cost-based and commitment-capped. No equity-first rule, retainage, reimbursement lag or discretionary approval is inferred. Enter only contingency actually spent in Project Plan; track and fund any unspent contingency buffer separately.
- 4. Initial closing reserves and operating cash are funded at inception. Interim operating cash reduces ongoing sponsor contributions. Compare peak equity with actually available funds; reconcile timing outside the model if lender mechanics differ.
- 5. Debt and Funding tests a separate month-12 permanent exit using stabilized NCF and as-completed value. Negative signed funding surplus means sponsor shortage; negative exit gap means potential exit surplus before restrictions.
- 6. Read Review for model conventions and limitations. Save each scenario with its supporting evidence and date; actual lender definitions, legal rights and professional findings control the transaction.

Worked example: editable teaching assumptions

Illustrative Base / Downside inputs: Construction ceiling \$8,500,000 / \$8,500,000; Cost advance 70.00% / 65.00%; Construction rate 9.00% / 10.50%; Stabilized NCF \$1,350,000 / \$1,050,000; Exit value \$17,000,000 / \$14,500,000; Exit rate 6.50% / 8.00%; Exit LTV 65.00% / 60.00%; Exit DSCR 1.25 / 1.3; Exit debt yield 9.00% / 10.00%.

Illustrative result	Base	Downside
Project cost	\$11,880,000	\$13,718,000
Construction debt drawn	\$8,211,000	\$7,975,000
Construction interest	\$433,847	\$523,335
Peak required equity	\$4,337,847	\$6,543,635
Equity left / (combined gap)	\$1,662,153	-\$543,635
Modeled permanent exit loan	\$11,050,000	\$8,700,000
Exit gap / (potential surplus)	-\$2,589,000	-\$425,000

Base project cost is \$11,880,000, excluding cash-paid interest and initial reserves. Construction draws total \$8,211,000; cash interest is \$433,847. Peak equity is \$4,337,847 against \$6,000,000 available. At the modeled exit, \$8,211,000 of debt plus \$250,000 of exit costs less \$11,050,000 of permanent capacity produces an exit gap of -\$2,589,000. A negative exit gap is a potential surplus before restrictions. Downside still requires \$543,635 of additional sponsor funding during the project.

Dollar results rounded to the nearest dollar; the workbook retains precision. Signed funding surplus is negative for a shortage. Exit gap uses the opposite convention: negative is a potential surplus before restrictions.

FIELD GUIDE / 06

Review the risks and the evidence

- Total commitment is not the same as funded balance or immediately available cash.
- An allowance and contingency for the same work can overstate the cost buffer if counted twice.
- A future takeout commitment can remain conditional on completion, income or other evidence.
- Capitalized interest consumes funds and can increase the exit balance; it is not costless financing.

Sources and applicability

These references support the stated asset and risk context. The questions and document lists are preparation tools, not a statement that every lender requires or accepts the same package. Actual contracts, applicable rules and the chosen lender determine the transaction requirements. The cited source passage was rechecked in the retained official source file from same-day library research; direct web retrieval was restricted or incomplete during PDF preparation.

1. HUD Evidence Matters, Fall 2023 | Office conversion discussion of physical, legal and financial challenges | Checked 2026-10-21

Research context only; no contingency percentage or property-specific technical conclusion is taken from the source.

<https://docs.huduser.gov/archives/portal/sites/default/files/pdf/EM-Newsletter-Fall-2023.pdf>

Continue in the educational library

Multifamily construction debt: reverse-size from the permanent exit

Adaptive reuse: distinguish allowances, contingencies and new equity

Office conversion financing before the alternate use is approved

Discuss a financing scenario with Jaken Finance Group

833-264-7776 | info@jakenfinancegroup.com

Education and analysis do not establish a financing offer, appraisal, legal opinion or program eligibility. Confirm the current source, actual contract terms and professional advice relevant to the transaction.