

ASSET UNDERWRITING / BORROWER FIELD GUIDE

Medical office underwriting guide

Evaluate lease income, practice concentration and the cost of specialized space.

Medical office combines a real-estate lease with business and use dependencies that may affect the durability of rent. The investor should separate property cash flow from practice economics while investigating hospital affiliation, ground leases and specialized space. The model is a screening tool; it does not establish provider reimbursement, licensure or the legal effect of a restrictive agreement.

Keep rent and practice performance separate

Begin with the executed tenant lease and actual collections. If the tenant is related to the owner, reconcile both sides of the rent transfer and the operating business's ability to pay. Tenant sales or reimbursement figures can help investigate credit but are not additional property rent. Obtain current tenant financial evidence where available and identify material concentration in a single practice, system or specialty.

Read the use and control dependencies

Investigate hospital affiliations, ground leases, permitted-use restrictions, transfer consents and rights that affect leasing or financing. Healthcare Realty's historical disclosure describes issuer properties with hospital-related occupancy and consent restrictions; these are examples, not assumptions for every medical office building. Counsel should establish the subject property's actual permitted users and mortgageability before the funding case relies on them.

Price specialized replacement space

Separate building systems from tenant-owned medical equipment and removable fit-out. A replacement tenant may need a different layout, power, plumbing or approved use, while the landlord continues paying carrying costs. Compare a temporary rent interruption with a durable rent reset. An interest-only bridge can change near-term payments but does not restore an unsupported long-term rent stream.

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 / Who is the actual rent obligor?

Executed lease, guaranties, entity names and tenant financial evidence.

02 / Does the practice support the proposed related-party rent?

Separate operating-business and property cash-flow statements with eliminations.

03 / What restrictions narrow the replacement-tenant pool?

Ground lease, hospital agreements, permitted-use clauses and counsel review.

04 / Which improvements belong to the collateral?

Lease work letters, equipment inventory, ownership and removal provisions.

05 / What would a replacement tenant cost?

Specific scope, bids, downtime and leasing-fee assumptions.

06 / Does the loan plan solve a temporary gap or a permanent shortfall?

Base and stressed rent cases with documented repayment and sponsor support.

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.

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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
Rent roll with tenant legal names, specialties and related-party relationships.	[] _____
Complete leases, amendments, guaranties and collection history.	[] _____
Property operating statements and recoverable-expense reconciliations.	[] _____
Tenant credit materials requested and lawfully available for the transaction.	[] _____
Related-party rent and intercompany transfer reconciliation where relevant.	[] _____
Replacement-tenant rent, downtime and capital assumptions with support.	[] _____

Property and collateral

Document / evidence request	Received / open
Ground lease and hospital or campus agreements affecting permitted use.	[] _____
Title, survey, access, parking and shared-service arrangements.	[] _____
Condition assessment for mechanical, electrical, plumbing and life-safety systems.	[] _____
Fit-out and equipment inventory showing ownership and removal obligations.	[] _____
Evidence of actual legal occupancy and relevant unresolved approvals.	[] _____
Environmental and other third-party reports requested by the lender.	[] _____

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 manager experience with medical office tenants and specialized space.	☐ _____
Ownership, borrower authority and guarantor documentation.	☐ _____
Liquidity net of other practice, property and capital commitments.	☐ _____
Tenant concentration and sponsor exposure to affiliated operating businesses.	☐ _____
Transition plan if the principal practice leaves or changes control.	☐ _____
Verified sources for improvements, carry and any required debt reduction.	☐ _____

Closing and funding

Document / evidence request	Received / open
Required landlord, ground-lessor, hospital or other consents identified by counsel.	☐ _____
Estoppels and assignment documents requested for the actual financing.	☐ _____
Accepted repair scope and any holdback or reimbursement conditions.	☐ _____
Loan cash-flow definitions and covenants reconciled to property-only income.	☐ _____
Payoff, title, insurance and closing-cost ledger.	☐ _____
Dated conditions register distinguishing financial feasibility from legal acceptance.	☐ _____

Before committing the next dollar

- ☐ Identify the payer, guarantor and replacement-tenant restrictions before sizing.
- ☐ Keep practice cash, property rent and sponsor support in separate ledgers.
- ☐ Choose a temporary or permanent intervention based on the actual duration of the shortfall.

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Use the model and reconcile the result

medical-office-underwriting-model.xlsx | Summary, Assumptions, Lease Schedule, Operations, Debt and Funding, Review

- 1. Use Assumptions!D5 for Base (1) or Downside (2), and the labeled scenario input rows. Enter source data in Lease Schedule!D10:L12; preserve formula cells and an untouched workbook copy.
- 2. Use the source schedule to model tenant cash and replacement spending. The workbook does not certify medical-use permissions, hospital consents or practice financial capacity.
- 3. Reconcile Operations to Summary. Apply the entered lender adjustment separately to the modeled cash flow. Sizing uses amortizing debt service, while first-year payments reflect the entered interest-only period.
- 4. In Assumptions, replace illustrative value, LTV, DSCR, debt yield, rate, amortization and requested ceiling with the intended scenario. Review capacities in Debt and Funding. The smallest modeled capacity does not establish eligibility or approval.
- 5. Closing equity includes the entered opening cash and restricted reserves. Additional operating cash need is measured after that opening cash, so do not add it twice. Inspect monthly cash and remaining principal at maturity.
- 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: Property value \$6,000,000 / \$5,200,000; Annual note rate 6.50% / 8.00%; Maximum LTV 65.00% / 60.00%; Minimum sizing DSCR 1.25 / 1.3; Minimum debt yield 9.00% / 10.00%; Amortization after IO (years) 25 / 25; Initial interest-only months 6 / 6.

Illustrative result	Base	Downside
Modeled revenue / contribution	\$1,286,675	\$958,753
NCF after reserve	\$786,075	\$412,203
NCF used for sizing	\$786,075	\$387,203
Modeled loan	\$3,900,000	\$3,120,000
Binding sizing constraint	LTV	LTV
First-year debt service	\$284,748	\$269,284
Required closing equity	\$2,000,000	\$2,780,000
Equity left / (closing gap)	\$500,000	-\$280,000
Additional operating cash need	\$622,416	\$0
Equity left / (combined gap)	-\$122,416	-\$280,000
Principal at modeled maturity	\$3,574,328	\$2,907,601

Base NCF used for sizing is \$786,075. The modeled loan is \$3,900,000, with LTV binding. Closing uses of \$5,900,000 less that loan require \$2,000,000 of equity. Available equity is \$2,500,000; the signed combined surplus/gap is -\$122,416 after any additional operating cash need. Downside changes the loan to \$3,120,000 and the combined result to -\$280,000.

Dollar results rounded to the nearest dollar; the workbook retains precision. Signed funding surplus is negative for a shortage. A positive funding surplus remains subject to actual source availability.

FIELD GUIDE / 06

Review the risks and the evidence

- Do not capitalize tenant business revenue as though it were an additional property rent stream.
- A hospital affiliation can involve restrictions as well as credit support; inspect the executed documents.
- Specialized equipment may be leased or tenant-owned and absent from mortgage collateral.
- Payment relief during a vacancy does not prove the eventual replacement rent supports amortizing debt.
- Lower first-year TI and leasing-commission spending caused by delayed occupancy is not a cost saving. Obligations scheduled after month 12 fall outside this forecast and require separate funding analysis.

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.

1. Healthcare Realty 2024 Form 10-K | Item 1A, health-system dependence and ground-lease restrictions | Checked 2026-10-21

Historical issuer example; not a statement about every medical office property.

<https://www.sec.gov/Archives/edgar/data/1360604/000136060425000032/hr-20241231.htm>

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Office renewal risk: expected cost versus capital that is actually committed

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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.