

ASSET UNDERWRITING / BORROWER FIELD GUIDE

Office underwriting guide

Model lease rollover, free rent, tenant improvements and committed leasing capital.

Office debt analysis must follow both the rent and the capital required to obtain it. A lease can increase future income while creating a near-term cash deficit through free rent, tenant improvements and commissions. Build a package that makes those obligations visible alongside current collections and the loan maturity calendar.

Distinguish occupancy from paying occupancy

Maintain separate dates for lease execution, access, tenant possession, rent commencement and expiration. Identify free-rent months, expansion rights, contractions and termination elections. Reconcile contractual income to collected rent rather than relying solely on accounting revenue. A leased floor with substantial unpaid landlord work is a different financing position from a paying tenant in accepted space.

Inventory every landlord commitment

Create a tenant-level schedule of improvements, commissions, allowances, base-building work and unpaid invoices. Mark whether each obligation is contracted, estimated or contingent, who must pay it, and what evidence permits reimbursement. Kilroy's accounting disclosure illustrates that tenant improvements and deferred leasing costs are distinct categories; the subject contracts and cash timing control the funding analysis.

Underwrite the rollover sequence

Connect each expiration to downtime, replacement rent, free rent and leasing capital. Show when the building loses income and when cash must leave, not only a stabilized average. If the strategy depends on conversion, treat legal approvals, physical feasibility and financing as separate unresolved steps. A potential alternative use is not committed refinance proceeds for an office loan.

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 / Which occupied space is producing cash rent today?

Tenant-level commencement, abatement and collection schedule.

02 / What landlord obligations remain unpaid?

Executed leases, work letters, contractor commitments and invoice ledger.

03 / Are improvement funds available before the work is due?

Loan draw conditions, tenant acceptance milestones and interim cash evidence.

04 / How much income expires before refinance?

Lease and option calendar aligned with maturity and marketing lead time.

05 / Are renewal assumptions supported?

Written tenant communications, lease negotiations and a separate no-renewal case.

06 / What does a slower lease-up require?

Monthly carry, improvement spending and accessible sponsor liquidity.

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
Dated rent roll with area, face rent, cash rent and lease dates.	[] _____
Complete leases, work letters, amendments and commencement certificates.	[] _____
Collection history, arrears, abatements and nonrecurring settlements.	[] _____
Monthly operating results with recovery income and landlord expenses reconciled.	[] _____
Tenant-level improvement, allowance and commission commitments.	[] _____
Leasing assumptions with downtime, free rent and scheduled cash payments.	[] _____

Property and collateral

Document / evidence request	Received / open
Floor plans, rentable-area support and current legal occupancy evidence.	[] _____
Condition assessment covering building systems and deferred capital work.	[] _____
Environmental reports and any continuing monitoring requirements.	[] _____
Accessibility, life-safety and other scope identified by qualified professionals.	[] _____
Actual conversion studies if an alternate-use strategy is proposed.	[] _____
Contracts separating base-building obligations from tenant improvements.	[] _____

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.

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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 experience with office leasing, capital programs and management transitions.	☐ _____
Borrower, ownership and guarantor documents requested for the proposed loan.	☐ _____
Post-closing liquidity with already committed tenant capital deducted.	☐ _____
Other maturity and guaranty obligations competing for sponsor resources.	☐ _____
Leasing-broker and management agreements with fees and authority.	☐ _____
Equity evidence for committed work plus the downside operating cash need.	☐ _____

Closing and funding

Document / evidence request	Received / open
Tenant confirmations and counsel-identified lease consent requirements.	☐ _____
Funding sources tied to each improvement or commission payment date.	☐ _____
Holdback conditions, inspection steps and expected reimbursement timing.	☐ _____
Loan covenants and extension tests using the same cash-flow definition.	☐ _____
Payoff, title, insurance and closing-cost support.	☐ _____
Versioned open-item register for every material unresolved lease or work condition.	☐ _____

Before committing the next dollar

- ☐ Identify all signed landlord obligations before describing sponsor liquidity as available.
- ☐ Show a no-renewal branch through the next debt maturity.
- ☐ Confirm the actual funding sequence for work, acceptance and rent commencement.

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Use the model and reconcile the result

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 Lease Schedule to coordinate expiration, downtime, free rent and TI/commission funding. The modeled activity multiplier is a collection sensitivity, not a change to legal leased area or contractual capital obligations.
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	\$1,702,417	\$1,410,713
NCF after reserve	\$1,186,344	\$842,784
NCF used for sizing	\$1,186,344	\$817,784
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	\$573,404	\$0
Equity left / (combined gap)	-\$73,404	-\$280,000
Principal at modeled maturity	\$3,574,328	\$2,907,601

Base NCF used for sizing is \$1,186,344. 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 -\$73,404 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 confuse straight-line rent with cash available for debt service.
- Renewal probabilities do not replace the cash needed if several tenants leave together.
- An allowance cap does not prove the complete work scope can be delivered for that amount.
- A commitment that reimburses completed work does not eliminate the owner's interim funding need.
- 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. 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. Kilroy Realty - 2025 Form 10-K | Significant Accounting Policies: Tenant Improvements; Deferred Leasing Costs; related liquidity discussion of leasing capital | Checked 2026-10-21

Issuer accounting context; actual owner contracts and accounting control.

<https://www.sec.gov/Archives/edgar/data/1025996/000162828026007051/krc-20251231.htm>

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Office tenant improvements and landlord cash obligations

Office lease expirations and lender refinance assumptions

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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.