Transparency, Consistency, Best Practices

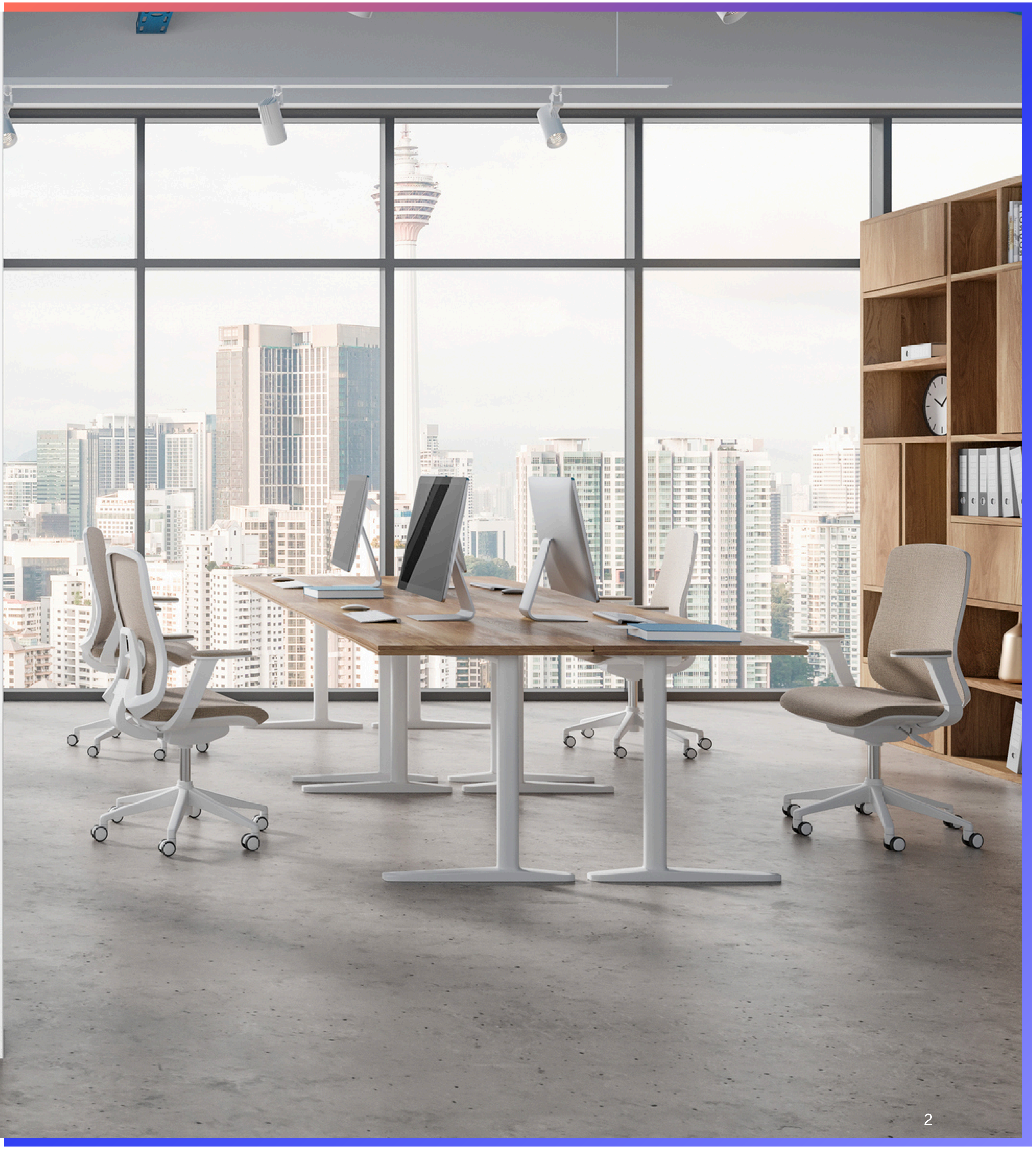
3 Ways Independent Valuations Position Alternative Lenders for Success

WHITE PAPER

Introduction

Alternative lenders are poised to capitalize on the significant dislocation in the U.S. commercial real estate (CRE) sector, as banks retreat amid higher interest rates, falling asset values and increased regulatory pressure. Meanwhile, borrowers are contending with a looming maturity wall, with an estimated $2 trillion in loans slated to come due by 2026.

To succeed in alternative debt investing, lenders need to raise capital at scale, building a larger asset base as a foundation to manage costs effectively. As competition for capital intensifies, many funds are adopting independent third-party valuations to differentiate themselves and gain a competitive edge. Based on SitusAMC's extensive experience supporting alternative lenders, here are three ways independent valuations have helped position these lenders for success.



#1

Consistent valuations provide current and prospective investors with transparency in an opaque market.

The alternative asset sector is expanding, and these instruments are generally illiquid, meaning there are often no readily available valuations or price discovery mechanisms. Prices are dependent almost entirely on comparable transactions. But it can be challenging to find true “apples to apples” comparisons in a hyper-localized and asset-specific market such as real estate.

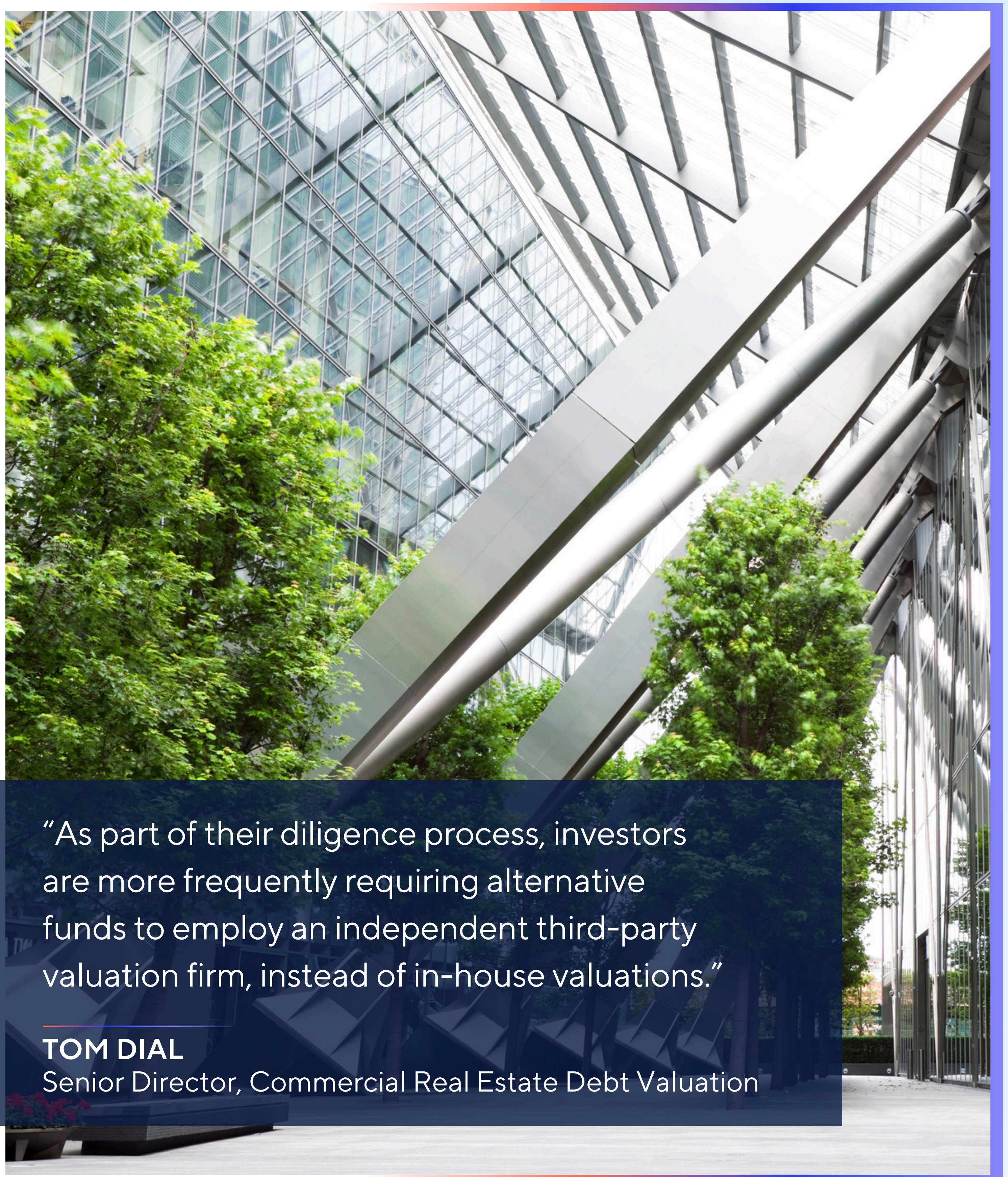
“If alternative lenders want to attract capital, they need independent third-party valuations, so that their investors can understand the market value of their investments,” said Tom Dial, SitusAMC Senior Director, Commercial Real Estate Debt Valuation. "In an illiquid environment, investors really need clarity, and regular valuations achieve that.”

In an attempt to provide clarity, some alternative lenders have turned to in-house valuations. However, investors are pushing back. “As as part of their diligence process, investors are more frequently requiring investment managers to employ an independent third-party valuation firm, rather than conduct internal valuations,” added Dial.

The need for valuations are typically driven by fund document requirements, equity investors’ requests and a desire to pursue best practices, which in turn enhances fund raising efforts.

SitusAMC works with leading lenders to value their CRE loans, commercial mortgage-backed securities (CMBS) and CRE collateralized loan obligations (CLOs) to help them determine the value of existing or new originations. Those assets may be senior loans, mezzanine loans or preferred equity -- or CMBS securities, rated from triple A down to triple B and unrated bonds. The valuation includes analysis of market trends and credit metrics to accurately reflect current asset values.

“Valuation is critical to understanding asset values as we see more trading in and out of private equity,” Dial added.



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>
> **TOM DIAL**
> Senior Director, Commercial Real Estate Debt Valuation

#2

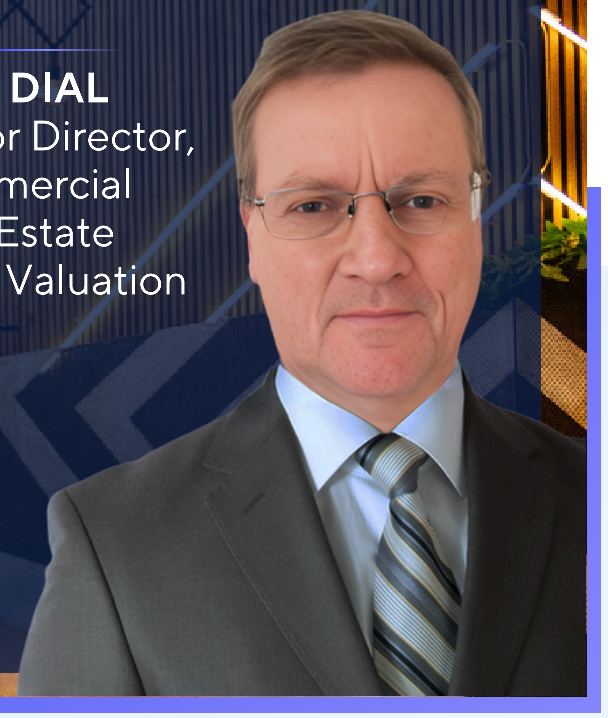
Outsourcing helps lean, entrepreneurial firms avoid the repercussions of stale data.

Non-bank lenders are typically highly entrepreneurial, with leaner teams than banks. Staff members frequently manage multiple roles – from new business origination and loan underwriting to taking charge of asset management upon closing. Without rigorous processes in place, this multi-functional approach can strain resources, leading to a risk of outdated or inaccurate data.

Regular, periodic valuations provide a consistent flow of data, ensuring investors have accurate insights into the performance of their investments. This transparency serves as a safeguard against outdated or off-market valuations, demonstrating to investors that the alternative lender has implemented proper controls and accountability measures.

"Getting marks done on a periodic basis, whether quarterly or monthly, provides clarity for investors, and shows that a lender has proper checks and balances to reduce the possibility of stale or off-market valuations," Dial explained. "Investors want more and more clarity into how their investments are performing, and regular third-party valuations fulfill that crucial need."

> "Given the complexity of CRE debt and the uniqueness of the underlying borrower, valuation requires a precise level of expertise. At SitusAMC, CRE is part of our DNA."



TOM DIAL
Senior Director, Commercial Real Estate Debt Valuation

#3

Valuations are a core component of a suite of best practices and controls.

Especially in the recent volatile environment for CRE, investors are placing a premium on best practices to maintain their competitive edge and drive differentiation. Large firms, in particular, have established due diligence requirements. Many investors are carefully scrutinizing managers and digging into legacy assets in previous funds to assess how teams handled distressed assets. Many investors now require regular reporting on asset values, covering both equity or debt, to enhance their own reporting and assure transparency.

Implementing best practices can be transformative for alternative lenders in meeting these challenges. "Alternative lenders can gain a competitive advantage by leveraging best practices across asset management, accounting, compliance, valuations and reporting," Dial said. "Best practices show the market that you're a solidly established organization with proper infrastructure in place, positioning you to weather any storm better than competitors. And it should help raise money too, since large investors demand solid controls."

Alternative lenders adhering to best practices under ASC 820, the Financial Accounting Standards Board (FASB) standard for measuring and disclosing Fair Value, demonstrate that they are employing robust procedures and practices that provide transparency to investors regarding the value of their investments. Independent third-party valuations under ASC 820 offers investors added assurance in times of market volatility by substantiating that their valuations reflect supportable "Fair Value Estimates."

For alternative lenders, working with seasoned, experienced valuation partners with a deep CRE knowledge to value their illiquid investments strengthens their credibility and appeal to investors.

"At SitusAMC, commercial real estate is part of our DNA," Dial said. "Valuation is a very hands-on business, especially given the complexity of commercial real estate debt and the unique situations of the underlying borrower. Debt valuation requires a precise level of expertise in understanding bond and loan documents and cash-flow modeling. It also requires strong attention to detail, as well as a strong understanding of commercial real estate dynamics, the capital markets and credit. Each loan or bond is entirely unique, which is why investors value third-party assessments."

The need to work with an expert independent third party continues to grow as alternative markets expand, and investors seek best practices to provide greater clarity into how their investments are performing. Alternative lenders that implement these practices demonstrate operational maturity, which builds confidence among investors. For those seeking capital inflows, the commitment to regular third-party valuations is increasingly viewed as essential, instilling trust, and establishing a firm foundation for growth.

About SitusAMC

SitusAMC is an industry-leading provider of CRE debt valuations and advisory services to clients across the CRE finance markets, with $130 billion in debt valued quarterly for 100+ clients across the U.S. and EMEA. Learn more here.

Click here to download SitusAMC's new white paper, "Alternative Lending: Opportunities and Challenges in a Shifting Landscape," which examines the key issues alternative lenders should consider in today's dynamic environment.

To view the full suite of services SitusAMC can offer alternative lenders, visit our website.

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