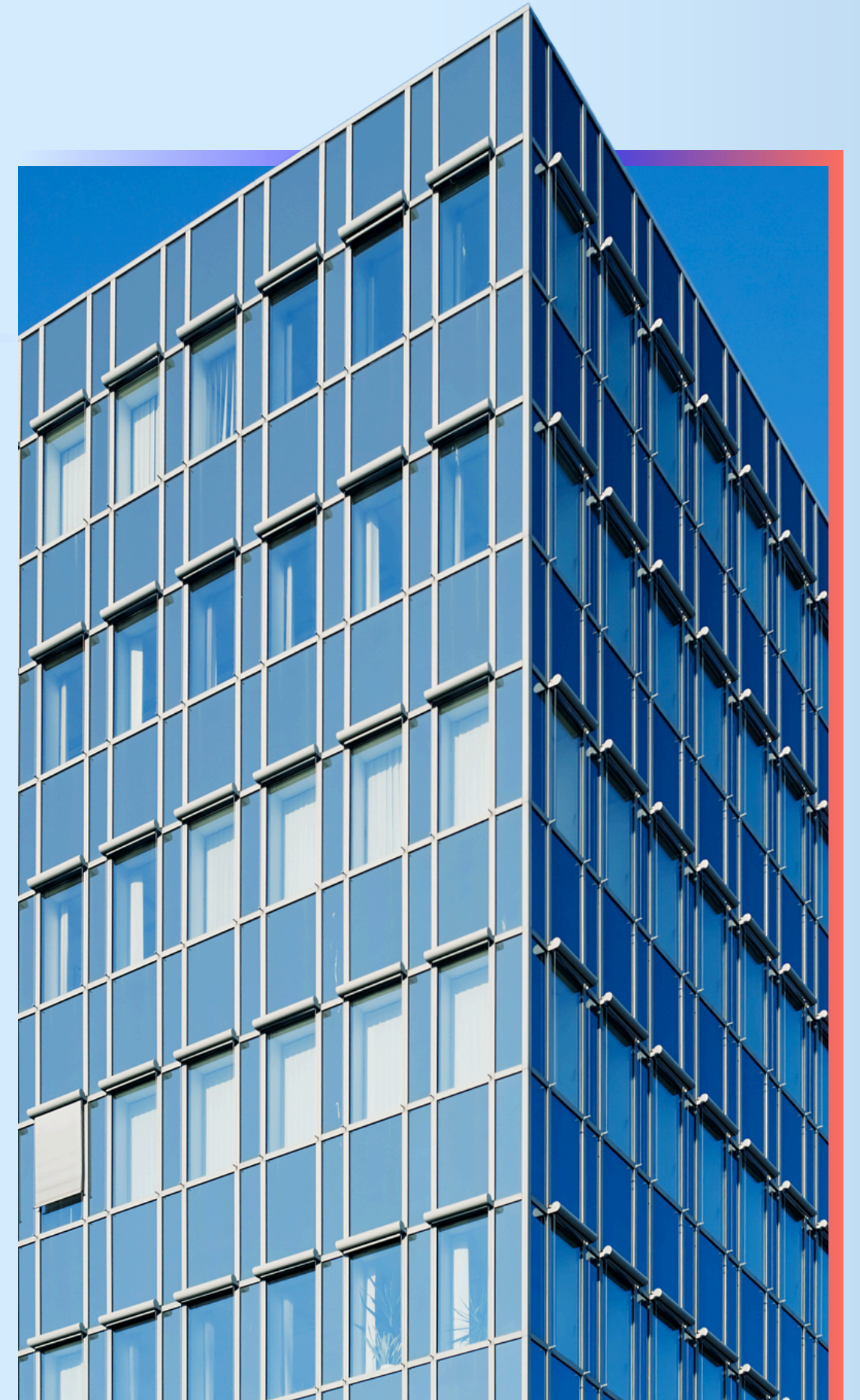


The Strategic Edge:

3 Advantages of Best-in-Class,
Proactive Asset Management

WHITE PAPER



Introduction

In today's highly volatile commercial real estate (CRE) market, proactive portfolio management is a critical tool for institutional investors seeking to elevate operations and maximize performance. In a best-in-class, forward-thinking approach, dedicated third-party teams actively monitor and manage loan portfolios to identify and address potential issues before they escalate. This enables investors to protect principal, maximize their returns and reduce risk.

In a market characterized by fluctuating interest rates and economic uncertainty, proactive servicing and asset management is more valuable than ever for institutions such as banks, insurance companies, pension funds, global asset management firms, REITs and PE funds—especially those with large, complex portfolios. An anticipatory approach offers a range of tangible benefits to investors, including cost savings, enhanced efficiency, risk mitigation and streamlined processes.

“Hands-on portfolio management is particularly beneficial in today's environment, where high interest rates, regulatory pressures and economic

uncertainties have led to heightened risk,” said Kristin Bonczynski, SitusAMC Senior Director, Portfolio Management. “In addition, more complex assets, such as transitional loans, represent a growing segment of CRE lending, making strategic management increasingly essential.”

Partnering with a third-party firm such as SitusAMC allows institutions to leverage experienced teams dedicated to preserving and enhancing the value of CRE assets. Investors are able to focus on higher-value activities, such as new loan origination and business development, while the third-party provider manages the complexities of active loan monitoring, market shifts and risk mitigation.

Based on SitusAMC's experience with comprehensive servicing and asset management services for more than 100 institutional partners, this white paper explores three key ways proactive portfolio management can support alternative lenders; outlines the rationale for outsourcing; and describes some of the tools and strategies that firms such as SitusAMC use to stay ahead.

#1

Leverage Specialized Knowledge and Tools to Expand Internal Capabilities

In a rapidly evolving CRE market, many institutional investors and lenders are finding it difficult to manage the full range of responsibilities associated with their loan portfolios. Primary servicing tasks are vast, rigorous, granular and time-consuming. They include:

- General servicing
- Payment and waterfall processing
- ARM administration
- Treasury and investor reporting
- Property tax and insurance administration
- Escrow analysis
- Collateral services
- Loan payoffs
- Document management
- Financial analysis
- Covenant tracking and quarterly reviews

Asset management, meanwhile, requires continual surveillance of the borrower, guarantors, property and market conditions. Abstract covenant and trigger events, as well as watchlist and completion dates, must be carefully monitored. Asset

management demands tracking, analysis and reporting of factors such as:

- Property performance
- Tenant rollover
- Unit sales for projects with a sell-out component
- Balances and deposits for related debt and reserves
- Collateral valuations
- Ground lease administration
- Changes in the market

In addition, there are a wide range of tasks related to borrower consents and requests.

“A third-party partner brings fresh insights and the agility to swiftly address market changes, and continually analyzes CRE portfolios to identify potential risks,” Bonczynski said.

Moreover, with greater regulatory scrutiny and the growth in complex assets such as transitional loans, managing a portfolio requires significant expertise and resources. While in-house teams often have the savvy to manage their portfolios, they may not have all of the resources required. That is where a

third-party partner can add tremendous value, serving as an extension of the client’s team, while bringing deep expertise to the management of their portfolio. A third-party partner such as SitusAMC offers specialized knowledge and the tools and resources that most institutions cannot maintain internally in a cost-effective way, particularly at the scale needed to remain competitive.

“Our portfolio management approach includes a sophisticated set of experts, tools, services and strategies, all aimed at offering clients clarity and control over loan portfolios,” said Ji Won Sin, Senior Director, Client Services. “SitusAMC’s approach to management is both flexible and comprehensive, designed to anticipate issues before they affect asset performance.”

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KRISTIN BONCZYNSKI
Senior Director, Portfolio Management



#2

Monitor and Track Complex, Higher-Risk Loans

The need for proactive management does not depend on portfolio size. SitusAMC works with various client types, across dedicated and shared teams, providing the ability to scale as needed. But hands-on management is essential for portfolios with complex loans. This is particularly true in the fast-growing area of transitional loans.

Transitional assets typically involve a business plan in which borrowers intend to add value to a property, often over a two- to three-year timeline, followed by optional extensions. These loans require meticulous oversight to monitor monthly construction draws, perform title checks to prevent liens and dispatch inspectors for regular on-site evaluations -- helping ensure the borrower is on track to meet project timelines and financial covenant requirements. These interdependent elements and shifting timelines, along with the need to regularly communicate with borrowers, can strain internal teams.

"Transitional loans require a more proactive approach because they are susceptible to a range of variables -- from construction delays to market fluctuations -- which can impact asset value and cash-flow projections," Sin said. SitusAMC schedules regular calls with borrowers to ensure that business plans are on track, and every loan is evaluated against current market conditions and loan document triggers, such as the funding milestones or construction deadlines.

Outsourcing the management of these complex loans to third-party teams provides institutional investors with an efficient and reliable system to stay on top of every aspect of both the underlying asset and the loan performance. In some cases, SitusAMC may conduct re-underwriting on a quarterly basis, delivering insights to clients that help them make informed decisions swiftly.

"Our approach enables investors to avoid costly delays and ensure projects proceed according to plan, safeguarding the portfolio's value," Amanda Dugat, Senior Director, CRE Servicing & Asset Management. "In today's environment, in which markets are experiencing shifts in demand and values, forward-looking management acts as a critical buffer, allowing lenders to adjust strategy in real time."

#3

Enhance and Accelerate Reporting

In addition, proactive management facilitates better organization, enhanced reporting and faster response times. Reporting provides the critical insights a client requires to make more informed decisions regarding their portfolio as well as communicate with their investors. For example, SitusAMC can provide a client with a quarterly asset report (QAR), which includes deep financial analysis, a comprehensive review of revenue-related data and expense procedures, and comparisons of historical and future capital expenditures so investors understand how these factors affect the historical and original underwritten cash flows.

“The QAR offers a detailed analysis of loan and property information that provides clients with a high-level overview, supporting faster decision-making,” Bonczynski said.

QARs also include data on property rent roll, including market vs. in-place rents, historical occupancy, tenancy, subsidized units, concessions, non-revenue units, corporate units, commercial space and a revenue transition plan if property is under construction or in transition. The QAR will also review agreements with third-party providers to compare expense terms to historical amounts and original underwriting; and provide underwriting of cash flow to determine in-place operating performance.

“QARs are a critical tool in our management playbook,” Dugat noted. “By leveraging QARs, lenders have the opportunity to enhance the efficiency of their internal operations and reduce overall operating costs. This level of service ultimately translates to better financial outcomes and a smoother path to portfolio growth.”

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JI WON SIN
Senior Director, Client Services



Conclusion

Proactive portfolio management has become an indispensable tool for institutional investors in today's challenging CRE landscape.

SitusAMC's commitment to an expert, hands-on approach enables clients to anticipate and mitigate potential risks, safeguard asset values and focus on core-growth activities. From complex loan management to tailored asset oversight, SitusAMC's best-in-class service offers institutional investors the agility and expertise to stay competitive. For institutions navigating the complexities of transitional and high-stakes assets in particular, portfolio management that takes the initiative to address potential issues and capitalize on opportunities before they arise offers an effective path to stability and growth, positioning them for sustained success.

About SitusAMC

SitusAMC is the leading provider of CRE primary servicing and asset management, and of special servicing, managing portfolios of \$350B and \$109B, respectively, in the U.S. In Europe, SitusAMC manages a €93B+ servicing and surveillance portfolio. Our team of experts supports a broad and diverse client set covering 100+ clients including banks, insurance companies, REIT's, large debt funds, small investors and national pension funds, among others. Learn more [here](#).

To view the full suite of services SitusAMC can offer alternative lenders, visit [our website](#).



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