

# Commercial Real Estate Single-Asset Single-Borrower Credit Rating Methodology

## BRIDGE LOAN ADDENDUM

This addendum supplements Transparency Analytics, Inc.'s (TA) Commercial Real Estate Single-Asset Single-Borrower Credit Rating Methodology (the "Base Methodology") by establishing additional analytical criteria applicable to bridge loan transactions. Bridge loans are transitional financing instruments characterized by short-to-medium term maturities, reliance on business plan execution for debt repayment, and collateral positions that depend on the successful completion of a value-add strategy.

The criteria set forth in this addendum are applied in conjunction with the Base Methodology. Where this addendum is silent, the Base Methodology governs. Where this addendum establishes additional or modified analytical requirements, these supersede the corresponding Base Methodology provisions for transactions classified as bridge loans.

A transaction is classified as a bridge loan when any of the following conditions are present: (i) the borrower's stated business plan involves material renovation, repositioning, or change of use of the collateral; (ii) the collateral is not stabilized at origination, as evidenced by occupancy below 80% or the absence of executed leases on a majority of the rentable square footage; (iii) the loan structure includes funded reserves for capital expenditure or interest carry designed to support the property through a transitional period; or (iv) the primary repayment strategy is contingent upon completion of a value-add plan followed by sale or refinancing into permanent financing.

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## ANALYTICAL CONTACTS

Yashi Yadav  
yashi.yadav@transparency-analytics.com

Philip Galgano  
philip@transparency-analytics.com

## V. BRIDGE LOAN NET CASH FLOW ANALYSIS

The Base Methodology's NCF derivation (Section II) assumes a largely stabilized income stream supported by executed leases. Bridge loan transactions frequently present income profiles that deviate from this assumption, requiring modified treatment of rent income and tenant characterization.

### 5.1 Rent Characterization for Transitional Assets

Where the collateral includes units or spaces that are vacant and undergoing renovation, TA derives contractual rent income based on tiered market rent assumptions that reflect the scope and quality of planned improvements. Rent characterization is differentiated by renovation category:

**Fully Renovated Units.** Units undergoing comprehensive renovation are characterized at or modestly below current submarket average market rents, reflecting the expected competitive position of the renovated space relative to comparable inventory.

**Partially Renovated Units.** Units receiving cosmetic or limited-scope improvements are characterized at a discount to the full renovation rent assumption, reflecting the lesser scope of improvement. The magnitude of the discount is determined on a case-by-case basis, typically ranging from 5% to 15% below the fully renovated assumption.

**As-Is / Existing Tenancy.** Units occupied by existing tenants are characterized at in-place contractual rent rates, with adjustments for near-term escalations where contractually supported. Where in-place rents are materially below market, TA does not mark rents to market absent executed lease amendments, providing income-side conservatism prior to the application of valuation stress through cap rate expansion.

### 5.2 Month-to-Month Tenancy Treatment

Under the Base Methodology, month-to-month space is treated as vacant. For bridge loan transactions, TA may deviate from this treatment where the following conditions are satisfied: (a) the tenant has demonstrated a sustained occupancy history of at least five years at the subject property; (b) the tenant's business operations are operationally embedded in the space, creating meaningful relocation costs that reduce the practical probability of near-term departure; and (c) the income uncertainty associated with the absence of a fixed-term lease is captured through an alternative credit stress mechanism, typically cap rate expansion, rather than a vacancy adjustment.

This deviation avoids a double-penalty that would result from simultaneously applying vacancy to renovated units and fully vacating an occupied unit with a long tenancy history. The rationale for any deviation must be documented in the rating report, including identification of the compensating stress mechanism applied.

## VI. RENOVATION AND CAPITAL EXPENDITURE RISK

Bridge loan transactions are distinguished by their dependency on capital expenditure execution as a precondition to income generation and collateral stabilization. This section establishes the framework for assessing renovation budgets, completion risk, and the credit treatment of potential overruns.

### 6.1 Renovation Budget Stress and Completion Risk

TA applies a capex overrun stress to the base renovation budget (exclusive of contingency) for all bridge loan transactions. The stress percentage is calibrated to the scope and complexity of the planned improvements:

**Table 8**  
**CRE SASB Credit Rating Methodology - Bridge Loan Addendum**  
**Capital Expenditure Overrun Stress Schedule**

Renovation Scope	Minimum Overrun Stress
Cosmetic / Light Renovation	5%
Moderate Renovation (partial systems, interior buildout)	10%
Heavy Renovation (demolition, structural modification)	10% – 15%
Ground-Up or Substantial Redevelopment	15% – 20%

The overrun stress is applied to the base renovation budget prior to contingency. To the extent the stressed overrun exceeds available contingency, the net uncovered overrun is attributed to the capital structure in accordance with the incremental debt attribution methodology described in Section X.

In addition to budget stress, TA evaluates renovation completion risk, including the potential for timeline extensions that delay lease-up commencement and increase carry costs. The assessment considers the nature of planned improvements, permitting dependencies, contractor transparency, material cost exposure, and the degree of structural intervention involved. Where renovation timelines are expected to extend beyond budgeted periods, the incremental carry cost implications are captured through the stress framework described in Section IX. Projects involving complete demolition, significant structural additions, or complex permitting processes are assessed as carrying elevated completion risk relative to cosmetic or partial renovations.

### 6.2 Scope Complexity Factors

The following qualitative factors are evaluated in calibrating the magnitude of budget and completion risk stress applied:

**Nature of Improvements.** Complete demolition with structural additions carries elevated risk of unforeseen costs relative to cosmetic renovation. The degree of structural intervention, systems replacement, and permitting complexity inform whether the project warrants stress at the higher end of the applicable range.

**Contractor Transparency.** Limited visibility into contractor qualifications, pricing arrangements (fixed-price versus cost-plus), and bonding or insurance provisions increases execution risk and may support additional stress.

**Material Cost Exposure.** Sensitivity to volatile input costs is assessed relative to the degree of cost certainty embedded in the renovation budget. Projects with significant commodity price exposure may warrant stress at the higher end of the applicable range.

## VII. EXIT STRATEGY AND TAKEOUT RISK

Bridge loan transactions depend on the successful execution of a business plan followed by disposition or refinancing for debt repayment. Unlike stabilized SASB loans where refinancing risk is the primary maturity concern, bridge loans carry compounding dependency risk: renovation must be completed, lease-up must be achieved, and a takeout must be executed, often within a compressed timeline.

### 7.1 Exit Timeline Decomposition

TA constructs an exit timeline for each bridge loan transaction by aggregating the following components:

**Table 9**  
**CRE SASB Credit Rating Methodology - Bridge Loan Addendum**  
**Exit Timeline Components**

Component	Description
Renovation Period	Budgeted construction or improvement timeline, including any timeline extension assessed under Section VI
Lease-Up Period	Estimated time to achieve stabilized occupancy based on submarket absorption rates, competitive positioning, and unit count
Marketing / Disposition	Time required to market and close a stabilized sale or execute a refinancing
Delay Buffer	Additional buffer for general execution delays or deteriorating market conditions

The aggregate exit timeline is compared to the base loan term to assess maturity margin. Where the aggregate timeline exceeds 80% of the base loan term, TA considers the transaction to carry elevated maturity risk absent available extension options.

### 7.2 Extension Optionality

Extension options provide meaningful runway beyond the base loan term and are evaluated as credit-relevant structural mitigants. Each extension condition (LTV, debt yield, DSCR, and any other performance tests) is evaluated against current collateral metrics and projected metrics under base case and stressed scenarios.

**Conditionality Assessment.** Extensions conditioned solely on financial performance tests that the borrower cannot satisfy under delayed stabilization scenarios provide limited credit benefit unless accompanied by a funded cure mechanism.

**Cure Mechanisms.** Where extension conditions include a funded cure provision permitting the borrower to satisfy financial tests through a deposit of cash into reserve accounts, TA evaluates the practical availability of the cure based on the estimated cure amount and the sponsor's demonstrated or reasonably anticipated liquidity. A credible cure mechanism meaningfully reduces the risk of technical default driven by lease-up timing rather than fundamental credit deterioration.

**Current Satisfaction Assessment.** Where the current as-is LTV or stabilized LTV satisfies extension LTV thresholds with a margin of at least 300 basis points, the extension is considered to have high practical availability, reducing refinance timing risk.

## VIII. STRESSED CAP RATE TREATMENT FOR TRANSITIONAL ASSETS

The Base Methodology (Section III) establishes stressed cap rate ranges by CRE asset category and identifies five factors for cap rate placement: market quality, asset quality, lease portfolio quality, profitability, and liquidity. For bridge loan transactions, the transitional nature of the collateral introduces additional dimensions that affect cap rate placement within the applicable range.

### 8.1 Transitional Risk Overlay

Bridge loan collateral is not stabilized at the time of rating. This transitional status affects the Base Methodology cap rate factors as follows:

**Lease Portfolio Quality.** Transitional assets typically have limited or no executed leases on renovated space, reducing income visibility. The absence of contractual lease obligations is the primary factor driving cap rate expansion above appraiser assumptions. Where income uncertainty is partially captured through a month-to-month tenancy deviation (Section 5.2), cap rate expansion serves as the compensating stress mechanism, and the magnitude of expansion should reflect the income uncertainty that would otherwise be captured through vacancy treatment.

**Asset Quality.** Transitional properties receive a valuation discount under the Base Methodology, with magnitude dependent on perceived plan risk. For bridge loans, this discount is further calibrated to the stage of execution: properties that have not yet commenced renovation carry greater uncertainty than properties with substantially completed improvements.

**Liquidity.** Transitional assets are inherently less liquid than stabilized properties, as the buyer universe is limited to operators willing to assume business plan execution risk. Reduced liquidity supports cap rate expansion, with magnitude dependent on the remaining scope of the business plan and buyer depth for transitional assets in the relevant submarket.

**Profitability.** Operating leverage is elevated during the transitional period due to below-stabilized revenue and ongoing operating expenses. TA considers the sensitivity of projected NOI to vacancy in the renovated units and the fixed cost structure of the property.

**Market Quality.** Market quality factors are assessed consistently with the Base Methodology. However, market conditions that specifically affect the viability of the business plan — such as near-term demand catalysts, supply pipeline for competing renovated space, or regional economic disruption — are incorporated into the market quality assessment.

### 8.2 Double-Penalty Avoidance

Where TA has applied a deviation from standard vacancy treatment (Section 5.2), the income uncertainty associated with the tenancy deviation must be captured entirely through cap rate expansion. The cap rate must be expanded by an amount sufficient to replicate the valuation impact that a full vacancy adjustment to the deviated unit would have produced. This ensures that the aggregate stress applied to the transaction is consistent with strict application of the Base Methodology's vacancy provisions, while providing a more analytically accurate reflection of the actual risk profile.

## IX. CARRY AND LIQUIDITY STRESS

Bridge loan transactions carry meaningful liquidity risk driven by the sequencing dependency between renovation completion, lease-up, and the generation of sufficient cash flow to service debt. This section establishes the framework for stress-testing the carry capacity of the loan structure under adverse scenarios.

### 9.1 Interest Reserve Coverage Analysis

TA evaluates the adequacy of funded interest reserves by calculating the number of months of debt service coverage provided at the current interest rate against the outstanding loan balance. Interest reserve coverage is compared to the base loan term to derive a coverage ratio:

**Table 10**  
**CRE SASB Credit Rating Methodology - Bridge Loan Addendum**  
**Interest Reserve Coverage Assessment**

Coverage Ratio (Months / Base Term)	Assessment
> 75%	Adequate
50% – 75%	Partially Adequate – supplemental income or sponsor support required
< 50%	Insufficient – material carry risk; structural mitigants required

Where interest reserve coverage falls below 75% of the base term, TA evaluates whether operating income from existing tenancies is expected to supplement the reserve prior to depletion and whether the combined coverage is sufficient to bridge the gap to stabilization.

### 9.2 Combined Carry Stress

TA derives a combined carry stress figure that aggregates: (i) the net uncovered capex overrun from the renovation budget stress (Section VI); and (ii) the incremental interest expense attributable to renovation timeline extensions and any corresponding extension of the lease-up period, calculated as the product of the outstanding loan balance, the current interest rate, and the extension period, attributed to the lender's proportional position in the capital stack. The combined carry stress represents the total incremental capital required to sustain the transaction through adverse scenarios and is a key input to the incremental debt attribution analysis described in Section X.

### 9.3 Reserve Structure and Rate Sensitivity

TA evaluates whether funded reserves — including interest carry, capital expenditure, and tenant improvement/leasing commission reserves — are held in segregated depository accounts with appropriate lender controls. Ring-fenced reserve structures that prevent commingling with operating cash flows are viewed favorably, as they ensure that funds designated for business plan execution and debt service are not subject to borrower discretionary use. The presence of a springing or hard lockbox, the priority waterfall governing cash disbursement upon activation, and the treatment of excess cash flow are evaluated as part of the overall carry and liquidity assessment.

For floating-rate bridge loans, TA evaluates the sensitivity of carry costs to interest rate movements. Where the loan is indexed to a reference rate without an interest rate cap, the analyst should consider whether carry adequacy, as assessed under Sections 9.1 and 9.2, holds under a modest rate stress. The presence of an interest rate cap or hedge agreement is considered a structural mitigant that reduces carry sensitivity and may support a more favorable reserve adequacy assessment.

## X. INCREMENTAL DEBT ATTRIBUTION AND LTV DERIVATION

Bridge loan transactions require a modified approach to LTV derivation that accounts for the incremental capital required to sustain the transaction through stressed scenarios. The Base Methodology derives LTV as a simple ratio of debt balance to stressed property value. For bridge loans, the debt balance is adjusted to reflect total exposure under stress conditions.

### 10.1 Incremental Debt Methodology

The incremental debt attribution follows a defined sequence:

**Step 1:** Derive Combined Stress. Aggregate the net uncovered capex overrun (Section VI) and incremental interest expense from timeline extension stress (Section IX) to derive total additional capital required.

**Step 2:** Attribute to Capital Stack. Allocate total additional capital required to the debt and equity tranches in proportion to the transaction's capitalization structure at origination. The debt-attributed portion represents the incremental exposure borne by the lender under stressed conditions.

**Step 3:** Derive Stressed Loan Balance. Add the debt-attributed incremental capital to the original loan balance to derive the total stressed loan balance used in the LTV calculation.

**Table 11**  
**CRE SASB Credit Rating Methodology - Bridge Loan Addendum**  
**Bridge Loan Stressed LTV Derivation**

Component	Derivation
Net Uncovered Capex Overrun	Section VI
Plus: Incremental Interest Expense	Section IX
Equals: Total Additional Capital Required	
Times: Debt Capitalization Ratio (%)	At origination
Equals: Total Incremental Debt	
Original Loan Balance	
Plus: Total Incremental Debt	
Equals: Stressed Loan Balance	

### 10.2 Stressed LTV and Rating Determination

The stressed LTV is calculated as the ratio of the stressed loan balance to the stressed property value (NCF divided by the stressed cap rate as determined under Section VIII). This stressed LTV constitutes the Initial LTV for purposes of the Base Methodology's rating framework. Any structural adjustments under the Base Methodology's Section IV are then applied to derive the Final LTV, which determines the assigned credit rating based on Table 2 of the Base Methodology.

The stressed LTV framework described in this addendum is designed to produce LTV outcomes that appropriately reflect the compounding execution, carry, and exit risks inherent in bridge loan transactions, while preserving comparability with ratings assigned under the Base Methodology to stabilized SASB transactions.

*This addendum is effective as of its date of publication and applies to all bridge loan transactions rated by TA on or after the effective date. Existing ratings assigned to bridge loan transactions prior to the effective date will be evaluated for consistency with this addendum at their next scheduled surveillance review.*