

# CRE CONSTRUCTION STRESS TESTING



**CEIS REVIEW INC.**  
*Commercial Portfolio Advisors EST 1989*

The **CRE construction loan portfolio** is considered a more volatile and riskier segment of the overall commercial loan portfolio. For those reasons, in addition to regulatory scrutiny pertaining to construction portfolio growth and concentrations, CEIS has enhanced our CRE Construction Stress Testing approach.

Given the variables that go into financing a construction project pertaining to costs and timing, it is only prudent to further examine this portfolio segment for indications of weakness along the lifecycle of the provided financing, and potentially thereafter.

CEIS' enhanced CRE Construction Stress Testing addresses each project individually during their a) Project Phase and b) the Completion Phase. By assessing each project by phase, it allows clients to further understand the potential impact that fluctuations in supplies, labor, interest rates, refinance availability, and timelines of each project's effected budget.

**Briefly:**

- CEIS' robust, repeatable methodology can be applied to land development, commercial construction, and residential/commercial condominium development transactions.
- Transaction-based approach rolling up to the segment level.
- Two-Phase View
  - a. **Project Phase:** focus on finance risk for cost of completion; Budget vs Actual
  - b. **Completion Phase:** Refinance risk takeout financing
- Two levels of stress to each transaction: 1) Moderate and 2) Severe.
- Customized stress based on CRE segments, locations, current, and future market conditions.

**Client Benefits:**

- Forward looking to identify strengths and weaknesses
- Transaction- to segment-level analysis
- Detailed data per exposure included in the stress test
- Customizable to client-specific requests
- Detailed reporting enabling actionable insights for management and the BOD
- Customizable, multivariable approach
- Multiformat results: Project vs Completion; Moderate vs Severe stress



CONSTRUCTION LOAN	PERMANENT FINANCING
<p><b>PHASE 1 Stress Risk Factors</b></p> <ol style="list-style-type: none"> <li>1. Inflation impact on hard and soft costs</li> <li>2. Interest rate impact on overall project costs</li> <li>3. Supply chain disruption impact on completion timelines</li> </ol>	<p><b>PHASE 2 Stress Risk Factors</b></p> <ol style="list-style-type: none"> <li>1. Changes in effective rents</li> <li>2. Higher vacancy rates</li> <li>3. Inflation</li> <li>4. Interest rates</li> <li>5. Absorption timelines</li> <li>6. Impact on property values</li> </ol>

**Contact CEIS Review to discuss if our enhanced CRE Construction Stress Testing may be beneficial to your institution.**

**Justin J. Hill, Sr. Managing Director • 888-967-7380 • [justinjh@ceisreview.com](mailto:justinjh@ceisreview.com)**