THE ETERNAL EDGE BY ETERNAL COMPANIES

THE 2026 IC STRESS TEST

3 questions every investment committee asks before writing a check. The framework to answer them before they are asked.

Damon C. Healey

FOUNDER & MANAGING PRINCIPAL
SPONSOR & GP | $3.8B PLATFORM EXPERIENCE

The Gap Between Approved and Declined

THE STANDARD APPROACH

Most real estate operators preparing for refinancing, recapitalization, or a capital raise spend weeks perfecting their market story. They polish their positioning. They cite favorable market data. They highlight occupancy trends, rent growth, or lease-up momentum.

Then they walk into Investment Committee and get asked three questions they did not prepare for. The deal gets declined. Not because the asset is bad. Because the operator could not answer basic stress-testing questions.

THE INSTITUTIONAL STANDARD

This framework covers the three questions every investment committee asks, regardless of asset class. Whether you operate hotels, apartments, retail centers, office buildings, industrial facilities, or development projects, these questions apply. The metrics change. The discipline does not.

The capital markets have shifted. Lenders and equity partners are selective. They are underwriting people as much as properties. When you walk in with stress-tested models, revenue economics mapped, and cost reduction plans ready, you separate yourself from every operator presenting optimism without proof.

THEY HAVE BETTER ANSWERS.

I have sat in Investment Committee rooms on both sides of the table. The pattern is consistent: operators who get approved do not have better assets. They have prepared for the stress test.

How to Use This Document

Each section presents a question, explains why IC asks it, and gives you a self-assessment rubric. Score yourself on all three. Total time: 4 to 5 hours.

What Is Your Stress Case?

Why IC Asks This

Not because they expect worst-case conditions. Because they want to know where your debt service coverage breaks, how much runway you have before covenant violations, and whether you understand your own asset under pressure.

Most operators present best-case scenarios. IC wants to see your worst-case preparation.

What a Strong Answer Requires

Three modeled scenarios with the metrics that matter for your asset class. Not just your base case. Your stress case and your severe case, with DSCR, margin, and reserve runway calculated for each.

Key Metrics by Asset Class

ASSET CLASS	BASE OCCUPANCY / UTILIZATION	STRESS TRIGGER	SEVERE TRIGGER
Hospitality	75% occupancy	65% occupancy	55% occupancy
Multifamily	95% occupancy	88% occupancy	80% occupancy
Retail	92% leased	82% leased	70% leased
Office	88% leased	78% leased	65% leased
Industrial	96% leased	88% leased	78% leased
Development	On-time, on-budget	6-month delay, 15% overrun	12-month delay, 30% overrun

For Each Scenario, Calculate:

- Debt Service Coverage Ratio (DSCR) at each occupancy/lease level
- Gross Operating Profit (GOP) margin or Net Operating Income (NOI) margin
- Months of operating reserve runway before capital injection required
- The exact point where covenant violations occur
- CapEx deferral capacity without degrading asset value

THE ANSWER IC WANTS TO HEAR

"At [stress occupancy], DSCR drops to [X]. Margin compresses to [Y]%. Reserves fund operations for [Z] months before we defer non-critical projects. We break covenant at [threshold]."

Self-Assessment: Question 1

Check the box only if you have the data immediately accessible and verified.

- ☐ Can you state your DSCR at stress-case occupancy without checking a spreadsheet?
- ☐ Have you modeled three distinct scenarios with different assumptions for each?
- ☐ Do you know the exact occupancy or lease rate where covenant violations begin?
- ☐ Can you quantify months of runway at each stress level?

Where Does Revenue Quality Break?

Why IC Asks This

Top-line revenue is not cash. Every dollar of revenue has a different cost to acquire, a different margin profile, and a different risk of disappearing under stress. IC wants to know if you understand the difference, and what happens when your revenue mix deteriorates.

The Universal Principle

Every asset class has revenue sources that vary in quality, cost to acquire, and durability under stress. The operator who maps this earns IC confidence. The operator who presents a single blended number gets declined.

Revenue Quality by Asset Class

ASSET CLASS	HIGHEST QUALITY REVENUE	LOWEST QUALITY REVENUE	KEY DEGRADATION RISK
Hospitality	Direct bookings, corporate contracts (100% cash conversion)	OTA bookings (82-85% after commissions)	Direct share drops, OTA dependency increases in downturn
Multifamily	Direct lease-ups, organic renewals (low acquisition cost)	Concession-driven leases, broker-sourced tenants	Renewal rates drop, concession costs increase, effective rent compresses
Retail	National credit tenants on NNN leases	Local tenants, percentage rent, seasonal operators	Tenant defaults, rent abatement requests, co-tenancy triggers
Office	Long-term credit tenants, government leases	Short-term leases, co-working, month-to-month	Non-renewal at expiry, subleasing by tenants, TI escalation
Industrial	Long-term NNN with escalations	Short-term flex/warehouse, month-to-month	E-commerce contraction, tenant consolidation
Development	Pre-leased/pre-sold commitments	Spec development without commitments	Absorption delay, cost escalation, entitlement risk

For Your Asset, Map:

- Current revenue mix by source (channel, tenant type, lease structure)
- True cash conversion or effective margin by source
- Weighted average revenue quality across the portfolio
- Stress scenario: how the mix shifts under adverse conditions
- Dollar impact of revenue quality degradation on NOI
- Your threshold for intervention and the specific actions you take

THE ANSWER IC WANTS TO HEAR

"If [revenue mix shift occurs], our effective cash conversion drops from [X]% to [Y]%. That represents $[Z] annually. We preserve quality by [specific strategy]. Our threshold for adjusting strategy is [defined trigger]."

Self-Assessment: Question 2

- [ ] Can you break down revenue by source with true cost to acquire each dollar?
- [ ] Have you calculated weighted average revenue quality for your portfolio?
- [ ] Can you quantify the dollar impact if your mix shifts under stress?
- [ ] Do you have a defined threshold and intervention plan for mix deterioration?

How Fast Can You Cut to Preserve Coverage?

Why IC Asks This

"We will cut costs if needed" is not an answer. IC wants the actual plan. What gets cut, in what sequence, how fast you execute, and the impact on operations at each tier.

The Tiered Cost Reduction Framework

This structure applies across all asset classes. The specific line items change. The discipline does not.

TIER	TIMELINE	ACTIONS	SERVICE IMPACT
Tier 1	Week 1	Defer non-critical CapEx, reduce contracted services, eliminate discretionary spend	None
Tier 2	30 days	Optimize labor/staffing, renegotiate vendor contracts, consolidate services	Minor
Tier 3	60 days	Reduce headcount, defer all non-essential repairs, eliminate amenity/service tiers	Significant

Asset Class Specific Cuts

HOSPITALITY Adjust housekeeping frequency, renegotiate OTA commissions, reduce F&B hours, defer FF&E.	**MULTIFAMILY** Defer unit turn upgrades, reduce amenity hours, consolidate property management, pause marketing.
RETAIL Renegotiate CAM contributions, reduce operating hours, defer common area improvements.	**OFFICE** Reduce building hours, consolidate janitorial, defer lobby upgrades, renegotiate parking.
INDUSTRIAL Defer yard maintenance, reduce security coverage, consolidate facility management.	**DEVELOPMENT** Re-phase construction, value-engineer specs, renegotiate GC terms, reduce to core and shell.

For Each Tier, Quantify:

- Monthly savings in dollars
- Annualized impact on NOI
- Effect on DSCR at each occupancy/lease scenario
- Cumulative savings across all tiers
- The occupancy/lease threshold where Tier 3 preserves DSCR above covenant

THE ANSWER IC WANTS TO HEAR

"We have a three-tier cost reduction plan. Tier 1 executes in week one and saves $[X] monthly without impacting tenant or guest experience. Tier 2 deploys within 30 days and adds $[Y] monthly. If we hit severe stress, Tier 3 saves an additional $[Z] monthly. Total potential annual savings: $[total], which preserves DSCR above [covenant threshold] at [stress occupancy]."

Self-Assessment: Question 3

Check the box only if you have the data immediately accessible and verified.

- ☐ Do you have a written, tiered cost reduction plan with dollar amounts?
- ☐ Can you execute Tier 1 within one week without board or partner approval?
- ☐ Have you calculated the cumulative DSCR impact of all three tiers?
- ☐ Do you know the exact occupancy threshold where Tier 3 preserves covenant compliance?

YOUR SCORE

IC Readiness Assessment

Count the number of checked boxes across all three self-assessments. 12 questions total. Each check is one point.

SCORE	RATING	WHAT IT MEANS
10-12	IC READY	Your preparation meets institutional standards. You are positioned to present with confidence. Refine your delivery and materials.
7-9	GAPS IDENTIFIED	You have the foundation but specific areas need work before your next capital conversation. Prioritize the questions you left unchecked.
4-6	SIGNIFICANT GAPS	Your preparation is below IC standards. Investment committees will identify these weaknesses. Invest the time before approaching capital sources.
0-3	NOT READY	You are presenting optimism, not preparation. Stop capital conversations until you can answer these questions. The cost of proceeding unprepared is higher than the cost of waiting.

THE DISCIPLINE OF IC IS THE DISCIPLINE OF OPERATIONS.

Building IC-grade materials does not just help you get approved for capital. It makes you a better operator. Stress testing reveals weaknesses. Revenue mapping exposes hidden costs. Cost reduction planning identifies inefficiencies that should not exist even in strong markets.

Action Steps This Week

2 hrs	**MODEL YOUR THREE SCENARIOS** Base case at current performance. Stress case at the appropriate threshold for your asset class. Severe case. Calculate DSCR, operating margin, and reserve runway for each.
1 hr	**MAP YOUR REVENUE QUALITY** Current revenue mix by source. True cash conversion or effective margin by source. Stress scenario mix shift. Dollar impact of degradation.
1 hr	**BUILD YOUR COST REDUCTION PLAN** Tier 1 (immediate, no service impact). Tier 2 (30 days, minor impact). Tier 3 (60 days, significant impact). Monthly and annual savings per tier.
30 min	**PRACTICE THE ANSWERS** 30-second response for each question. Specific numbers. No hedging. No "it depends."

4.5 HOURS.
THAT IS THE DIFFERENCE.

The operators who invest this time get approved. The ones who do not get declined.

THE ETERNAL EDGE BY ETERNAL COMPANIES

Your Score Tells You Where You Stand. Platform Edge Shows You What to Build.

If you scored below 10, your platform has gaps that institutional investors will identify. Platform Edge exists to close them.

EVERY PLATFORM STARTS WITH AN EDGE.

PLATFORM EDGE SESSION **$2,500** 90-minute structured session. We identify your platform's competitive edge and what IC needs to see.	**PLATFORM EDGE MONTHLY** **Begins After Session** Weekly 1-on-1, group sessions, 90-day minimum. You do the work. I provide the institutional playbook.
ETERNAL ADVISORY **Via Platform Edge or Relationship** Embedded execution. Capital raising, transaction advisory, investor introductions, operational oversight.	**ETERNAL CAPITAL PARTNERS** **By Invitation** Co-GP, fund, and JV structures for aligned platform building through active Eternal relationship.

BOOK

calendly.com/damon-at-eternal/platform-edge-session

Damon C. Healey | Founder & Managing Principal
Eternal Companies LLC | Sponsor & GP | $3.8B Platform Experience
3 Bethesda Metro Center, Suite 700, Bethesda, MD 20814
info@eternalcos.com | eternalcos.com