

# COMMERCIAL LENDING GUIDE

by providing insight and sharing our knowledge on a regular basis.

## ● What qualities does a standout commercial broker need?

**DB:** Standout brokers have the ability to source and maintain key relationships, such as finding and working with the right mortgage providers. The most successful brokers in our industry work with us repeatedly, as they can access competitive financing coupled with timely execution. Developing strong working partnerships allows commercial brokers to consistently deliver for their clients.

Attention to detail is another key quality. Gathering and presenting accurate information is of fundamental importance for any successful broker. This ensures that multiple financing options can be correctly presented, as they are based upon verified information. Inaccurate information can result in delays and/or can cause financing terms to change.

Finally, with multiple potential financing options available, a commercial broker must understand their respective market and stay up-to-date with the latest industry trends for that location and asset class.

## ● What type of educational background does someone need to succeed in commercial lending?

**DB:** I'm seeing an increasing trend of new entrants coming into our industry who have completed university degrees that encompass a specific emphasis on real estate. This certainly provides a solid foundation and allows for a faster orientation. Equally, I have seen people from all kinds of educational backgrounds become successful in commercial lending, so there is definitely no 'one size fits all' approach. The common traits of successful people in our industry are those who are passionate about commercial real estate, are eager to learn, enjoy working in a dynamic environment, deliver on their commitments and have strong attention to detail.



## SKIP WALTERS

Senior vice-president

First Source Mortgage Corporation

## ● What's your take on the current state of the commercial market?

**Skip Walters:** Real estate is trading. Lands are being bought and sold, zoning approvals are being passed, and densities and entitlements are being granted. The problem we are seeing is that some developers or builders are overpaying

for product. Cap rates have risen from 12 months ago, and sale prices per foot have dropped. Many developers or builders are hoping they can sell the finished product at 2017–18 prices.

Lenders are cognizant of today's lower values and may not lend as high of an LTV as requested. Lenders still want to see skin in the game, or more equity in from the purchasers. Politics and the economy can change quickly; we have had a number of very strong years, but will this continue? Is a recession or slowdown

coming? My crystal ball says to remain cautiously optimistic.

● **Are there any unique areas of the commercial market brokers should be aware of?**

**SW:** Infill sites for residential development are still very hot, where an assembly of a few contiguous lots adds tremendous value. Contaminated sites, where you know upfront what the costs are to remediate, can be a good buy if bought right. Land that is already approved, where getting in the ground is imminent, can make sense – again, if bought at the right price. My caution: Stay away from flips. Typically, all the profit is usually taken by the seller.

● **What are the biggest challenges in the sector?**

**SW:** Costs are rising. Labour and materials have risen substantially and continue to rise in this environment. The previous two years were a boom market. As a result, trades are demanding more. It's simple economics: When demand for labour is high, prices for labour rise.

A lot of the construction trades are unionized and, over the years, have driven up costs. These costs are passed on to and borne by the end user. This increase

must be presented in budgets to show a realistic profitability.

● **What are the best strategies to succeed in the commercial market?**

**SW:** As always, buy low! Construction costs are what they are. The land purchase price is the one variable that can make or break a development project. Also, carrying costs to full approvals can really add up. We are seeing approvals in major markets take over

two years to site plan approval.

From a broker's perspective, when you send a request for a loan, do your homework. Does the loan request make sense? Look at the comps, discuss and ensure the budget makes sense. The more complete information you give to the lender, the faster and better the response will be. A broker should determine what experience the purchaser/borrower has for the asset

he's acquiring. Lack of experience, whether it's the purchase of a gas station or three acres of land to build on, makes any lender somewhat nervous.

● **What do you see in store for the commercial/residential market in the future?**

**SW:** Given the influx of people coming to major centres, they all require homes, and they all need places to work. The

commercial market will grow and expand further to tertiary markets, but possibly at a slower pace. Given the traffic congestion and technology, more people will work from home. Thus, residential developers are exploring and building smart homes.

I believe more and more borrowers will tap into the alternative lending market, as individual debt levels are rising, making it harder to secure institutional financing.

**“When you send a request for a loan, do your homework. Does the loan request make sense? The more complete information you give to the lender, the faster and better the response will be”**

cnarea.ca



DAR DAC



Home of the  
Best Appraisers in Canada