



Specialty - Commercial

# A 'bridge' over troubled real estate waters?

**"In this market properties that have cash flow and rents that trail inflation are hot."**



By Desmond Devoey  
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*This article was produced in partnership with First Source Mortgage Corporation*

*Desmond Devoey, of Canadian Mortgage Professional, sat down with Steven "Skip" Walters, senior vice president of First Source Mortgage Corporation, to discuss how it is experiencing strong business in commercial real estate.*

As banks become more cautious in their lending, a leading mortgage lender is still experiencing strong business in commercial real estate.

"At First Source Mortgage Corporation, we still see opportunities in industrial real estate and income producing real estate (plazas, apartment buildings) doing well with little signs of slowing down," Steven "Skip" Walters, the corporation's senior vice president, told Canadian Mortgage Professional. "In this market properties that have cash flow and rents that trail/beat inflation are hot."

Even with rising interest rates, there are other external matters that will have a positive impact on parts of the housing market.

"Fundamental supply shortages in the Canadian housing market still exist," he said. "Expected immigration will only exacerbate the supply deficit. Rising interest rates ultimately present an opportunity for cash flow positive rental properties as home buyers are pushed to rent."

Traditional lenders like banks are taking note of the looming recession, and it is having an impact on financing for housing.

"The big institutional lenders have started to put their pens down," Walters said. "Their capital is ultimately only reserved for their ultra-safest clients. We are seeing many safe construction loans that have been cut off from traditional financing. We see opportunity in those loans."

He pointed to a construction loan his company recently closed which had 43 townhome units already sold, substantial deposits, and servicing already underway.

## Lending criteria

"On a basic level, lending practises remain consistent regardless of low or high interest rates," he said.

That is why his company looks at specific criteria, such as:

- Well-heelled and experienced borrowers/developers
- Clean sites in densely populated areas
- A definite exit to be provided by another, usually traditional, lender for bridging loans

Walters has been with the corporation for more than nine years and has seen the "key role" that mortgage brokers play, since they act as a bridge between investors and borrowers.

"We align our interests with the brokers' interests by including a clause for broker's fees in all of our commitment letters," he said. "Commercial real estate transactions are often complex, and we provide the specialized expertise that brokers can lean on."

The transactions do not look as though they will be any less complex in the year to come.

"The current market conditions don't exactly allow for smooth sailing going into 2023 and 2024," said Walters. "We are seeing more conservative lending policies."

Inflation, rising interest rates, and geopolitical tensions will continue into the new year, which will continue to have an impact on the real estate market.

"Commercial real estate loans, like construction loans for example, [will] become even more complex," said Walters. "At First Source, we help brokers and borrowers navigate these uncertain waters with solid risk management, conservative underwriting and real estate expertise."

## Bridge loans of all kinds

First Source specializes in commercial bridge loans, short-term loans utilized to fill a gap when traditional term financing is not available. The payment is usually interest-only, and the rate paid is typically higher than Schedule A bank loans. These bridge loans typically run from 12- to 24-month terms, with the borrower then moving on to a more traditional real estate loan.

Over on the commercial real estate side, a bridge loan is used on an acquisition of a property or land as it moves through its entitlement process. Bridge financing can also be utilized while the borrower stabilizes the income on a property before going to a traditional lender.

Meanwhile, on the residential side, bridge lenders help homeowners purchase a new home while they wait for their current home sale to close. This provides the homeowner with some extra time and some peace of mind while they wait, according to Walters.

"This is a valuable service in today's market where banks have tightened their lending practices and severely restricted capital," he said.

*Steven "Skip" Walters, senior vice president, has been with First Source Mortgage Corporation for nine years.*

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