



## STEVEN (SKIP) WALTERS

Senior vice-president

First Source Mortgage Corporation

### **CMP: How is the GTA market responding to the decrease in available land?**

**Skip Walters:** Infill sites are going for a premium, and approved residential lots, ready to go, are gold. As a prudent lender, we look carefully at what the developer is paying per front foot and study the pro forma to ensure he has included all hard and soft costs. Then we analyze the profit margin. We know construction costs are rising, as is labour, since contractors can pick and choose jobs due to the increased work. As prudent lenders, we might deduct 8% to 10% of the profit off the top due to added costs, etc., to ensure profitability.

### **CMP: What are the major trends affecting the market today?**

**SW:** Lenders are keeping a close eye on the BoC rate increases and are acting

according to floating rate structures. For instance, the rate on the commitment would likely state a rate of “the higher of 8.75% or CIBC prime + 5.05%.”

Lenders today are being cautiously optimistic. Values in general have risen exponentially over the past three to five years, and we have seen a pullback in values lately in most asset classes. Appraisals are being studied much more carefully and, in many instances, being questioned. Lenders are placing their own knowledgeable values on projects, using a higher cap rate, and are being a bit more conservative on their loan-to-values. The upward trend we have experienced has definitely stagnated and may continue to decline. Absorption is slowing in most asset classes, especially retail due to online sales. Stacked towns are still selling well, as are condos; however, townhome sales have slowed.

### **CMP: What’s the best way for a residential broker to transition into commercial mortgages?**

**SW:** My sincere suggestion to transition

more than happy to take you through what they do, how they analyze a loan and the due diligence required to complete a loan transaction.

### **CMP: What are some of the misconceptions on the residential side about commercial mortgages?**

**SW:** I think many residential brokers look at the fees paid out on a commercial loan and believe they can jump right in with both feet and earn the ‘big bucks.’ In fact, it takes years to truly understand an acquisition loan or a construction loan and to be a benefit to your client. Lenders look at debt coverage, the existing tenancies, term, rates, building condition, financial statements, net worth, etc. Most importantly, lenders consider exit options should interest payments not be made or whether an institutional lender will be able to take out the loan at the end of the bridge loan.

Also, you need to familiarize yourself with the lending community and understand which lenders gravitate toward

**“I think many residential brokers ... believe they can jump right in with both feet and earn the ‘big bucks.’ In fact, it takes years to truly ... be a benefit to your client”**

to commercial lending is to meet with some small developers, learn what they do, understand their pro forma and timelines, and look at comps of the asset class they are proposing to build. Ask yourself: “Does it make sense? Can they achieve the rental rates or sale prices?” Put yourself in the developer’s shoes. Determine the equity required and leverage required. Once you understand what goes into a development and the numbers behind it, you will better understand the financing required.

I also strongly suggest speaking to some alternative bridge lenders. Many are

specific loans and properties. Some lenders specialize in construction, while others specialize in income-producing loans with debt coverage. Others only service the GTA or only lend on land.

### **ABOUT SKIP WALTERS**

With experience spanning numerous areas of real estate, including commercial mortgage, construction and land lending, Steven (Skip) Walters is a senior vice-president at First Source Mortgage Corporation. A business graduate of Wilfred Laurier University, Walters is a licensed mortgage broker and has been actively working in real estate for over 25 years. He is currently a director of the Canadian Mortgage Brokers Association.