COMMERCIAL CREATIVITY

Broker appetite for commercial deals may be growing, writes **Vernon Clement Jones,** but so is the lender creativity needed to get them done

Why did the residential broker cross the road? Given a falling number of home sales and tighter mortgage rules, it was to get to the commercial deal on the other side. That at least is the reality facing channel lenders across the country as they welcome a growing number of neophytes to their end of the business.

But taking a strong lead and presenting an even stronger case for funding is not for chickens, say lenders like Dov Meyer, president and CEO of Terra Firma Capital. He and others are pointing to the expertise of the commercial brokers they deal as a model for residential players hoping to make the leap – if only occasionally.

"Brokers really have to be able to articulate and describe the condition of the property and to provide the follow up and legwork needed to connect the client to the lender," says Meyer, who took the helm of the publicly traded Terra Firm in 2010. "That's what we find with the brokers we deal with. They bring that expertise and diligence."

Acquiring that skill set can take years, but lenders are increasingly willing to help flatten out that learning curve. In fact, with new, tighter lending guidelines in place at most big banks, smaller players are starting to show the kind of flexibility in funding and deal structuring that meshes with the needs of a typical broker client.

Meyer is among those willing to bend to win those "less-straightforward deals" as well as educate brokers in an effort to prime them for the challenge of getting them funded. To that end, he's offering two case studies for brokers:

CASE NO. 1

A relatively new developer was looking to acquire a property in Hamilton, Ont., in order to build a supermarket. Attempts to win financing from Schedule-A banks and second-tier lenders were challenged by concerns about the condition of the property and unanswered questions.

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Ultimately, Terra agreed to provide the requested $4,600,000 for construction of the 29,000 sq. ft. retail development, with 100 per cent preleasing. The lender was also able to attract the backing of a Schedule A player.

The successful outcome is the direct result of the broker's ability to "articulate and describe the conditions of the property," says Meyer. "He was able to take the borrower through the entire process to ensure that all conditions were met. Really, without that kind of added-value the deal would not have been funded."

Reciprocally, brokers are pointing to creative thinking on the part of MICs, syndicates and small institutional players as key to helping them protect their share of commercial business even as banks look to grow their own commercial divisions in 2013. The effort is all about making up for any projected drop-off in residential originations.

"It's true," says Meyer. "We're not a cookie-cutter shop and deals are looked at individually," he tells CMP. "I think we will see more demand for flexibility and more of a need to fill the gap left by the banks."

CASE NO. 2

Another developer was focused on building a residential low-rise townhouse development in the north-west end of Toronto. That borrower was hunting for $6 million to free himself from a typical Catch-22 situation: While he had already won development financing from a big bank, release of the first tranche of that money was dependent on presales. But with no finished homes to show increasingly sceptical buyers, those presales simply weren't coming, says Meyer.

Terra Firma would agree to provide the funds – as sort of bridge financing – to jumpstart that construction. More specifically, those funds came as a combination of debt and an equity position for the lender. While the deal is still fluid, the exit strategy for Meyer is simple: The Terra loan will facilitate presales, which in turn will ensure the client wins his first tranche from the primary lender. That money then gets used to satisfy the agreement with Terra Firma.

"We'll be seeing a lot more of these in the market, especially with condo development, considering the banks are asking for 75 per cent to 85 per cent presales," says Meyer. "So what's happening, and what brokers should be mindful of, is that developers want to get started on construction before they get to their presales, in order to make those presales. To make sales, it's really important to have a project on its way."

Still, for relatively new brokers to commercial, those kind of complex deals can be daunting. That's doubly so in cases where deals may need some element of equity financing – a component lenders like Terra seem more and more willing to include.

It makes partnering with the right lender all the more essential, caution industry vets.

They suggest mortgage professionals focus on familiarizing themselves with the specific market interests of individual lenders. If a deal fits within those perimeters and "makes" sense, that funder will be willing to do the kind of creative thinking needed to get the deal done. The rules of conventional lending, nonetheless apply, add experts.

But in the final analysis, brokers will have to know the deals they present both inside and out, says Meyer. There's no getting around the need for that level of stewardship.

"It's essential that they understand the deal and how to put it together," he says. "But brokers also need to take ownership of the deal. They can't simply play the role of matchmaker."

Residential brokers going into commercial, or even hoping to do the occasional deal in that arena have to know that going in, says one experienced mortgage professional.

"It's not a passive role that you're expected to take on in these transactions," says Mike Siddiq. "Your attendance is required, but also your full participation. If you can't manage that level of commitment, don't bother." CMP

STATS

Consumers say…

A mortgage broker would be good for… Self-employed

36%

Source: MortgageInsights 2012

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