



It's time to look at commercial

In this first part of a special series on commercial brokering, **Paul McGill** of The Financing Hub looks at a few of the reasons why you should consider moving into the commercial space – and why you should do it now

THE REAL estate landscape in Canada is changing, but that doesn't mean opportunity is disappearing. In fact, the time to transition to commercial brokering is now.

Over the coming months, this series of articles will look at the fundamentals of commercial real estate financing. I will touch on some of the differences between commercial and residential placements, as well as marketing ideas to help you build your commercial business. To launch the series, I thought it was appropriate to start by looking at why you should consider making the move to commercial brokering.

For many brokers and agents, the commercial side has always felt like a bit of a black hole, with different lenders, different acceptance criteria and different documentation – lots of documentation. Given the strong volumes in the residential market over the last few years, why go to all that effort to learn your way around what seems to be a more difficult area?

Frankly, it appears the regulators have now answered that question for us by tightening the rules and increasing the requirements on residential lending. Today, the effort to place a residential deal (and the documentation needed to support that

submission) is not that far off from what is needed to place a commercial transaction. Commercial transactions are typically much larger than residential, and many see the potential fee increase as a strong incentive for what may only be marginally more effort.

Yes, your initial venturing into the world of commercial will likely seem trying, but think back to your first few residential deals. I suspect getting them across the goal line was just as challenging at the time.

Many agents who have already moved some or all of their business over to commercial financing tend to come back with comments like "it's more interesting," "the borrowers are more realistic with their expectations," or "I've already started to build a reputation in my chosen niche area."

REASON

1

It's more interesting.

Consider the variety of transactions out there in the commercial space. Each type of commercial structure needs a slightly different approach. Multi-tenant office buildings will have revenue considerations that won't apply to a single-use factory. How you as an agent structure a land purchase versus a hotel renovation will



be very different. Differences in size, use and configuration, even within the same property class, will generate different requirements.

Your borrowers will differ as well, from small businesses to large corporations, from private developers to large investor groups. I guarantee no two will be the same.

REASON

2

Borrowers have more realistic expectations.

Whether your borrowers consider themselves developers, investors or single property owners, they are all businesspeople,



THREE REASONS WHY YOU SHOULD CONSIDER COMMERCIAL

There are plenty of reasons to consider the commercial market, which I like to think of as the 'pond factors.'



The government is working to cool the residential housing market through more restrictive lending rules, which means the residential pond is going to shrink.



The size of the commercial pond in 2016 was estimated by CMLS Financial at approximately \$215 billion; the firm also projected growth in many of its key sectors.



The sheer number of brokers and agents fishing for residential deals versus those fishing in the commercial pond puts the odds a little more in your favour.

With this in mind, why not consider dropping your line in a different pond this year?

and they're all in this business to generate money from the properties they hold. Their focus is most likely on what they can live with to get this done so they can move on to their next task. To be clear, no one is going to ignore costs or throw away money, but you will likely find that the norm is more about getting a deal closed than holding out over some fractional rate difference.

REASON
3

You can build a niche.

For those not interested in a constant diet of variety, the good



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news is that it's easy (and profitable) to build a business around one or two niche areas in commercial mortgages. With all the various types of properties, you can define your own niche and build a reputation around it.

For instance, the growth of e-commerce is making commercial distribution centres a fast-growing category. Who will focus on funding all those new facilities in southern Alberta or southwestern Ontario or the Atlantic provinces?

REASON

4

It generates revenue.

If I haven't persuaded you to look into commercial yet, the opportunity to generate revenue for you and your brokerage should be the most compelling reason. Because commercial transactions are typically larger than your average residential transaction, even a comparable 1% fee generates a higher return. Thanks to market slowdowns and regulatory restrictions, most Canadian brokers and agents can expect to face challenges generating the same levels of income this year as they have in past years. Committing even a small portion of your business to commercial placements this year can help bridge any gaps.

The good news is that there's plenty of help out there for those looking to get started in commercial. There are any number of patient lenders that understand that agents new to the commercial side will need a little extra help the first time out. For those of you who would typically just refer a commercial opportunity on to a more experienced commercial broker, next time ask to co-broker the deal instead. If you have the right partner, co-brokering is a great way to learn the ins and outs.

There are also online platforms like ours that can help you structure and place commercial transactions so you can take advantage of the opportunities in the commercial mortgage market.

I hope I've captured your interest and that you will return to this series as we roll it out in the coming months. With each article, we will take you in a new (and hopefully interesting) direction that adds to your knowledge of the commercial sector in order to show you how you can better serve your borrowers. **GMP**

Paul McGill is president of The Financing Hub, dedicated to delivering effective digital solutions for commercial real estate financing.

