

# Peter Kinch Commercial Mortgages

## December 2009 BC REIN™ Presentation



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### Commercial Financing Managing Expectations



- **TIME**
  - Everything Takes Longer
  - Allow 6-8 weeks for CMHC commitment stage
  - 3 - 4 additional weeks to close
  - Conventional – two weeks less

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### Managing Expectations

- **EXPENSES**
  - Everything is more expensive
  - Phase 1 environmental \$1,500
  - Commercial Appraisal \$2,000+
  - Lender's Fees 50 – 100bps



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### Managing Expectations

- **EXPENSES**
  - CMHC - Application and Insurance Fees (\$150 per Unit – Added to the loan)
  - Lender's legal fees – typically \$3,000+
  - Broker's fees 1% of loan amount (minimum on small loans)

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### Borrower Qualification

- Must show sufficient Net Worth to Support Down Payment
- CMHC requires net Worth of at least \$100K or 25% of loan amount.
- Conventional Lenders may Require More.
- Borrower's Investment Experience Important

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### Borrower Qualification

- No Borrower GDS/TDS Requirements
- Verifiable Income Not as big an Issue
- Must have Reasonable Credit History
- Corporation OK with Shareholder's Personal Guarantee
- Secondary Financing Generally Not Permitted

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### Property Qualification

- Stabilized Net Operating Income (NOI) – KEY
- Will Determine Loan Amount
- P&I Cannot Exceed (NOI – DCR)
- DCR = Debt Coverage Ratio
- Typically 1.2 / 1.3



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### Stabilized NOI

- Lenders use the following:
  - Market Vacancy Rate
  - Management Fee – Typically 5%
  - Repairs and Maintenance - \$500-\$600 Unit/Year
  - Caretaker's Allowance - \$300 Unit/Year

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### Property Qualification

- MARKET VALUE vs. LENDING VALUE
- Sale Price = Multiple of NOI
- Lending Value = Factor of Stabilized NOI



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### Property Qualification

- LTV = Lesser of... 75% Market Value OR  
Max Loan NOI – DCR can Support  
(Conventional)
- Up to 85% for CMHC INSURED  
OR  
– MAX LOAN supported by NOI

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### Property Qualification

- Properties in Rough Shape = Issues
- MAX Amortization = Remaining Economic Life – 5 Years
- CMHC Holdback for Significant Work Items



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### Mixed Use Properties

- For CMHC – Commercial component
- < 20% of Gross Floor Area
- Different DCR for Commercial component

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### Amortization

- Conventional Lenders – 25 years
- CMHC insured – Extensions up to 40 Years



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### CMHC vs Conventional

- CMHC Application Fee = \$150/unit
- Insurance Fee > Graduated Scale
  - 1.75% @ 65% LTV > 4.5% @ 85% LTV
  - Based on a 25 year Amortization
  - 0.25% Premium per 5 years up to 40 yr Am.
- Conventional lenders > 0.5% - 1%  
Lender's Fee\*\*

\*\* Depends on the size of the Loan



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### CMHC vs Conventional

- CMHC Allows up to 85% LTV
- Key > On Lending Value\*\*
- PREMIUMS can be added to loan amount
- CMHC Loan > Allow Extra 2 Weeks
- IS YOUR DEAL TIME SENSITIVE??

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### CMHC vs Conventional

- INTEREST RATES\*\*
- CMHC > .75% - 1.25% lower
- Does Lower Interest OFFSET Higher Fees?
- ONLY AFTER 3 YEARS
- Expensive Alternative for Short-Term Hold...

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### CMHC vs Conventional

- MISC.....
- Conventional lenders may not Require Phase 1 Environmental
- CMHC Always does
- CMHC May Not Require Appraisal
- Conventional Lenders ALWAYS will
- NOTE\*\* Secondary or Depressed markets Generally easier with CMHC



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### Playing in the Commercial Sandbox

- MANAGE YOUR EXPECTATIONS
- MORE TIME
- MORE EXPENSIVE
- MORE REWARDING?

KNOW THE RULES BEFORE YOU PLAY!

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### Thank you for attending

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