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ANALYSIS
HOUSING BUBBLE?
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FEATURE
WHY CANADA'S HOUSING
MARKET DIDN'T GO BUST

Showing brokers the (commercial) money

Despite a challenging time in the commercial mortgage market, Nexus Investment Corporation remains dedicated to working with brokers to find funds for commercial and construction deals



Andrew Bennett

Company Quick facts

- + **Number of lenders Nexus works with:** 300+
- + **Number of years in business:** 25
- + **Number of underwriters:** 5
- + **Areas covered:** All provinces except Quebec, with a focus on Western Canada

Commercial mortgages are work-intensive at the best of times, but last year's tightened lending landscape and plummeting property values made closing these types of deals even more daunting. Fortunately, Nexus Investment Corporation, a commercial mortgage banker and underwriting agent, had experience on its side to get through the tough times and is closing in on \$400 million in volume for 2009.

"We provide a good value-added service to our clients because of our access to various sources of capital," says Nexus president Andrew Bennett, who was nominated for commercial mortgage broker of the year at the 2009 Canadian Mortgage Awards. "The rates we're doing our mortgages at are as good if not better than what you're going to find at the bank and we're not a B lender so we aren't doing loans that are riskier."

The sources of capital Bennett refers to are Nexus' access to more than 300 institutional lenders, including banks, mutual funds, pension funds, life insurance companies, trust companies and private investors. What makes the company unique from a brokerage or a lender is its underwriting services. It handles the approval and due diligence process of commercial mortgage loans on investors' behalf and is a CMHC-approved correspondent for commercial deals.

Tips of the trade

Mortgage brokers can send commercial and construction deals to Nexus to find a funding source. The Richmond, B.C.-based company mostly deals in Western Canada, but is open to deals from other parts of the country (excluding Quebec).

Bennett says the first thing he asks a mortgage broker when they send him a prospective deal is the property's current rent roll and an income expense statement for the last 12 months.

"Commercial mortgages are all about the cash flow – while you have personal covenants involved,

beacon scores don't carry the same weight as they do in residential mortgage application," he says. "The cash flow is going to determine if the property can support the required loan amount."

Bennett adds the "advance to value" ratio for commercial mortgages is also dependent on cash flow. This means that if, for example, a property like an apartment building is being rented, the loan amount is going to be based on the rental income value, not the estimated future sale price of the property as a strata-titled condo.

After Bennett crunches numbers on a property's cash flow, he drafts a term sheet based on a review of preliminary information from a broker and tells them what information is needed to proceed with the deal.

Broker-friendly

Bennett says if brokers go directly to a financial institution for funding, there is a good chance they will be cut off from the deal process, whereas at Nexus, brokers are kept in the loop until the deal is approved and funded. They are also contacted at the time of their client's renewal.

"Brokers do not have access to CMHC for commercial loans, but we can submit directly to CMHC because we're an agent for the lender and that's one way we keep brokers involved in the deal," he says.

After the tightened lending and insurance guidelines that came into play last year, Bennett says brokers have to stay on top of thorough document collection, particularly for insurance purposes. Looking to the future, he is staying cautious about the positive outlook for the property market.

"I think until we are far from being out of this economic downturn and we're not going to see much change for some time," he says. "In this kind of marketplace, I think lenders are still going to be extremely cautious with what they do and how they do it." **CMP**