

The Process of Discovery

At its highest level, commercial mortgage brokerage is a collaborative process of discovery. On the borrower side, the more the broker is able to learn about the property and the borrower's needs, the more effectively he can focus his thinking and utilize his experience to assist the borrower in structuring the deal. On the lender side, a good broker carefully cultivates an effective and aggressive group of lenders. These are the kind of worthwhile relationships that can only develop over time. With each and every deal the relationship is tested and seasoned with mutual respect. The bar is raised. The boundaries are stretched. The stakes are always high because of the faith that has been placed in the broker by the client. Therefore, if disappointed by a lender's execution, or by changes that (hopefully won't) occur from the time a lender quotes a deal to the time the lender issues a commitment letter, that lender may never have another chance to win over that broker.

Part of the value, therefore, of a seasoned mortgage broker, is accumulating and honing these performance-based lender relationships to a fine edge so they can be brought to bear on an individual borrower's transaction.

At a sophisticated level, commercial real estate financing requires finesse, experience and the aforementioned carefully cultivated, time-tested array of "arrows" in the broker's "quiver". Or, to state it more generically: to be effective, one needs the right tool at the right time to accomplish a particular job.

What are the implications of all this for the borrower? In return for a mortgage brokerage fee, all these time-tested lender relationships and the broker's insight, judgment and advisory skills are leveraged by the borrower for a finite period of time without the need to employ such expertise on a permanent basis. All in all, I'd say it's an amazingly efficient arrangement.

So, who should you turn to when it's time to reach out to a broker? Which company should you choose? As in any endeavor, there's a pyramid of quality and expertise: plenty of mediocrity at the bottom, some decent performers in the middle and a small number of virtuosos at the top. As in choosing a doctor, a lawyer, a contractor or a vacation, nothing beats a word-of-mouth recommendation from someone you know and trust. Next there's old-fashioned due-diligence which would include doing a web search and reviewing newspaper articles (for example its easy to search the archives of the NY Times), calling accountants and lawyers active in real estate for recommendations, and asking for references from the broker's past clients. Ultimately, it will come down to a face-to-face meeting, the answers to your questions, and your gut feeling about the broker, his ethics and his company. The depth of the organization is quite important because a great broker must have top-notch administrative, analytical and processing support to be your optimal choice.

When you consider that the owner of an apartment building, office property, shopping center or owner-occupied property will live with the economic consequences, restrictions

and conditions of a new mortgage transaction for years, the best option for an owner is unlikely to be achieved by picking up the phone and calling one or two familiar banks. The smart owners know this and are happy to “outsource” the mortgage brokerage function, knowing that they will get the benefit of the broker’s knowledge of the current marketplace.

Since the lending landscape is a constantly moving target, the “alpha” broker guides the client, mindful of the client’s desired loan structure, incorporating late-breaking news and knowledge of shifting market dynamics to fine-tune his approach to best achieve the client’s objective.

You may be asking how, exactly, this knowledge can benefit the borrower, so here are two possible examples:

Lender X recently lost two valuable employees, the shop is overwhelmed and the broker absolutely knows that even though he’s closed hundreds of millions of dollars of business in the past with lender X, and the borrower likes lender X, at this moment in time lender X is not the right choice, and the broker must advise the client accordingly

Treasury rates drop significantly – prompting a suggestion by the broker to suddenly switch from lender “A” to lender “B” because lender “A” (despite the fact that it offers a better spread than lender “B”) will not be able to lock the interest rate for two more weeks. Lenders “B”, on the other hand, can rate-lock immediately. The borrower should employ the broker that will offer him this option when circumstances so dictate, not the broker that will sit tight knowing that the client is already signed up. The broker that is willing to disclose any problems that arise immediately and help the borrower switch to “Plan B” is (of course) infinitely more valuable than the one that doesn’t want to rock the boat.

Clearly, you want the broker that will dig deeper and seek to protect your interest, which brings us to the next rather important point:

What to absolutely avoid in a commercial mortgage advisor: brokers who tend to utilize a small number of lenders regardless of the diminishing effect that will have upon the advice that they can offer their clients. As efficient and convenient as this may be for them, it screams disrespect for their clients. You want a broker that enjoys going the extra mile and pushes to find the best solution in any market condition. Also to be avoided are firms without enough support staff to truly serve the borrower’s needs. The phrase “the devil’s in the details” must have been coined with complex commercial mortgage transactions in mind. There is a lot of work that must occur between the acceptance of a term sheet and the closing of the deal. Make sure that the firm you put your faith in is adequately staffed to keep the paperwork flowing smoothly.

Make the most of your next commercial real estate transaction by taking the time to identify the right advisor to assist you. Tap into the wellspring of knowledge and expertise as needed, knowing your broker is up to speed with all the nuances of the

current lending environment. Bringing that expertise in at an early stage will almost certainly ensure that your project will go more smoothly.

By Greg Winter