StreetWise

Observations on the Greater Vancouver Commercial Real Estate Investment Market by Sam Emam

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Top-Quality Assets Still Moving As Financing Remains Tough

The past year has shown just how tough it is to do deals. High interest rates, and no clear timeline for rate cuts, have kept investors on the sidelines. Owners who wanted to sell have had to accept lower pricing in order for the numbers to work for buyers. And even then, many deals have collapsed. One investor we know walked away from a deal despite having put down a significant deposit. Try as they might, the numbers simply didn't pencil out.

Many traditional lenders have also become much more conservative in their lending criteria. Others don't have the capital to lend because of the need to maintain greater reserves against loans already made. Cash is king for many buyers, who face lower loan to value ratios. (And then is the question – what is the right value? With so few deals, lenders have found it tough to be confident in valuations.)

So what makes a deal work?

A recent presentation I attended by Axium Capital Inc., a Vancouver financier, noted that lenders have the most confidence in clients with demonstrated experience in managing the asset they're buying, whether as a landlord or developer. The more experience a client brings to a deal, the more confident a lender is to finance the transaction because they trust it will be successful.

Second, cash is king for lenders, too. The greater the resources a buyer can bring to the table, ideally with equally credible partners willing to bear some of the risk, the more willing lenders will be to step in as financial partners on the transaction.

Third, the investment should have its paperwork in order. An asset whose value is vouched for by an experienced and trusted appraisal firm, and whose condition – both the improvements and the land – are in top shape, as demonstrated by environmental, geotechnical and building inspection reports, is more likely to secure financing than one with less favourable paperwork.

Axium presented a few examples of deals that have worked in today's environment. One that stands out for me is the refinancing of a $45 million development site on the North Shore that was working its way through the approvals process. The owner was a first-time developer, and the mix of factors resulted in a loan to value ratio of 54%. This is down from loan-to-value ratios in the 70%-plus range a few years ago.

Current conditions have also increased the importance of vendor take-back mortgages, in which the vendor extends credit to qualified buyer. This helps close deals, especially if the buyer has a vision for the property but traditional lenders feel they're untested. Properties with assumable financing are also attractive to buyers, offering buyers access to cheaper debt than is currently available.

While many hope the Bank of Canada will announce a rate cut on June 5, the road back from the current policy rate of 5% is likely to be long, even if the deal-making receives an initial boost. Yet opportunities remain for creative investors.

With more than 20 years' experience in Lower Mainland markets, we have the experience that can help you work out a strategy to navigate the current financing environment. Give us a call to learn how our understanding of the market, and connections, can position you for success.

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