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More Equity Needed
To Complete Commercial Deals
By Andrew Macdonald

Commercial realtors need more equity to get deals done because of the changing market conditions, according to **Bob Mussett**, senior vp at commercial broker **CB Richard Ellis**.~ "There's no question money is tighter. The spreads have increased and the amount of equity required has increased. It's tougher", he said.

Mortgages are priced on **Canada** bonds which are controlled by the federal government, and the mortgage providers than slap their own premium on the rates. A traditional commercial mortgage could have rates between 5% to 6%, depending on the property.

Earlier this week, a five-year rate on a Canada bond was valued at 3.19%, up from 2.99% a month ago, while a 10-year rate was $3.72%.

The modest increases, coupled with a compressed loan-to-value (LTV) offering of between 50% to 70% as compared to the traditional 75% figure last year - which is the percentage a property can be mortgaged - means less money is being loaned out.

"What we've seen is quite significant increase in the spread between the Canada bond rate and the commercial lending rate", said Mussett.

"It's a bit of a double-whammy. You have a spread pop-up and the amount of money you can borrow (is reduced) so\ your money is costing you more over Canada bonds, and the amount you can borrow against an asset has been diminished", he said. "There is less money being loaned on any given asset".

The lending market has softened because the Canada bond rate has actually dropped significantly, he said. For instance, in May 2007 a 10-year Canada bond rate was 4.5% versus 3.1% this week.

"There is still money out there", he added, On the multi-residential side, he says the lending rates are still historically attractive, and **Canada Mortgage & Housing Corp** offers competitive rates on loans of between 1% to 1.35% above the bond rates, which on a five-year plan means you could borrow money at 4.19%, he said.

The commercial broker says he sees tougher underwriting criteria, as mortgage lenders are now paying more attention to a building's condition and the quality of its tenant base. "When you look at this whole arena of borrowing, you can't just say, 'Well the cost of money has gone up'. It depends how much you want to borrow against the value of the assets. It depends on the classification of the asset, whether it's an office or industrial, or multi-res, there is a whole lot of factors that go into it", he said.

The tightening means it "takes more equity to complete a deal", said Mussett. Also compounding the problem is the fact that conduit lenders, those who sold mortgages as investments in funds in the securitized lending market, which represented about 25% of the lending market in Canada, no longer exist. "That business is shut down. And it's added pressure to the marketplace", said Mussett, adding it epresented $5 billion in mortgages in Canada last year.

That's why **Brian Moskowitz**, who owns commercial mortgage broker **Moskowitz Capital Management Inc**, which has offices in **Toronto** and on **Halifax**'s **Barrington Street**, says his applications have doubled within the last six or seven months.

"Our competitors are dropping off because their access to capital is drying up. Those lenders that weregetting their capital from **Wall Street** and **Bay Street** have real difficulties", he said. "We're completely different because we don't raise our money on Wall Street or Bay Street. We raise our money the old-fashioned way, from private individuals. We use real money", said Moskowitz.

His company, which has operated two mortgage funds for the last five years, charges rates between 9% to 12%.

"We've been waiting five years for this environment. My competitors are being washed away because of lack of capital, and we have lots of capital. (So the business climate now) for us has been terrific", he said.

The majority of his business is in **Atlantic Canada**, and the firm recently loaned $4 million to **Mill Island**, a condo and retail development in **Windsor**, being developed by **Terry Hines** and **Kevin Keefe**.

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