

# Future-Proof Your Business

Long-term planning is required to deal with commercial real estate's uncertain course

By Garry Barnes

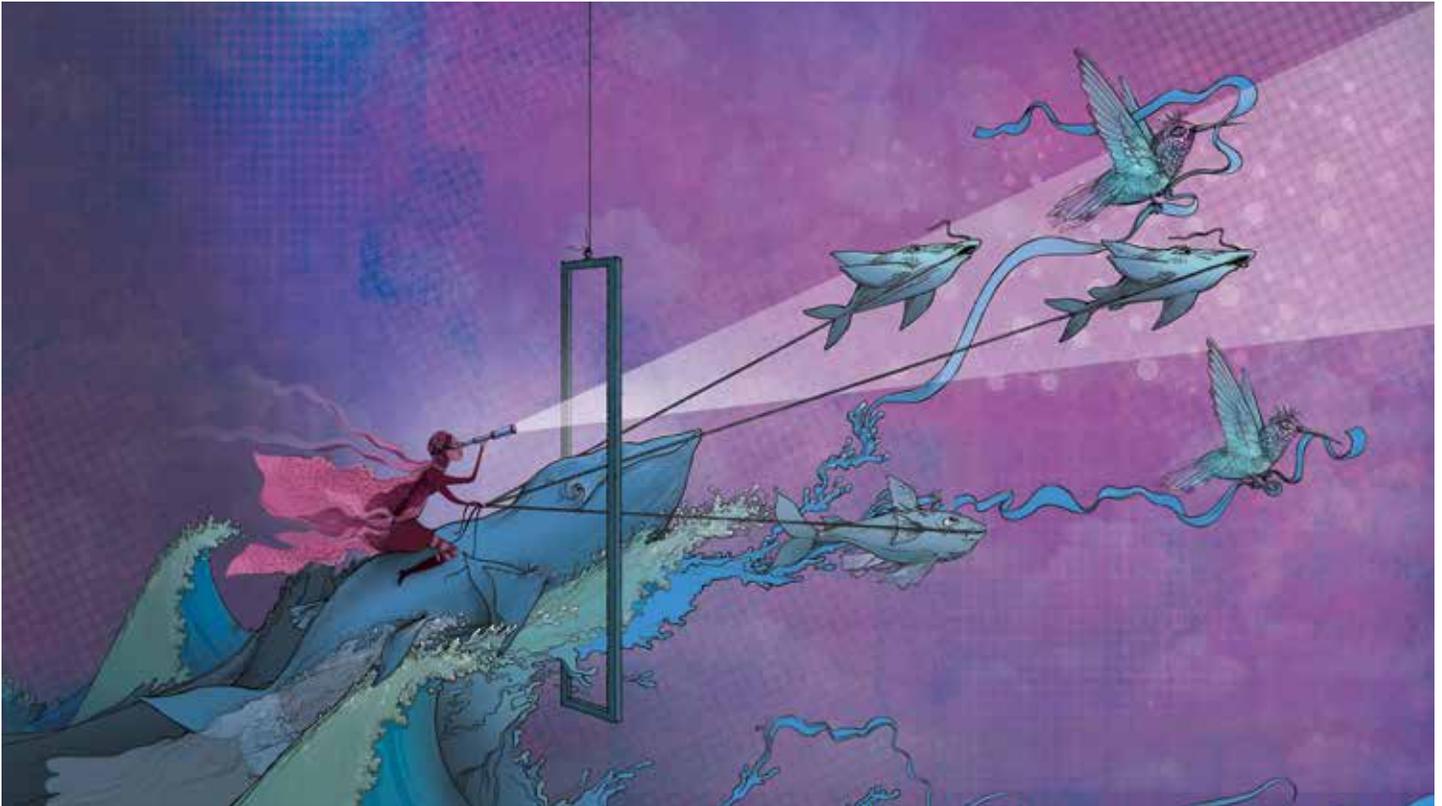


Illustration by Dennis Wunsch

Low interest rates, sound growth in lease rates and escalating property values have stimulated interest in the commercial real estate market. The Mortgage Bankers Association reported \$565 billion in commercial and multifamily real estate loans were originated in 2017, representing a strong financial market for lenders.

Commercial mortgage brokers, however, may be asking, "What does the future hold?" There is still unfilled market demand for new commercial real estate loans and this provides the broker a perfect opportunity to demonstrate the need for and value of their professional advice and counsel. And there are several strategies for continuing to successfully operate in this industry.

According to the National Association of Realtors, foreign investors alone are expected to deploy \$58 billion into the U.S. commercial real estate market between 2016 and 2020. Of course, optimism is always strong until the market changes. Given the strong loan-volume forecast, many are wondering if the market will continue this uphill course, or if forthcoming political and market pressures will have negative consequences on future commercial real estate financing.

Additionally, there are questions about whether recent retail-sector headlines, possible overexposure in certain sectors, rapid growth in commercial loan concentrations, detected weaknesses in risk-management

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practices and increased equity requirements in high-volatility commercial real estate (HVCRE) loans will possibly result in a general lack of economic confidence and a market downturn.

There are countless commercial lenders in the U.S. offering myriad loan programs. Loan-compliance standards are high, documentation is voluminous, and the entire process is complex and time-consuming. Many buyers or investors do not have the time to navigate the lending process and are generally uncomfortable without professional guidance. This is where the mortgage broker comes in.

### Broker value

Successful commercial mortgage brokers are industry thought leaders who have in-depth market savvy, recognize opportunities when the market changes and are unafraid to take on challenges during periods of chaos. They are always action-oriented.

One of the best definitions of a thought leader comes from Robert Jarvik, an American scientist who helped develop the first artificial heart: "Leaders are visionaries with a poorly developed sense of fear and no concept of the odds against them." When working with lenders and clients, commercial mortgage brokers should constantly stress the many ways they can add value to a deal, including:

- **Eliminating** the potential risk of dealing with a single lender;
- **Providing** a solid network of professionals, including accountants, appraisers and attorneys that the broker works with on a regular basis;
- **Helping** a wise business person access the right financing, just as a wise business person wouldn't enter a courtroom without the right lawyer;
- **Leveraging** lender relationships to secure an accelerated processing of the loan application, and;
- **Navigating** the commercial lending world, similar to a sponsor in an investment deal.
- Nearly all successful mortgage broker operations have a defined path to follow. Following are four areas in which brokers may be able to "future-proof" their business and guide themselves past potential economic challenges.

### Strategic planning

Generally, strategic planning is more holistic in its approach, focusing on things like company vision, mission and values. Essentially, these are specific strategies to use in order to achieve desired goals and objectives.

Strategic planning shouldn't be confused with other types of planning, which are usually more tactical or specific steps to be taken. With a strategic plan in place, a company can be more proactive to certain events, as opposed to simply reacting to events that cannot be controlled.

A strategic plan will help a company recognize new opportunities, identify better choices, appropriately allocate its resources and help ensure all staff members are in sync. Even an average plan, if well executed, can produce good results.

### Technology

There is rapid growth in online lending platforms, or internet-based lending, which offer a variety of loan types, including commercial real estate loans. These websites offer borrowers avenues for accessing capital and emphasize an accelerated approval process. These sites should be considered major forces of change. They are a mortgage broker's competitors, both today and tomorrow.

Advanced data, or big data, is a force multiplier and will extend service capabilities and delivery systems in vital ways. Data is changing the business world — either one stays on top of it or falls behind and risks becoming irrelevant in the marketplace. Technology spawns innovation which, in turn, provides an opportunity for brokers to stand out from their competition, if they utilize strategies to create a competitive advantage in their respective market.

Technology can best serve a mortgage broker in three ways. First, they can build a convincing social media presence to increase name recognition and encourage potential new clients to review their menu of loan offerings. Second, they can provide an easy-to-access loan-application process. Third, they can provide an automated-underwriting program to qualify

the potential borrower.

Automated-underwriting engines provide immediate loan decisions based on information submitted at the start of the application process. By focusing on these three areas, a mortgage broker can speed up the entire loan process from origination through underwriting — and that means getting paid faster.

Of course, technology can be expensive to install, use and maintain. The question is whether a mortgage broker can attract enough qualified borrowers to justify the expense associated with the enhanced technology. Brokers should keep in mind there will always be potential borrowers who prefer to engage in person or over the phone. For the foreseeable future, these clients will remain an important part of the market. Yes, these individuals require more time and are more expensive to process, but brokers should accept the fact that not all clients are ready to interface with a computer alone.

Technology also has a major impact on a mortgage broker's location. With the right technology, a client's need to visit a broker's office is greatly reduced and may be eliminated altogether.

### Lender development

An active broker must have a substantial number of lenders that are willing to finance the various loan types sourced by the broker. There is no optimal number of lenders but — arguably — more is better.

If a broker offers niche loan products, lenders must also have a degree of expertise and be willing to lend to that market. The loan types offered by a broker will generally dictate the number of lending sources needed. A general broker will probably require a greater number of general loan sources, however.

It is essential for the broker to know the lender's product offerings and basic underwriting criteria, as this will enable the broker to align the borrower's financial needs to the appropriate lender. When this happens, the loan closes faster and the broker's cash register will ring faster.

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As time-consuming as it may be, a commercial mortgage broker must thoroughly understand a lender's basic lending philosophy, such as their ideal loan size, geographic preferences, volume abilities, interest rates and fees, as well as their attitude toward working with brokers. Brokers must clearly understand market expectations and structure their promotional strategies accordingly. Once the broker addresses these issues, the next step is to list and start contacting potential lenders.

### Customer development

Customer development may well be the most important of the four steps for future-proofing your business. It does not matter how knowledgeable a broker is, how many lender sources they have or how high-tech their operations are if they have no customers. Nothing happens until a sale is made.

The internet makes it easy to compare lenders, loan programs and interest rates. Frequently, a borrower bases their loan decision almost exclusively on the interest rate without giving consideration to broker expertise and service levels.

Essentially, gaining new customers requires convincing potential borrowers to engage with the broker's service. The objective is somewhat simple but the process is more challenging and, at times, it is less cost-effective. To start, a borrower must know of the broker and the services they offer. For this to happen, a broker must create market awareness or name recognition.

There are a few simple and inexpensive strategies a broker can employ to develop a customer base. Advertise in appropriate real estate publications. Hand out business cards, flyers and brochures at every opportunity. Document and advertise your closed loans and projects — although you should obtain the clients' permission to include their names. Contact builders and real estate agents, who can place signs about your financing services.

Offer continuing-education classes for real estate agents. They often need these types of credits and the broker can benefit by building a database of referral sources. Write articles for trade magazines and local business publications. Speak or teach when the right opportunities present themselves. Publicize your specific expertise and unique skill sets. Be approachable and responsive to earn trust.



Commercial mortgage brokers must think differently, apply themselves differently and appear differently in order to stand out. Continued success is predicated upon adaptation. The choice is simple: Be willing to change or be left behind. The model that got you here will not take you where you wish to go. ■