Knowing Your Niche Can Bolster Your Business

By developing a specialty, originators can hone their expertise while building solid relationships with customers and lenders

By Joe Mardesich

Picking a niche for your commercial mortgage business is a wise idea. The reason? This is an industry that requires a certain depth of expertise to not only survive, but to thrive. And because the variety of possible commercial lending transactions is so vast, the way to acquire that expertise is to drill deeply into a few specialties. "Jack of all trades, master of none" is not how you want to be known, nor is it an efficient way to function in this business.

Many brokers don't know how to get started developing a niche, however, and have questions about how to choose a specialty and find lenders with expertise in a particular field.

Choosing a specialty

In the broadest terms, you have two areas to consider when deciding where to focus your efforts. You can specialize in a certain property type, or a certain type of client. Either method can be valuable, but with both it's best to narrow your focus to a small group of lenders.

Developing a few relationships will allow you to do enough business with each of your key lenders to have clout and become a priority to them. Nothing is worse than calling dozens of potential lenders you don't know, trying to place a deal, and not getting a return call for days — if you get one at all. Having a core group of lenders with whom you have good working relationships prevents this outcome. It also allows you to get valuable, first-hand education from your lenders on the property and deal types they do best, which makes it easy for you to pick which clients to target.

Bottom line: When you know your lenders well, know their programs and have relationships with them, it empowers you to prospect for new business and qualify deals with skill and precision. Your deals get the attention they deserve and a higher percentage of them will be funded. If you scatter deals to dozens of lenders you barely know, you might as well be throwing darts blindfolded.

Cultivate lenders

A half-dozen primary lenders is a workable number for a solo broker, and a larger shop would rely on a larger pool. It's smart to select a handful of lending partners that all serve the same type of clientele and property type. What you're after is depth, not breadth.

Because of your specialty and the lenders' varying interests, you may find that you do deal after deal with the same lender. That's an advantage, not a drawback — but you still need other options, no matter how strong your primary lender may be in the market. Individual lenders can become so slammed at a given moment that their response time suffers. There are other possible roadblocks that can slow a lender down. Sometimes, for instance, it's the volume of your own deals that taxes them to their capacity and delays their turnaround time. In any case, it's good to have backups available, even though you may do the bulk of your business with only a few trusted, experienced lenders.

In any case, remember that all lenders have their own nuances and biases, so you should never rely on just one source. Sometimes a lender is so focused on a single market segment that you will have little or no chance of selling even an extraordinary deal outside of their specialty. It's not rational, but it's reality in this business. No single lender within your niche and core group, no matter how good, will take on every doable deal, or fulfill all your needs.

You may wonder why an originator shouldn't seek out and work with 20 or 50 lenders? Why not 100? The reality is that a list of 20 or even 100 lenders isn't worth much to your business, except as a resource to help you cultivate your smaller core group. Trying to work with too many lenders on a continuing basis — unless you're funding deals worth billions of dollars per year — will be counterproductive.

The rule of thumb is to have only as many lenders as you can keep reasonably busy. The exact number varies, but you want to be a

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dependable source of business for your lender. If you close a deal per quarter with a lender, you should get a good response whenever you bring that lender a new deal. If you close one or more deals per month, you will be developing a partner who will pull the proverbial rabbit out of the hat for you when the situation warrants it.

The greatest temptation in this business is to try to be all things to all people. But it's better to keep a tight focus on what deals you accept and what deals you reject. Your time is limited, as are the number of profitable deals, and you don't want to waste your time on projects that are undoable. The ability to turn down deals is important, and it is a skill those new to the business need to develop.

Choose a niche that interests you, and find lenders with competitive products that are interested, too. Learn everything you can about your niche. If you have the desire, you can branch out into other areas later.

What to look for

Low interest rates are always important, of course, when you're evaluating lenders, as are competitive fees. But there are other factors that make a lender stand out, including the following:

- Saying yes to tougher, or more specialized deals or property types;
- Higher loan-to-values, and lower debt-service coverage requirements;
- Longer amortization structures, and lower or no prepayment penalties;
- Ease of documentation;
- Lower payments (via interest-only or other mechanisms);
- Geographic range; and
- Solid execution.

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Know your business — know it so well that your clients and lenders come to depend on you. This, again, comes from having deep knowledge of a few profitable specialties. Experience in your niche will lead to expertise, which will ensure your clients and lenders will see you as an asset.

Markets change, but your goal should always be to develop a focused expertise and to cultivate relationships with a few great lenders. ■