

The Blanket-Mortgage Advantage

Pursuing portfolio loans for residential property pools can prove to be a profitable niche

By Tim Leber

Let's take a step back and analyze the reasons why commercial mortgage brokers have not had a strong focus on the residential income-property portfolio space. The first misconception to address is that arranging financing for pools of rental homes and small multifamily properties will be time-consuming.

This notion may have been true 10 years ago, when the commercial mortgage-backed security (CMBS) space had seen very few conduit deals arranged for mortgage pools involving varied property assets. Back then, outside of some creative transactions arranged through investment banks or regional banks with large private clients, midlevel and quasi-institutional investment groups simply could not find a one-stop shop for structuring blanket financing for these property pools. That is no longer the case, given the host of lenders that now have experience in arranging some share of the hundreds of billions of dollars in CMBS conduit financing currently in play in the market.

The second major concern that mortgage brokers and borrowers share is the perceived complexity and cost associated with arranging financing for these large pools of residential assets. Commercial blanket mortgages are loans structured to finance the purchase of multiple properties. This financing tool offers a streamlined solution to the high closing costs associated with collateralizing hundreds of properties via individual mortgages — all with separate rates and loan terms.

One way to think about blanket loans is that they are similar to an institutional loan for a multifamily property. Instead of apartment units, however, borrowers are financing the purchase of multiple separate properties through a single blanket mortgage.

Attractive niche

The ease of having one interest rate, one payment, and a drastically less-expensive and less-strenuous closing-cost schedule lead many borrowers to choose the portfolio blanket loan to save money upfront — even though the cost of capital might be comparable to financing the assets individually in some cases. Another important item that borrowers should understand is that this loan type requires some time-intensive due diligence on the part of the broker or adviser in order to execute the financing properly.

When it comes to a fragmented residential portfolio, truly understanding the blanket-loan product, as well as the processes associated with it, can elevate a broker's value and put that individual in a position to command significant fees from clients. Being able to navigate everything from the entity formation, title-transfer process and insurance requirements on a blanket mortgage allows a savvy broker to offer clients swift execution and near certainty of closing — especially if the broker is expertly familiar with the unique attributes of the residential portfolio product.

There is a true value to paying a well-versed adviser or commercial mortgage broker to arrange financing in order to take most of the headaches away from the borrower in the negotiations and due diligence. In an ever-competitive brokerage environment, arranging blanket mortgages for single-family rental-property pools can prove to be a profitable niche for mortgage brokers.

Business opportunity

Traditional multifamily lenders targeting core apartment products compete with slim margins. With so much competition among lenders and brokers to win business, there

is simply little room left in many cases for a broker to fit a fee into the spread and still remain competitive. The core asset classes are too well-understood to have a lot of variation from lender to lender.

As a result, more and more lenders are beginning to offer solutions for “out of the box” financing requirements, such as the commercial blanket mortgage for residential property pools. Because this type of loan is a relatively new asset class (or at least not widely understood), it offers brokers with the know-how an opportunity to expand their business opportunities.

More often than not, brokers starting out in the market are given a “trial run” financing-transaction opportunity involving a more difficult property portfolio before private investors or large investor groups will give them a shot at lining up financing for their quality institutional assets. With fewer players in the space and more ambiguity in terms

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Tim Leber is an origination analyst at Colony American Finance, a leading financier for residential real estate investors. Leber has spent his career in real estate finance. Prior to Colony American, he was an associate at Newmark Grubb Knight Frank, a commercial real estate advisory company. He also has held positions at Grubb & Ellis and Morgenstern Property Co. Leber is a graduate of the University of Arizona. Reach Leber at timothy.leber@colonyamericanfinance.com.

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of the asset profile, these blanket-loan deals can provide savvy mortgage brokers with an opportunity to offer a high level of service to their clients and to command a premium fee as payment that would normally be unobtainable in other more mainstream deals.

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Brokers choosing to operate in this niche-lending space not only have an opportunity to transact and execute deals at a high level, but also to find new and creative ways to finance assets that don't fit into the mold of the mainstream lending community.

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Brokering commercial blanket loans for residential real estate is a market space that is becoming more and more attractive. With the volatility in the capital markets over the past year, borrowers with residential holdings are beginning to turn to long-term commercial blanket loans as a means to maintain certainty in an uncertain world. ■