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Role of the Mortgage Investment Manager

The Mortgage Investment Manager invests money for individuals, companies, foundations, societies, and pension plans. Because the investments are secured by real estate property, the manager must have an extensive background in the full range of real estate-related disciplines, including sales, leasing, property management, appraisal, land development, and construction. Investors require regular, consistent income; the manager's job is to deliver them income.

The manager deals with a variety of laws including contract, land, estate, registration, environmental, heritage, zoning and land use, securities, and insurance, and must have up-to-date knowledge of all federal and provincial regulations regarding construction standards, building bylaws, mortgage law, environmental legislation, taxation, insurance, bonding, and so forth. On a routine basis, the manager deals with the *Real Estate Act*, *Mortgage Brokers Act*, *Securities Act*, *Residential Tenancy Act*, *Municipal Act*, and *Strata Property Act*, to name just a few of the relevant statutes.

The manager *must know "value."* This is of paramount importance. The mortgage investment manager must have

superb *market knowledge*, and not only know what a property is worth today, but what it is likely to be worth a year or more into the future. There is no quick and easy formula for acquiring this knowledge; it comes with experience, being in constant contact with the real estate market, and consulting with other professionals in the business on a daily basis. Good managers are *hands-on*; their success comes from spending a lot of time *in the field*, as opposed to *behind a desk*. There's no replacing fieldwork when it comes to valuation and market awareness.

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A keen ability to assess the strength of a borrower is also vital; again, this comes from field experience. Why would you lend to a contractor, for instance, when you haven't seen anything the contractor has built? The manager must experience the product *first-hand*, and develop a sense of the underlying security of the investment. The manager must also know

a lot about the borrower's reputation and ability to meet debt obligations.

I have heard that it takes a leather skin to be an effective mortgage investment manager. On the contrary, it doesn't take a leather skin at all, unless you are prone to taking unnecessary risks, through which you will experience the inevitable problems. What *it does take* is *sensitivity* and the ability to *anticipate* and *adapt quickly* to changing market conditions.

In my capacity of Mortgage Investment Manager, I am guided by the following principles.

Be reasonable in the size of your investment portfolio. Don't take on more capital than you know you can invest safely and administer effectively.

1. *Stick to your knitting.* Don't invest in real estate projects with which you are unfamiliar. It's simple. For example, if you don't know about steel and concrete construction, but you know frame construction, then stick to frame. If you don't know about land development, don't get involved.
2. Keep your investments close to home. If you are not familiar, for

instance, with US laws and market conditions, don't invest there.

3. Never lend against a real estate property your investors would not be pleased to own.
4. Diversify! Don't *concentrate* mortgage money in any particular borrower or in any particular real estate project. Keep the investments relatively small, and spread out.
5. Think long term, but keep your investments short term. This provides flexibility to the investment portfolio, and allows you to adjust reasonably quickly to market and interest rate fluctuations.
6. Do not compromise your investors (it's *their* money, *not yours*) by accepting brokerage or finders fees from borrowers. This creates an inherent conflict of interest.

The relationship between the investor and manager is a "trust" relationship and, at its best, involves a great deal of consultation. It helps that the security (real estate property) is very tangible—mainly residential homes. What other security maintains its value more than a Canadian home? Probably none.

It's an interesting profession, and very rewarding. Good luck with your investments! ▲

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