

Commercial vs. Residential Mortgages

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Why do Lenders typically require an amortization of 15 to 20 years versus 25 or 35?

Lenders hold the opinion that home owners pose less risk as borrowers because a home is in most respects more important than a mortgage on an investment property. This is probably understandable in the general context that “a man’s home is his castle”.

In speaking with Ron Dezman, AACI of Preferred Realty Capital Inc. the following points summarize why lenders give preferential treatment to owner-occupied residential versus commercial mortgages:

- Potential of CMHC, government insurance.
- Perceived greater life span of the asset.
- Typically residential mortgages offer a greater volume of loans giving the lenders opportunity to blend many loans.
- The life span of a home may be 60 to 70 years or longer versus a commercial property with only 40 to 50 years.
- The underlying security of a commercial loan is represented by a tenant or tenants whereas with a home reliance is based on an individual whose motivation to maintain and repay can be different.

“Given the price point at which a single family dwelling can be purchased compared to the typical commercial property (those over \$2.0M), lending institutions can blend out the problem accounts easier than if they had the same number of commercial loans”.