Commercial Mortgage Services

Debt Market Monitor

April 2013 Update

what's on the radar screen?

Everyone knows that one of the purposes behind the Federal Reserve's bond-buying program is to keep interest rates low. Currently, the Fed is buying $45 billion in long-term Treasuries and $40 billion in mortgage-backed securities each month to "condition" the market – driving down long-term interest rates – and to spur growth in the economy. Recently, the President of the Federal Reserve indicated that they "should calibrate" the pace of their purchases and rely more on market ebbs and flows to reflect the natural market place climate. The Fed Chairman echoed these comments, albeit on a more subdued basis. Notwithstanding these observations, both confirmed that the bond-buying program would not be adjusted anytime soon; the economy is gaining some momentum but is not yet sufficiently healthy to start dialing back the bond-buying program. What makes this interesting is that the economy's strength, gained from areas such as the housing market, has nudged these thought processes into verbalization. Don't worry though; we still have a long way to go before we will see interest rates rise.

Canadian institutional debt markets have started the year with good velocity and in some cases a few lenders have already depleted their 10-year-term supply of funds – at least for the time being. Look for those lenders with flush 10-year-term funds to attempt snagging a little extra yield, playing the supply-and-demand game and being little stickier on terms and leverage amounts. Five-year-term funds remain abundant, with lenders anxious to place their respective allotments, although with widely varying ground rules.

In the U.S., debt capital for all terms is available as long as the property and borrower qualify. The qualification bar has been somewhat lowered, reflecting the reality of stronger markets and a generally accepted notion of a recovering economy. For high quality product, competitive bidding is occurring. CMBS lending is continuing to gather momentum, with floating-rate programs in the offing.

Continued search for yield will continue to drive lenders on those fronts to transactions with real estate debt and terms that can fill their needs.

AVISON YOUNG Intelligent Real Estate Solutions

CANADA'S BEST MANAGED COMPANIES

fiscal snapshot

Bank of Canada Rate

March 2013	1.25
One month ago	1.25
One year ago	1.25

Bank Prime Lending Rate

March 2013	3.00
One month ago	3.00
One year ago	3.00

Indicative Commercial Mortgage Spreads* Over Government of Canada Bond Yields

Conventional	5 Year	10 Year
March 2013	1.70-2.25	1.80-2.60
One Year Ago	1.70-2.50	1.80-2.65
Insured	**5 Year**	**10 Year**
March 2013	0.70.1.10	0.80-1.20
One Year Ago	0.85-1.25	0.90-1.40

*Spreads are indicative of high quality real estate in major Canadian markets

Government of Canada Benchmark Bond Yields

	5 Year	10 Year	Long
March 2013	1.30	1.76	2.50
One month ago	1.28	1.84	2.52
One year ago	1.57	2.11	2.66

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highlighted transaction

Asset Type:	**Portfolio of Suburban Office Buildings**
Location:	**Major Canadian Market**
Financing Details: FUNDED	**To assist with the acquisition of this portfolio, a term facility in excess of $11M was arranged for a 5-year term, on a limited recourse basis at a competitive interest rate. The leverage represented approximately 65% of the acquisition price.**

we originate financing

We originate fixed and floating rate mortgages for all types of property owners, for all types of properties including term, construction, bridge, interim, mezzanine, construction and CMHC insured financings.

Please feel free to contact us for more details related to mortgage financings or real estate transactions.

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Avison Young is Canada's largest independently-owned commercial real estate services company. In 2012, Avison opened 12 new offices and now has 43 offices in 35 markets across Canada and the U.S.

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