

5 - Year GOC

1.32%

▼ **0.35%**

03/06/2019-06/20/2019

TSX

16583.67

▲ **455.58**

03/06/2019-06/20/2019

Prime Rate

3.95%

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03/06/2019-06/20/2019

The First Half



The Avison Young Western Canada Debt Capital Group services Edmonton, Calgary and Vancouver. This creates a unique perspective on how real estate assets are being analyzed and financed. Vancouver's market remains robust in terms of lending and the availability of funds. The strengthening of private lenders willing to invest capital in the Western Canadian market continues.

The trend in Bond Rates through the first 6 months of the year have been volatile to say the least. In late 2018 we saw the 5-year GOC at approximately 2.40% with a low watermark in mid June being approximately at 1.32%. The wide swings we have seen over the past 6 months are reflected in the graph below.

It would seem reasonable to suggest that we will remain confronted by this volatility throughout the balance of the year and being prepared to "pull the trigger" on any debt transaction is certainly a timing consideration.

The first couple of months in 2019 were impacted in Alberta to some degree by the looming Provincial election. Across all sectors of the real estate market, decisions were being deferred leading to a overall soft start to the year. After the success of the UCP in April 2019, activity has increased with a cautious but optimistic view of interest rate movements. The impact the federal election will have on debt structures remains an unknown.

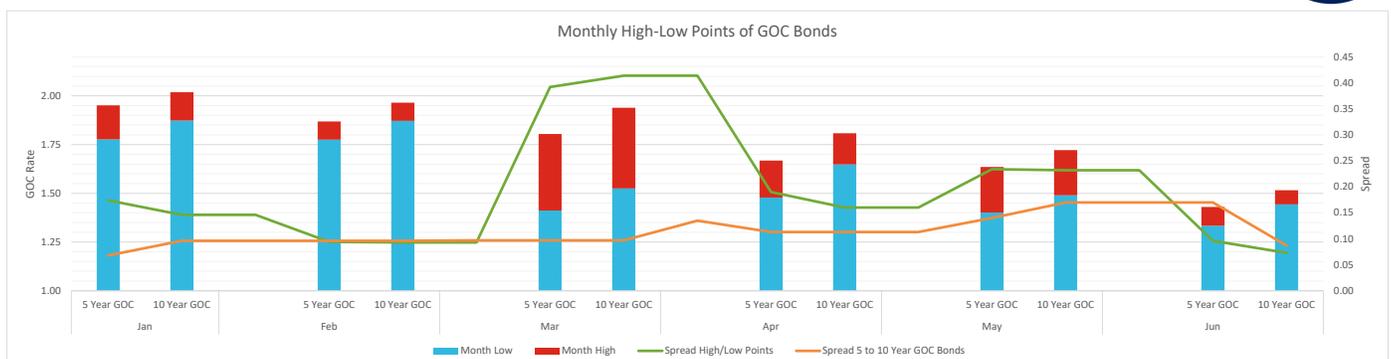
Through the first half of the year the TSX also showed volatility and this did impact the direction of GOC Bonds, though at times it was not the relationship that might be typical. Generally, when we see movement in the TSX there is a corresponding movement, though not always to the same magnitude with bonds. The year started with the TSX at approximately 14,200 points. By mid-January the range was between 15,000 to 15,500. Late February reflected a trading range in the order of 16,000 holding through to mid-March. Through April into early May the market again moved upward to the 16,500 threshold.

Market Update



- We had mentioned in our March 2019 Newsletter that the GOC had fallen to 1.46 which represented the lowest point since mid 2017. As at June 10th the 5 Year GOC was at 1.408%, a 10 bps jump from the Friday before.
- The spread between 5 and 10 year money has continued within the 10 bps range. Given the supply of 10 year funds, a premium would be likely over the coming 6 months.
- Spreads as quoted by various lenders remain particular to the lending institution. For the best assets with strong covenants attached to the transaction, pricing can be as low as 140 bps to 150 bps over the applicable bond. Moving up the food chain, assets with some challenges, but still having reasonable covenants would be in the 225 bps to 250 bps range.
- There has not been any real overall change in the supply of debt capital in the real estate market. As redemptions of capital occur, some lenders are more aggressive in their lending parameters, but this tends to be a short-term response. Some lenders have also indicated limits on CMHC insured debt due to increased activity levels.

Bond Rate Variance



Looking Ahead



- There seems to be potential for the Prime Rate to drop before year end. The next rate set on July 10th has a low probability of decrease but as the year ends, it is the writer's opinion that economic conditions may not seem as solid once the detail behind the figures is analyzed. Summer tends to be a slow economic period and we believe that the upward trend in Prime was to set the stage for a possible decrease to stimulate the economy.

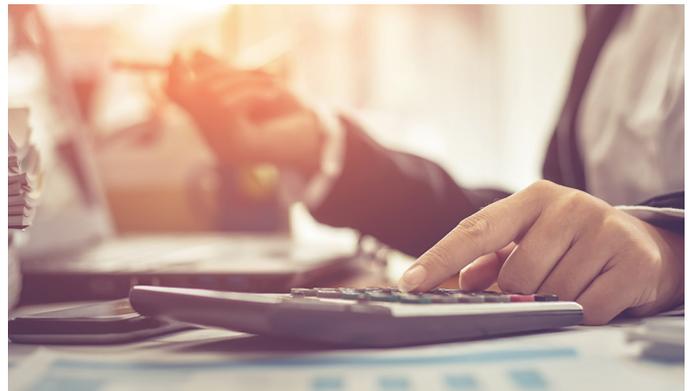


Case Study



One of the strengths that we provide is to ensure that the potential debt secured in a transaction is to the benefit of the Borrower, being reasonable with the terms and security. We had two situations in the past 6 months that bear that out. Both where a client had engaged Avison Young to secure debt with an accommodation made that we would also deal with the clients current lending institution.

In one instance the offer came in from their Bank at an interest rate of 4.78% for the term being offered. We had 5 offers from alternate lenders with a low point of approximately 3.31%. No specific terms were revealed but we had informed the lender that they were far off the mark. A new offer was presented, and the final interest rate settled at 3.41%. If the Borrower had only relied on the easiest path, the savings in interest cost would not have been realized.



Did You Know?



Avison Young in Alberta has expanded the suite of services available to clients over and above traditional brokerage. This includes Mortgage Brokerage, Project Management, Property Management, Appraisal, and Tax Appeal. Feel free to contact us if you would like further information on how we can assist in becoming a holistic solution to your real estate needs.

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