

## 5 - Year GOC

0.340

▼ **0.232**

03/31/2020 - 07/09-2020

## TSX

15,450.56

▲ **1,925.66**

03/31/2020 - 07/09-2020

## Prime Rate

2.45%

03/31/2020 - 07/09-2020

Our last newsletter called "Through a Glass, Darkly" was published at the end of the first quarter at the height of the lockdown. Gloomy, dark, even scary were adjectives used to describe the world and the economic outlook at that time. Three months later we are slowly opening the economy and things are looking up and brighter. We still have a long way to go, and we hope you and your families are well.



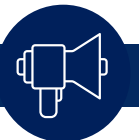
## The Current Lending Environment



The first half of 2020 is now behind us, thankfully, and it appears the capital markets are loosening up. Inquiries for debt have increased in the last 30 days and we see a number of CRE Investors now planning to move forward with their projects, both on the buy side and new builds. However, Lenders are taking a more conservative approach, many saying it's business as usual but in reality they are downward adjusting their loans on a loan to value and cost basis. They are also focusing on doing business with their existing clients or those borrowers with a successful track record and a decent balance sheet. That's not to mean

the small or mid-size Investor is going to be left out in the cold, it just means they're going to have to get more creative with the capital stack. Raising more equity, entering into joint ventures, limited partnerships, mezzanine financing, are all examples of how Investors / Developers can transact in the new reality. In past newsletters we have indicated that the stock market has influenced the movement in the Bond rate, however, over the past quarter this impact has not been evident. Since the middle of April the stock market has trended upward significantly, while the 5-year Bond rate has maintained in the 0.35 – 0.42 range.

## Interest Rates



The current 5 & 10 year Government of Canada (GOC) Bonds are yielding 0.35% and 0.50% respectively. (as of June 30, 2020). The yields are down a full 100 basis points from 1 year ago and it doesn't appear they will be moving up any time soon.

Five (5) year conventional fixed rate mortgages currently start as low as 2.50% for the best quality real estate with a strong borrower covenant. This would equate to a spread of 215 basis points, compare that to pre-pandemic spreads when they were as low as 150 basis points. Clearly lenders are pricing more risk into their loans and in fact many lenders are not even quoting a spread over the GOC, they are simply setting minimum floor rates. These floor rates are typically between

3.25% and 3.75% for 5 year terms. Ten (10) year conventional rates for the best quality deals start at 3.25% and go up from there.

CMHC insured financing rates for multi-family rental buildings have also seen a spike in spreads but due to the lower Canadian Mortgage Bond (CMB) yields interest rates are extremely attractive at 1.70% for 5 years and 1.95% for 10 years.

The current overnight bank prime lending rate is 2.45%, down from 3.95% pre covid. For interim construction and variable rate mortgages spreads range from 100 to 250 basis points for all in variable rates of 3.45% to 5.00%.



## Asset Classes



The most coveted asset classes by both Investors and Lenders are multi-family rental and Industrial. Both are in high demand and have weathered the storm virtually un-scathed. Retail and hospitality have been hardest hit and it's not quite clear how office is going to come out of this. Some major office projects have been put on hold as the major developers re-design and re-think space design and layouts.

## Closing



In closing we sincerely hope that the economy opens up in a safe manner and our lives and businesses in the new normal will be prosperous. Over the past few weeks we have been working on CMHC debt, land servicing loans, multifamily construction and re-positioning loans. Our team of mortgage professionals have spent a lot of time in the past few months talking with lenders, and as a result we are confident we can structure the right financing to meet your needs. Our services as mortgage advisors during these unprecedented times will add value and contribute to the success of your commercial real estate investments. We are here to help.

## Contact Information

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