MAY 2017

Commercial Mortgage Commentary

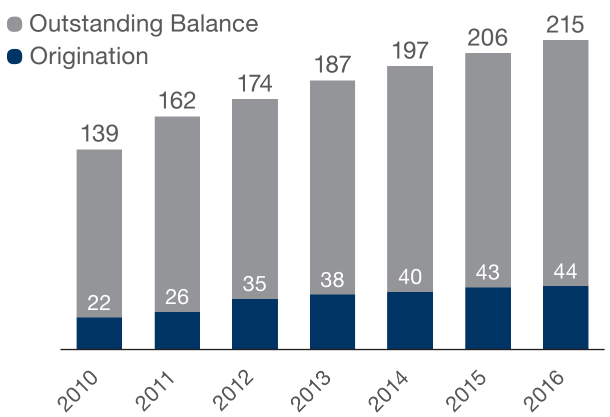
CANADA'S MORTGAGE COMPANY™

For the 7th consecutive year, CMLS Mortgage Analytics Group surveyed the commercial mortgage industry with the objectives to collect information on the size and composition of the commercial mortgage market, quantify annual originations, and gauge industry sentiments heading into 2017. With the participation of some of Canada's top lending institutions and publicly sourced data, the survey has direct access to over 90% of the Canadian commercial mortgage market.

The size of the commercial mortgage lending market (excluding construction lending) at the end of 2016 is estimated to be $215 billion, up 4.3% year-over-year. Annual origination for 2016 totaled $44 billion, keeping up the trend of sustained yearly increase. When factoring in all forms of financing available to borrowers, including senior unsecured bonds, annual origination increased to $48 billion for the year.

From a sentiment perspective, almost 70% of participants expect market wide capital available towards commercial mortgages to increase in 2017 versus 50% of respondents last year. From a pricing perspective, 70% of respondents expect spreads to remain flat versus 70% predicted an increase in the previous year. Finally, lenders have decreased their appetite for suburban office and increased their appetite for industrial and conventional multi-family deals year-over-year.

Source: CMLS



In the News

Notwithstanding developments in highly covered headlines, such as France elections and Donald Trump, we highlight recent developments relevant to mortgage lenders:

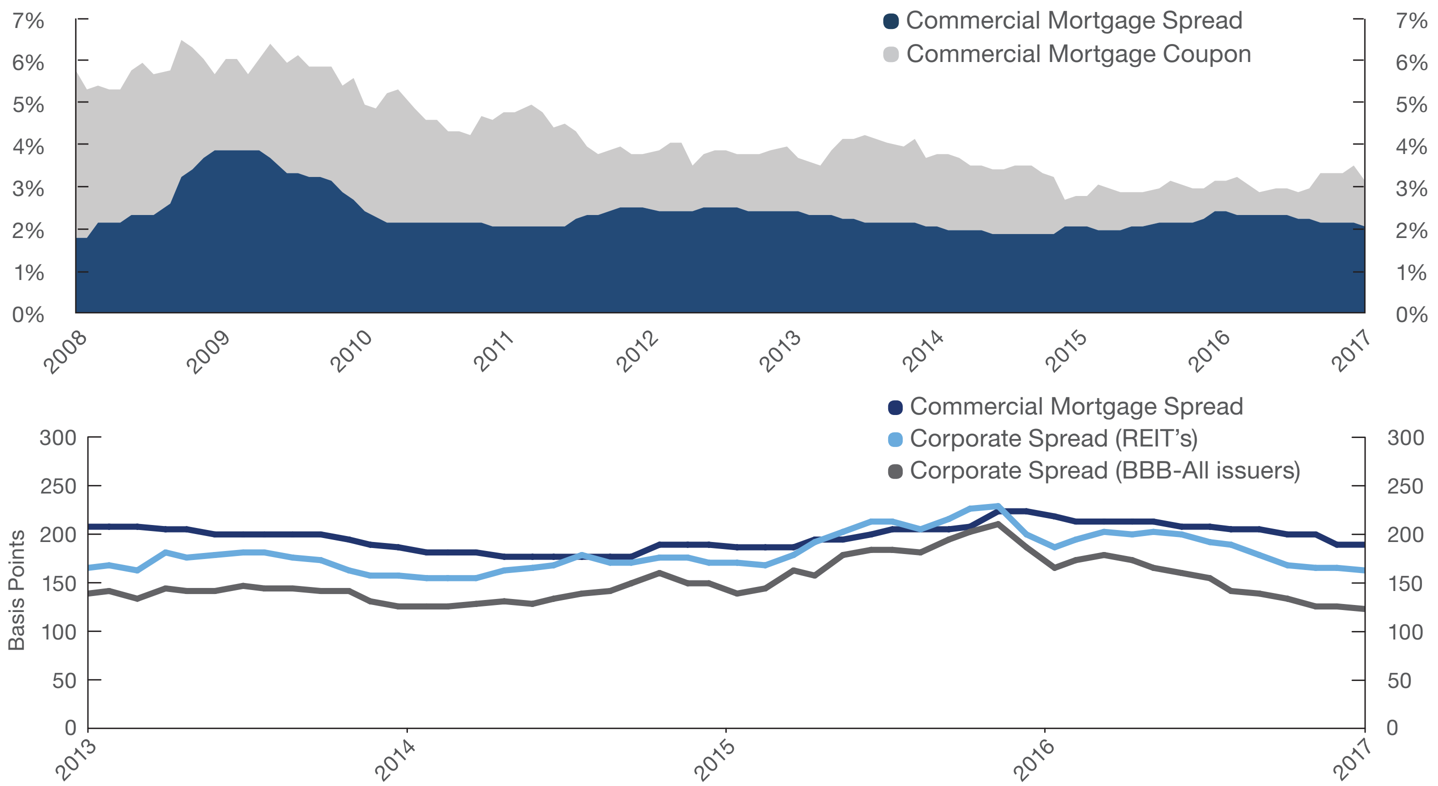
RMBS: In March 2017, BMO issued $2 billion in a Residential Mortgage-Backed Security ("RMBS") backed by prime uninsured Canadian residential mortgages. This is the first RMBS issuance since MCAP's $200 million issuance in 2014. BMO will retain 98% of the issuance on book, contrary to typical mortgage securitization in which the security is ultimately sold to investors and held off balance sheet. The class A notes, which represent 95% of the RMBS, have been assigned a provisional rating of Aaa/AAA by Moody's and DBRS.

Home Capital Group: Home Capital Group ("HCG"), an alternative residential and commercial mortgage lender, made headlines after allegations of improper disclosures by the Ontario Securities Commission. To restore investor confidence and maintain liquidity, HCG secured a $2 billion line of credit led by Healthcare of Ontario Pension Plan, secured against mortgages held by its subsidiary, Home Trust. More recently, HCG announced that it had entered into an agreement to sell up to $1.5 billion in mortgages and commitments to an unnamed purchaser, providing further liquidity.

Spreads

Spreads on quality assets are currently being priced in the 170 to 200 basis points ("bps") range for 5-year deals and 185 to 205 bps for 10-year deals, representing a decrease of approximately 10 bps since our previous commentary in February. Comparatively, spreads on 5-year Canadian BBB-rated corporates tightened by almost 12 bps and have ranged from 110 to 130 bps over the past 3 months. Spreads on REIT-backed corporate debt fell by almost 10 bps and now hover in the range of 155 to 165 bps. Commercial mortgages are earning 75 bps "liquidity premium" over their corporate bonds, close to the 5-year average of 80 bps.

Credit spreads tighten since our previous commentary



Source: Bloomberg, CMLS

Senior Unsecured Debt

Senior unsecured debt can be a more flexible and cheaper alternative to commercial mortgages, and is often used by REITs, REOCs and pension funds as a form of financing. Year-to-date issuance is $2.4 billion across 11 issues and 7 issuers, which represents a significant increase from the $725 million in issuance across 3 issues and 2 issuers at this time last year. $375 million in senior unsecured bonds are scheduled to mature for the rest of 2017.

New issues continue to indicate towards spread compression in the space, with Allied Properties' Q2/17 issuance spread tightening almost 80 bps against their Q2/16 note despite the slightly longer term. Secondary market spreads for real estate backed senior unsecured debt showed further signs of compression, with the 5-year spread benchmark down 40 bps since last year. Top rated REIT debt is pricing at spreads comparable to commercial mortgages secured by best-in-class assets with investment grade covenants.

2017 YTD	Issuer Name	Issue Size ($millions)	Rating	Term (yrs)	Spread (bps)
Q1	H&R REIT	200	BBBH	7	202
	H&R REIT	150	BBBH	2.5	CDOR + 123
	Riocan	300	BBBH	6	160
	Smart REIT	150	BBB	5	156
	Crombie REIT	75	BBBL	4	245
	BCIMC Realty Corp	250	AA	5.5	93
	BCIMC Realty Corp	500	AA	10	122
Q2	Riocan	300	BBBH	4	121
	CREIT	125	BBB	6	182
	Allied Properties REIT	200	BBBL	8	229
	H&R REIT (Reopening)	150	BBBH	7	202
	Total/Average	**2400**		**5.9**	

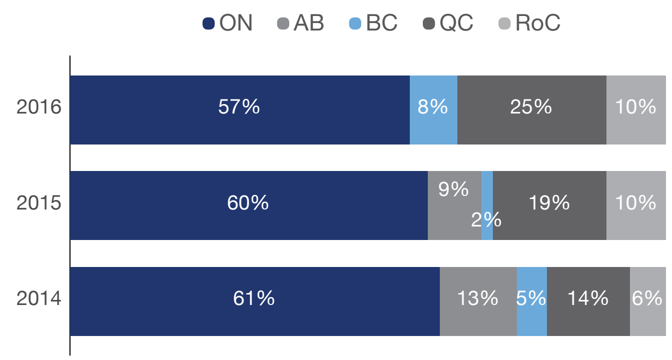
Source: Bloomberg

CMBS

There have been no Commercial Mortgage-Backed Securities ("CMBS") issuances since REAL-T 2016-1 was brought to market in May of 2016. Low mortgage coupons and a lack of liquidity in the CMBS market have made new issuance challenging. A significant volume of CMBS is expected to mature in 2017, with the possibility that some may be refinanced within the CMBS market. Given this rollover, we would expect more activity in the remaining months of 2017.

Delinquency has been volatile since Q1/15, but remains bound below 2%. At a time of significant maturity volume and economic uncertainty, this is a good indication of mortgage quality as most of the loans backing CMBS are refinancing successfully. There are currently ten delinquent CMBS loans across Canada, with 75% of the value represented by Alberta loans. No recent origination of CMBS has been observed in Alberta, likely due to investors avoiding the key headline risk which plagued the province last year. Over the past quarter, investors have become less averse to Alberta loans, primarily in the more diverse Calgary and Edmonton markets. As such, we expect a slight uptick of Alberta-based CMBS loans in upcoming issuances.

CMBS issues avoided Alberta in 2016, and instead shifted their weight towards Quebec and BC



Source: Bloomberg

CMHC

Effective May 15th, Canada Mortgage and Housing Corporation ("CMHC") will be introducing changes to the current multi-unit mortgage loan insurance program with the aim to extend its offering to a wider range of property types in order to support the creation of more affordable housing in Canada. Investors can anticipate more flexible underwriting standards and revised premium schedules including the removal of premium surcharges on construction loans.

Spreads on CMHC-insured products have observed a slight downward trend with 5-year terms ranging between 90-100 bps and 10-year terms ranging between 95-105 bps.

MICS

Q1/17 saw two public offerings of common shares completed by Mortgage Investment Corporations ("MICs"). Atrium MIC closed its offering of 2,535,000 common shares at a price of $11.85 in February 2017. The $30 million proceeds will be used to repay existing indebtedness under a revolving operating credit facility. Atrium's shares closed at $12.05 on April 21, 2017.

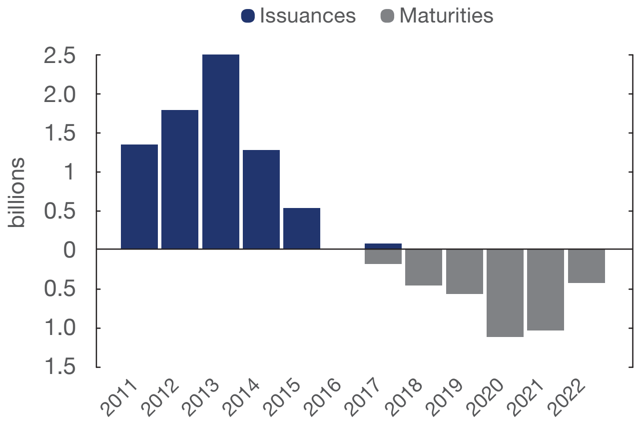
Another offering was completed by Firm Capital MIC in March 2017. Firm Capital issued 1,633,000 common shares at $14.10 for a total of $23 million. The proceeds of the offering will be used to repay a portion of the MIC's indebtedness. Firm Capital's shares were trading at $13.73 per share on April 21, 2017.

First Mortgage Bond

The First Mortgage bond market saw its first issuance since Q3/15, a 20-year $70 million deal bearing 4.433% coupon issued by Schlegel Villages Inc., an Ontario based manager of long term care and retirement villages. First Mortgage bond issuance has slowed significantly in recent years, partly due to conventional commercial mortgage lenders willing to take on larger deals that were historically financed with First Mortgage bonds.

For the rest of 2017, one first mortgage bond of $190 million is expected to mature.

First Mortgage Bond Issuances and Maturities



Source: Bloomberg, CMLS

About CMLS Financial Ltd.

CMLS Financial Ltd. (CMLS) is a diversified provider of lending products and services to the commercial and residential real estate finance industry. We take great pride in continuing our over forty year tradition of exceptional service to borrowers, lenders, mortgage bankers and brokers. CMLS Financial is one of the only independent, dedicated providers of mortgage services for the commercial real estate finance industry in Canada.

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