

Customer Forward Thinking.™

Commercial Mortgage Commentary

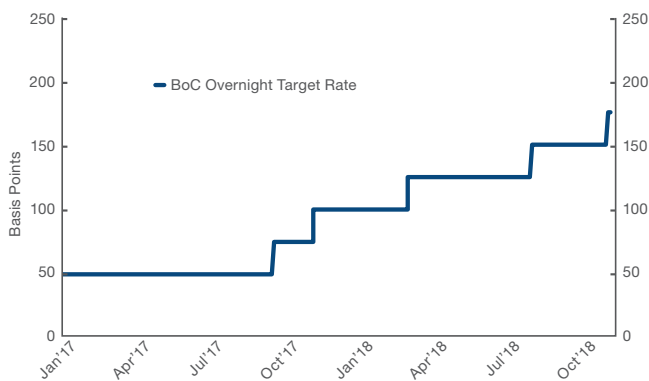
CMLS Mortgage Analytics Group

Making News

Overnight Rate

In late October, the Bank of Canada (“BOC”) announced the third 25 bps rate hike this year, which brought the overnight target rate to 1.75%. The increase comes after continued strength in economic figures and the negotiation of the “new NAFTA” trade deal with Mexico and the U.S. This pushed the prime rate of major Canadian banks to 3.95%.

BOC Overnight Target Rate

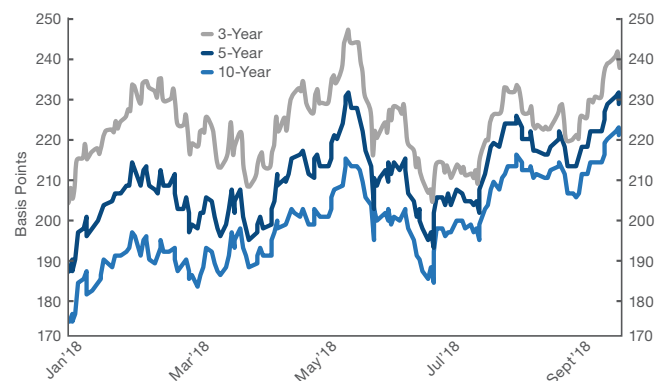


Source: Bank of Canada, Bloomberg

GOC Yields

Spread premiums between the Government of Canada (“GOC”) 3, 5, and 10-year term bond yields remain extremely tight. Through Q3/18, the premium between 3-year and 10-year tightened by 4 bps, while the premium between 5-year and 10-year remained unchanged.

Historical GOC Yields



Source: Bloomberg, CMLS

Investments

In Q3/18, Telus sold its Vancouver headquarters, Telus Garden, to a partnership of investors represented by Regina-based Greystone Managed Investments for an undisclosed amount. The property was built as a joint-venture by Telus and Westbank Corp.

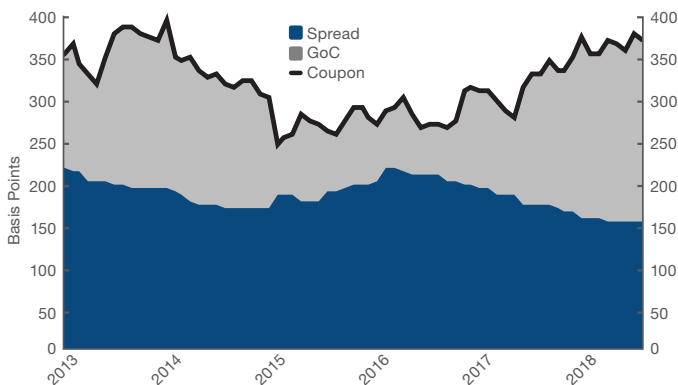
for \$750 million and consists of an office tower and residential building in Downtown Vancouver. Telus is expected to generate approximately \$170 million in profit on the sale.

Commercial Mortgages

Lenders and borrowers have maintained balanced supply and demand for the 5th straight month with commercial mortgage spreads staying flat. 5-year deals are pricing 145 bps to 160 bps over GOC bonds for top quality assets, while 10-year spreads are pricing at a 10 bps premium for similar risk.

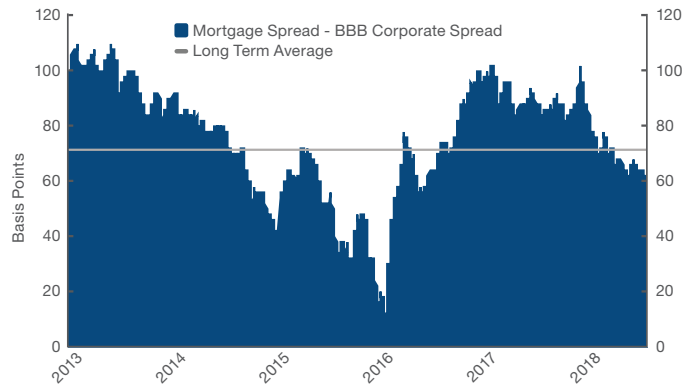
The liquidity premium of commercial mortgage spreads over BBB-rated corporate bonds remained generally unchanged since our last report with the premium down slightly from 64 bps to 62 bps as a result of a slight increase in corporate spreads. This moves the liquidity premium away from the long-term average of 70 bps.

5-year Commercial Mortgage Spreads



Source: Bloomberg, CMLS

5-year Commercial Mortgage Spread Premium Over BBB-rated Corporate Bonds



Source: Bloomberg, CMLS

CMBS

The CMBS market continues to be challenged by unattractive profitability due to tightening commercial mortgage spreads relative to CMBS bonds. Recent weighted average breakeven mortgage spread for new CMBS issuance was approximately 225

bps and with current spreads around 190 bps, the prospects of profitability falls short by 35 bps. Until the commercial mortgage spreads move past the CMBS breakeven point, new issuance activity is expected to be thin.

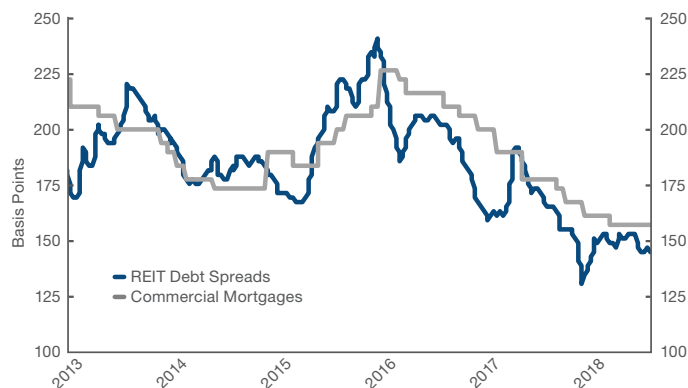
Senior Unsecured Debt

In Q3/18, senior unsecured debt issuance slowed to \$625 million, down from \$1.65 billion in Q2/18. However, cumulative 2018 issuance is up 27% on a YTD basis and makes up 86% of the total issuance in 2017.

Since our last report, Crombie REIT issued a \$75 million, 2.9-year note with a 170 bps spread. Overall, spreads on BBB-rated unsecured debt decreased through Q3/18 to 145 bps.

For now, spreads on unsecured REIT debt continue to receive cheaper investor dollars compared to conventional commercial mortgages with a difference of only 10 bps at the end of Q3/18.

Spread on BBB-rated Unsecured REIT Debt vs. Commercial Mortgages



Source: Bloomberg, CMLS

Senior Unsecured Debt Issuances

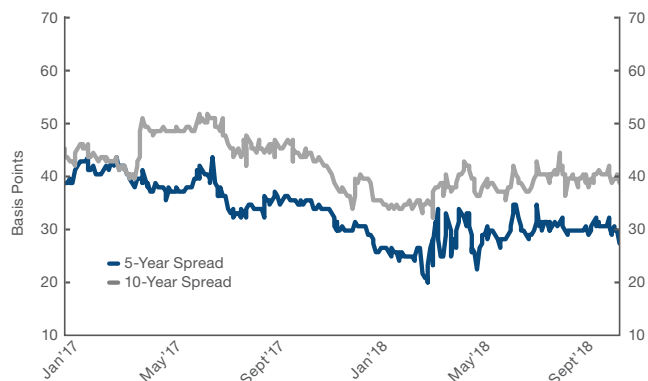
2018	Issuer Name	Issue Size (\$Millions)	Issuance Rating	Term (yrs)	Spread (bps)
Q1	Choice Properties	350	BBB	7	143.4
	Choice Properties	300	BBB	4	103.5
	Riocan	250	BBBH	5	139.2
	H&R REIT	300	BBBH	5.5	106.9
	CT REIT	200	BBBH	10	159.1
	Artis REIT	200	BBBL	2	CDOR+107
	Choice Properties	750	BBB	10	196.8
	Choice Properties	550	BBB	6.5	146.5
Total/Average Q1		2,900		6.25	
Q2	Ivanhoe Cambridge II Inc.	500	AAL	5	89.4
	OMERS Realty Group	550	AAL	12	115.9
	OMERS Realty Group	250	AAL	7	93.6
	Morguard Corp	200	BBBL	3	202
	Chartwell Retirement Residences	150	BBBL	7	189.5
Total/Average Q2		1,650		6.69	
Q3	Brookfield Property Finance ULC	300	BBB	5	230.5
	Crombie REIT	75	BBBL	2.9	170.1
Total/Average Q3		375		3.95	
Total/Average YTD 2018		4,925		6.09	

Source: Bloomberg

CMHC

Spreads on multi-family CMHC-insured loans remained stable since our last report with spreads ranging between 80 bps and 105 bps over GOC on 5-year terms and between 85 bps and 110 bps over GOC on 10-year terms. This is partly due to the relatively unchanged spreads on CMHC-backed Canada Mortgage Bonds (“CMB”). 5-year CMB spreads only decreased 3 bps to 28 bps and the 10-year CMB spreads remained flat between July and September.

5-Year and 10-Year CMB Spreads



Source: CMHC

High Yield

In Q3/18 the British Columbia Securities Commission (BCSC) announced it will not be renewing the exemption that previously allowed Mortgage Investment Corporations (MICs) to operate in BC

without engaging in the onerous registration process with the BCSC. The impact of this announcement will be felt in the local industry as many small MICs will now have to endure registration costs.

ABOUT CMLS MORTGAGE ANALYTICS GROUP

The CMLS Mortgage Analytics Group (“MAG”) is a division of CMLS and the leading provider of independent mortgage valuation, risk ratings, market research and software to the commercial mortgage industry in Canada. Our clients include some of the largest institutional asset managers and insurance companies with assets under management ranging from single digit billions to over \$100 billion.

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