CMLS Financial®

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Customer Forward Thinking.™

Commercial Mortgage Commentary

The Commercial Mortgage Commentary aims to inform the market about commercial real estate finance news. We focus on the following capital sources for commercial real estate: Conventional Mortgages, CMHC-Insured Mortgages, Commercial Mortgage Backed Securities (CMBS), High Yield Mortgages, Construction Financing, First Mortgage Bonds and Senior Unsecured debt for REITs and REOCs.

Making News

Intellifi Corporation Brings Dedicated Solutions to the Canadian Mortgage Lending Space

The turning of the calendar to 2022 brings exciting news to the Canadian mortgage lending space. Operating under the newly minted banner of Intellifi Corporation, several of Canada's leading mortgage technology solutions are coming together to form a single, dedicated entity. Intellifi provides commercial and residential mortgage lenders with a suite of products and services, ranging from fully outsourced lending operations to niche technologies. Intellifi's commercial unit, previously the CMLS Mortgage Analytics Group, will continue to deliver innovative mortgage valuation services, market intelligence and software to the real estate finance industry, including Atlas and Target Asset Management, which are used by many of Canada's largest commercial mortgage lenders for underwriting and mortgage portfolio analysis. Joining Intellifi's residential unit will be Delta 360, a tried and tested end-to-end loan administration platform for residential mortgage lenders. Intellifi will also offer white label underwriting and mortgage servicing backed by a capable team with over 40 years of industry experience. For more information, visit www.intellifi.ca.

H&R REIT to Focus on Multi-Family & Industrial

H&R REIT, one of Canada's largest REITs with $13.1 billion in assets, will undergo a multi-billion-dollar repositioning to focus exclusively on multi-family and industrial assets. The shift will commence with a spin-off of its $2.4 billion enclosed mall portfolio into a new stand-alone, publicly traded entity called Primaris REIT. The Healthcare of Ontario Pension Plan will assume a 25% ownership stake in the new entity with a contribution of 8 properties worth $0.8 billion. Following the $1.47 billion sale of Calgary's Bow Building and Mississauga's Bell Campus in Q4, H&R will dispose of additional office properties worth $2.3 billion, as well as $1.7 billion in grocery-anchored retail assets. Twelve remaining office properties in Toronto, Montreal and Vancouver worth $1.4 billion will be retained for redevelopment into class A multi-family and industrial properties. Execution of the strategy will unfold over the next five years with proceeds from asset sales redeployed into the development and acquisition of multi-family and industrial assets. The REIT intends to focus its portfolio in the Greater Toronto Area and high-growth sunbelt and gateway cities in the United States.

Ottawa Sees 2nd Largest CRE Deal in City's History

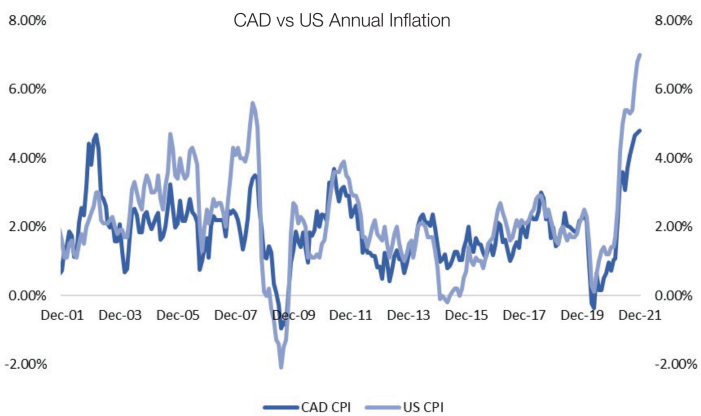
Crestpoint Real Estate Investments and New Brunswick-based Vestcor, an investment management firm jointly owned by the province's public service and teachers' pension plans, have acquired Ottawa's largest office building for $350 million in a 50/50 joint venture. The 1.2 million sf Place de Ville complex, located about 750 meters from Parliament, is 90% occupied by the federal government. The transaction marks the second largest commercial real estate deal in the city's history. The neighboring office complex Constitution Square was sold for $480 million in 2017.

Economic Environment

BoC Signals the End of Emergency Policy Measures

The Bank of Canada (BoC) elected to hold its policy interest rate at 0.25% at its January 26th interest rate announcement. Despite acknowledging robust economic growth, a tight labour market and persistently high inflation – factors that had most analysts expecting a 25bps rate hike – the Bank instead used the occasion to formally communicate the coming end of its extraordinarily accommodative policy measures before raising interest rates. The decision comes on the heels of yet another month of elevated inflation, which continues to pressure Canadian households and draw concern from business leaders. Annual inflation of 4.8% in December marked the 9th consecutive month it has exceeded the Bank's target mandate of 1-3%. The BoC once again shifted its inflation forecast upward and is now expecting price growth to hover around 5% through the first half of 2022 before moderating to 3% by year end.

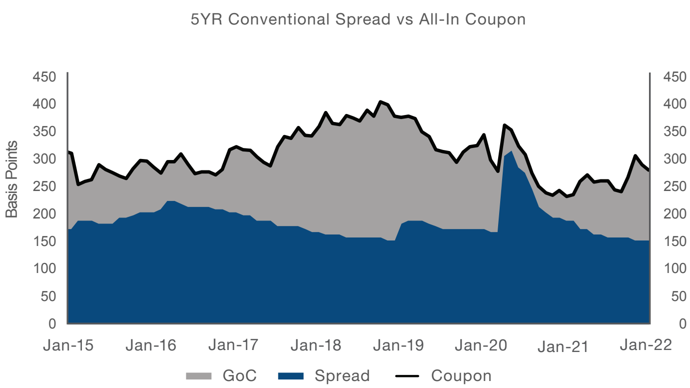
The decision to hold rates means it is almost a certainty that hikes will commence in March, leaving analysts to debate how fast the Bank will move to normalize rates and by how much. RBC is projecting 3 rate hikes through 2022, bringing the policy rate to 1% by year end, while Scotiabank sees the Bank hiking rates more aggressively to stamp out inflation, with the policy rate climbing to 2%. As for the BoC's other stimulative measures, the quantitative easing program was formally concluded at the October 27th interest rate announcement, although the Bank continues to reinvest proceeds from maturing Government of Canada (GoC) bonds to keep its holdings stable over time. The BoC has signalled that it could begin unwinding its balance sheet as soon as rate hikes begin. Nineteen months of quantitative easing saw the Bank's balance sheet balloon to $435 billion, which includes about 46% of total outstanding GoC bonds.



Source: Statistics Canada, US Bureau of Labor Statistics

Rising GoC Yields Raise Cost of Mortgage Debt

GoC bond yields rose sharply through the latter months of 2021 in response to a strong pandemic recovery, elevated inflation, and signals from the BoC on withdrawing monetary stimulus. Relative to its September 1st print, the 5-year GoC was up as much as 77bps in Q4, reaching a high of 1.59% in late November. The 10-year GoC was up as much as 61bps to 1.85%. News of the more transmissible Omicron variant rattled financial markets in late November and bond yields fell through December as weary investors poured back into safe-haven assets. The 5- and 10-year GoC closed the year at 1.25% and 1.48%, respectively. Overall, 2021 saw GoC bond yields normalize toward their 5-year pre-pandemic averages after reaching historic lows in 2020. Between 2015-2019, the 5-year and 10-year GoC averaged approximately 1.34% and 1.71%, respectively. The rise in GoC yields, which are typically used as a base rate to determine the interest rate on a commercial mortgage, have translated into higher commercial mortgage rates. Based on spreads from our commercial mortgage index, the all-in coupon for a 5-year conventional mortgage finished the year at 2.75% and, while substantially higher than 2.28% at the beginning of the year, remains below the 5-year pre-pandemic average of 3.16%.



Source: Bloomberg, Intellifi

Conventional

Lenders Reaching Pricing Floors on Top Tier Assets, While Some Institutions Push Lower

A persistent abundance of liquidity appeared to push sharpest pricing lower for certain lenders in Q4, despite pricing already being near all-time lows. Market intel suggests that a handful of institutions are pricing top tier deals as low as 120bps over GoC in an aggressive bid to add high-quality multi-family and industrial assets to their portfolios. That said, internal mortgage transaction data indicates that, for the most part, sharpest pricing has remained stable around the 130bps mark for the past several months. This has been supported by a number of lenders who report an unwillingness to follow sharpest pricing into the 120's, setting floors in the 130-135bps range. To win deals, they are instead offering more favorable terms such as stretched leverage and debt coverage ratios, as well as longer amortization periods and interest-only terms.

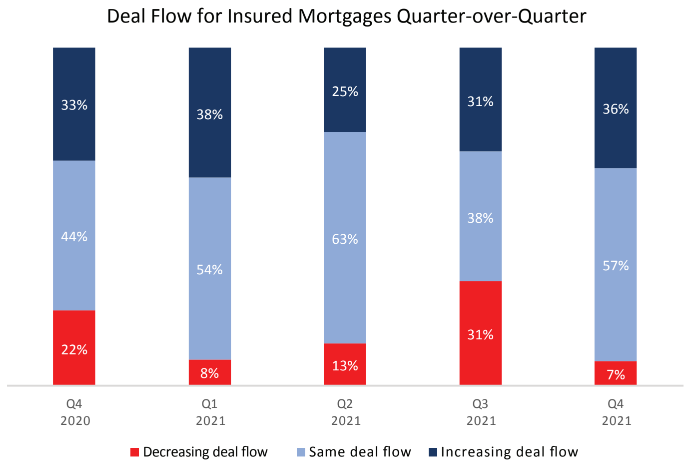
Interest Climbs for Office & Retail Assets

The hesitancy surrounding office and retail assets appeared to lift somewhat through the fourth quarter as lenders become more confident navigating the outlook for these struggling asset classes. The market seemed to find some consensus on pricing, at least for the highest quality assets, with several noteworthy transactions closing around 140bps in Q4. Grocery-anchored shopping centres and properties anchored by essential tenants who are at a lower risk from pandemic restrictions have been the most sought-after retail assets. On the office front, well-located, well-tenanted class A properties continue to earn the most trust from lenders. That said, sharpest pricing still remains 10-20bps higher than for comparably strong multi-family and industrial properties, pointing to a clear and prevailing dichotomy in pricing between in-favour and out-of-favour asset classes. Moving up the risk curve, the pricing picture quickly becomes more complicated for office and retail properties. Overall, our transaction data points to average pricing consistently some 20-40bps higher for these asset classes relative to the average multi-family and industrial transaction.

CMHC

CMHC Liquidity Remains Strong Into 2022

Liquidity for CMHC-insured mortgages dipped marginally in Q4 following OSFI's decision to lift restrictions on dividend increases and share buybacks for Canadian banks. The measure, which the federal agency implemented in March 2020 to protect bank capital and ensure market stability, left banks with a surplus of cash to deploy through the pandemic. Much of this capital found itself destined to fund insured mortgages which, along with several other factors, led to record origination for insured product. While the OSFI decision offers some reprieve for other lenders, an insatiable demand for multi-family product, as well as an influx of capital in the commercial real estate space as a result of the low interest rate environment, means that liquidity in the CMHC-insured space remained near record levels heading into 2022. Results from our most recent quarterly survey, which aggregates market sentiment from over 30 of the largest commercial mortgage lenders in the country, shows that deal flow for insured mortgages continued to increase in Q4 for over a third of lenders. Meanwhile, nearly 60% of lenders reported stable deal flow quarter-over-quarter. On the pricing front, transaction data shows that sharpest pricing for insured mortgages at the end of Q4 was in the low 40's over Canada Mortgage Bonds (CMBs) for 5- and 10-year terms.



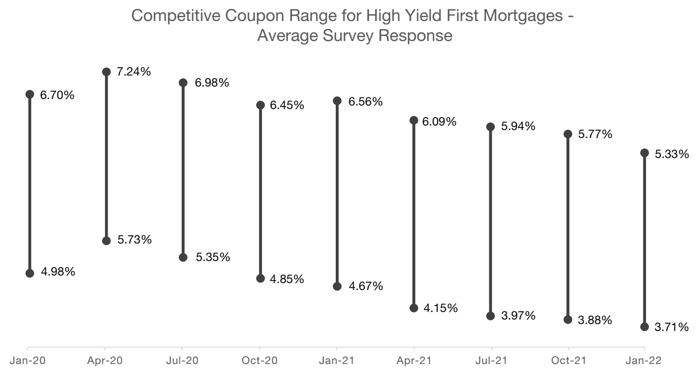
Source: Intellifi

High Yield

Multi-Family & Land Take the Spotlight in 2021

Similar to other commercial mortgage products, elevated liquidity led to sustained downward pressure on high yield mortgage rates through 2021. Results from our quarterly surveys show that competitive coupon ranges declined in every quarter of the year. Multi-family bridge deals and multi-family second mortgages were the most sought-after deal types. Extended underwriting wait times at CMHC prompted many borrowers to seek bridge financing, with deals consistently garnering coupons as low as Prime + 1-2% (3.45-4.45%). For multi-family second mortgages, coupons consistently fell in the 5-6% range.

Land financing was another hot commodity in 2021. The majority of respondents to our Q4 Survey saw increasing deal flow for land and market leading pricing was quoted as low as Prime + 0.5% (2.95%). This sentiment coincides with data from CBRE showing that demand for land financing in 2021 was the strongest in 5 years, with 47% of lenders exceeding their annual budget. As per the most recent available data, ICI land deals in Canada from January to September stood at $8.2 billion, a 109% increase year-over-year. In Q3 alone, land sales reached $3.2 billion, which is 73% above the three-year quarterly average.



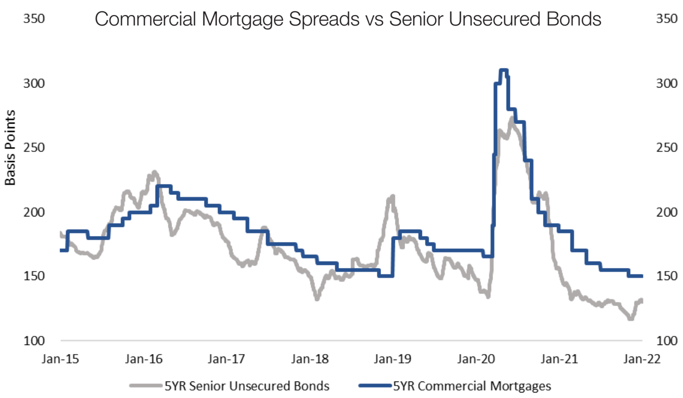
Source: Intellifi

Senior Unsecured Debt

Q4 Surge Brings Annual Issuances Within 2020 Record

Annual issuances of senior unsecured bonds reached $7.2 billion in 2021, buoyed by $2.8 billion in bond sales in Q4. While 2021 issuances failed to surpass the $9.2 billion record set in 2020, the figure sits well above the 5-year average of $5.5 billion. Average issue size climbed quarter-over-quarter to $404 million, while average tenor and average coupon declined to 6 years and 2.82%. Continuing the trend seen in previous quarters, green bonds accounted for 73% of total issuances in Q4. The Alberta Investment Management Corporation (AIMCo) and Choice Properties REIT held inaugural green bond offerings of $500 million and $350 million, respectively.

Spreads for 5-year senior unsecured debt continued to decline through the first half of Q4 and reached a decade low of 117bps in mid-November before climbing sharply through the latter half of the quarter. The rise in spreads, which often exhibit a strong correlation with movements in commercial mortgage spreads, coincided with a rise in corporate bond spreads and general market uncertainty relating to Covid-19. Historically, the index has maintained a discount to conventional mortgage spreads of approximately 10bps. The average discount through 2021 was notably higher at 31bps but compressed through December to finish the year at 19bps.



Source: Bloomberg, Intellifi

2021	Issuer Name	Issue Size Millions ($)	Issuance Rating	Term (Yrs)	Coupon	Spread (bps)
Q1	CT REIT	150	BBB	10.0	2.37%	163
	BCI QuadReal Realty	400	AAL	5.0	1.07%	59
	Allied Properties REIT	600	BBB	5.0	1.72%	117
	H&R REIT	300	BBBH	6.0	2.63%	189
	BCI QuadReal Realty	400	AAL	3.0	1.06%	61
	Q1 Averages	370		5.8	1.77%	117.8
	Q1 Total Issue Size	1,850				
Q2	Summit Industrial Income REIT	250	BBBL	5.8	2.25%	118
	Dream Industrial REIT	200	BBB	3.0	3mth CDOR + 0.35%	n/a
	Dream Industrial REIT	200	BBB	4.5	1.66%	95.1
	Dream Industrial REIT	400	BBB	6.0	2.06%	107.6
	Q2 Averages	263		4.8	1.99%	106.9
	Q2 Total Issue Size	1,050				
Q3	Summit Industrial Income REIT	225	BBBL	7.0	2.44%	131.7
	StorageVault Canada Inc	50	n/a	5.2	5.50%	n/a
	Allied Properties REIT	500	BBB	10.5	3.10%	192.4
	Crombie REIT	150	BBBL	10.0	3.13%	184.2
	Granite REIT Holdings LP	500	BBBH	7.0	2.19%	115.4
	Q3 Averages	285		7.9	3.27%	155.9
	Q3 Total Issue Size	1,425				
Q4	Brookfield Property Finance ULC	500	BBBL	5.0	4.0%	288
	AIMCo Realty Investors LP	500	AAL	5.0	2.20%	72.7
	RioCan REIT	450	BBB	7.0	2.83%	139.2
	Choice Properties REIT	350	BBBH	5.0	2.46%	91.8
	Ventas Canada Finance Ltd	300	n/a	10.0	3.30%	161
	Ventas Canada Finance Ltd	475	n/a	5.0	2.45%	100
	Dream Industrial REIT	250	BBB	5.0	2.54%	100
	Q4 Averages	404		6.0	2.82%	136.1
	Q4 Total Issue Size	2,825				
	Total Issuance YTD	**7,150**	**YTD Averages**	**6.2**	**2.55%**	**130.8**

Source: Bloomberg

ABOUT CMLS FINANCIAL

CMLS Financial is one of Canada's largest independently owned mortgage services companies. Founded in 1974, we are proud to be Canada's Mortgage Company™ for over 40 years. With offices across the country, we provide a wide range of commercial lending services, residential real estate mortgages and institutional services.

ERIC CLARK, CFA
VP & Managing Director
604.488.3897
eric.clark@intellifi.ca

DAVID MAYBURY, CFA
Analytics Manager
604.637.0872
david.maybury@intellifi.ca

RESEARCH TEAM:
Ardy Mahmud
Roman Melzer

For financing inquiries:

STEVE BRYANT
VP & Managing Director
519.266.2307
steve.bryant@cmls.ca

FRANCA CERQUETI
VP & Managing Director
204.289.7367
franca.cerqueti@cmls.ca

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