AVISON YOUNG

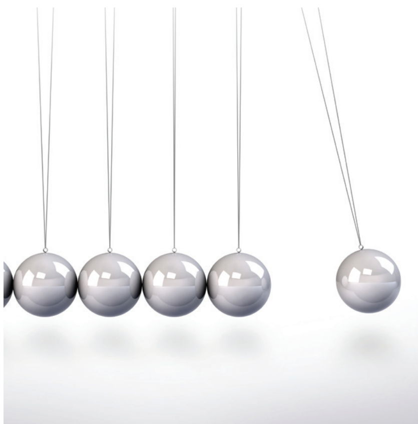
# Debt Market Monitor

National Debt Capital Markets Services

OCTOBER 2013

## so the pendulum swings again...

It was just mid-summer when the markets reacted with heightened concerns over the Fed's planned tapering, causing bond price and stock market deterioration. Now it appears that the pendulum has swung the other way…a result of the Fed's latest "standing pat" message. Indeed, it appears that the Fed has sheathed its sword and all is pleasant in the land – for now – but don't be lulled into a false sense of comfort. Make no mistake, there will come a time when the Fed will taper their QE process and bond markets will look to higher returns; meaning higher interest rates are in the offing.



The majority of Canadian institutional lenders have either filled, or mostly filled, their allocations for mortgage investments, allowing them to be more selective with the product they are offering and probably a little stickier about the attached terms and conditions. This sort of lending climate will persist until new allocations are issued, lenders' slates are wiped clean and pipeline balances have been dialed back to zero.

A new fiscal year always brings with it a little mystery. What unfolding events will affect the markets? There are certainly more than just a few possibilities on the horizon and as a result, lenders will want to get a good jump on filling their boots.

U.S. real estate and lending markets are both being floated upwards in terms of value and willingness. Many markets and real estate asset types are subject to widely-varying lender interpretations and there are geographic locations and product types that remain severely challenged in the eyes of the lending community. In general, however, U.S. lenders have loosened the purse strings considerably this year, due in part to the success contributed by the CMBS segment. Unfortunately, given the unrest in bond markets, the CMBS environment is currently less palatable. This too shall pass.

## Fiscal Snapshot

### Bank of Canada Rate

| | |
|---|---|
| September 2013 | 1.25 |
| One month ago | 1.25 |
| One year ago | 1.25 |

### Indicative Commercial Mortgage Spreads* Over Government of Canada Bond Yields

| Conventional | 5 Year | 10 Year |
|---|---|---|
| September 2013 | 1.70-2.25 | 1.80-2.60 |
| One Year Ago | 1.70-2.25 | 1.80-2.50 |

| Insured | 5 Year | 10 Year |
|---|---|---|
| September 2013 | 0.70-1.10 | 0.80-1.20 |
| One Year Ago | 0.90-1.25 | 1.00-1.30 |

*Spreads are indicative of high quality real estate in major Canadian markets

### Bank Prime Lending Rate

| | |
|---|---|
| September 2013 | 3.00 |
| One month ago | 3.00 |
| One year ago | 3.00 |

### Government of Canada Benchmark Bond Yields

| | 5 Year | 10 Year | Long |
|---|---|---|---|
| September 2013 | 1.86 | 2.54 | 3.07 |
| One month ago | 1.95 | 2.61 | 3.07 |
| One year ago | 1.30 | 1.73 | 2.32 |

CANADA'S BEST MANAGED COMPANIES

# Highlighted Transaction

| | |
|---|---|
| Asset Type | Single-Tenant Industrial Facility |
| Location | Major Canadian city |
| Financing Details | A 15-year term facility in the amount of $6.15M, amortized over 25 years at a competitive interest rate. |

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## We Originate Financing

We originate fixed and floating rate mortgages for all types of property owners, for all types of properties including term, construction, bridge, interim, mezzanine, construction and CMHC insured financings.

Please feel free to contact our National Debt Capital Markets team for more details related to debt financings or real estate transactions.

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