AVISON YOUNG

December 2021

Debt market monitor

Inflation – is it really transitory?

Inflation has staunchly encamped itself in the price of most goods and services. The most recent U.S. consumer price index (CPI) inflation report showed that prices rose across the board in October – by a lot. Suffice it to say that things were similar in Canada and other countries around the world.

Overall, prices climbed 6.2% year-over-year (the largest increase since November 1990) and rose 0.90% compared with the previous month. Higher prices were broad-based, as reported by the Bureau of Labor Statistics (BLS), with substantial increases seen in the indexes for energy, shelter, food and new and used vehicles.

Inflation is not looking transitory. One of the Federal Reserve's (the Fed) jobs is to keep price growth stable, and Fed officials have been telling everyone to expect higher inflation in the near term as the economy gets back to normal. They also said that current inflation pressure should give way to healthier price growth over a longer horizon. In a recent press conference following the meeting of the Fed, Chair Jerome Powell said that "transitory" was a tricky thing to define.

The question is: should we be worried about high inflation? Supply chains and businesses need a little time to work out the knots involved in reopening the global economy. We now know that "transitory" is turning out to be much longer than what the general anticipation was.

The Fed recently announced that it will buy fewer bonds over time, which should take some of the rocket fuel out of the economy. However, with the labour market not yet recovered from its pandemic losses, it should be a while before the Fed hikes interest rates – a typical maneuver used when inflation runs hot. With the Fed starting to taper its stimulus and possibly being forced to hike interest rates sooner due to rising inflation, rate hikes might not be enough to reverse inflation because the sources of inflation involve supply-chain bottlenecks and fiscal spending – two areas that the Fed does not control.

How long this "transitory" inflation will last is anyone's guess right now.

Fiscal snapshot

Bank of Canada

	Bank Rate	Bank Prime Lending Rate
November 2021	0.50	2.45
October 2021	0.50	2.45
November 2020	0.50	2.45

Government of Canada benchmark bond yields

	5-Year	10-Year	Long
November 2021	1.40	1.58	1.89
October 2021	1.50	1.72	2.02
November 2020	0.43	0.67	1.17

Indicative commercial mortgage spreads* Over Government of Canada bond yields

Conventional	5-Year	10-Year
November 2021	1.35 - 1.85	1.45 - 2.00
November 2020	1.65 - 2.00	1.75 - 2.10

Insured	5-Year	10-Year
November 2021	0.80 - 0.95	0.90 - 1.10
November 2020	0.90 - 1.10	0.90 - 1.10

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

Source(s): Bank of Canada

Debt Capital Markets Services

Highlighted transaction

Asset type Retail

Location Major Canadian City

Facility details A senior charge in the amount of $35,000,000 was arranged to recapitalize an existing development with future expansion opportunities. The term was for a period of 10 years, amortized over 25 years, at a competitive rate of interest.

Intelligent debt financing solutions

The Avison Young Debt Capital Markets Group dedicated team is focused on providing innovative North American-wide debt and equity solutions to accomplish goals. We originate debt and equity for all types of real estate and all types of clients. Debt origination includes fixed and floating rate structures, permanent and construction financing, structured finance, bridge and mezzanine debt and insured agency financing.

Our years of combined debt/equity capital markets experience has created meaningful relationships that we can put to work for you.

Avison Young creates real economic, social and environmental value as a global real estate advisor, powered by people. As a private company, our clients collaborate with an empowered partner who is invested in their success. Our integrated talent realizes the full potential of real estate by using global intelligence platforms that provide clients with insights and advantage. Together, we can create healthy, productive workplaces for employees, cities that are centers for prosperity for their citizens, and built spaces and places that create a net benefit to the economy, the environment and the community.

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

Norm Arychuk, Mortgage Broker*
416.673.4006
norman.arychuk@avisonyoung.com
***Licence #: M09002260**
Brokerage Licence #10637

Michael Ho, Mortgage Broker**
416.673.4012
michael.ho@avisonyoung.com
****Licence: # M15000834**
Brokerage Licence #10637

Avison Young Canada Capital Markets Offices

Calgary | Edmonton | Mississauga | Montreal | Toronto | Vancouver

Avison Young Commercial Real Estate Services, LP, Brokerage
18 York Street, Suite 400, Mailbox # 4
Toronto, Ontario, Canada M5J 2T8
416.955.0000

avisonyoung.ca