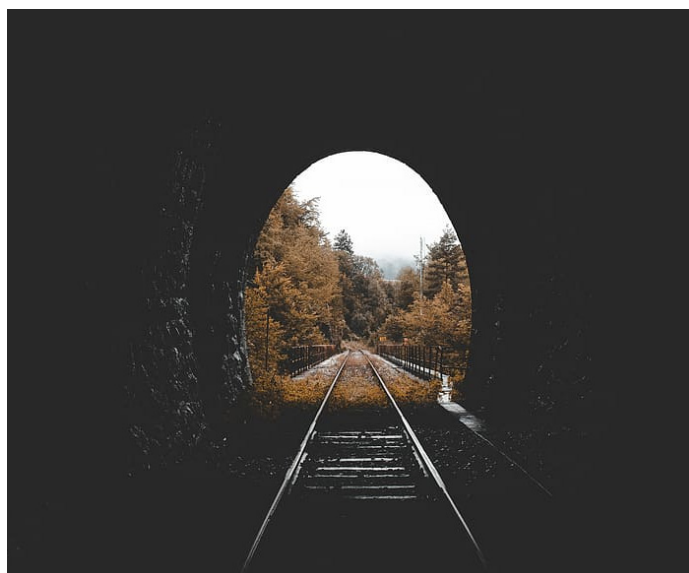


Hope for a short-lived recession



The Urban Land Institute is the oldest and largest network of cross-disciplinary real estate and land-use experts in the world. The organization has recently released the results of its semi-annual survey of 39 economists and analysts at 35 real estate organizations. The consensus of the group surveyed was that the COVID-19 pandemic's impact on real estate market conditions and values will be not as severe as the 2008 financial crisis; however, there will be two sector exceptions: retail and hospitality. This conclusion was tempered by the uncertainty surrounding the global pandemic.

William Maher, retired Director of Americas Strategy and Research at LaSalle Investment Management, indicated expectations are that, although the top-line economic impact of COVID-19 will be much worse than the Global Financial Crisis, real estate fundamentals and values will fare much better compared to that era.

The survey also suggested that 10-year U.S. treasury yield would stay very low during 2020 and could double by the last half of 2022. From the current interest-rate environment, a doubling would mean a possible 10-year yield of about 1.8%. General employment growth in the U.S. would reflect unemployment of about 11% at the end of 2020 and below 6% by the end of 2022. Commercial real estate values, as measured by Real Capital Analytics' Price Index, could fall by 7% in 2020 – less than the 20%-plus drop experienced in 2009. The relatively small decline in values is attributable to the prediction of an abundance of debt capital, compared with the capital freeze in 2009.

Although much of the survey is focused on the U.S. commercial real estate market and economy, there are some very good parallels to be drawn when examining the Canadian situation.

Fiscal Snapshot

Bank of Canada

	Bank Rate	Bank Prime Lending Rate
May 2020	0.50	2.45
April 2020	0.50	2.45
May 2019	2.00	3.45

Government of Canada Benchmark Bond Yields

	5-Year	10-Year	Long
May 2020	0.39	0.53	1.11
April 2020	0.38	0.54	1.12
May 2019	1.34	1.49	1.77

Indicative Commercial Mortgage Spreads* Over Government of Canada Bond Yields

	Conventional	5-Year	10-Year
May 2020		2.75 - 3.50	2.75 - 3.50
May 2019		1.70 - 2.10	1.80 - 2.35
	Insured	5-Year	10-Year
May 2020		1.10 - 1.65	1.10 - 1.75
May 2019		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

Highlighted Transaction

Asset Type	Development Land
Location	Major Canadian city
Facility Details	A first charge of \$12.7M for a two-year term, to allow for completion of site zoning and plan approval.

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



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