

5 - Year GOC

1.67%

▼ **0.15%**

01/03/2018-03/06/2019

TSX

16128.09

▼ **1738.97**

01/03/2018-03/06/2019

Prime Rate

3.95%

—

01/03/2018-03/06/2019

The First Quarter



The Avison Young Western Canada Debt Capital Group services Edmonton, Calgary and Vancouver. This creates a unique perspective on how real estate assets are being analyzed and financed as files are worked on conjunctively. Vancouver's market is still holding strong in terms of lending and the availability of funds. In Alberta, there has been an increase in out of province private lenders that are willing to invest capital in this market.

In the first two months of the year, very similar sentiments are being maintained in today's lending market. Bond rates have continued their decline throughout the first part of 2019, due largely to decreases of

10 bps at the end of January and 10 bps in early March. While debt availability remains relatively strong, underwriting parameters are continuing to be tightened with major banks being more conservative in their underwriting.

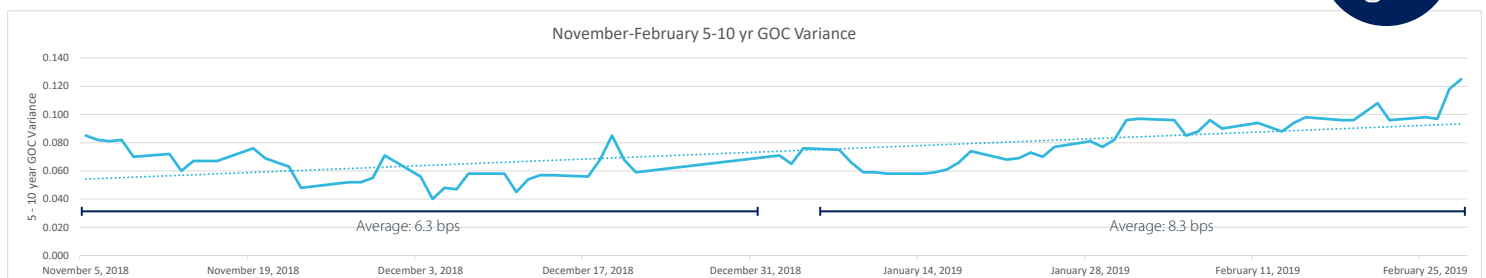
Something we would like to point out to our readers is the circumstances that will impact mortgage renewals. Economic conditions 5 years ago still maintained advantageous circumstances toward borrowers. Many renewal files we are reviewing now are reflecting requests for additional security via guarantees or paydowns against the outstanding loan. This is a perfect time to engage a debt specialist.

Market Update



- Bond rates have shown a dramatic decline over the past couple of months. The 5 year bond was trading in the 1.77% to 1.95% range in January, and 1.78% to 1.87% range in February, with the current bond rate being more in the order of 1.46%. This represents the lowest point the bond rate has been since mid 2017.
- The variance between 5-year and 10-year bond rates has begun to widen to as high as 12.5bps in comparison to the end of 2018 where the variance was as low as 4.0bps. The November - December 5 to 10-year GOC spread averaged at 6.3bps, while the January - February 5 to 10-year GOC spread averaged at 8.3bps. The higher spread can be an indicator that there is an anticipation of interest rates rising over an extended horizon, and long-term money is more expensive as a result.
- More Lenders are incorporating "floor rates" into offers to finance. Where a spread of 200bps over the applicable bond might result in an interest rate of 3.80%, the minimum acceptable rate is being noted at 4.00% on the low end and up to 4.20% on the high end.
- Spreads quoted over GOC rates have not seen vast fluctuations, but as mentioned above with the incorporation of floor rates the actual spreads realized for Borrowers has increased.
- Debt is still very accessible to Borrowers. In saying that, the underwriting by primary Lenders in the Alberta market continues to use a conservative approach in terms of debt coverage ratios and loan to value ratios. The debt coverage ratio is becoming more stringent for these lenders as they are having difficulties running exceptions through their credit departments.
- CMHC will be introducing new guidelines as part of their lending programs. The guidelines include timeliness of information flow between the applicant and CMHC. Once applications are received, any missing information will be requested by CMHC at which point you have 10 business days to deliver the items required. After 10 business days the file will be cancelled and the applicant will forfeit their application fee. Should the applicant wish to carry on there will be an additional 10% application fee to reopen the file. As this process begins taking form, we should see CMHC's timeline for providing a COI decrease.

Bond Rate Variance



Looking Ahead



- Prime rate is expected to remain relatively steady throughout the next couple of months given the recent decision by the Bank of Canada to keep interest rates steady at 1.75% as of March 6th, 2019. Stephen Poloz has stated that the path towards a target range of 2.5% - 3.5% is highly uncertain due to slow business investment as well as the cooling housing market. The sentiment is that BOC key rates will remain stagnant throughout 2019, but will need to increase once the market has stabilized.
- Perceived risks in the Alberta market continue to be a trend for primary Lenders mostly due to political factors affecting our economy. Interest rates have been stressed well above what is actually achievable on the proposed day of funding, which impacts the loan amount due to debt coverage ratios that must be maintained. If interest rates continue to fall we expect lenders underwriting loans with the same stressed rates we are seeing today. Furthermore the risks associated with Alberta will alter the level of guarantees requested not only on new financing arrangements, but also renewals.
- There continues to be a gap in the market for repositioning loans where a purchaser is acquiring a building that has large vacancy due to the functionality and appearance of the space. There are limited funds in the market, at a reasonable rate, for a purchaser to acquire and improve the building to maximize the NOI of the building. This is largely due to the need for improvements to be included in the loan amount which not only increases the LTV, but also has a major effect on the as-is debt coverage ratios.

Case Study



Recently, The Western Canada Debt Capital team arranged first mortgage financing for the property located at 1795 Beach Avenue in Vancouver, BC with a Canadian life insurance company. The property was vacant at the time the full amount of the loan was funded, and there will be no income for the first 12 months until the new tenant completes their improvements. The lender fixed the interest in advance for a five-year term with interest only payments for the first 12 months, and amortizing payments for the last 4 years. This allowed the Borrower to mitigate any interest rate risk and pay for Tenant Improvements in advance.



Contact Information

Ron Dezman, AACI
Senior Vice President
780.408.6771
ron.dezman@avisonyoung.com

Don Taylor
Senior Vice President
604.607.1333
don.taylor@avisonyoung.com

Jordan Dezman
Associate
780.408.6773
jordan.dezman@avisonyoung.com

Sam Dezman
Associate
780.408.6770
sam.dezman@avisonyoung.com

Garrett Plester
Associate
403.232.4301
garrett.plester@avisonyoung.com

Brennan Yadlowski
Associate
587.882.9753
brennan.yadlowski@avisonyoung.com