AVISON YOUNG

FEBRUARY 2020

Debt Market Monitor

Debt Capital Markets Services

What will replace Libor?

Libor – the London Inter-Bank Offered Rate – is a benchmark interest rate based on the rates at which banks lend unsecured funds to each other on the London interbank market. It has been referred to as the most important number in the world and has an estimated $350 trillion (all figures U.S.) of financial contracts tied to it, from home loans to complicated derivatives. Libor is embedded in commercial contracts, late payment clauses, lease arrangements, pension valuations, insurance and accounting systems – to name a few.

Following the global financial crisis of 2007-2008, a number of banking institutions manipulated Libor for profit motives. An investigation led to charges being laid in late 2012, which rocked global financial markets and resulted in private legal settlements of an estimated $35 billion, separate from fines paid to regulators. Aside from the financial implications, the erosion of public trust in the financial markets and beyond was significant. Laws were soon passed and new agencies established to enforce regulations in the financial markets, including Libor – until a suitable replacement is found.

Finding a universal replacement for Libor is a very complicated and difficult task that will be expensive and is slated to happen by 2021. If the replacement of Libor is mishandled, it could trigger credit-market confusion and waves of lawsuits. The Federal Reserve Board and the Federal Reserve Bank of New York convened the Alternative Reference Rates Committee ("ARRC") to identify an alternative to Libor. ARRC has recommended using the secured overnight financing rate ("SOFR") as the replacement reference rate. SOFR is based on repurchase (repo) interest rates – where one party sells a secured loan to another party and agrees to repurchase it later at a set date and price. The repo market has experienced volatility; however, more recently it has been calmed by the Federal Reserve Board's injection of liquidity to maintain stability and the desired rate of interest. An alternate replacement that has gained some traction is the Sterling Overnight Index Average (SONIA), which is the effective overnight rate paid by banks for unsecured transactions in the British sterling market.

Some have referred to the replacement of Libor as the biggest banking challenge of all time.

Fiscal Snapshot

Bank of Canada

	Bank Rate	Bank Prime Lending Rate
January 2020	2.00	3.95
December 2019	2.00	3.95
January 2019	2.00	3.95

Government of Canada Benchmark Bond Yields

	5-Year	10-Year	Long
January 2020	1.29	1.27	1.42
December 2019	1.68	1.70	1.76
January 2019	1.78	1.88	2.14

Indicative Commercial Mortgage Spreads* Over Government of Canada Bond Yields

Conventional	5-Year	10-Year
January 2020	1.55 - 2.00	1.65 - 2.10
January 2019	1.70 - 2.10	1.80 - 2.35
Insured	**5-Year**	**10-Year**
January 2020	0.90 - 1.10	0.85 - 1.10
January 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	Single tenant suburban office
Location	Major Canadian city
Facility Details	A $21M senior charge facility was arranged for a term of 7 years, which included a 3-year interest only period, amortized over 25 years, at a competitive fixed rate of interest.

Intelligent Debt Financing Solutions

The Avison Young Debt Capital Markets 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 - CMHC and Fannie Mae / Freddie Mac.

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

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 is the world's fastest-growing commercial real estate services firm. Headquartered in Toronto, Canada, Avison Young is a collaborative, global firm owned and operated by its Principals. Founded in 1978, with legacies dating back more than 200 years, the company comprises approximately 5,000 real estate professionals in 120 offices in 20 countries. The firm's experts provide value-added, client-centric investment sales, leasing, advisory, management and financing services to clients across the office, retail, industrial, multi-family and hospitality sectors.

AVISON YOUNG CANADA CAPITAL MARKETS OFFICES

Calgary | Edmonton | Mississauga | Montreal | Toronto | Vancouver

avisonyoung.ca

Avison Young Commercial Real Estate (Ontario) Inc., Brokerage
18 York Street, Suite 400
Mailbox # 4
Toronto, Ontario, Canada M5J 2T8
416.955.0000

©2020 Avison Young Commercial Real Estate (Ontario) Inc., Brokerage
The information contained herein was obtained from sources deemed reliable and is believed to be true; it has not been verified and as such, cannot be warranted nor form any part of any future contract.

CANADA BEST MANAGED COMPANIES Platinum member