AVISON YOUNG

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Debt Market Monitor

National Debt Capital Markets Services

Flag on the Horizon…

Seven years of steadily increasing values for nearly any market segment is a good run and it is certainly true about real estate. January 2016 arrived and revealed a dip in Moody's/Real Capital Analytics Commercial Property Price Index. This is the first recorded negative reflection of the national market in the U.S. in seven years. Grant it, a minor dip is nothing to get too excited about, unless February and March reveal a similar downturn.

There are a couple of reasons that Moody's suggest may be the cause for the index downturn. One is that the CMBS market has essentially gone glacier, brought on by It is a combination of the turbulence in the bond market and the heightened concerns over credit markets. The credit concerns are partially caused by the deep decline in commodity prices and resulting business bankruptcies and loan default rates that have made investors nervous and to look for more spread. As a result, CMBS spreads are no longer competitive in the market and thus the stall. This is true in Canada and the U.S. In the U.S., starting in June 2016 there is roughly $10 billion per month that will be maturing and looking for a new home through refinancing. With a mired CMBS market, there are now some concerns that refinancing cracks may start to appear. Does this have the makings of a liquidity crunch in the back half of the year? Moody's go on to say that "This is a significant milestone that signals a shift in sentiment among commercial property investors in underway." The larger picture reveals that there are also risk adjusted retention rules (Dodd-Frank Wall Street Reform and Consumer Protection Act) nearing implementation that will impact the appetite that bank and other issuers may have on securitized debt going forward.

What is making the credit markets crazy? The forecasted default rates for commodity related businesses and the high yield markets may have something to do with it. Fitch rating agency have forecasted an increase in high yield bond defaults of 33% equaling close to $90 billion, the highest on record. For the energy sector, Fitch estimates a default rate in excess of 20% during 2016 – over $40 billion worth of energy bonds are predicted to fail to perform. Lastly, the metals/mining sector default is projected to reach 20%, with the coal subsector reaching a whopping 60%. With these projections focused on the U.S., one can assume that the Canadian market place will look similar in many respects.

The folks who are in charge of managing risk at the institutional level are a little nervous about the calamity of commodity prices and the fallout that is projected to be seen over 2016. This nervousness, which may be well founded, could also have a contagion effect that may spill over to performing real estate debt decisions. The outcome later on in the year could very well marked with lenders potentially becoming more selective, offering lower leverage, tighter structuring and possibly wider spreads.

Fiscal Snapshot

Bank of Canada Rate

	BoC Rate	Bank Prime Lending
March 2016	0.75	2.70
One month ago	0.75	2.70
One year ago	1.00	2.85

Government of Canada Benchmark Bond Yields

	5-Year	10-Year	Long
March 2016	0.68	1.23	2.00
One month ago	0.66	1.18	1.97
One year ago	0.77	1.36	1.99

Indicative Commercial Mortgage Spreads* Over Government of Canada Bond Yields

Conventional	5-Year	10-Year
March 2016	1.75 - 2.00	1.85 - 2.25
One year ago	1.85 - 2.15	2.00 - 2.25
Insured	**5-Year**	**10-Year**
March 2016	1.00 – 1.20	1.05 – 1.25
One year ago	0.90 - 1.25	0.95 - 1.40

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

NATIONAL DEBT CAPITAL MARKETS SERVICES

Highlighted Transaction

Asset Type	Suburban Office
Location	Major Canadian Market
Facility Details	A senior debt facility in the amount of $15,300,000 for a 5 year term, 25 year amortization, at a competitive fixed rate of interest.

Intelligent Debt Financing Solutions

The Avison Young National 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 70+ years of combined debt/equity capital markets experience has created meaningful relationships that we can put to work for you.

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

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CANADA'S BEST MANAGED COMPANIES