



Q1 2024

# COMMERCIAL MORTGAGE UPDATE



2024 started off the year with a much stronger quarter compared to Q4 2023. Interest rates and housing supply issues continue to be the main conversations in this quarter.

The Bank of Canada continued to maintain its policy interest rate at 5%, with Prime Rate still at 7.20%. Market pricing is anticipating an interest rate cut in June by roughly 50 basis points, but there are lenders who predict the cut will happen in July instead.

According to the Bank of Canada Business Outlook Survey (BOS), Canadian business sentiment remained downbeat but shows signs of improvement in Q1. Weaker consumer demand is driving lower expectations for price gains and wage growth, which should help support disinflationary pressures.

Headline CPI inflation moved slightly higher in March to 2.9% y/y, matching general expectations. Higher gas prices contributed the most to the acceleration in headline inflation in March. However, housing continues to be an issue as rents are up 8.5% y/y and mortgage interest costs are up 25.4% y/y. If we exclude shelter costs, the CPI was up only 1.5% y/y in March.

The Federal Government has recently introduced an ambitious housing plan that aims to make housing affordable. The goal is to not have hardworking Canadians spend more than 30 percent of their income on housing costs. The plan will unlock 3.87 million new homes by 2031. To build more homes, the government will

work on bringing down the costs of homebuilding, building affordable projects on federal/provincial/territorial/municipal lands across the country, and injecting \$15 billion in additional loans for the CMHC Apartment Construction Loan Program. A new program under Canada Builds will aim to provide federal low-cost loans with provincial and territorial investments to scale up construction on rental homes for the middle class. For new home buyers, the Home Buyers' Plan withdrawal limit will be increased by \$25,000 to \$60,000 and the grace period to repay will be extended by an additional three years. Mortgage amortizations for first-time home buyers purchasing newly built homes will be 30 years instead of 25.

In summary, Q1 2024 is generally heading in the right direction, with the Canadian economy maintaining a slight moderation in economic growth. Although housing starts have declined over the last few months, there has been more activity in refinances, purchases, and construction projects due to expectations that interest rate cuts will happen soon. The 2024 Federal Housing Plan is a project that aims to help every generation in finding a safe and affordable place to live.

Over the last quarter, we have identified the following trends in the commercial real estate lending sector:

➤ Land Financing:

Conventional land financing continues to be difficult. Loan-to-values are generally 50% to 55%, whereas some private lenders can go up to 65%. Preferred projects are condos with pre-sales and purpose-built rentals.

➤ Construction Financing:

Despite an increase in overall rental unit supply, demand outpaces supply for the second consecutive year. Canada is experiencing record-low vacancy rates (1.5%) and record-high average rent growth (8.0%) in 2023.

Most developers are seeking CMHC construction financing as they want to achieve favorable debt terms and go up to 95% LTV. Most developers are selecting the affordability route under the CMHC MLI Select Program, whereas in BC we are seeing a combination of energy efficiency and affordability or 100% energy efficiency.

We are also seeing more lenders requiring condo projects with higher coverage from pre-sales.

With the higher standard cost of living across major Canadian cities such as Vancouver and Toronto due to inflation over the last few years, there has been a population surge in Alberta. We are seeing many developers looking to build projects in Edmonton and Calgary.

➤ CMHC Financing:

CMHC insured loans continue to be popular for many developers. CMHC files are being reviewed and approved within 3 months.

➤ Inventory Financing:

As the market has slightly cooled, there has been a resurgence in inventory loan requests as developers seek to re-capitalize remaining inventory from dropped sales or deliberately heldback inventory. These loans are currently being considered by private lenders and MICs in the range between 60-65% LTV.

➤ Term Financing:

With bond yields increasing slightly higher since December 2023, we have seen interest rates for term financing between 6.50% to 9%.

➤ Owner-Occupied Financing:

Many owner-occupied businesses have mortgages that are coming up for renewal and they are opting for shorter loan terms. When dealing with businesses, lenders prefer real estate as security instead of inventory and account receivables. Some lenders we have worked with are being more conservative with their EBIDTA calculations and applying less addbacks which decrease the net mortgage proceeds. Business owners are advised to plan with their accountants and financial advisors to understand how their business financials can affect their borrowing power, which ultimately can impact their business' expansion and growth.

**COMMERCIAL REAL ESTATE LENDING DEBT TERMS**

As of March 29, 2024

Financing Type	Benchmark	Lender Spread		Indicative Rate		Max LTV/LTC
<b>Term Financing</b>						
5-Yr Conventional	5-Year GOC	2.00%	2.75%	5.63%	6.38%	75.00%
10-Yr Conventional	10-Year GOC	2.00%	2.75%	5.58%	6.33%	75.00%
5-Yr CMHC MLI Select	5-Year CMB	0.50%	0.95%	4.26%	4.71%	95.00%
10-Yr CMHC MLI Select	10-Year CMB	0.50%	0.95%	4.43%	4.88%	95.00%
<b>Floating Rate Financing</b>						
Construction Financing	Prime	1.00%	2.00%	8.20%	9.20%	75.00%
Land Financing	Prime	1.25%	3.25%	8.45%	10.45%	50.00%
Bridge Financing	Prime	1.50%	3.00%	8.70%	10.20%	75.00%
2nd Mortgage IO	Prime	3.00%	5.80%	10.20%	13.00%	85.00%

**BENCHMARK YIELDS**

	Mar 29, 2024	Mar 1, 2024	1-Mth Change	Jan 2, 2023	3-Mth Change	Oct 2, 2023	6-Mth Change
5-Year GOC	3.63%	3.49%	0.14%	3.25%	0.38%	4.42%	-0.79%
10-Year GOC	3.58%	3.42%	0.16%	3.16%	0.42%	4.27%	-0.69%
5-Year CMB	3.76%	3.75%	0.01%	3.49%	0.27%	4.49%	-0.73%
10-Year CMB	3.93%	3.86%	0.07%	3.61%	0.32%	4.49%	-0.56%
Prime	7.20%	7.20%	0.00%	7.20%	0.00%	7.20%	0.00%



## **FUNDED DEAL SUMMARY**

Designer Capital facilitated CMHC Takeout Financing for a 20-Unit Multi-Family Development in Victoria, BC. Our client is an experienced multi-family developer of purpose-built rentals and condos. The project has completed construction and is now fully leased.

Working with one of Victoria's top private commercial lenders, Designer Capital was able to achieve the following Novel Financing Solution:

## **NOVEL FINANCING SOLUTION**

- Mortgage: \$12,500,000
- 95% Loan-To-Value
- Interest Rate: CMB + 0.55%

Designer Capital's *Unbiased Advice* helped secure *CMHC Takeout Financing* at a *high Loan-To-Value* to allow for the *maximum amount of capital returned* to the client while paying out the existing construction mortgage.

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## ABOUT DESIGNER CAPITAL

Based in Victoria, Designer Capital is a real estate capital advisory firm that provides novel and unbiased solutions for residential and commercial financing.

We support developers and real estate investors in optimizing returns by structuring debt financing in the form of land acquisition, construction, mezzanine, bridge, and term loans.

From multi-tenant investment properties, new construction and development to owner-occupied space, we have facilitated successful funding across all major asset classes.

Designer Capital is licensed and regulated as a Mortgage Broker by the BC Financial Services Authority (BCFSA).



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