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COMMERCIAL MORTGAGE UPDATE



2023 ended with much optimism in the mortgage industry as Canada's 5-year bond yields plummeted over 120 basis points to 3.20% since their 16-year highs at 4.40% during the month of October.

Since March 2022, the central bank has increased the policy interest rate 10 times and has been maintaining 5.00% since July 2023. Economists are predicting the first interest rate cut to occur in the summer, followed by four more cuts in the second half of the year (five 25 basis-point cuts in total). Assuming the banks follow suit, we can anticipate the Prime Rate falling from 7.20% to 5.95%. In practical terms, a borrower with an adjustable-rate mortgage would see their monthly payment fall by approximately 10% or \$75 per \$100,000 of mortgage balance.

Annual inflation rose to 3.4% in December compared to 3.1% in November. Energy prices, and more specifically gasoline prices, were a key culprit boosting headline CPI higher. Gasoline prices fell on a monthly basis but the year-to-year prices for gasoline in December are (+1.4%) compared with November (-7.7%). StatsCan stated that the price of gasoline, air travel, passenger vehicles and rent drove the figure higher in December. Retail food prices also went up 4.7% compared to 2022, the same rate of increase as in November. The economic measure is still higher than the Bank of Canada's target of 2%.

A few noteworthy industry developments this year that addresses housing affordability include the Canada Mortgage Bond (CMB) program seeing its annual

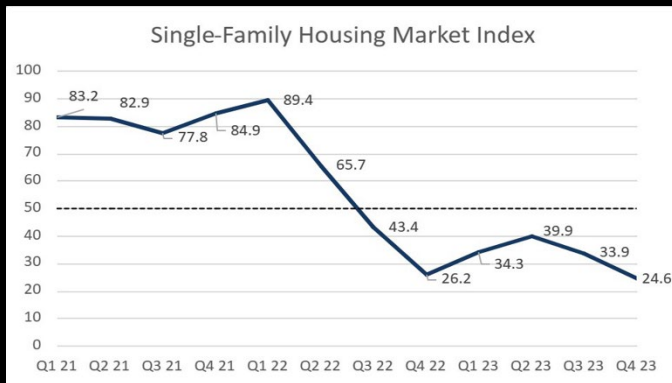
issuance limit increasing by 50% from \$40 billion to \$60 billion. On November 21, the 2023 Fall Economic Statement announced the renaming of the Rental Construction Financing Initiative (RCFI) to the Apartment Construction Loan Program with an additional funding of \$15 billion in new loan funding, starting in 2025-26, to build more rental apartments, faster.

In September, the federal government announced that it will introduce an enhanced 100% Goods and Services Tax (GST) Rental Rebate on new rental construction projects. This will be available to new projects beginning Sept 14, 2023 to Dec 31, 2030, and completed before Dec 31, 2035. This enhanced GST rental rebate only applies to the 5% federal GST. This effectively removes the requirement for GST self-assessment which was a significant cost to many developers.

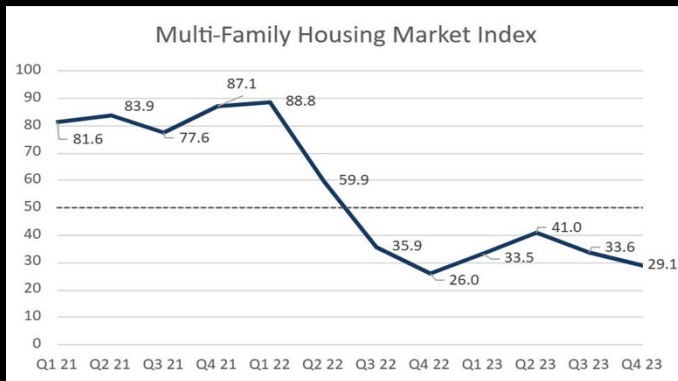
In summary, 2023 was a very dynamic year for the commercial real estate market in Canada. Both businesses and consumers continue to be concerned about elevated prices and high interest costs. While there is expectation that inflation is heading in the right direction along with forecasted interest rate cuts in 2024, keep in mind that everchanging regulations and market conditions have prompted many lenders to still be very conservative with their capital placements. For upcoming renewals, it is advised to secure shorter loan terms in preparation for future rate decreases. Please reach out to your financial advisors to plan your investments strategically in this uncertain yet recovering market.

Construction costs are impacted by global and local economic conditions, market trends, and advances in building materials, practices, and approaches.

Both the Canadian Home Builders' Association Housing Market Indices (HMI) for single and multi-family developments experienced a considerable decrease in Q4 2023 over the previous quarter, due to the result of a continuation of affordability and mortgage-qualifying challenges for consumers.



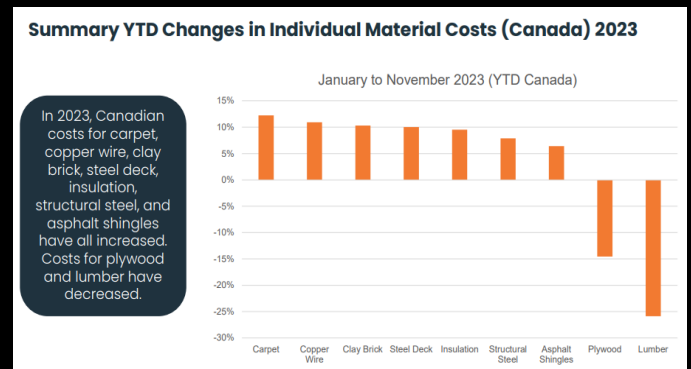
The Q4 CHBA single-family HMI registered a record low of 24.6, falling 9.3 points from 33.9 the previous quarter. The previous single-family HMI low of 26.2 was recorded in Q4 of 2022.



The Q4 CHBA multi-family HMI is 29.1, declining 4.5 points from Q3 and held slightly above its Q4 2022 low of 26.0.

Six consecutive quarters with HMI readings well below a neutral sentiment score of 50 maintains an expectation of a continued decline in housing starts in 2024.

As per CoreLogic's Q4 Construction Insights report, prices for material costs have experienced significant fluctuations. Lumber, for example, had decreased by 26% YTD in Canada by Nov 2023.



While data and builder comments find that lumber prices have stabilized, the survey still found that lumber costs for a 2,400 square foot home is still \$23,400 more than it was just before the onset of the pandemic. The national average cost of all other building materials is up by \$42,200. This puts the total cost of construction compared to prior to the pandemic up over \$65,500 for a 2,400 square foot home.

If the Bank of Canada maintains tight monetary policy, construction costs are expected to trend lower. However, economic sentiment indicates possible interest rate cuts in the latter half of 2024. Commodities are sensitive to interest rates and when rates fall, raw material prices tend to rise and vice versa.

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% or lower, whereas some private lenders can go up to 65%. Preferred projects are condos with pre-sales and purpose-built rentals. We expect this product to remain similar for the first half of 2024.

➤ Construction Financing:

Construction loans for both rentals and condos have been challenging to finance as interest rates remain high and developers are not meeting upfront equity requirements. Our key lenders continue to underwrite files with higher stress test rates, thus lowering the loan-to-cost on many files. Many projects are currently put on hold as there is an expectation that rates will decrease soon in 2024.

We are seeing many developers requesting higher/bonus densities and applying for development permit variances to redesign unit mixes in hopes of making projects financially feasible.

➤ CMHC Financing:

CMHC insured loans continue to be popular for many developers. As of the end of December 2023, there were approximately 500 CMHC applications that remained in the queue, as opposed to the ~5,000 applications back in June. CMHC's backlog has tremendously. We are seeing some

files being picked up, reviewed, and approved within 3 months. CMHC policies have changed drastically over the year, and thus it is important for developers to be aware of the changes and how they can work with these programs to their best advantage. For updates regarding CMHC construction and takeout financing, please reach out to the commercial team at Designer Capital.

➤ Term Financing:

With bond yields coming down in December 2023, interest rates for term financing are averaging above 6% as opposed to the 7-8% range in Q3.

➤ 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 December 29, 2023						
Financing Type	Benchmark	Lender Spread		Indicative Rate		Max LTV/LTC
Term Financing						
5-Yr Conventional	5-Year GOC	2.00%	2.75%	5.23%	5.98%	75.00%
10-Yr Conventional	10-Year GOC	2.00%	2.75%	5.15%	5.90%	75.00%
5-Yr CMHC MLI Select	5-Year CMB	0.50%	0.95%	3.99%	4.44%	95.00%
10-Yr CMHC MLI Select	10-Year CMB	0.50%	0.95%	4.11%	4.56%	95.00%
Floating Rate Financing						
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%	6.30%	10.20%	13.50%	85.00%

BENCHMARK YIELDS							
	Dec 29, 2023	Dec 1, 2023	1-Mth Change	Oct 2, 2023	3-Mth Change	Jul 4, 2023	6-Mth Change
5-Year GOC	3.23%	3.66%	-0.43%	4.25%	-1.02%	3.75%	-0.52%
10-Year GOC	3.15%	3.60%	-0.45%	4.03%	-0.88%	3.32%	-0.17%
5-Year CMB	3.49%	3.90%	-0.41%	4.55%	-1.06%	4.01%	-0.52%
10-Year CMB	3.61%	4.06%	-0.45%	4.55%	-0.94%	3.78%	-0.17%
Prime	7.20%	7.20%	0.00%	7.20%	0.00%	6.95%	0.25%



FUNDED DEAL SUMMARY

Designer Capital facilitated Private Land Financing for a future 125-Unit Multi-Family Development in Victoria, BC. Our client is an experienced multi-family developer of purpose-built rentals and condos. The site has been zoned and is anticipated to begin construction in the summer of 2024.

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: \$3,450,000
- 61% Loan-To-Value
- Interest Rate: Prime + 3.75%
- Built-In Interest Reserve of \$200K

Designer Capital's *Unbiased Advice* helped secure *Private Land Financing* at a *high Loan-To-Value* to allow for the *minimum amount of capital injection* from the client to complete the land purchase for their future multi-family development.

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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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