

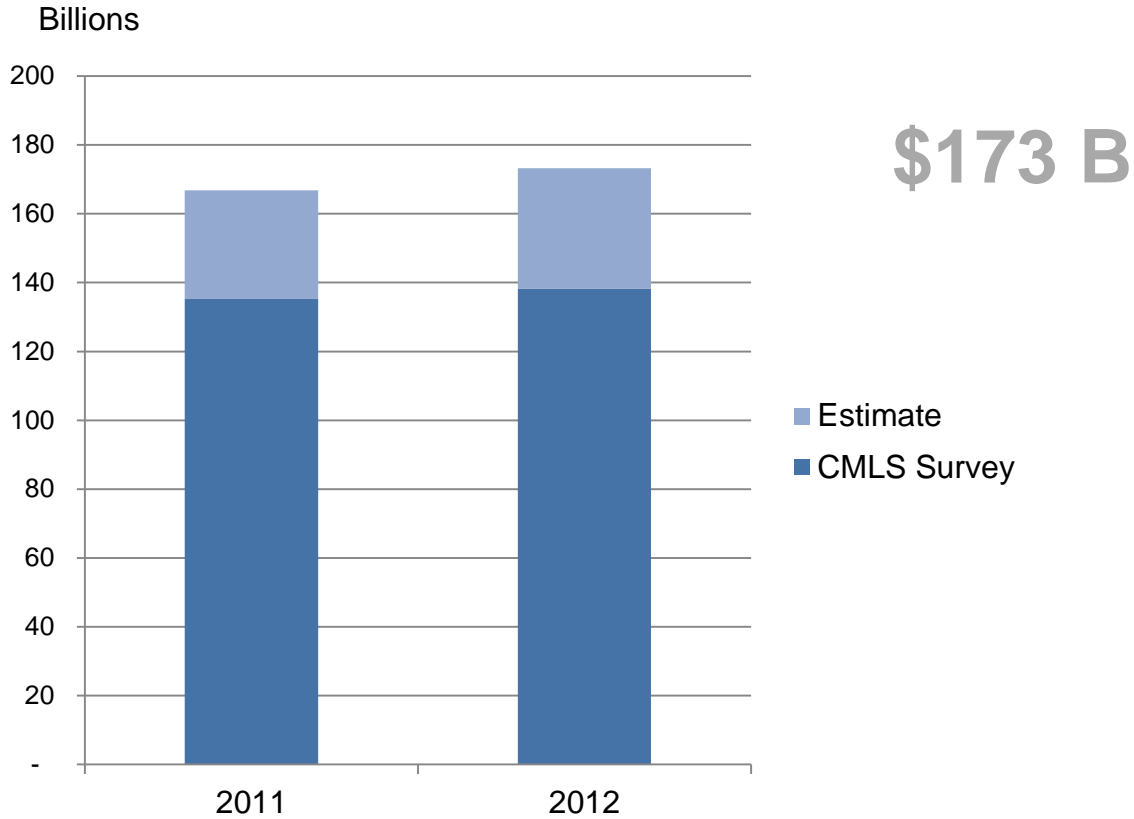
Montreal Real Estate Forum 2013

Session A2 – Debt Financing: where
are spreads heading? What lies ahead for
the credit markets

Presented by **Lorenzo Cocco**,
Senior Vice President, CMLS Financial



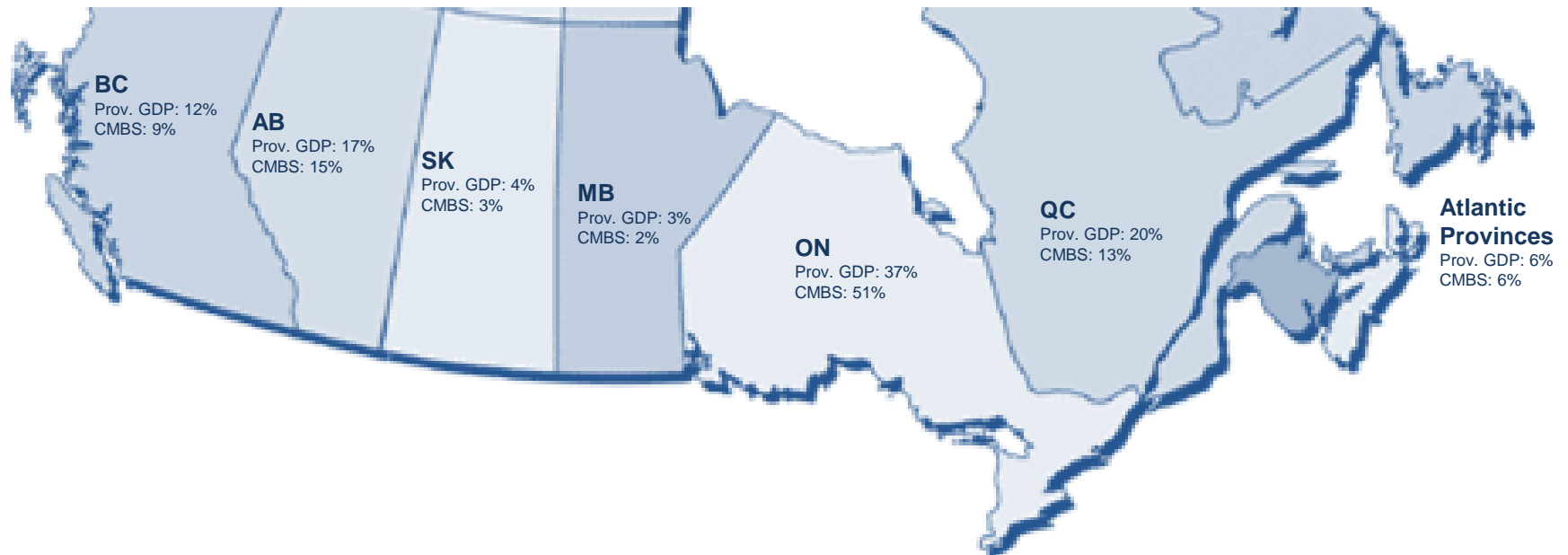
Size of the Market



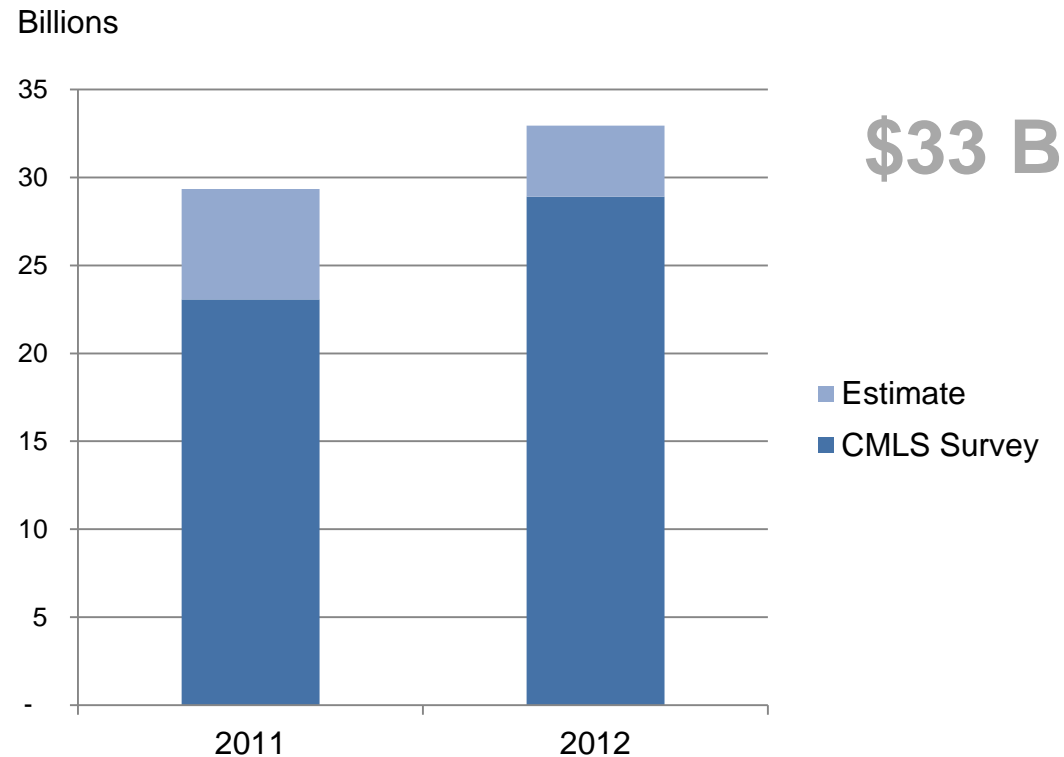
Includes multi residential mortgages (conventional, CMHC insured on book and securitized)

Canadian GDP and Legacy CMBS

Distribution by Province



2012 Origination – A BIG YEAR

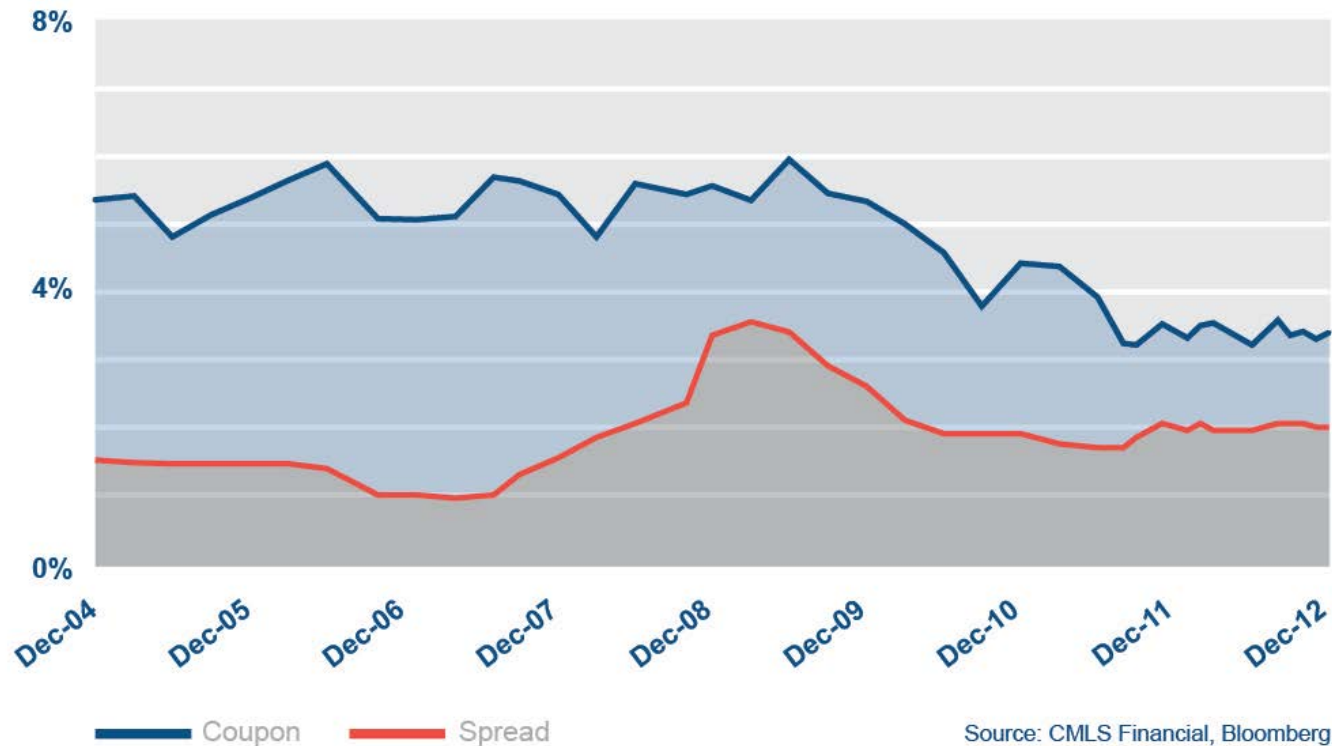


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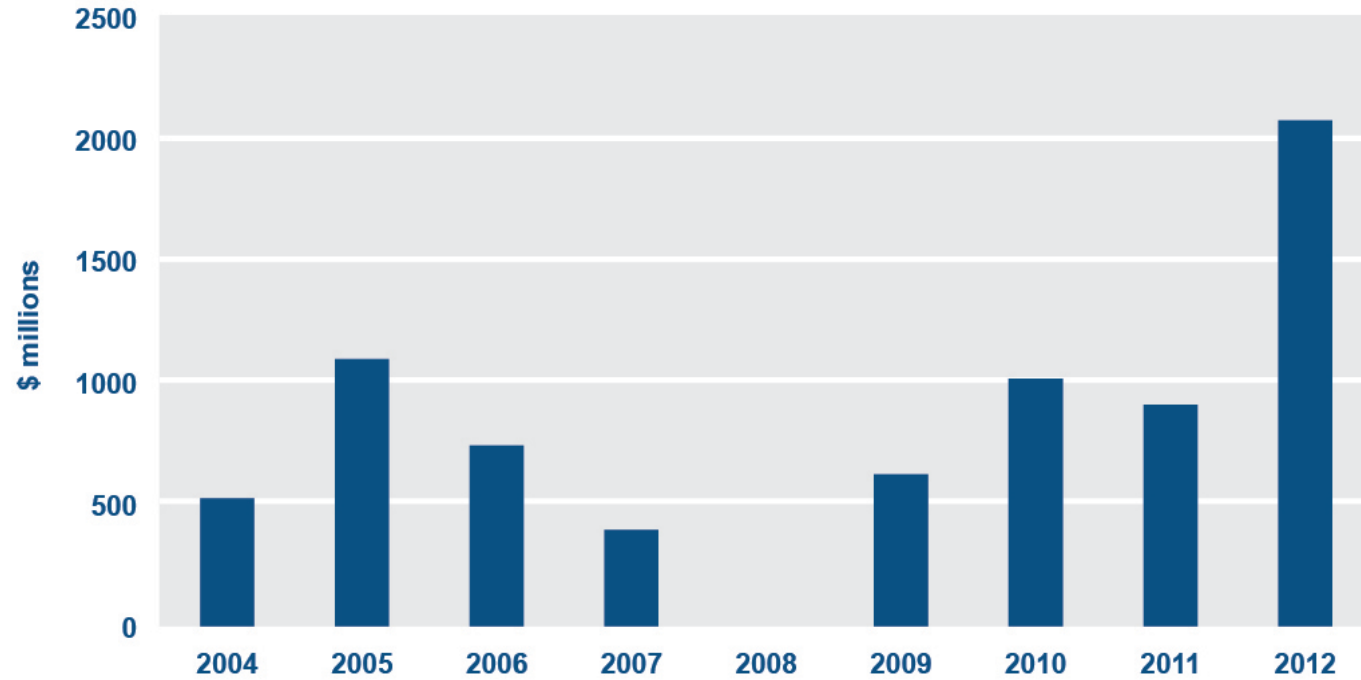
Commercial Spreads

- The commercial mortgage market for 2013 seem well capitalized
- High quality commercial loans have spreads in the 190bps to 215bps range for 5 year money and 200bps to 225bps range for 10 year money
- Conventional multifamily spreads are about 10bps south of commercial spreads.
- Top quality CMHC insured mortgages are pricing at spreads near 85bps for 5 year and 90bps for 10 year.

Commercial Mortgage Loans – 5 Year Spreads and Coupons

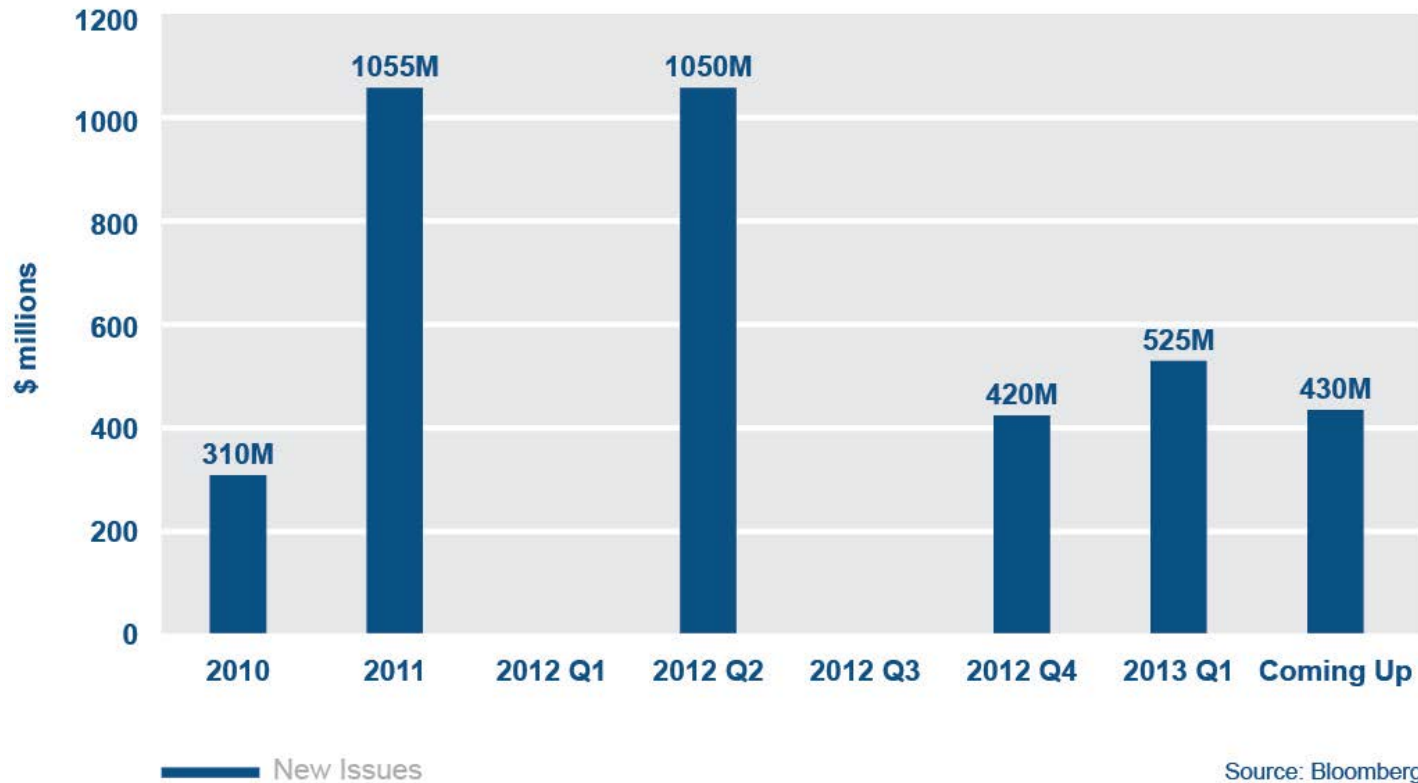


Senior Unsecured Debt Issuance



Source: CMLS Financial, RBC, Bloomberg

Major First Mortgage Bond Issuance



First Mortgage Bonds

- Scotia Plaza and The Bow headlined two large issuances in Q2
- Calgary's Centennial Place secured \$420 million of bonds in Q4.
 - The Centennial Place bonds split 50/50 between Series-A (10 year term) and Series-B (5 year term)
 - Coupons were 3.666% and 3.04%, respectively, inferring spreads in the range of approximately 170bps to 195bps
- 2013 opened with \$525 million of mortgage bonds secured by Bay-Wellington Tower (BWT).
 - The bonds have a 7-year term and amortize over 30-years
 - The coupon is 3.244%, inferring a spread of approximately 150bps

CMBS

- Cdn CMBS issuance peaked north of \$4bn/year in 2006/2007, about 25% of commercial mortgage origination market. Today CMBS represents 6% (~\$10bn of \$173bn)
- While vastly different in size, the Canadian and US CMBS markets enjoyed similar growth roughly four-to-fivefold increase in issuance volumes (2000 – 2007)
- Since the market meltdown, the US was the first to truly recover with \$32bn of issuance in 2011, \$48bn in 2012 and industry experts predicting a \$60-\$80bn of 2013 issuance.
- Canadian CMBS investors, on the other hand , have been slow to regain confidence in the sector

CMBS

- However: CMBS offering attractive yields, nearly 15 years of strong loan performance, it was only a matter of time
- The three Cdn deals brought to market over the past 8-months (2x IMC and CCMOT1) are encouraging, notably decreasing bond spreads and sub levels.
- End result: lower cost of funds for Cdn conduit lenders and a target 10-year conduit spread of roughly 240bps today; a little wide of LifeCo's and FI's but achievable.
- Strong interest from CMBS participant and we believe that \$1bn is not an unrealistic target for 2013

CMBS

Annual CMBS Issuance as % of Peak Volume

