THE MONTHLY MORTGAGE COMMENTARY

JANUARY 2016

Rise of the Alternative

It has been a volatile start to the year for traditional investment vehicles, which has left many investors concerned that global economic growth could suffer more than originally anticipated. Any positive sentiment during the first week of trading quickly dissipated when the price of oil tumbled by 10.0% and the People's Bank of China (PBOC) elected to devalue the yuan by 9.9% in order to bolster economic growth. The routs in commodities and equities have put greater investor focus on alternative asset classes that provide some shelter from the turmoil while offering investors positive returns.

The Canadian economy has suffered along with every other oil exporting country. The Canadian dollar tumbled 4.3% against the U.S. dollar in the first half of the month. Unlike another oil exporting counterpart, Russia, the structural fundamentals of the Canadian economy remain relatively solid. The shift in investing methods to alternative asset classes like commercial real estate has not been lost on foreign investors that are looking at a transparent property market like Canada as a solid investment amidst global economic uncertainty. Canadian properties may not provide the significant returns of countries like Brazil, whose 10-year government bond is yielding 16.5%. The reason why investors are troubled by Brazil's risk premium is that there is evidence of property expropriation by the government and signs of a deteriorating economy as measured by credit rating agencies that have downgraded Brazil to junk status.

All signs are signaling that the Canadian commercial real estate investment market is set for an active year with core assets being pursued by foreign investors that are enticed by a discounted Canadian dollar. The challenge for all investors will be prying prized assets away from owners. Based on recent announcements, hurdle may be overcome if foreign investors are willing to accept lower capitalization rates for the privilege of obtaining a solid Canadian investment. Capital is cheap, in abundance in the majority of Canadian markets and ready to be deployed. It is only a question of who is willing to go the extra mile to secure what is sought after by many.

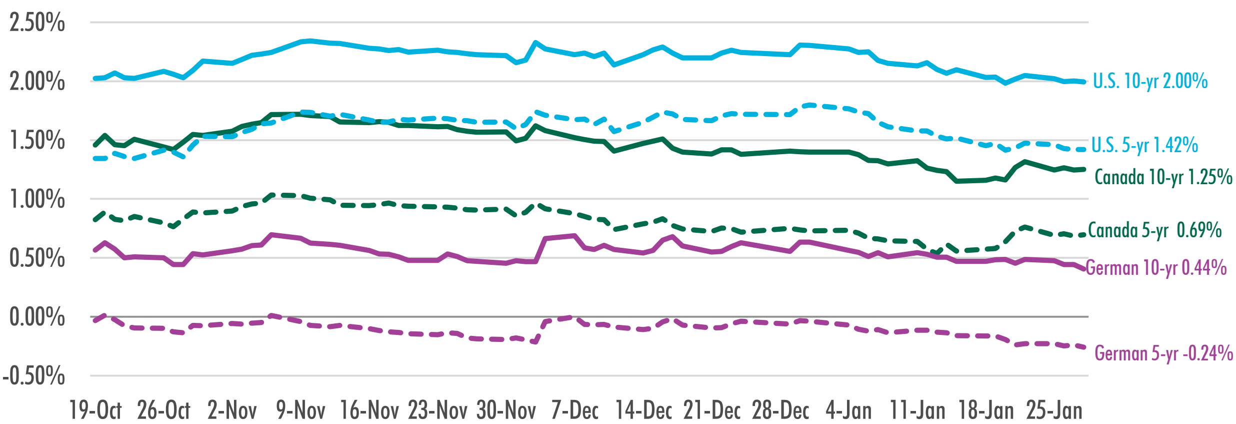
Key Indicators	90 Days	30 Days	Current	Trend
CAD/USD	$0.7644	$0.7220	$0.7106	↓
USD/CAD	$1.3083	$1.3850	$1.4073	↑
EUR/CAD	$1.4446	$1.5119	$1.5414	↑
Canada Prime	2.70%	2.70%	2.70%	■
U.S. Prime	3.25%	3.50%	3.50%	■
30-Day CDOR	0.835%	0.869%	0.858%	↓
WTI	$46.59	$37.87	$32.30	↓
TSX REIT Index Market Cap	$103.88B	$100.66B	$94.91B	↓
5-Year Mortgage Spread Range	1.75% - 2.45%	1.85% - 2.55%	1.85% - 2.65%	↑
10-Year Mortgage Spread Range	1.85% - 2.45%	1.95% - 2.55%	1.95% - 2.65%	↑

Source: Thomson Reuters Eikon, CBRE Limited, Jan. 27, 2016.

VIEWPOINTS:

- Canadian real estate feels the love from foreign buyers *Reuters*
- A new economic era for China goes off the rails *The New York Times*
- Blame Canada for making the oil glut worse *Bloomberg*

Benchmark Government Bond Yields



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