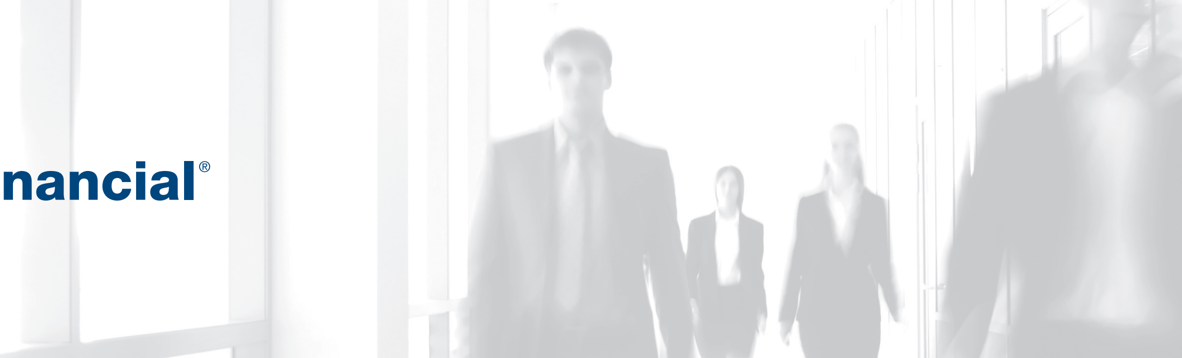


COMMERCIAL MORTGAGE SPREAD COMMENTARY

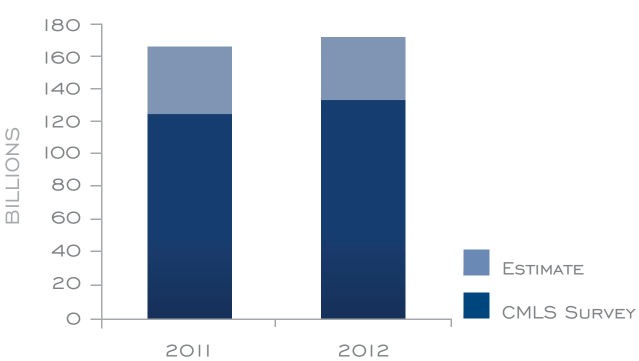
CANADA'S MORTGAGE COMPANY.™

MAY 2013

SURVEY

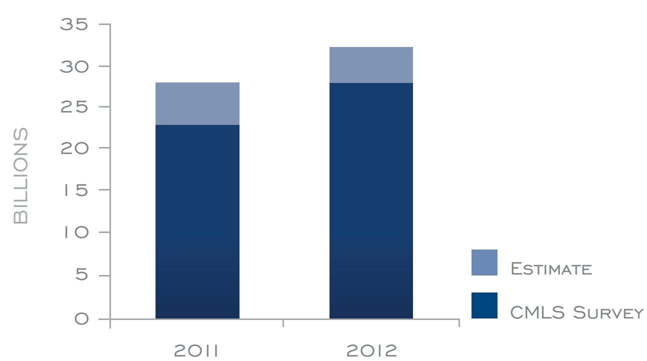
For the third year, CMLS Financial presented the highlights from our annual Canadian commercial mortgage market survey at RealCapital 2013 in Toronto. CMLS' objective with this annual survey is to help accumulate information on the size and composition of the Canadian commercial mortgage market, quantify annual originations, and gauge industry sentiments heading into 2013.

2012 OUTSTANDING BALANCE



CMLS estimates the size of the Canadian mortgage market at approximately $170 billion. Survey participants identified $105 billion of commercial mortgages outstanding, which combined with $27 billion of outstanding CMBS and NHA MBS, provided insight into over $132 billion of commercial mortgages in Canada. Survey participants identified a further $11.2 billion of current construction loans.

2012 ORIGINATION



CMLS estimates 2012 originations at approximately $32.5 billion, a significant $4.5 billion (16%) increase over 2011. This year's survey participants reported originations in excess of $23.5 billion; combined with 2012 CMBS issuances of $0.5 billion and NHA MBS issuances of $3.7 billion, total identified origination was more than $27.7 billion.

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What else did we learn? Again, one-half of participants had floor rates in 2012, primarily to protect the all-in coupon. And while most lenders believe there will be as much or more capital available for borrowers, many have 2013 targets that are well below their 2012 origination figure. **Key risks to success in 2013?** Lenders feel there may be too much capital in the market and many have concerns about the direction of the Canadian economy. Without question, there is concern about the continued low rate environment and further cap rate compression pushing collateral values even higher. Finally, it appears lenders believe CMBS will make a more pronounced return in 2013, with most believing issuance will exceed $500 million for the year.

CMLS is committed to continuing this annual survey and providing relevant data to market participants. Full survey results including composition by lender type, renewal figures, construction loans and further depth are only made available to participating organizations. If you have any suggestions, questions or thoughts, or would like to participate in 2013, please do not hesitate to contact Mark Achtemichuk directly at 604-687-0874 or mark.achtemichuk@cmls.ca.

COMMERCIAL SPREADS

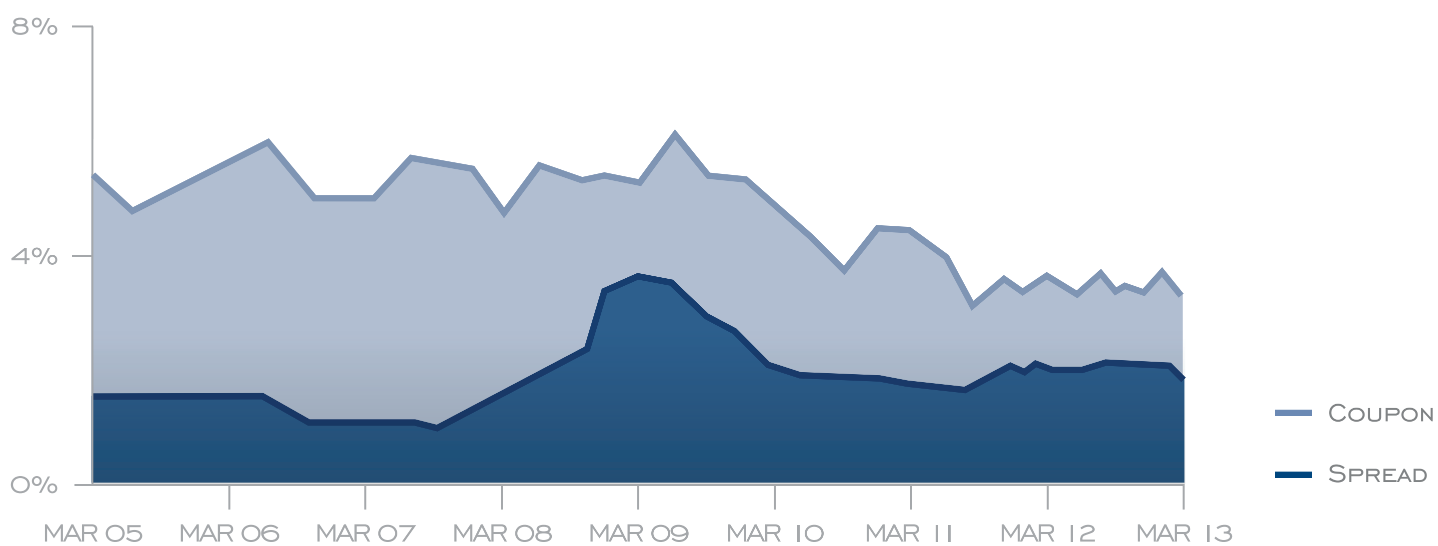
The commercial mortgage market in Canada continues to be well capitalized in Q1 2013. General sentiment amongst lenders is that the surplus of capital will make achieving annual allocation targets difficult in 2013. Competition has been aggressive for large deals resulting in "large deal" discounts as opposed to "large deal" premiums experienced in the past. Recent pricing on senior unsecured debt for REITS and REOCs has squeezed spreads on conventional lenders looking to refinance their existing portfolio. Further compounding rivalry in the commercial mortgage market is the re-emergence of foreign investors and CMBS.

The abundant supply of capital has led to spreads tightening in the first quarter of 2013. Spreads have dropped more on the long end of the curve. On average long term spreads have tightened 10 – 15bps while short term spreads have tightened 5 – 10bps. The adjustments have been moderate considering the amount of capital available. The main factor restricting larger spread compression is the historically low all-in coupons.

CMHC

CMHC spreads have remained relatively flat in the first quarter of 2013. Coupons on 5-year insured money are barely beating inflation at 2.15%. 10-year money for large deals is the most competitive CMHC product fetching spreads of 95bps over GOCs or better.

COMMERCIAL MORTGAGE LOANS 5 YEAR SPREADS AND COUPONS



CMBS

Institutional Mortgage Capital followed up their July 2012 deal with a conduit securitization brought to market in February. Pool metrics were consistent with their previous deal at 63.5% LTV and 1.46x debt coverage, although subordination levels decreased one percent to 14% at the AAA level. Collateral provided a range of maturities making possible the inclusion of both three and five-year bonds in the AAA strip. These classes help the issuer achieve sharper pricing on a portion of the AAA tranche and open the deal up to bond buyers looking for a shorter term play.

The economic attractiveness of CMBS issuance has continued to improve as bond spreads have tightened and borrower demand for longer term fixed rate financing remains strong. Indication is that several institutions are evaluating a return to the CMBS space in some manner, be it managing their own conduit lending operation or providing warehouse debt or equity financing to another. The major barriers to establishing a conduit platform are achieving a profitable scale, pace of loan origination and restrictive capital requirements for IFRS issuers. In a small market where the historical peak of annual conduit lending failed to break $4 billion, there is a distinct first mover advantage.

The CMBS revival is further along south of the border with $25 billion of issuance in the first quarter of 2013, setting the market on pace to hit the $100 billion mark for the first time since it peaked in 2007 at well over $200 billion. Approximately 40% of first quarter issuance involved single asset, single borrower transactions. This is a deal structure not seen in Canada since the securitization of West Edmonton Mall at the end of 2006; but should CMBS pricing continue to tighten, it may provide an economically viable alternative to first mortgage bonds for large scale financings on prime properties.

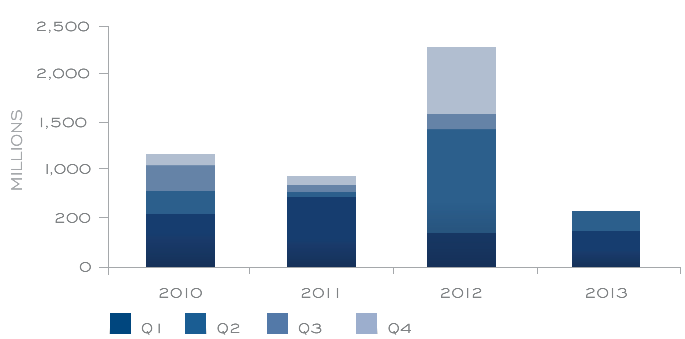
RECENT CMBS ISSUANCES	IMSCI 2012-2	CCMOT 2012-1	IMSCI 2013-3
Cut-Off Date	July 1, 2012	Oct 1, 2012	Feb 1, 2013
# of Loans	31	26	38
Cut-off Date LTV	63.5%	60.8%	63.5%
Cut-off NCF DSCR	1.44x	1.66x	1.46x
AAA Subordination	15%	15%	14%

SENIOR UNSECURED

Unsecured debt continues to gain momentum as borrowers search for more flexible and manageable financing options, and investors are drawn towards higher yields and the benefits of real estate-based security. Investment grade REITs/REOCs find it well suited to their needs as it provides comparable spreads to conventional mortgages while reducing many of the complexities.

In the first quarter of 2013, RioCan and First Capital Realty (FCR) raised $375 million over two issuances with terms of 5 and 10 years respectively. Although this is lower than Q4 2012 issuance of $550 million, it looks on pace with the $350 million raised in Q1 2012 which kick-started a blockbuster year for the security.

SENIOR UNSECURED DEBT ISSUANCE



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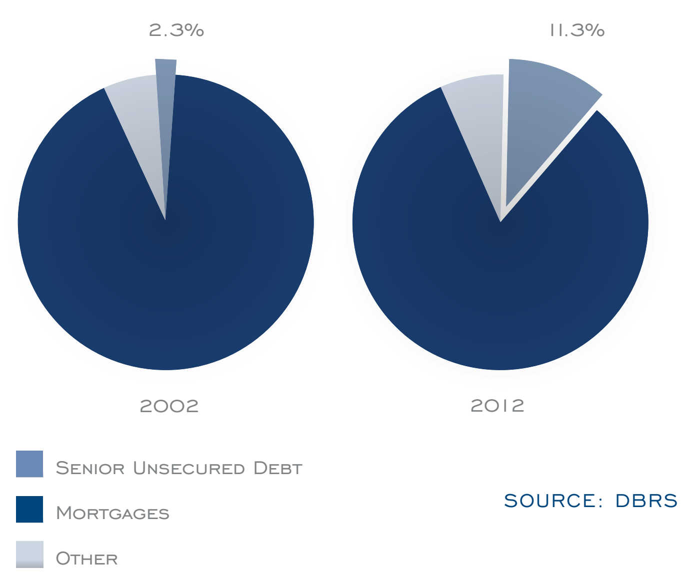
In addition to the debt raised in Q1, RioCan closed a further $200 million in Q2 2013, bringing the YTD issuance to $575 million. This amount is $100 million or 21% over the original budgeted amount, indicative of heightened investor appetite and willingness to absorb the security.

Tracking spread movements for unsecured paper issued by REITs/REOCs is made difficult as the market remains thin. Recent issues, however, confirm a continued course of sharper pricing and spread compression as evidenced by the decline in spreads for recent 10-year notes. Further indication of spread compression is Riocan's 5-year $250 million issuance at 140bp in March 2013 — almost 100bp lower than a similar issuance one year ago.

Looking forward, we expect unsecured paper to pull market share away from conventional mortgages as REITs/REOCs take advantage of this cheaper, more flexible financing. This is supported by a look at historic debt compositions of Canadian REIT/REOC's and how they've changed over the past 10 years.

REIT / REOC DEBT COMPOSITION



SOURCE: DBRS

FIRST MORTGAGE BOND

Activity in the First mortgage bond market was slow in Q1 2013. The quarter saw Pensionfund Realty Limited complete an unrated first mortgage bond issuance of $130 million on Coquitlam Centre in BC. The bond is non-recourse with a 10-year term and 25-year amortization. Pensionfund Realty is a privately-held real estate company owned by 26 Canadian pension funds. Coquitlam Centre Mall is the largest enclosed mall in the Tri-cities area of Metro Vancouver, BC. It grew to 900,000 sqft of retail space after the renovation/expansion in 2001. The mall is located on the new Evergreen transit line, expected to open in 2016.

First mortgage bonds continue to be an attractive financing option for large trophy assets across the country in 2012 and 2013.

HIGH YIELD

There has been a clear expansion in the Mortgage Investment Corporation (MIC) universe in the past two years. The strong growth is primarily a function of investors looking for yield and borrowers demanding more flexible terms than conventional lenders provide. The market for both public and private MIC investment has grown to over $5 billion in the past 12 months. The public sector is slightly more than half the market at $2.7 billion. Over the last year, the increased supply of capital has driven a decline in MIC returns, with investors now looking for quality among their many options. MICs look set to remain popular in this low interest rate environment. A trend we expect to continue in 2013.

In order to help originate high yield deals, lenders have increased the usage of the A/B note structure. In an A/B note structure, the borrower is quoted a single mortgage rate, which is then divided into a senior and subordinate tranche. This structure provides risk averse lenders the opportunity to hold the senior tranche at a lower interest rate and more risk tolerant lenders can hold the subordinate tranche with higher exposure at a higher interest rate. This structure can benefit borrowers by reducing the cost of capital for high ratio loans. We have seen a large increase in the number of A/B note mortgages funded in Q1.