

Customer Forward Thinking.™



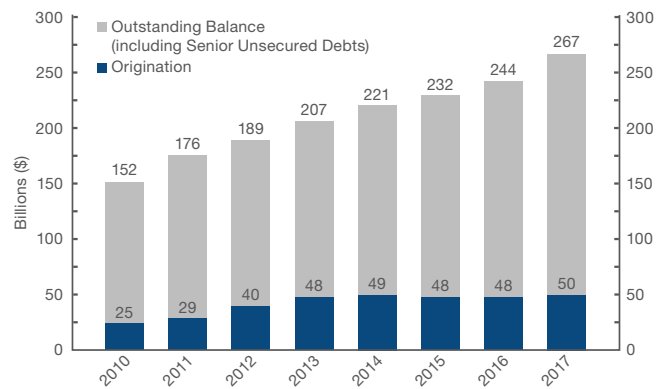
Commercial Mortgage Commentary

CMLS Commercial Mortgage Survey

For the 8th consecutive year, CMLS Mortgage Analytics Group surveyed 90% of the Canadian commercial mortgage market. The survey results reported the commercial mortgage market size was \$267 billion at the end of 2017 (not including construction loans) and grew 9.4% YOY.

Respondents also reported that 2017 was a difficult year to grow their market share, although most institutions grew or maintained their book. Market sentiment remains largely positive with 75% of the survey participants expecting higher or equal origination in 2018.

Market expansion trend continues



Source: Bloomberg, CMLS

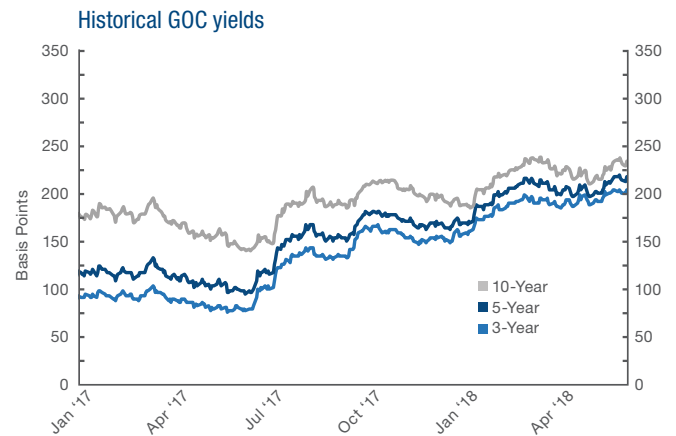
Making News

Overnight Rate

After the January rate hike, the Bank of Canada (“BOC”) elected to hold the overnight rate steady at 1.25% in the April 2018 meeting. Subsequently, the swap markets were pricing a 93.7% probability for another rate hike in 2018.

GOC Yields

Government of Canada (“GOC”) bond yields remain flat and converged so far in 2018. The chart shows yields between the 3-year, 5-year and 10-year have little incremental premium for longer term to maturities.



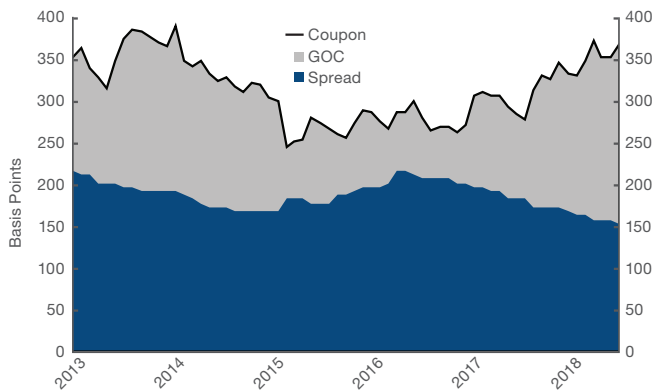
Source: Bloomberg, CMLS

Commercial Mortgages

Lender appetite for high quality commercial mortgages remains strong, placing downward pressure on spreads. Since the beginning of 2018, 5-year deals have tightened and they are now pricing at spreads of 145 to 160 bps for top quality assets and 10-year spreads have a 10 bps premium for similar product.

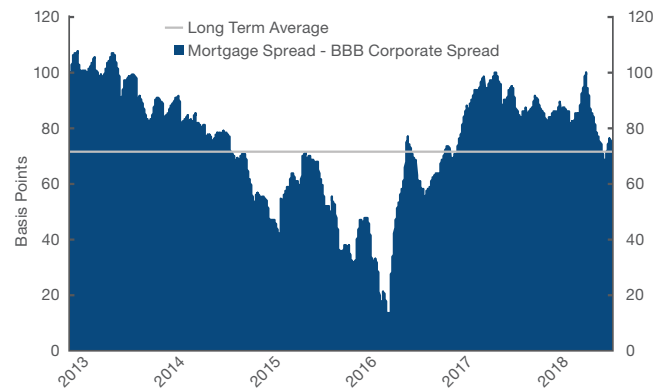
This downward trend, coupled with the upward pressure on BBB-rated corporate bonds, has narrowed the liquidity premium earned by commercial mortgages to approximately 70 bps, down 15 bps since the beginning of the year.

5-year commercial mortgage spreads



Source: Bloomberg, CMLS

5-year commercial mortgage spreads over BBB-rated corporate bonds

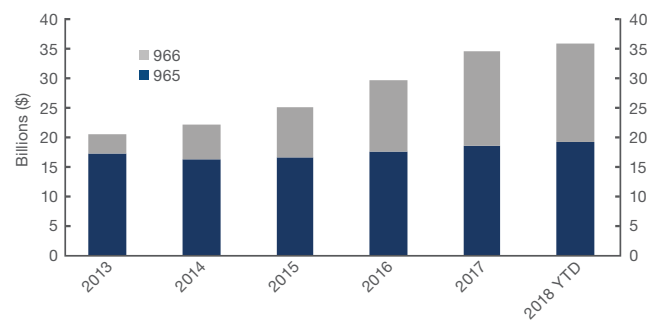


Source: Bloomberg, CMLS

CMHC

CMHC’s National Housing Act Mortgage-Backed Securities (“NHA MBS”) help provide a cheap financing option for borrowers and offer investors insured product with return premiums over CMHC’s Canada Mortgage Bond (CMB) program. Two NHA MBS pools, 965 and 966, are backed by commercial multi-family product and outstanding balances have increased by \$1.35 billion, or 4%, since the beginning of 2018 as the growth shifts to multi-family product. The 965 and 966 pools’ outstanding balances are currently \$19.75 billion and \$16.95 billion, respectively. Spreads for CMHC-insured products are pricing between 80 to 105 bps for 5-year terms and between 85 to 110 bps for 10-year terms, down 5 bps since the beginning of 2018.

Multi-Family NHA MBS pools outstanding



Source: CMHC

Senior Unsecured Debt

REIT and REOC senior unsecured debt were actively issued so far in 2018 with a total of \$2.9 billion and a 78% increase compared to Q1/17. Most of the issuance was new capital as there was little roll-over in the quarter. Q1/18 activity was led by Choice Properties, who issued 4 notes, the largest of which was a \$750 million 10-year note at a spread of 197 bps.

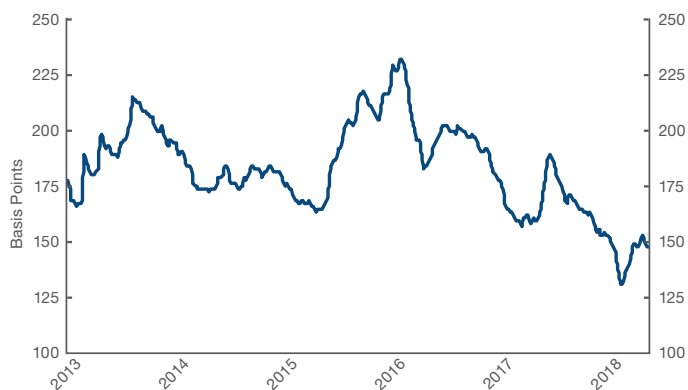
Senior unsecured debt issuances

2018	Issuer Name	Issue Size (\$Millions)	Issuance Rating	Term (yrs)	Spread (bps)
Q1	Choice Properties	350	BBB	7	143.4
	Choice Properties	300	BBB	4	103.5
	Riocan	250	BBBH	5	139.2
	H&R REIT	300	BBBH	5.5	106.9
	CT REIT	200	BBBH	10	159.1
	Artis REIT	200	BBBL	2	CDOR+107
	Choice Properties	750	BBB	10	196.8
	Choice Properties	550	BBB	6.5	146.5
	Total/Average	2,900			6.25

Source: Bloomberg

Choice Properties issuance was higher than usual to fund the \$3.9 billion acquisition of CREIT. The deal will create Canada's largest REIT, diversifying Choice's portfolio by adding industrial and office space to the existing retail portfolio.

Spread on BBB-rated unsecured REIT debt reached 5-year lows in Q1/18



Source: Bloomberg, CMLS

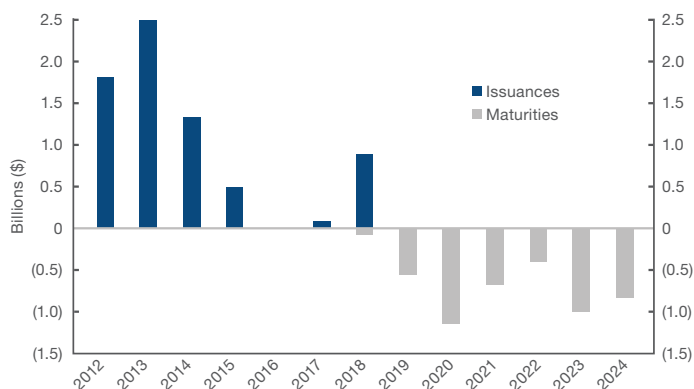
First Mortgage Bonds

Q1/2018 saw the largest issuance since 2015 with an aggregate \$900 million private placement bond on the East and West Bay-Adelaide Towers in Toronto. The towers are among the most prominent office/retail buildings in the downtown core and feature a combined 95-stores and 2.2 million square feet, with LEED Gold/Platinum certifications.

Issued by Brookfield Property Partners L.P. and VPMA Property Holdings L.P. in a 50-50 ownership structure, the bond was comprised of Series A: 7-year, 3.773% coupon and Series B: 10-year, 3.964% coupon. Both series feature a 5-year interest-only period and a 30-year amortization.

The issuance was an early refinance from a previous \$405 million first mortgage bond that commenced in December 2011 and was scheduled to mature in 2021.

First Mortgage Bond Issuances and Maturities



Source: Bloomberg, CMLS

CMBS

In March 2018, CMLS Financial issued CCMOT 2018-4, a \$550 million CMBS comprised of 53 loans and secured by an equal number of properties. Most of the properties in CCMOT 2018-4 are located in Ontario followed by Quebec, differing from the RBC REAL-T 2017 issuance in which Saskatchewan was the second most prevalent market. CCMOT 2018-4 features a 3.902%

weighted average interest rate, a 96-month weighted average remaining term, and AAA subordination of 13.125%. CCMOT 2018-4 priced at a 110 bps and a 160 bps spread for the 5-year and 9.3-year AAA respectively. The CMBS market continues to shrink and pricing continues to be unattractive to new CMBS players.

Summary of recent CMBS deals

Year	Deal	Original Size (\$Millions, CAD)	# of Loans	# of Properties	Weighted Average DBRS Term DSCR	AAA Spreads (bps)		Weighted Average Life	
						A1	A2	A1	A2
2018	CCMOT4 2018-4	\$550	53	53	1.33x	110	160	5.0	9.3
2017	REAL-T 2017	\$407	71	111	1.36x	125	175	3.5	7.1
2016	IMSCI 2016-7	\$352	38	60	1.47x	163	200	5.5	9.0
	REAL-T 2016-2	\$421	47	72	1.38x	125	165	3.5	7.0
	REAL-T 2016-1	\$401	55	91	1.30x	150	195	5.8	10.0
2015	CCMOT 2015-3	\$570	42	59	1.41x	155	n/a	3.9	n/a
	REAL-T 2015-1	\$335	46	46	1.50x	112	145	5.8	10.0
	IMSCI 2015-6	\$325	47	64	1.44x	115	150	5.5	10.0
2014	MCIC 2014-1	\$224	32	32	1.36x	110	n/a	3.8	n/a
	CMLSI 2014-1	\$284	37	37	1.47x	115	145	5.5	10.0
	REAL-T 2014-1	\$281	34	46	1.59x	110	n/a	5.5	n/a
	IMSCI 2014-5	\$312	41	55	1.44x	78	95	2.8	5.8

Source: DBRS, RBC

High Yield

There were two public offerings of common shares completed by mortgage investment corporations ("MICs") in Q1/18. Atrium MIC issued 2,400,000 common shares in March and an additional 360,000 shares in April at a price of \$12.50/share bringing the total gross proceeds of the public offering to \$34.5 million. The proceeds will be used to fund current mortgage loan

opportunities and to repay existing indebtedness under a revolving operating credit facility. In January 2018, Timbercreek Financial Corp. closed its offering of 4,302,000 common shares at a price of \$9.30/share for gross proceeds of \$40 million in January 2018. The net proceeds will be used for general corporate purposes and funding the purchase of new investments.

ABOUT CMLS FINANCIAL LTD.

CMLS Financial Ltd. is a diversified provider of lending products and services to the commercial and residential real estate finance industry. We take great pride in continuing our over forty year tradition of exceptional service to borrowers, lenders, mortgage bankers and brokers. CMLS Financial is one of the only independent, dedicated providers of mortgage services for the commercial real estate finance industry in Canada.

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