



# Commercial Mortgage Market Update

Q1 2025

**Oakbank**  
CAPITAL GROUP

Institutional Mortgage Brokers



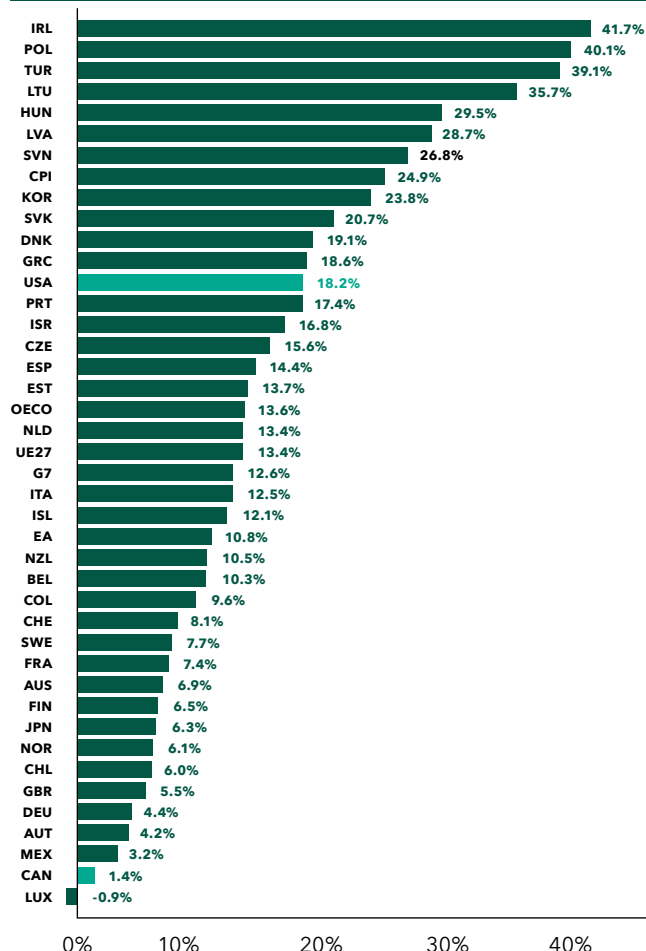
The first quarter of 2025 has likely added a few grey hairs to many of us—or perhaps fewer for those more follically challenged.

The constant turbulence from discussions of trade wars to shifts in government leadership (with more potential changes ahead), along with a decline in residential real estate conditions, has only intensified the uncertainty in the commercial real estate market. As anticipated, the Bank of Canada (BoC) has diverged from the US Federal Reserve on monetary policy, with Canada's overnight rate now at 2.75% (Prime at 4.95%), and the USD/CAD exchange nearing historic levels. Without getting too deep into the dreaded "T" word that's been all over the news lately, the unpredictable and often spontaneous messaging around tariffs has thrown the stock markets into disarray. This has had a ripple effect on commercial real estate, with lenders tightening credit conditions and developers facing volatile material costs.

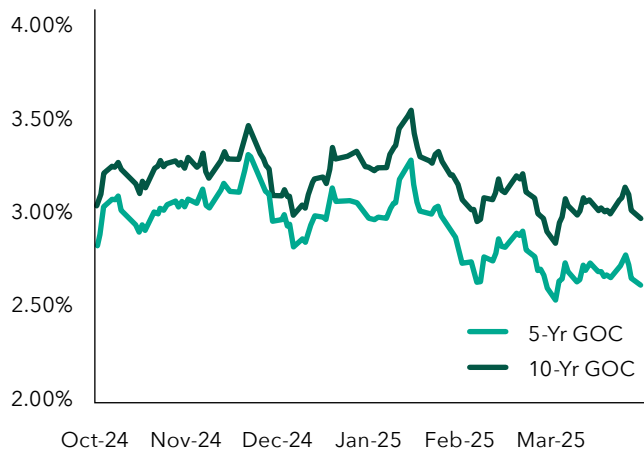
## Update on Bond Yields

Bond yields have fallen significantly, following the two 0.25% cuts this quarter and amid growing concerns of a recession. The general expectation is that the Bank of Canada may hold off on any further cuts in April, given indications that tariffs could exacerbate the inflation seen in January and February's CPI data. This could put the Bank of Canada in a difficult position as the economy continues to weaken. A widely circulated chart of OECD countries' Real GDP Per Capita Growth over the past decade shows Canada near the bottom, with a growth rate of just 1.4% (ahead of only Luxemburg). This is a troubling statistic when compared to the United States, which has seen a remarkable 18.2% growth during the same period.

### Real GDP per Capita Growth in the OECD, 2015-Q1 to 2024-Q3



## 5-Year & 10-Year Government of Canada Bond Yields

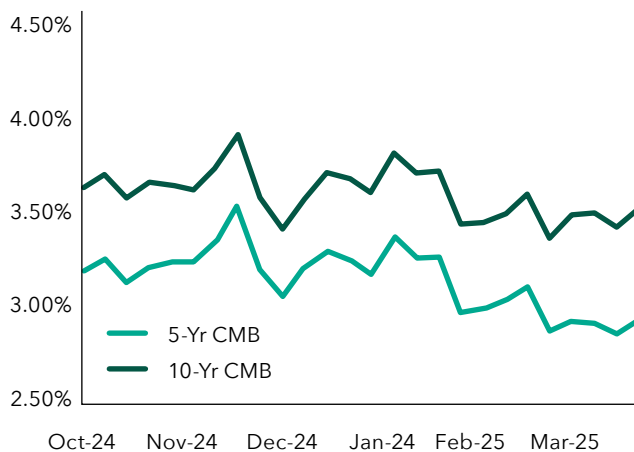


and terms for well-tenanted office buildings in prime locations.

## CMHC Trying to Reduce Market Share

At the RealCapital conference in Toronto in late February, CMHC's CEO, Coleen Volk, made a noteworthy statement to the audience. She revealed that CMHC is currently insuring nearly 90% of rental construction in Canada, with plans to reduce that figure to around 50%, hoping that the conventional market will take up the difference. This isn't unexpected, given their recent changes that have limited the effectiveness of the MLI Select Program, particularly the adjustments to rental achievement holdbacks that we covered in previous articles.

## 5-Year & 10-Year Canada Mortgage Bond Yields



Lending spreads for income-producing properties have narrowed this past quarter, driven by strong demand from lenders for high-quality industrial, retail, and conventional multi-family properties – spreads in the 130 Bps for 5-year terms are achievable for top-tier properties. Lenders are also starting to re-enter the office market, offering competitive pricing

Another CMHC policy change in the past quarter has significantly impacted what many refer to as the "Missing Middle." Previously, CMHC allowed rental construction financing, primarily through the MLI Select Program, for contiguous lots or parcels as long as there were at least 5 units. For instance, two detached triplexes side by side could qualify for the program, either for term or construction financing. However, in mid-February, CMHC announced a change stating that, effective immediately, the minimum allowable unit count would be 5 units in a single connected building spanning one or more lots, with the added requirement that the dwellings must share similar characteristics. This change appears to have also limited the construction of laneway housing alongside an existing apartment building from qualifying for the MLI Select construction program.

In the past week, an unconfirmed rumor has also been circulating that another significant change is coming to the MLI Select Program regarding energy efficiency. This change is expected in the next two months and aligns with the broader trend of deleveraging.

### Toronto Condo Market in a Depression

Not to glaze over condos, but there is little to report given the limited number of new starts or launches in the past quarter. Conditions continuing to worsen in most major Canadian metropolitan areas and we have observed fewer lenders interested in lending in the space, even with pre-sales. With the flurry of assignment sales and pre-construction buyers eager to offload units, closing risk is the topic of discussion amongst lenders and credit committees. The only exception to this trend appears to be end user market whereby developers are building larger luxury units in desirable locations in Toronto and Vancouver – these projects have seen uptick in demand from both buyers, and lenders.

In past reports we've discussed the rise in condo inventory financing, with specialty commercial mortgage lenders offering attractive terms and reasonable leverage for developers looking to repatriate their equity and redirect capital to more lucrative opportunities. With the volume of condo

completions in late 2024 and those scheduled for 2025, coupled with the sluggish pace of re-sales, the liquidity for this type of financing is drying up. We've observed spreads widen and leverage generally decrease for inventory loans.

As a chaotic quarter wraps up, the remainder of 2025 looms, with few signs pointing to certainty in the near future. With the Liberals and Conservatives polling at a near-equal level (Note: at the time of writing this), the country is hoping that whoever takes the reins can help reverse the lost decade of growth this generation has experienced. Shifting focus back to the commercial real estate market, lenders are returning to basics, emphasizing fundamentals over projections. Properties must be well-located and meet all traditional criteria—not only to secure favorable pricing but also to get any deal approved at all.

# Selected Commercial Debt Terms and Benchmark Yields

## Commercial Real Estate Debt Terms - Rates as of March 31, 2025

Financing Type	Benchmark	Lender Spread		Indicative Rate		Max LTV/LTC	Min. DSCR	Amortization
5-Yr Term Financing	5-Year GOC	1.35%	2.75%	3.98%	5.38%	75%	1.20x	25-30
10-Yr Term Financing	10-Year GOC	1.55%	2.75%	4.54%	5.74%	75%	1.20x	25-30
CMHC Standard 5-Year	5-Year CMB	0.47%	0.85%	3.33%	3.71%	85%	1.30x	25-40
CMHC Standard 10-Year	10-Year CMB	0.42%	0.85%	3.87%	4.30%	85%	1.20x	25-40
CMHC MLI Affordable 5-Year	5-Year CMB	0.47%	0.65%	3.33%	3.51%	95%	1.10x	25-50
CMHC MLI Affordable 10-Year	10-Year CMB	0.38%	0.50%	3.83%	3.95%	95%	1.10x	25-50
Purpose Built Rental Construction Financing	Prime	0.60%	2.00%	5.70%	6.95%	80%	-	IO
Condo Construction Financing	Prime	0.75%	2.00%	5.70%	6.95%	80%	-	IO
Commercial Construction Financing	Prime	1.00%	2.25%	5.95%	7.20%	80%	-	IO
Land Financing	Prime	1.50%	3.25%	6.20%	8.20%	65%	-	IO
Bridge Financing	Prime	1.75%	3.25%	6.70%	8.20%	75%	-	IO
Condo Inventory Financing	Prime	1.25%	2.50%	7.95%	13.45%	65%	-	IO
2nd Mortgage (Interest Only)	Prime	1.50%	8.50%	6.95%	13.95%	85%	1.00x	IO

## Benchmark Yields

March 31, 2025		February 28, 2025	1-Mth Change	December 30, 2024	3-Mth Change	October 1, 2024	6-Mth Change
5-Year GOC	2.63%	2.64%	-0.01%	3.00%	-0.37%	2.73%	-0.10%
10-Year GOC	2.99%	2.93%	0.06%	3.26%	-0.27%	2.93%	0.06%
5-Year CMB	2.86%	2.88%	-0.02%	3.24%	-0.38%	2.95%	-0.09%
10-Year CMB	3.45%	3.37%	0.08%	3.67%	-0.22%	3.39%	0.06%
Prime	4.95%	5.20%	-0.25%	5.45%	-0.50%	6.45%	-1.50%

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Oakbank is a real estate capital advisory firm based in Toronto. We originate and structure debt financing for developers and real estate investors in the form of construction, bridge, mezzanine, and term loans.

Our underwriting expertise and industry network allow us to navigate the debt market better than anyone else on behalf of our borrowers. Clients benefit from our long-standing relationships with national and foreign banks, life insurance companies, CMBS conduits, private equity firms, credit unions, CMHC insured lenders, and pension funds.

Oakbank Capital Group is licensed and regulated as a Mortgage Broker by the Financial Services Regulator of Ontario (FSRA Broker #13455).

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