Accrued Interest

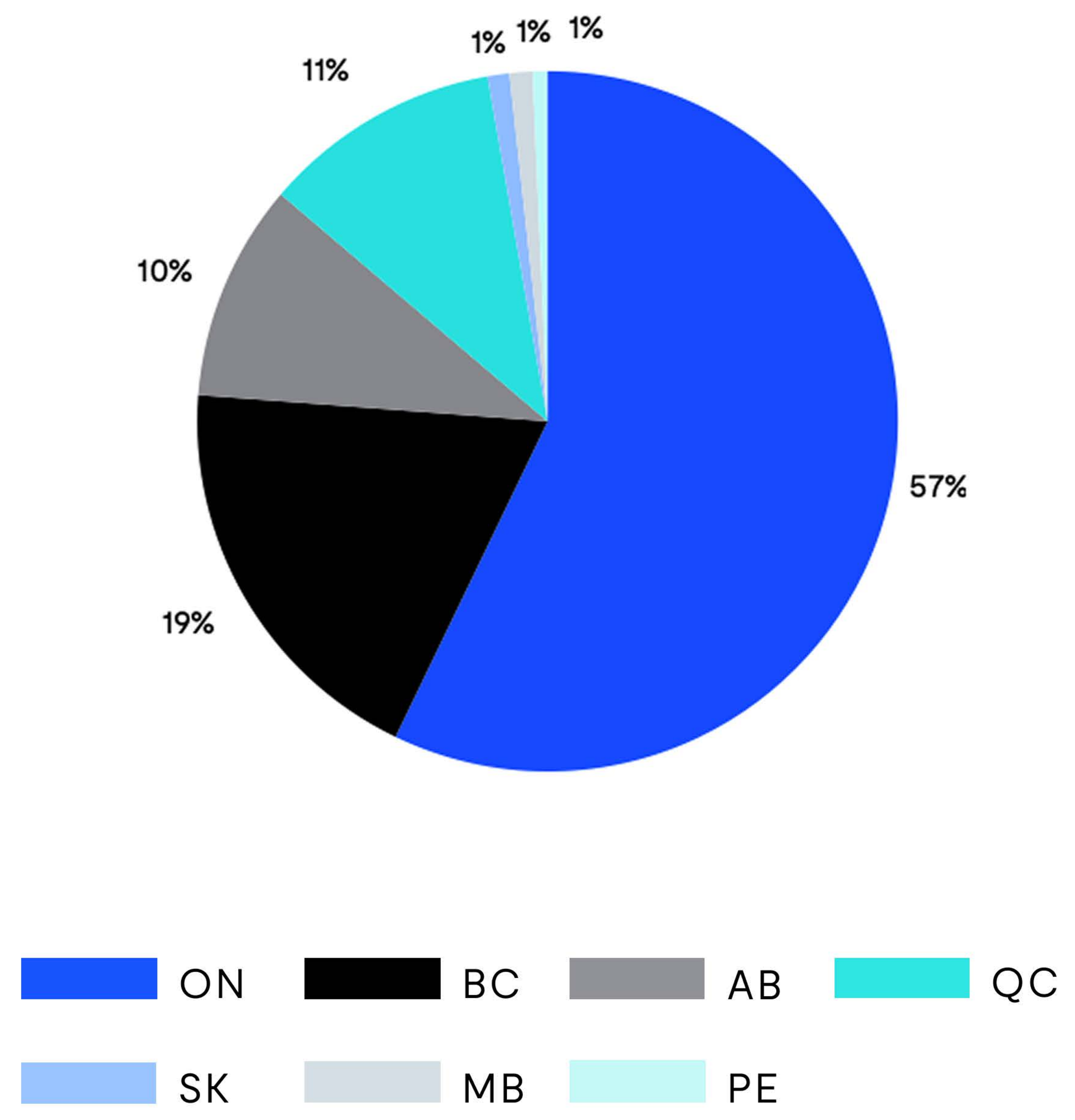
CMLS mortgage fund

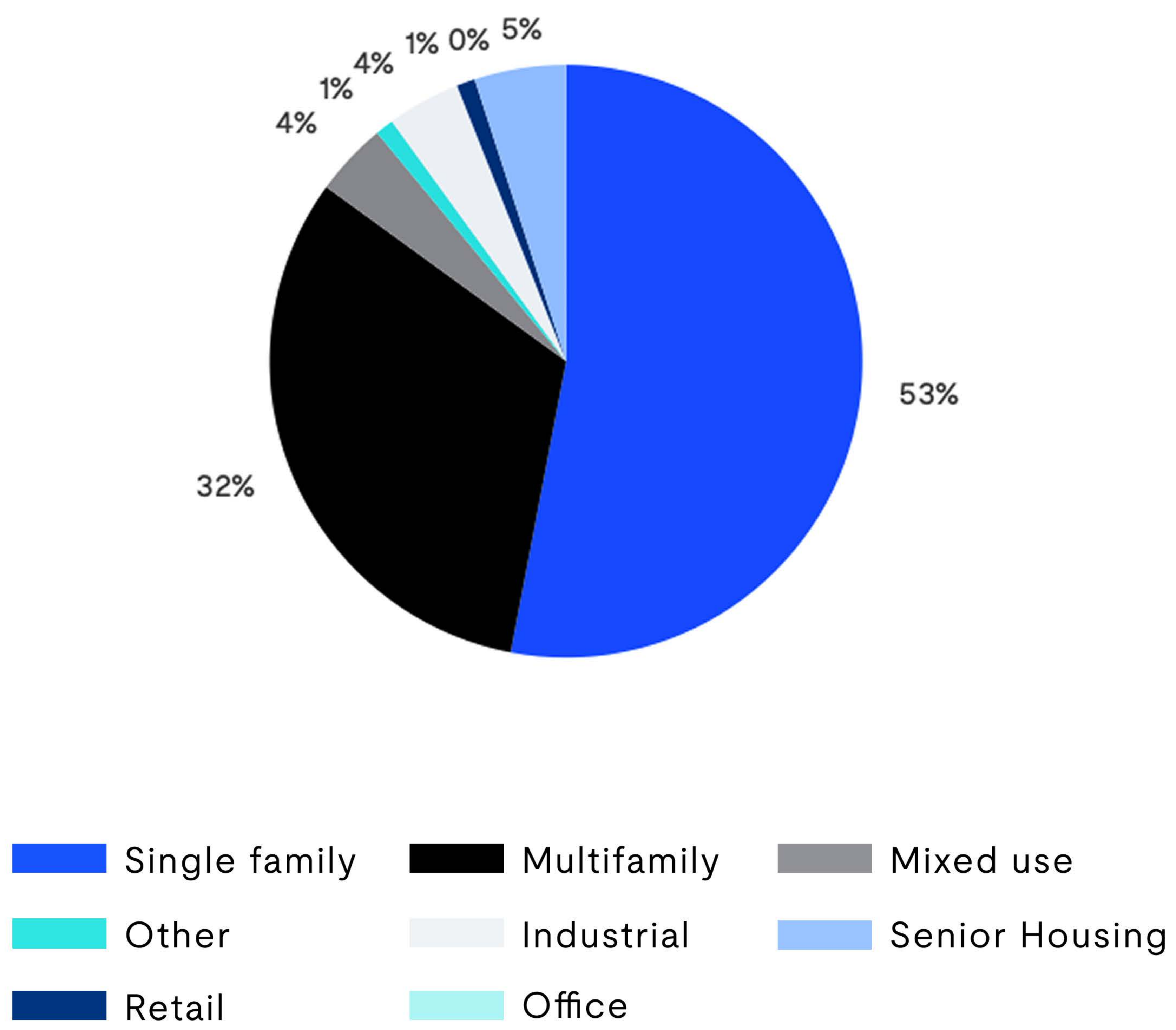
June 2025

cmls asset management

Thank you for reading the June edition of **Accrued Interest**. In May, the CMLS Mortgage Fund delivered a monthly return of 0.62%, or 7.55% annualized. Our weighted average coupon has remained at 8.08%, reflective of the steady rate environment over the month and new loans being funded at attractive yields. We have had success deploying capital throughout the year, and hold a modest cash balance of 2% of AUM.

Our portfolio is composed as follows:





More detailed and up-to-date portfolio information can be found in our monthly Fund Facts, available on our website here.

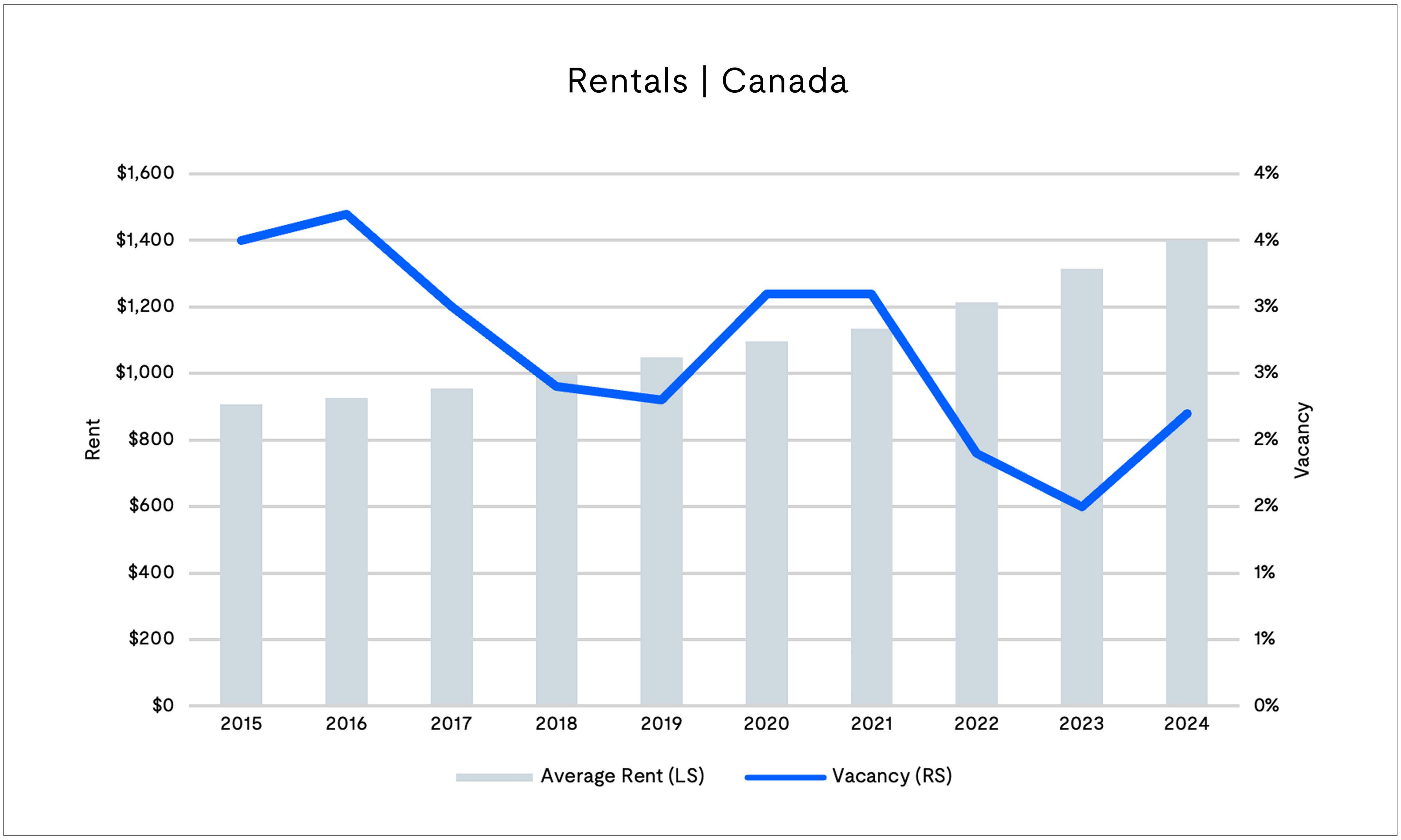
Navigating Canada's Rental Landscape

Last month we covered dynamics in the condominium market. What is happening in the rental market? Approximately one-third of the Fund is allocated to mortgages secured by multi-family residential rental properties. Through this segment of the portfolio, our primary focus is on cash-flowing, multi-unit apartment buildings in core markets. The performance of this asset class has been supported over the years by Canada's rising population, the difficulty of obtaining homeownership, and attractive financing provided through CMHC-insured loans.

As of the latest Census (completed in 2021), 33% of Canadian households rent instead of own[1]. Since that time, the population has grown by roughly 3 million people and completions of purpose-built rental supply have reached only 219,000[2], or just over 7% of the increase in population. In the midst of heavy media and policy focus on housing supply constraints, it shouldn't surprise anyone that purpose-built rental construction fell well short of new inventory needed. The lag through this period also represents a material decrease compared to the average over the prior 5 years.

With a growing population exhibiting a higher tendency to rent today than historically, combined with a lack of new purpose-built rentals, a known byproduct of these conditions is strained affordability. Governments at various levels are making efforts to facilitate new supply, restrict population growth and relieve pressure, but still have a long way to go. Affordability has improved over the past 18 months but remains worse than levels seen in any of the past 20 years (excluding the previous three[3]). When approaching the market as an investor in real estate debt, however, these conditions also support the strong performance of multi-family residential properties.

What does this performance look like? Vacancy rates in Canada have remained low and are below historical averages, and rents have continued to increase steadily year-over-year. We are starting to see a slight increase in vacancy rates after hitting a 10-year low in 2023, but 2024 still represented the third lowest vacancy figure over the past 10 years. Rent growth has slowed compared to the torrid increases that were seen in 2023 and 2022, but they are still increasing (6.7% YoY) well above historical norms[4]. While the vacancy figures in the below graph are easy to interpret, as they are in underwriting, there is more complexity to the underlying numbers when considering average market rents.



[1] Statistics Canada
[2] CMHC (New Housing Construction)
[3] Bank of Canada (Housing Affordability Index)
[4] CMHC (Rental Market Survey)

The typical profile for a multi-family residential loan in our portfolio is a property where existing rents are below market, and the borrower plans to renovate and re-lease units at higher rents. The borrower's end goal is generally to pay out our mortgage with lower cost CMHC-insured debt. To understand the feasibility of this plan, it is important to know how fast units will turn over and what rents are achievable on those newly-rented units. As market rents have increased, the delta between rents achieved on newly leased units and those of long-term tenants in rent-controlled units has widened. As a result, people are staying in their existing units longer. For reference, the average turnover rate for apartment buildings in Canada was 15.5% in 2021 and fell to 12.4% in 2024. This is most notable in Toronto, which has a turnover rate of only 6.4% (Vancouver's turnover rate has been less impacted and sits at 9.1%)[5].

The other side of the coin is the rents that are achieved once a unit turns over. While we've already seen that rents on average have been increasing, the figure to focus on here is the average rent for a newly turned over unit, not the average unit. Locations that have seen surges to their population while simultaneously having large amounts of units under rent control (such as Ontario and BC) have seen a widening spread-to-market. The average price differential between new leases and existing leases in Canada is 18%. This goes up to 36% in Toronto and 29% in Vancouver and has been increasing in both markets over the past few years [6]. This differential started to soften towards the end of last year as asking rents on new leases came down from their record highs in 2024, but this downward trend has already reversed, as rents increased this spring[7]. So, while it is taking longer for an under-market unit to come up to market rent, there is still significant rental upside when it does.

What this means for our portfolio is that aggressive proformas need to be scrutinized to ensure that business plans and timeframes are realistic and that loans are structured accordingly. Market conditions continue to be very supportive for the rental market, and we intend to maintain a significant allocation to this asset class.

[5]CMHC (Rental Market Survey)
[6] CMHC (Rental Market Survey)
[7] Rentals (National Rent Report)