Accrued Interest

CMLS mortgage fund

December 2025

cmls asset management

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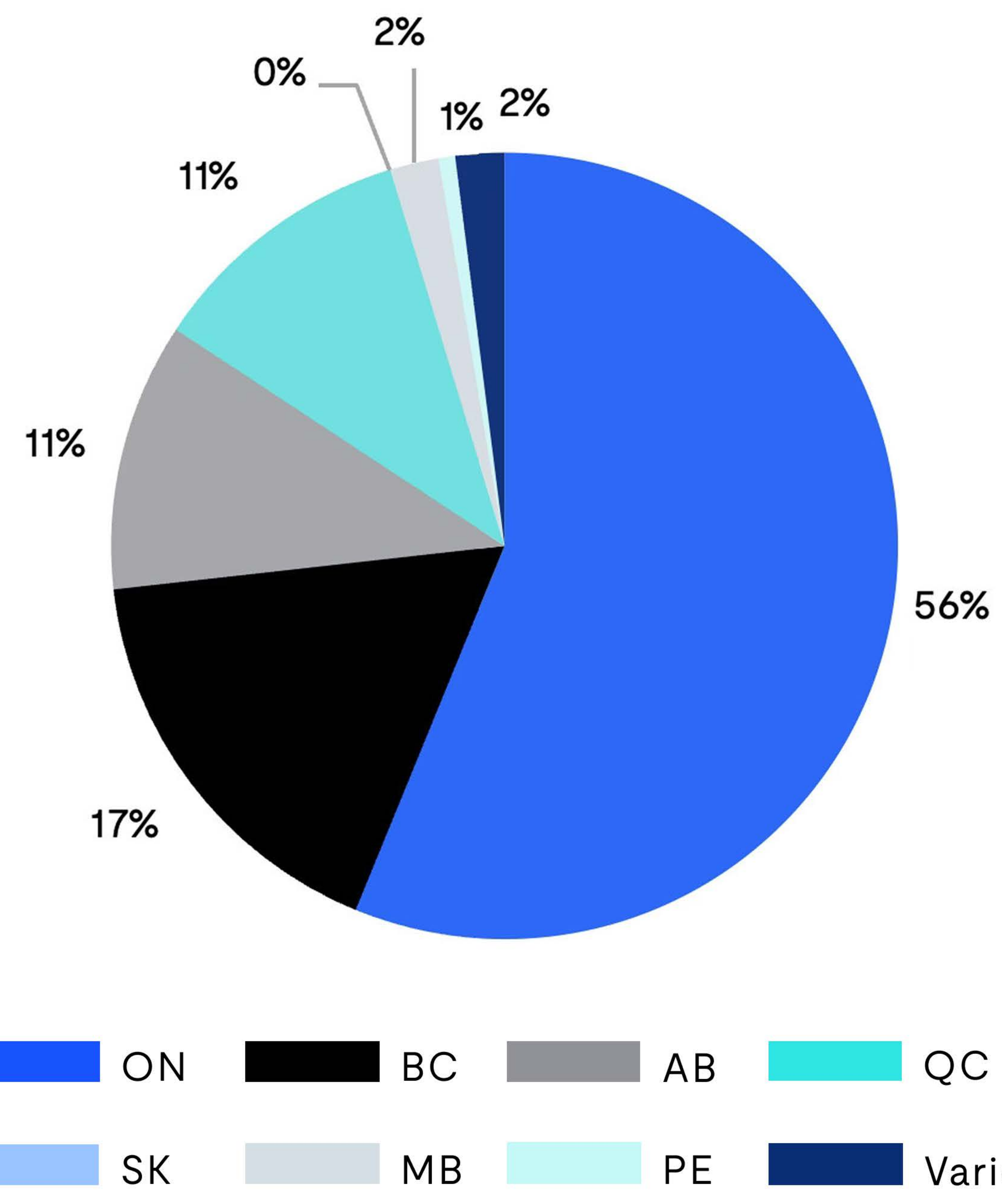
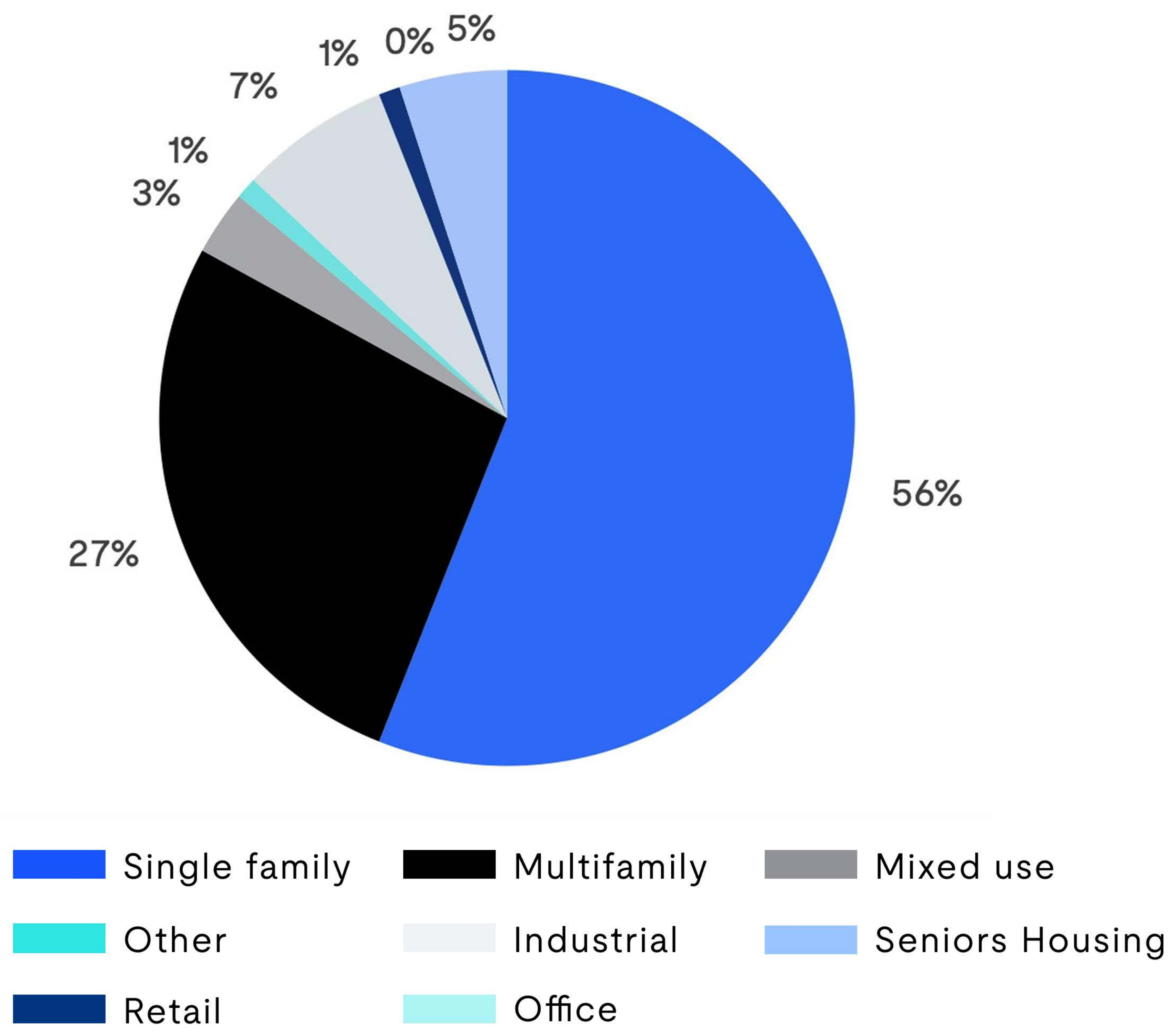
Thank you for reading the December edition of **Accrued Interest**. In November, the CMLS Mortgage Fund delivered a monthly return of 0.56%, or 7.03% annualized, bringing our year-to-date annualized return to 7.05%. Our weighted average coupon is 7.69% and our weighted average loan-to-value ratio is 60%.

Our portfolio is composed as follows:



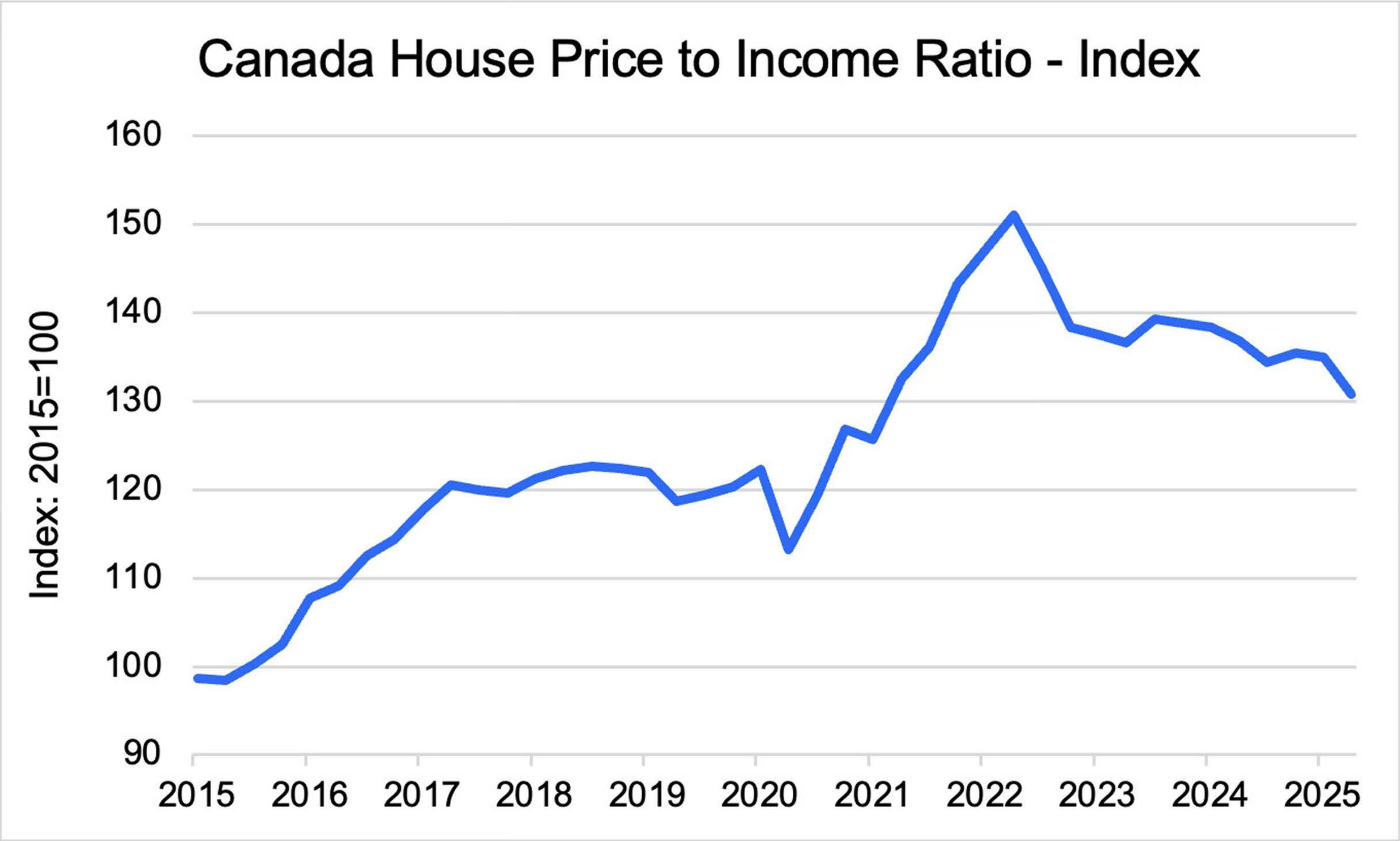


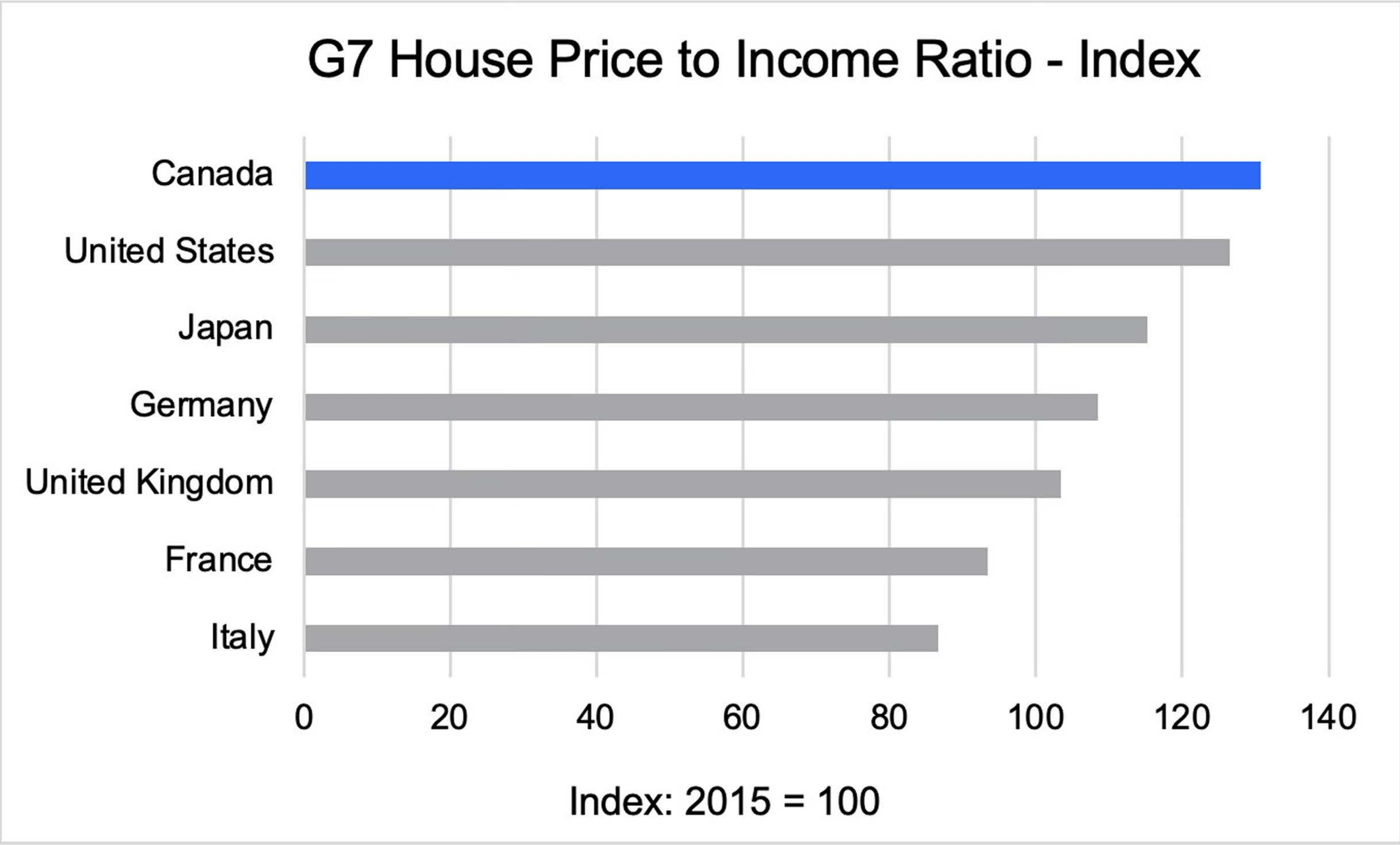
More detail and up-to-date portfolio information can be found in our monthly Fund Facts, available on our website [here](#).

The Canadian Affordability Conundrum:

It should come as no surprise to readers of our newsletter that there is an affordability issue in Canada. Not only does this problem present itself often in broader, mainstream media, if the reader carries enough attraction to the topic of real estate to double-click on the "Accrued Interest" newsletter, we can assume a better-than-average knowledge of Canadian housing dynamics. A question some might ask is whether Canada is unique in its affordability challenges or if this is a pervasive, growing issue around the world. We are not alone with this problem, but we are unfortunately unique in its severity. To put this into perspective, Canada currently ranks last out of the G7 in terms of how housing affordability has trended over the past 10 years (see charts below)[1]. The first chart shows how Canada's median house price to income ratio has progressed, using 2015 as a base year, and the second chart zooms in on how this compares to other countries in the G7.

[1] OECD – Analytical House Price Indicators





Canadians have broadly accepted we have a problem, and have built political will behind acknowledging certain contributory factors: supply, supply, and supply. If we take a step back and think in basic terms of what makes a unit of housing affordable, monthly rental rate, the average mortgage payment based on certain assumptions of your typical downpayment and repayment terms, and the income of the related household come to mind. Underlying factors like interest rates and personal incomes are beyond the scope of real estate-specific policy, leaving price (rents and home values) as a core lever. Reduced pricing by way of reduced demand likely has broader negative implications regarding the remainder of the economy. This now effectively leaves supply – supply, supply, supply – as our most obvious affordability lever.

We need to build more homes to satisfy demand, stabilize prices and improve affordability.

How has Canada fared? Canada has seen increased completions of housing stock (particularly purpose-built rentals) over the past two years[2], which has resulted in vacancy rates rising and an overall improvement to affordability. While this is a good sign for the short-term, completions of housing stock is a lagging indicator of market conditions, which are constantly evolving. With Canada still having work to do to come back in line with the other G7 countries, we need to look at housing starts to see where things are headed.

[2] CMHC – 2025 Rental Market Report

On the whole, housing starts increased 2.0% year-over-year between 2023 and 2024, and are on pace to nearly double that rate (3.7%) in 2025[3]. Great positive momentum, right? Unfortunately, the situation becomes worse when we take a closer look. CMHC has called for roughly a doubling of the annual housing starts until 2035 to meet projected demand. The low single digit growth we've seen so far is a far cry from what is needed. To make matters worse, where we have seen growth in supply has not been correlated with where affordability improvements are needed most.

Generally, lack of affordability is a concern across the country, but it is felt most strongly in Toronto, Vancouver, and Victoria, where mortgage payments make up the highest percentage of median household income[4]. Zooming in on the larger markets of Toronto and Vancouver, it becomes clear that the issue isn't going away anytime soon. Housing starts between January and November 2025 show a massive 36% decline in Toronto compared to the same period a year earlier, and housing starts in Vancouver show a 5% decline[5]. With all parties involved publicly agreeing regarding the need to increase the pace of construction, why is there such a large mismatch between what is needed and what is happening?

The answer is quite easily observable, yet fixing the problem is elusive. Affordability remains an issue, deeply so, but the market is not conducive to creating more supply. In essence, prices have fallen to levels that are still high enough to be unaffordable for most Canadians, but low enough that it is no longer profitable for developers to start new projects. The developer community has been quite vocal about this issue throughout 2025, and one of the consistent messages from this group is that current development charges are prohibitive.

For context, when new housing is created there is also the need for additional infrastructure and services in the surrounding area to support the new residents. These costs get passed on to developers through fees called development charges. While development charges are all thematically collected for the same purpose, some municipalities have different views and calculation methodologies for them. This results in the magnitude of development charges varying quite a bit across the country, which makes some markets more expensive to build in than others. For example, development charges on 2-bedroom apartments are $130,200 in the City of Toronto, compared to $8,584 in the City of Montreal[6]. This is a stark 15x difference. While development charges aren't the only factor at play when determining where to build, it isn't overly surprising that housing starts are strong in Montreal both in terms of growth (54% YoY increase) and magnitude (YTD housing starts in Montreal are 8% higher than those in Toronto, even though it has a population that is ~60% the size)[7]. This compares to the 36% YoY decline we mentioned earlier for Toronto. We've departed from the days of soaring home prices and speculative buying, which is causing developers to look closer at costs when deciding where to build.

The intent of this month's newsletter is not to make specific policy arguments, but rather to keep our investors apprised of the state of the market, in our words. Mortgages in the Fund are predominantly secured by single-family residential and multi-family residential properties, affected by the supply and demand dynamics of local housing markets which we watch closely. However, with no development exposure, we sit downstream from construction activity and all the headaches it brings in the current market environment. We protect ourselves from downstream effects – swings in home prices for example – by lending at conservative loan-to-value (LTV) ratios (weighted average LTV of 60%), and by maintaining a short duration (1.10 years). This creates a large buffer for values to move, and it limits the amount of movement we are exposed to (83% of loans in the Fund were funded in 2025). This strategy has served us well and we have no intention of deviating.

[3] CMHC – Monthly Housing Starts – November 2025
[4] National Bank of Canada – Housing Affordability Monitor Q3 2025
[5] CMHC – Monthly Housing Starts – November 2025
[6] CMHC – The Housing Observer – Mathieu Laberge
[7] CMHC – Monthly Housing Starts – November 2025