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FSRA #13383

2026 Canadian CRE Survey

Whitepaper on Comparative Results: Borrower vs. Lender Responses

June 1, 2026

Respondent Participation: 40% Borrowers
60% Lenders

17 Survey Questions | Analysis | Takeaways

All survey results taken from a cross-section of Borrowers and Lenders taken between March 13, 2026 and April 6, 2026.
Assessments, perspectives and conclusions were drawn from the results and are the opinions of Franc & Co.

2026 Canadian Commercial Real Estate Survey
Capital in Conflict: A Comparative Analysis of Borrower and Lender Perspectives

Prepared by: Franc & Co | **Release Date:** June 2026 |

The Canadian commercial real estate market finds itself at an inflection point. Years of elevated interest rates, softening pre-sale demand, escalated development charges, and broadly deteriorating project feasibility have created a market environment that is, by most news headline measures, in a deep freeze; however, it is more nuanced than that. Based on the survey responses, while some segments may be frozen, the general market is deeply fragmented. Yet even within shared adversity, perceptions diverge sharply and it is precisely those divergences that define today's opportunity landscape. This report presents the findings of Franc & Co's 2026 Canadian CRE Survey, gathering responses from **Borrowers** (developers, asset owners, and project sponsors) and **Lenders** (institutional lenders, credit unions, MICs, and private debt funds). Respondents were asked parallel and overlapping questions covering market outlook, feasibility constraints, capital deployment priorities, pricing expectations, and perceptions of the lending environment.

The goals of this report are threefold:

1. To present a clear, data-driven picture of where both sides of the capital stack stand today.
2. To identify and contextualize the critical gaps between how Borrowers and Lenders perceive the same market.
3. To distil a few takeaways that every participant in Canadian CRE must understand heading into the balance of 2026 and beyond.

QUALIFING STATEMENT

It is important to note that the market is not hegemonized. No two projects, situations, markets, asset classes etc. are alike. Many factors will contribute to the performance of any one asset-class, project, sponsor, etc. The survey was conducted at a point in time with respondents from varying perspectives answering questions that were not meant to be hyper specific but rather generally focused. Any particular results should be taken with an overarching notion that a particular perspective from any one respondent could differ for a similar question about a different asset class or market (by way of example).

Three Takeaways for 2026 and Beyond

With the full comparative picture established in this report, three themes emerge as the most consequential for market participants. These are not predictions - they are conclusions grounded directly in what participants closest to this market told us.

Takeaway #1: The Market is Not Frozen; It is Fragmented

The headline narrative is that Canadian CRE is in a freeze. The data suggests something more nuanced and more actionable: the market is deeply fragmented, and that fragmentation requires alignment to aid CRE recovery.

Takeaway #2: Canada's Biggest Obstacle in the Housing Crisis is Development Charges

Both sides of the capital equation agree: government-imposed development fees are the single biggest obstacle to getting projects built. This consensus deserves far more policy and public attention (which has recently started being addressed).

Takeaway #3: 2029 Is the Most Important Number in Canadian CRE Right Now

When a plurality of both Borrowers and Lenders (people with often different incentives and perspectives) independently converge on 2029 as the year the market rebalances, that number should be treated as a central planning assumption for the industry. Should the new market mantra be "Endure to Shine in '29"?

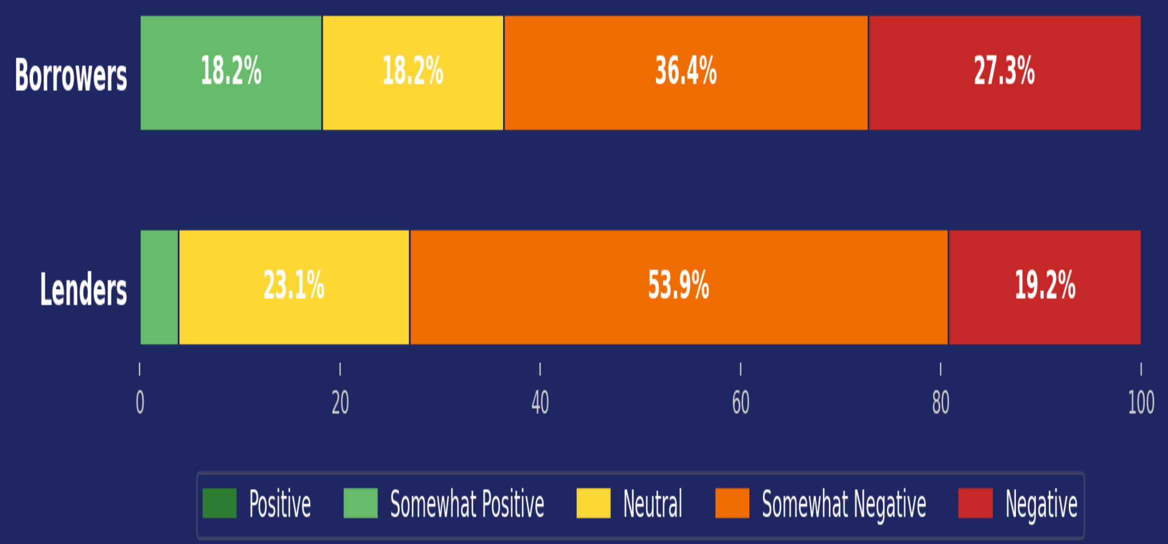
Residential Market Sentiment & Confidence — A Shared Pessimism

The single greatest area of alignment between Borrowers and Lenders in 2026 is this: *There is little to no confidence in the current market.*

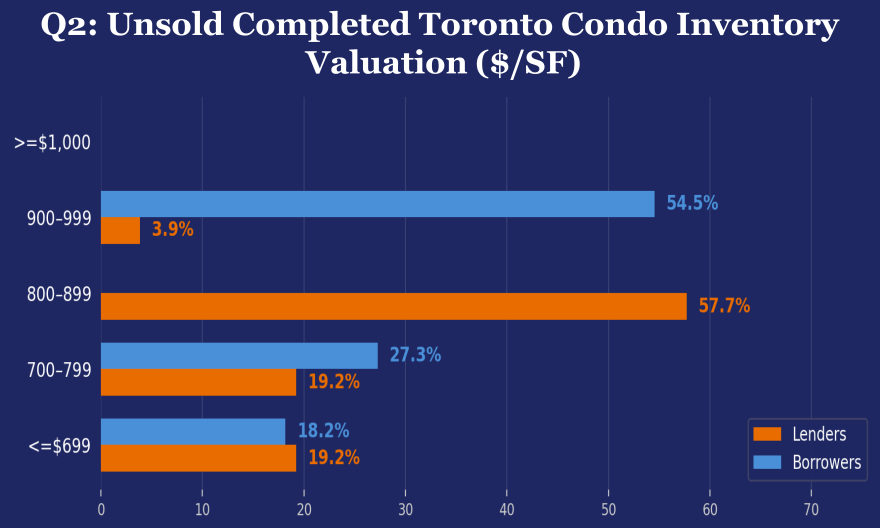
When asked to characterize their view of the 2026 residential real estate market:
73.0% of Lenders hold a **negative or somewhat negative** outlook for 2026.
63.7% of Borrowers share the same sentiment.

This is not isolated pessimism. It is a sector-wide reassessment. When asked to rate confidence for the next 12 months, responses from both groups clustered overwhelmingly at the abysmal-to-minimal end of the spectrum, with virtually no respondents selecting strong or very high confidence.

Q1: Overall Sentiment on Canadian Residential RE Market



The Valuation Gap: Where Lenders and Borrowers See Unsold Inventory



1. A stark disconnect at the top of the range: Over half of borrowers (54.5%) believe unsold completed condo inventory is worth $900-$999/SF, yet under 4% of lenders agree. This is perhaps the most telling data point in the entire survey where developers are anchoring to peak-cycle pricing that lenders have entirely walked away from.

2. Lenders have converged around the $800-$899 range: Nearly 58% of lenders pegged valuations in the $800-$899/SF band. This is not a spread of opinion but rather a consensus view. Lenders have effectively established an informal ceiling for what they will underwrite unsold inventory against.

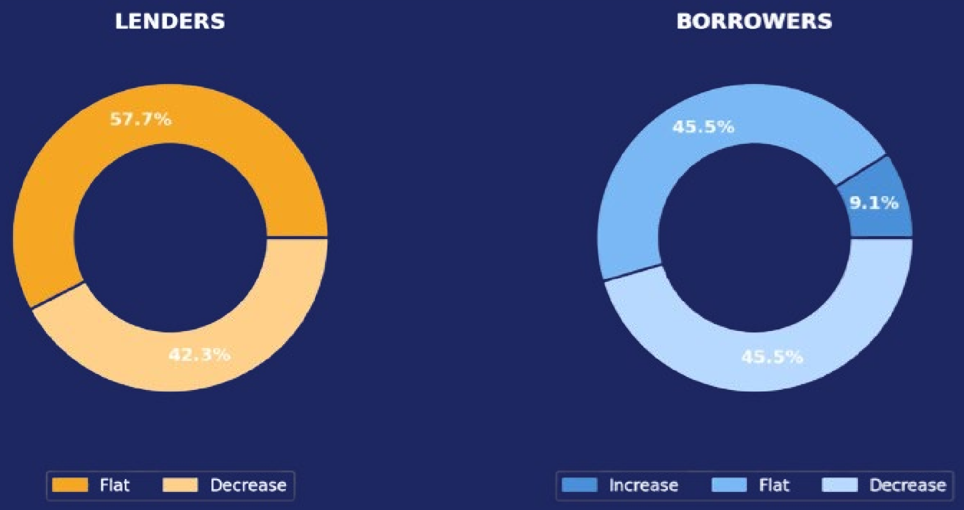
3. The gap is not cosmetic - it is a financing impasse: When the majority of borrowers price their inventory above $1,000/SF and the majority of lenders price it at $800-$899/SF, the resulting LTV shortfall can be material. On a 250-unit building, even a $100/SF valuation gap on 700 SF average units translates to roughly $17.5M in perceived asset value gap.

4. Sub-$700 convergence signals a floor: Both groups show roughly equal representation (~18-19%) at the sub-$700/SF level, suggesting a shared view on the distressed end of the market. This is where motivated sellers and receivers are transacting and both sides of the market know it.

5. Implication for workouts and refinancing: The borrower-lender valuation gap is a core reason why distressed condo refinancings and workouts are stalling. Until borrowers recalibrate expectations into the $800-$899/SF range that lenders have coalesced around, the bid-ask on distressed completions will remain wide and transaction volume will stay depressed. It is important to note that this is an overall average, and variability is expected between sub-markets and between individual projects and unit types.

Pre-Construction Pricing: The Market Has Given Up on a Recovery This Year

Q3: Pre-Construction Condo Pricing Direction (End of 2026)



1. Zero lenders expect prices to rise: Not one lender surveyed believes pre-construction condo pricing will increase by end of 2026. That is an unambiguous signal - the institutions controlling capital deployment have entirely priced out a near-term pricing recovery. When lenders set appraisal assumptions, pro formas, and presale thresholds, this view gets embedded directly into what gets financed.

2. Lenders are more cautious than borrowers: The lender camp is split between flat (57.7%) and down (42.3%), with no upside scenario entertained. Borrowers are slightly more optimistic as 9.1% still expect a price increase, but the majority also expect flat or declining pricing. The most notable difference is that lenders skew more heavily toward decline, which directly affects how conservatively they underwrite new deals.

3. The flat majority masks a directional shift: "Flat" at today's already-compressed pre-construction pricing levels is not a neutral outcome for developers. With all-in costs elevated, decreased interest from end-product buyers, and financing costs still high, flat pricing in 2026 means most new project pro formas remain unfeasible. Flat is the new down for project viability.

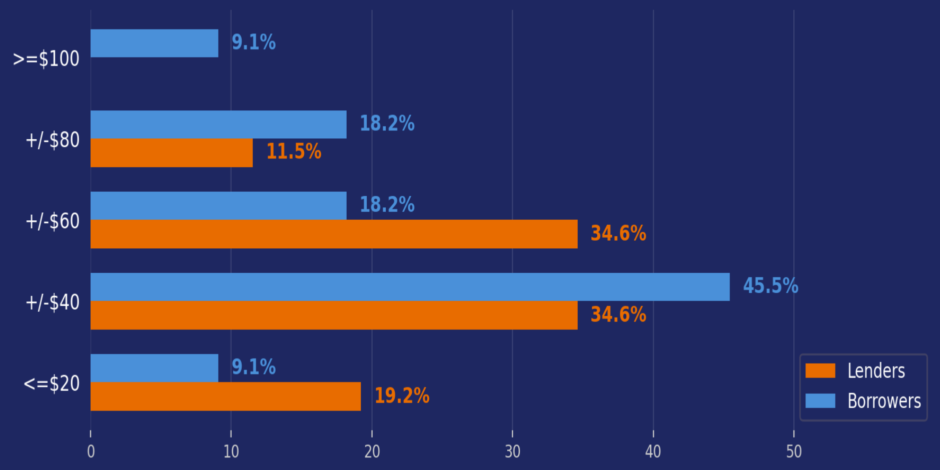
4. Implications for new project launches: With neither lenders nor the majority of borrowers expecting pricing improvement, the preconditions for new condo launches remain absent. Developers need price certainty to justify presale campaigns and lenders need those presales to justify construction financing. This shared pessimism stalls new supply and compounds housing shortages going forward.

Land Valuation: General Consensus with Particular Exception

1. Borrowers see value where lenders see none: 9.1% of borrowers still believe approved high-density land is worth $100/BSF or more. No lender agrees. This is where stalled land deals and failed refinancings originate; a valuation gap that cannot be bridged through negotiation alone.

2. Lenders have coalesced around $40-$60/BSF: Nearly 70% of lenders placed land values in this band, a dramatic compression from cycle-peak valuations that frequently exceeded $100/BSF in major urban markets. This is not a range of opinions; it has become the underwriting standard.

Q4: Land Valuation — Approved High-Density ($/BSF)



3. Borrowers show more spread above the lender consensus: The borrower modal response also lands at $40/BSF (45.5%), suggesting the more sophisticated end of the market has accepted the new reality. However, a meaningful cohort still holds above $80/BSF, anchoring to pre-correction pricing that lenders have entirely walked away from.

4. Nearly 1 in 5 lenders values land at $20/BSF or below: This is not a fringe view but represents a material portion of the lending community effectively signalling that some land carries no current financeable value whatsoever. For developers carrying land at book value multiples above this, the equity impairment implications are significant.

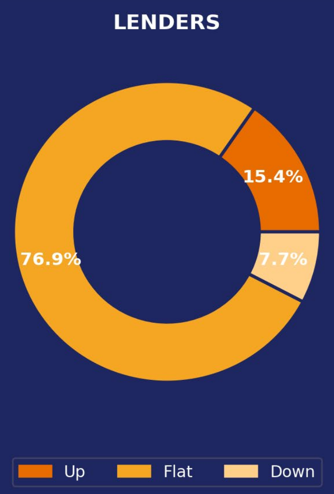
5. The gap freezes transactions and starves new supply: When lender consensus sits at $40-$60/BSF and vendor expectations remain above $80-$100/BSF, most land transactions will not close without a forced event such as receivership, maturity default, or a motivated vendor. Equity locked in stranded land cannot be recycled into new starts, compounding the supply shortage.

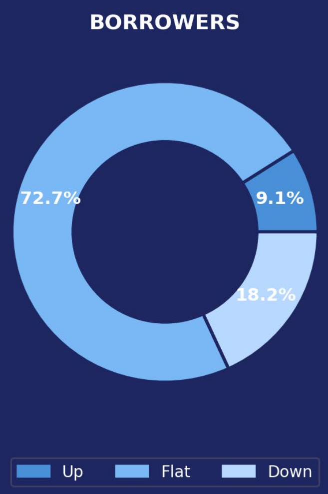
Bank of Canada Rate Expectations: Consensus Achieved

Rare consensus with over 70% of both groups expect rates to hold flat: In a survey largely defined by disagreement, the Bank of Canada rate outlook stands out as one of the few areas of genuine alignment. Both lenders and borrowers have largely abandoned any expectation of meaningful rate relief through the remainder of 2026.

2. Neither side is counting on rate cuts to solve the problem: This shared flat-rate expectation reframes the entire feasibility debate. The market is not in a holding pattern waiting for the Bank of Canada to ride to the rescue rather it is actively repricing assets, capital stacks, and project timelines against a structurally higher cost of capital that both sides now accept as the base case.

Q5: Bank of Canada Rate Direction Through 2026

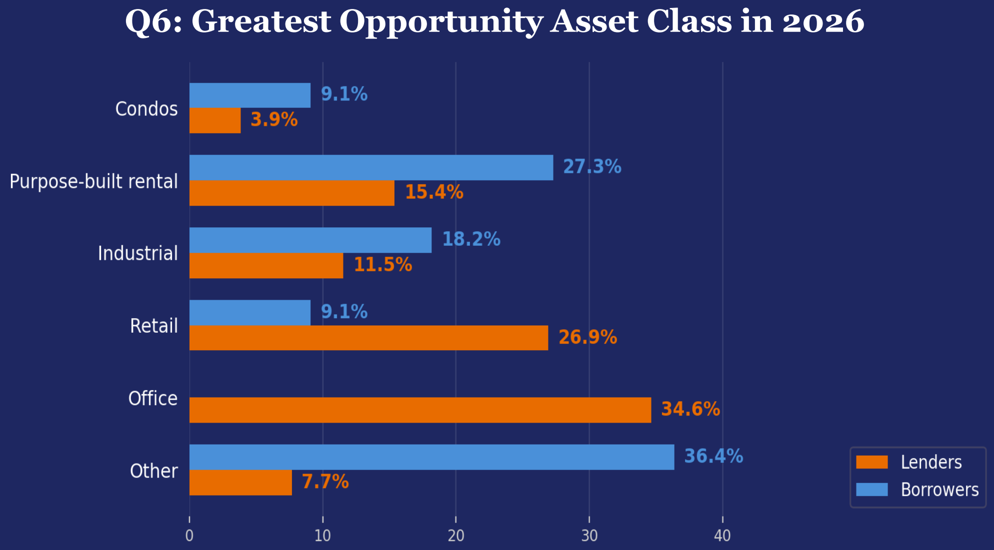




3. Flat rates make the cost-of-capital gap a structural problem, not a timing one: If rates were expected to fall materially, the spread between what borrowers need and what lenders are offering could narrow organically over time. With both sides expecting rates to hold, that gap becomes permanent until one side moves. The data throughout this survey suggests neither is inclined to do so quickly.

4. The small cohort expecting rate increases signals residual macro uncertainty: A minority of respondents in both groups still expect rates to move higher. While not the consensus view, this tail risk, if realized, would further compress project feasibility and push the rebalancing timeline beyond the 2029 consensus identified elsewhere in the survey.

Asset Class Strategy — Capital Looking for Projects That Don't Exist (and Vice-Versa)



One of the more counterintuitive findings relates to where each group sees opportunity, and the degree to which those views fail to intersect.

The condo market has been collectively written off. Both groups agree that new condominium development is not a compelling opportunity in 2026, a remarkable consensus given that condos dominated new supply pipelines across Canadian urban centres for over a decade. But the divergence is equally striking. Borrowers are gravitating toward “other” (which we cannot surmise what that comprises of) and purpose-built rental. Lenders are expressing interest in Office and Retail. These two groups are not oriented toward the same property types.

The Misalignment Problem

If Borrowers are bringing purpose-built rental deals and Lenders are actively looking for Office and Retail, match rates will be low. Capital will sit on the sidelines not because it doesn't exist, but because deal flow and appetite are not aligned. Bridging this asset class gap through better market signalling, advisory intermediation, and targeted capital introduction represents one of the clearest value opportunities in the current environment.

Asset Class Strategy (con't)

The Borrower preference for purpose-built rental is rational, fundamentals-supported and out of necessity.

1. Canada's rental vacancy rate in major urban centres remains near historic lows.
2. Federal and provincial programs have improved the policy backdrop and include enhanced HST rebates, CMHC's MLI Select program, and municipal density incentive programs.

3. Pre-supposed condominium projects are being "redrafted" as PBR.

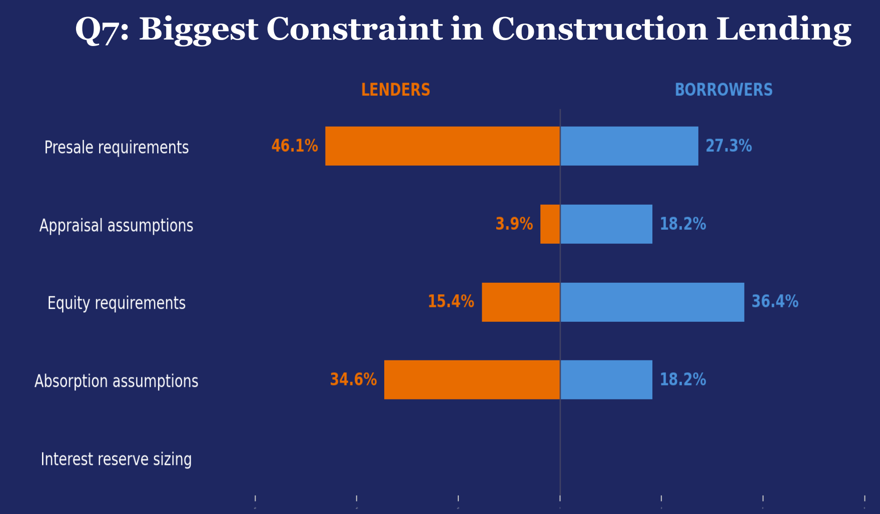
For Borrowers, purpose-built rental represents a path to project viability that does not depend on achieving aggressive pre-sale targets in a buyer-reluctant market. The feasibility of such is TBD. In many cases we hear (and see) that "*the math ain't mathing*", although there have been several projects to have transitioned from condo to PBR, and have achieved financing, it is not an industry-wide solution.

The Lender preference for Office and Retail is interesting. After years of pandemic-driven structural distress, over 60% of lenders combined are pointing to these asset classes as top opportunities. The answer may lie in a combination of risk-adjusted return dynamics and asset investment diversification in current environment. These asset classes are attracting sophisticated lenders because:

1. Valuations are landing from marked down environment (post-Covid), reducing downside risk from takeoff entry.
2. Reduced lender competition allows for wider spreads and stronger covenants.
3. Sponsors seeking repositioning capital in these classes may be higher quality relative to speculative residential development.

This does not mean the Office and Retail thesis is correct. It means lenders are betting the worst is behind those asset classes, while the worst of the residential correction may still be ahead.

The Lending Bottleneck: Two Sides of the Same Wall



1. Presale requirements are the dominant lender constraint by a wide margin: 46.1% of lenders identify presale requirements as the single biggest constraint in construction lending. This is not surprising, but the magnitude is. Nearly half the lending community has effectively told the market that without sufficient presold units, the conversation ends before it begins.

2. Borrowers feel the equity squeeze most acutely: 36.4% of borrowers cite equity requirements as their primary constraint; the highest response in their cohort. While lenders are focused on demand validation through presales, borrowers are being squeezed at the capital stack level. Higher equity contributions, driven by lower LTCs and compressed appraisals are tying up developer balance sheets.

3. Absorption assumptions are the lender's hidden veto: A third of lenders flagged absorption assumptions as a major constraint. This reflects a fundamental skepticism about how quickly units will sell in the current environment. Even where presale thresholds are technically met, lenders are stress-testing whether those sales will hold and building in worst-case absorption scenarios that further reduce available loan proceeds.

4. Borrowers are more troubled by appraisals than lenders admit: 18.2% of borrowers identified appraisal assumptions as a constraint, compared to only 3.9% of lenders. The appraisal is where the valuation disconnect described throughout this survey gets translated into dollars of denied financing.

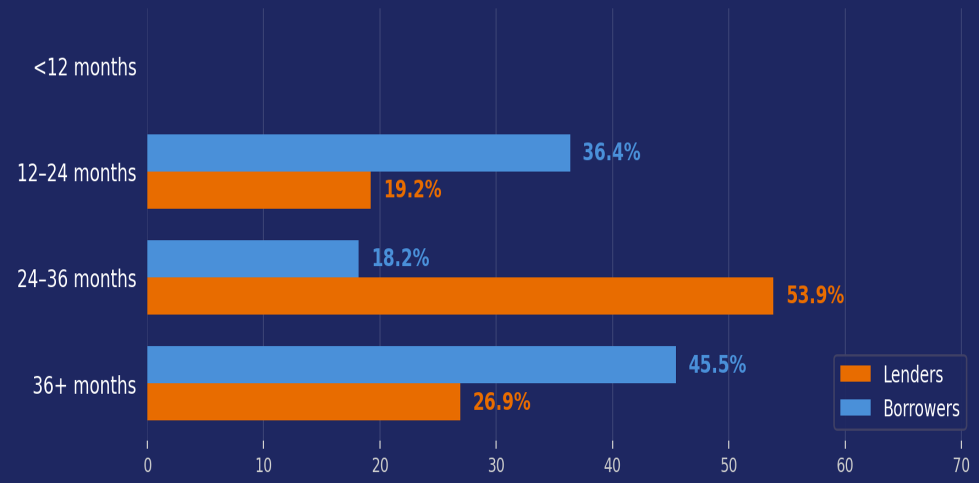
5. The combined effect is a near-total financing freeze: Taken together, the top lender constraints, presales and absorption, both require a functioning buyer market that does not currently exist. Until end-user demand returns at sufficient volume and pricing, lenders will not move their thresholds, and the construction financing market will remain effectively closed for new condo development.

The Financing Timeline: Lenders Optimism?

1. Lenders expect a 24 to 36-month window; borrowers think it will take longer: 53.9% of lenders believe condo construction will be financeable again within 24-36 months, making it the clear consensus view on the capital supply side. By contrast, 45.5% of borrowers expect it will take 36 months or more, suggesting those closest to the pain of the current market are less convinced a near-term recovery is coming.

2. Borrowers are split between patience and resignation: The borrower responses cluster at the extremes with 45.5% at 36+ months and 36.4% at 12-24 months, with relatively few in the middle. This bimodal distribution likely reflects two distinct borrower profiles: those actively working through distress who see no near-term path, and those with stronger balance sheets who believe conditions will improve within two years.

Q8: When Will Condo Construction Be Financeable Again?



3. No one expects a quick fix: Not overly surprising was that zero respondents in either group selected under 12 months. The market has collectively ruled out a short-cycle recovery. Any developer or investor underwriting a near-term normalization of construction financing is operating outside the bounds of what both lenders and borrowers themselves believe is realistic.

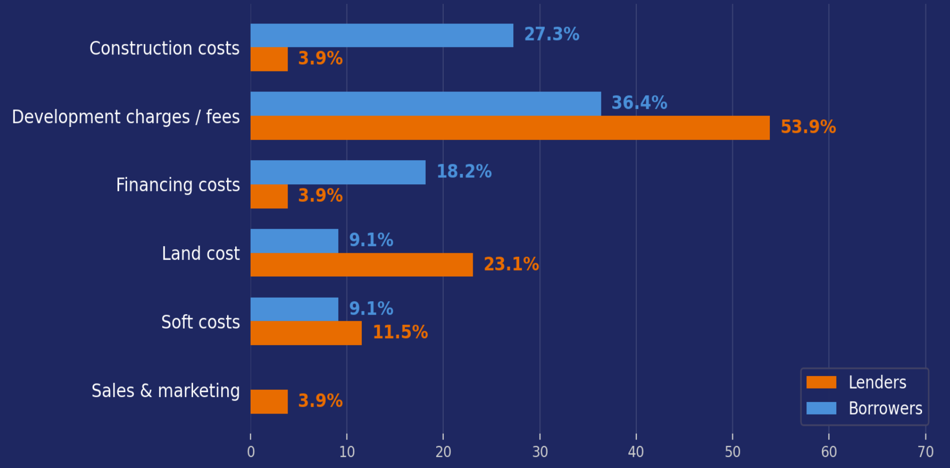
4. The 26.9% of lenders expecting 36+ months is a cautionary signal: Over a quarter of lenders do not expect conditions to normalize even within three years. For a development industry that runs on 4 to 6-year project cycles, a multi-year residential financing freeze has compounding consequences; shelved projects, expiring approvals, dissolved partnerships, and depleted development pipelines that will take years to rebuild.

5. The clock is running on carrying costs: Every month the financing window stays closed, developers are carrying land, servicing debt, and burning overhead with no revenue in sight. The divergence in timelines between lenders and borrowers is not merely academic, it determines whether developers can survive long enough to benefit from the recovery both sides ultimately anticipate.

Feasibility & The Policy Chokehold — Development Charges as the Consensus Villain

NOTE: The survey opened just before new announcements relating to planned reductions in DC's were made by the Ontario Premier and the Canadian Prime Minister in addition to the framework expansion policies for DCC's in British Columbia.

Q9: Biggest Obstacle to Project Feasibility



Despite numerous potential culprits such as construction cost inflation, high financing costs, stalled demand, and land values, both Borrowers and Lenders pointed to the same obstacle as the greatest threat to project feasibility in 2026.

Development charges ranked #1 for both groups by a significant margin. However, the secondary results reveal a meaningful divergence: Borrowers ranked construction costs second at 27.3%, reflecting the on-the-ground reality of building in an era of sustained cost inflation. Lenders ranked land costs second at 23.1% indicating an underwriting perspective that prioritizes collateral value over build economics. Lenders are focused on what secures the loan, while borrowers are focused on what it costs to deliver it.

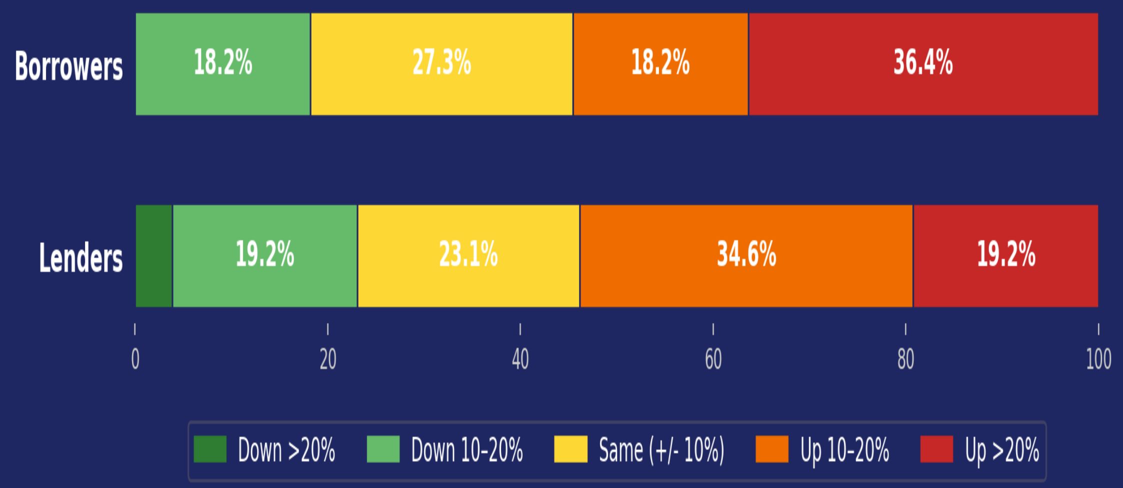
The two groups are looking at the same market through fundamentally different cost lenses. Consider the weight of this finding by group:

Lenders are not the ones writing cheques for development charges. Their concern is purely an underwriting view. When over half of all lenders surveyed identify municipal levies as the primary feasibility threat, it means those charges are large enough to materially affect loan-to-cost ratios, cost contingencies, and loan viability.

Borrowers live this reality directly. At 36.4%, development charges topped every other cost category, suggesting that even in a period of historic construction cost pressures, it is government-imposed fees, not the market, that represent the most corrosive threat to new supply.

Project Costs: Both Sides Agree — Building Is Dramatically More Expensive

Q10: All-In Project Costs vs 2019-2020



1. The majority of both groups report costs are up materially: Combining the "Up 10-20%" and "Up >20%" categories, over half of both lenders and borrowers report all-in project costs are meaningfully higher than the 2019/20 baseline. There is rare alignment here where both sides agree that the cost structure of development has shifted upward.

2. Lenders skew toward the "Up 10-20%" band: Over a third of lenders landed in the moderate increase category, suggesting their underwriting models have absorbed a cost escalation assumption, but perhaps not to the full extent borrowers are experiencing. This creates a hidden gap: lenders may be approving budgets that borrowers already know are insufficient to complete the project.

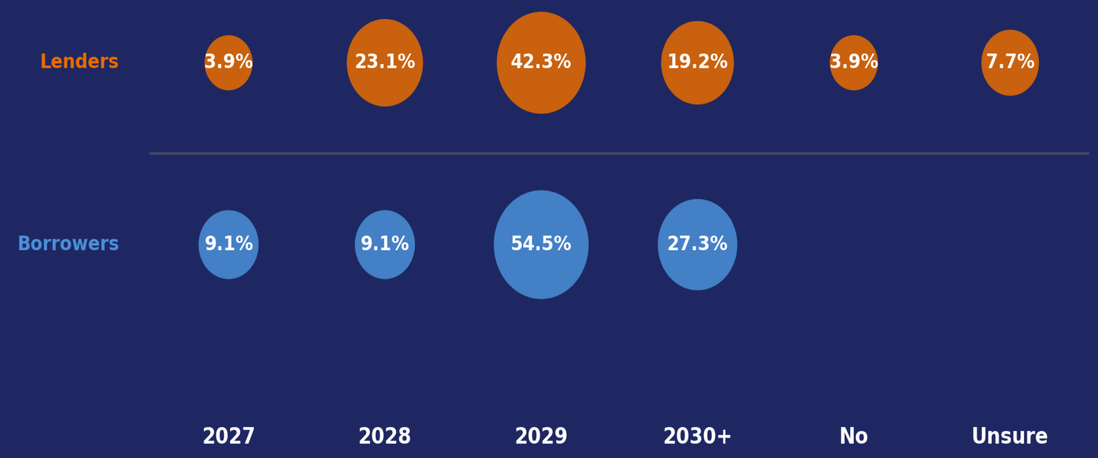
3. Roughly 1 in 5 respondents reports costs are actually down: Approximately 20% of both groups reported costs down 10-20%, which is noteworthy. This likely reflects specific trades or project types where supply chain normalization, reduced competition for contracts, or a slowdown in construction activity has created pricing relief. It is a reminder that the cost story is not uniform across all project types and markets.

4. Elevated costs are the silent veto on feasibility: Even where land values have compressed and financing is technically available, elevated all-in costs mean the math still does not work for most new projects. Until construction costs normalize, or achievable pricing rises to meet them, the feasibility gap will persist regardless of what happens with rates or presale requirements.

Market Rebalancing: 2029 Is the Consensus But the Tail Risk Is Real

Both sides have converged on 2029 as the most likely rebalancing year: 42.3% of lenders and 54.5% of borrowers selected 2029 as the point at which the condo market rebalances. This is a striking degree of alignment from two groups that disagree on nearly everything else in this survey. The shared expectation of a three-year runway carries significant implications for how both sides should be positioning today.

Q11: When Will the Condo Market Rebalance?



2. A meaningful cohort expects it will take even longer: 19.2% of lenders and 27.3% of borrowers pushed their rebalancing expectations to 2030 or beyond. Combined with the 2029 responses, roughly 60% of lenders and over 80% of borrowers do not expect a rebalanced market before the end of the decade. For a development cycle that typically requires 4 to 6 years from land acquisition to completion, projects conceived today may not reach market until conditions have already normalized or deteriorated further.

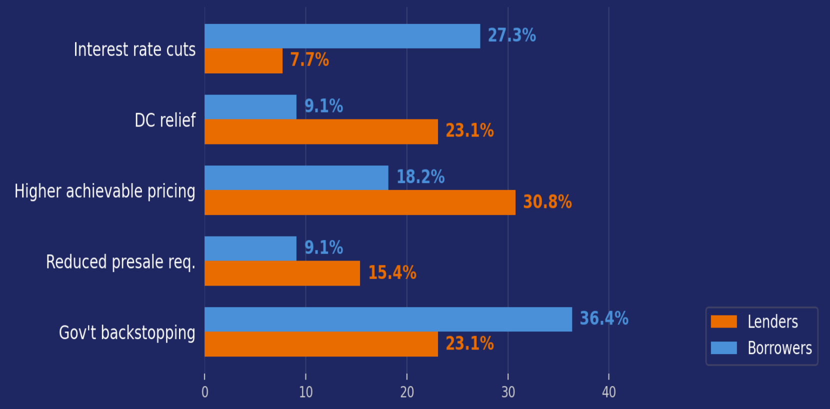
3. Near-term optimism is nearly absent: Only 3.9% of lenders and 9.1% of borrowers expect rebalancing as early as 2027. No one is pricing in an imminent recovery. Any capital deployment strategy predicated on a 12 to 18-month market turn is operating well outside the bounds of what industry participants themselves believe is realistic.

4. A small but notable lender cohort believes rebalancing will never come: 3.9% of lenders selected "No“, meaning they do not believe the condo market will rebalance at all. While a small number, it represents a structurally bearish view that may reflect deeper concerns about affordability ceilings, demographic shifts, or permanent demand destruction in the condo asset class.

5. The 2029 consensus defines the patient capital opportunity: For investors and lenders with a three-year horizon and the balance sheet to carry through the trough, the survey data points to a well-defined entry window. Distressed land, stalled projects, and recapitalization opportunities available today are likely to be resolved, or significantly repriced, well before the market consensus rebalancing date arrives.

Accelerating New Starts: Two Different Prescriptions for the Same Problem

Q12: What Would Most Accelerate New Condo Starts?



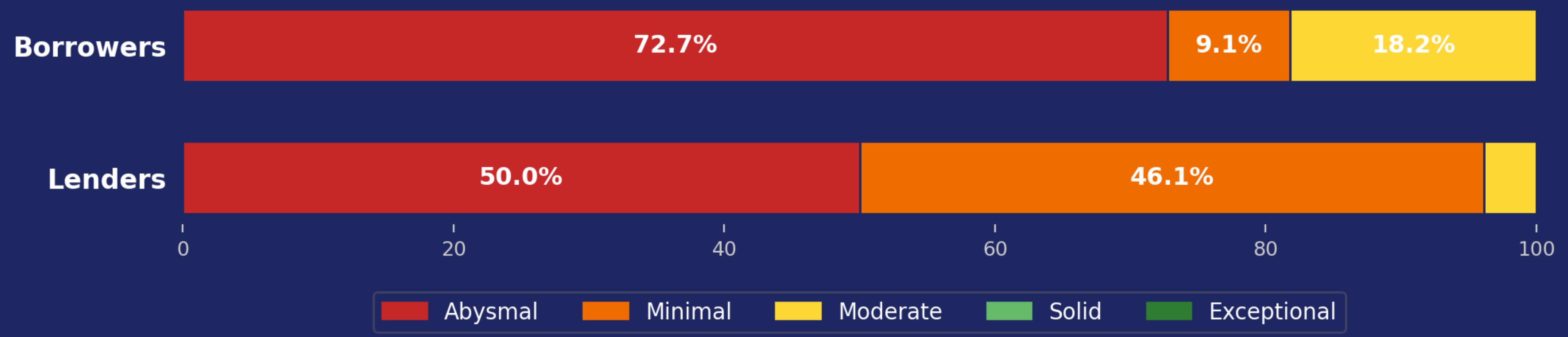
1. Lenders want market signals and borrowers want intervention: The most telling divide in this question is philosophical. Lenders favour higher achievable pricing (30.8%) and DC relief (23.1%), market and regulatory fixes that restore project economics organically. Borrowers lean toward government backstopping (36.4%) and interest rate cuts (27.3%), external interventions that reduce carrying costs and risk. Both are valid levers reflecting different views on where the solution lies.

2. Higher achievable pricing is the lender's primary unlock: 30.8% of lenders identified higher achievable pricing as the single most important accelerant. This is consistent with the rest of the survey. Lenders will not move their underwriting standards until the revenue side of the pro forma supports it. No cost reduction or policy intervention resolves the financing freeze if end-user pricing remains insufficient to support viable LTCs.

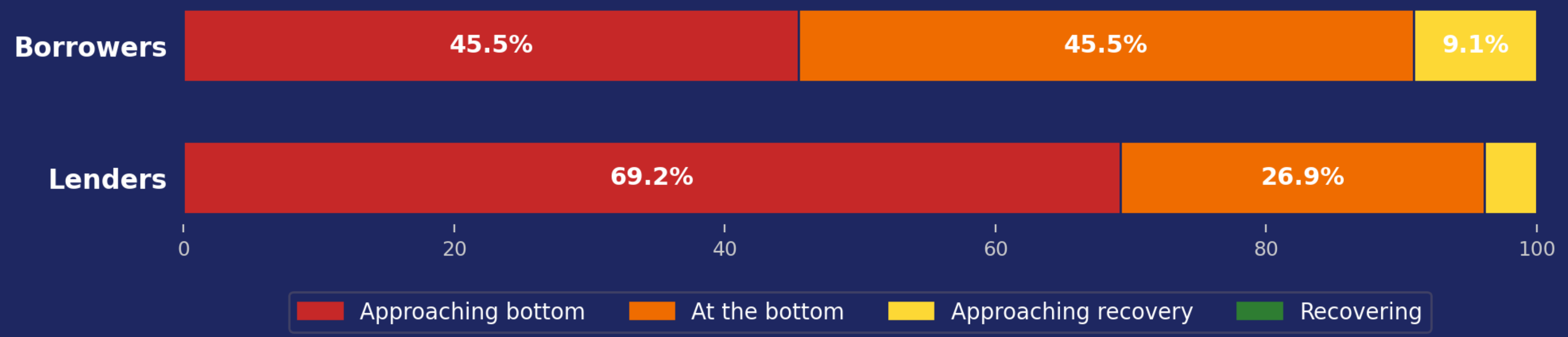
3. Borrowers are looking to government to bridge the gap: 36.4% of borrowers, the highest single response in the entire question, selected government backstopping as the primary accelerant. This reflects a growing recognition within the development community that the gap between what the market will support and what projects need to be feasible may require public sector participation to close. Whether through purchase guarantees, co-investment vehicles, or rental conversion programs, the appetite for government involvement is significant.

4. DC relief: 23.1% of lenders and 9.1% of borrowers flagged development charge relief as a key accelerant. Given that DCs in major Ontario municipalities can represent $100,000-$200,000+ per unit, even partial relief would have a meaningful impact on project feasibility and would not require lenders to move their underwriting standards to have effect. **NOTE: The survey opened just days before new announcements relating to planned reductions in DC's were made by the Ontario Premier and the Canadian Prime Minister in addition to the framework expansion policies for DCC's in British Columbia. We will all be watching closely as to how the reliefs announced will positively affect the market and its participants.*

Q13: Confidence in Condo Market — Next 12 Months



Q14: Stage of the Credit Cycle



Confidence & Credit Cycle: An Industry That Knows Exactly Where It Stands

1. Confidence in the condo market is effectively zero: Not a single respondent from either group registered "Solid" or "Exceptional" confidence over the next 12 months. The only debate is between "Abysmal" and "Minimal“, a range so compressed it amounts to a unanimous verdict on near-term market conditions.

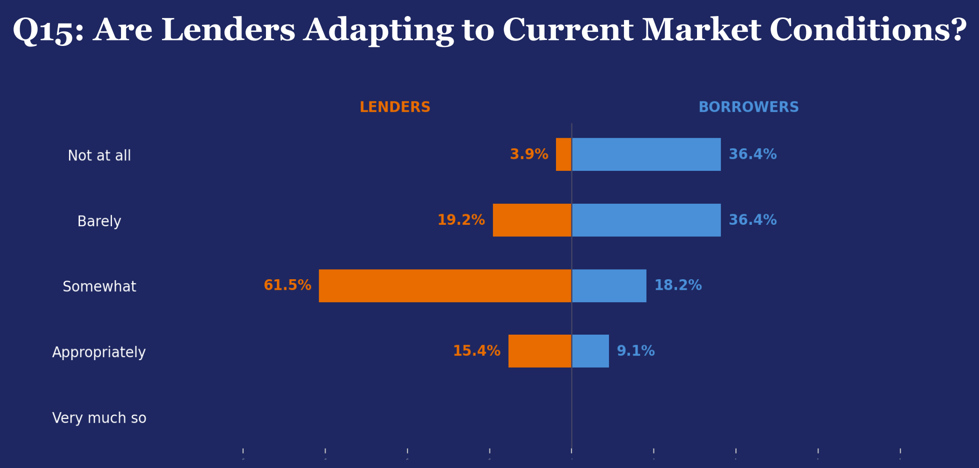
2. Borrowers are more despondent than lenders: 72.7% of borrowers rated confidence as Abysmal versus 50% of lenders. Those closest to the pain, developers carrying land, servicing debt, and managing unsold inventory, have the darkest outlook. The lender cohort, while deeply negative, retains a degree of separation that borrowers simply do not have.

3. Lenders have not reached the bottom of their own credit cycle: 69.2% of lenders believe we are still "Approaching the bottom“, meaning in their own assessment, conditions have not yet fully deteriorated. If lenders are right, underwriting standards may tighten further before they ease, and the financing window could narrow before it reopens.

4. Borrowers are split on where the bottom is: 45.5% of borrowers say we are "Approaching the bottom" and 45.5% say we are already "At the bottom." This even split reflects two distinct experiences: those still absorbing deteriorating conditions versus those who have already taken their write-downs and restructured their positions.

5. Near-universal pessimism historically marks the best entry point: With zero respondents in "Recovering" and barely any in "Approaching recovery," the market is signalling a clear trough. For patient capital with a 3 to 5-year horizon, the alignment of maximum pessimism with a credit cycle approaching or at its floor has historically defined the most accretive entry opportunities in real estate.

The Adaptability Illusion: Lenders Think They're Flexible. Borrowers Disagree.

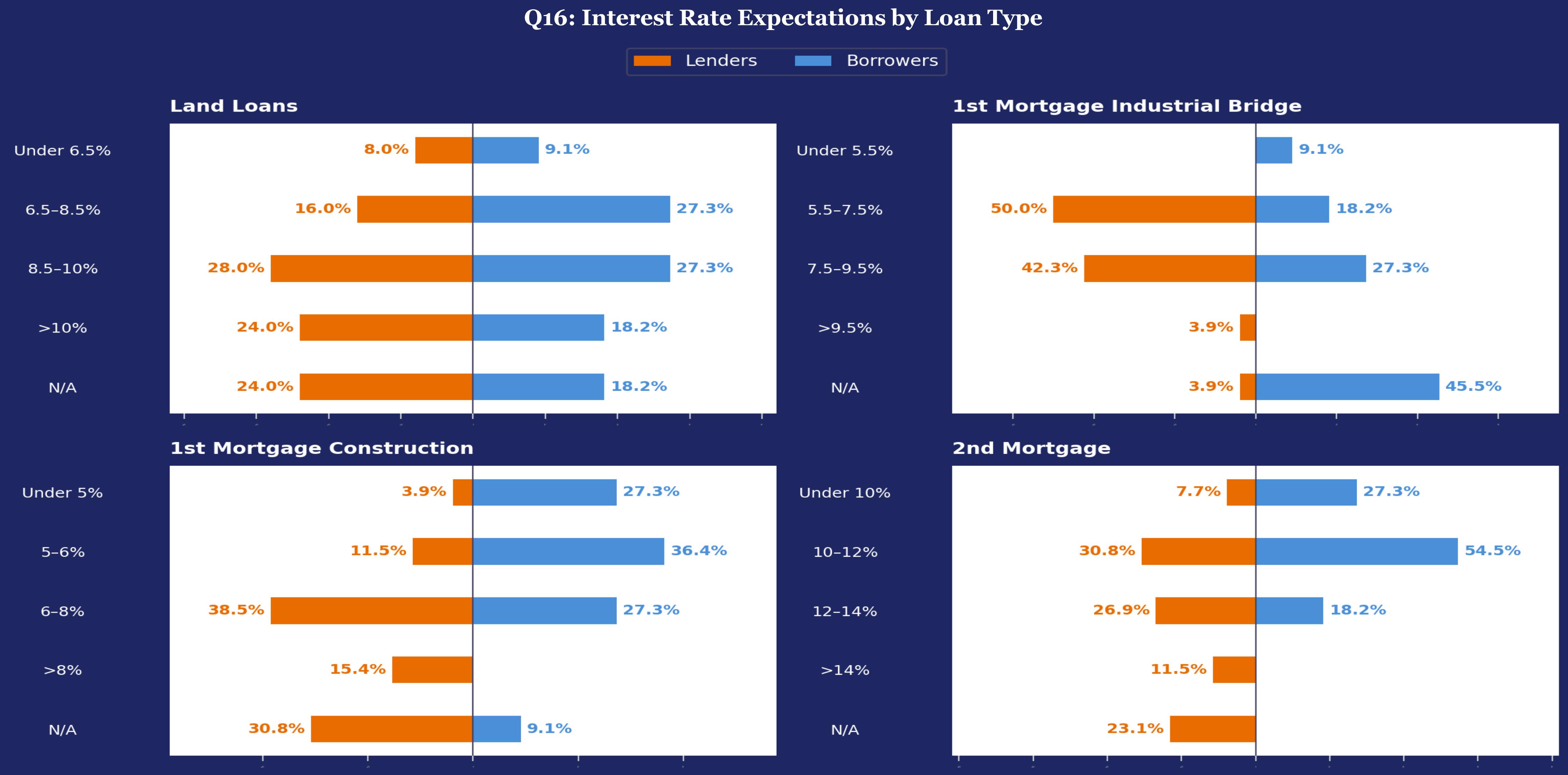


1. The single most jarring disconnect in the entire survey: 72.7% of borrowers say lenders have barely or not at all adapted to current market conditions. 76.9% of lenders believe they are responding appropriately or somewhat. Both groups are describing the same market and arriving at diametrically opposite conclusions.

2. Three explanations - all leading to the same outcome: The gap likely reflects one or more of three dynamics: a communication gap, where lenders are making internal adjustments borrowers never hear about; a deal flow gap, where lenders feel active because they are financing deals that already meet their criteria while sub-threshold borrowers never reach term sheet; and a definition gap, where trimming 25bps feels meaningful to a lender but is immaterial to a borrower who needs presale thresholds reconsidered. In all three cases, capital supply and capital demand are both present - yet deals are not getting done as much as either market player would like.

3. Perception is reality in a relationship-driven market: Regardless of what lenders are doing internally, if 72.7% of borrowers feel unheard, the practical effect is a market that functions as though lenders are not adapting. Trust erodes, borrowers stop bringing deals, and the financing freeze deepens - irrespective of what any individual lender's credit committee has approved.

The Rate Chasm: What Borrowers Need vs. What Lenders Will Actually Offer



Interest Rate Expectations by Loan Type

1. The construction financing rate chasm is a feasibility problem, not a negotiating problem: 63.7% of borrowers are underwriting first mortgage construction loans at under 6%. Only 15.3% of lenders are actually offering rates at that level A project underwritten at 5.5% that only qualifies for 7% financing may fail to pencil.

2. Nearly one-third of the lending market has simply left or doesn't provide construction lending: 30.8% of lenders indicated they are not financing construction loans at all. This is not a pricing disagreement but rather a wholesale withdrawal or unavailability of capital from an entire loan category. The effective construction lending market is materially smaller than it may appear to be on the surface.

3. Land and bridge financing carries its own rate gap: Borrowers expect land loan rates clustering around 6.5-8.5%, while lenders are pricing them at 8.5-10% or higher. For developers carrying land on floating-rate debt (ie: most), the gap between what they modelled and what they are paying (or being quoted) is compounding equity erosion on an already impaired asset.

4. Second mortgage pricing reflects the risk premium on a fractured market: With 30.8% of lenders pricing second mortgages at 10-12% and a meaningful cohort above 12%, mezzanine and subordinate debt has repriced moderately from the mezz market "norm" of the past decade. For developers who need to fill capital stack gaps to close deals, the blended cost of capital is increasingly prohibitive given all the other challenges discussed herein, particularly when first mortgage proceeds have already been reduced by compressed appraisals.

5. The rate grid, read together, tells a single story: Across every loan type (land, construction, bridge, and second mortgages), lender pricing sits materially above borrower expectations. This is not isolated to one product or one market segment. It is a systemic misalignment embedded throughout the entire capital stack that will not resolve until either lender pricing comes down or borrower expectations reset upward.

Takeaway #1: The Market is Not Frozen; It is Fragmented

The headline narrative is that Canadian CRE is in a freeze. The data suggests something more nuanced and more actionable: the market is deeply fragmented, and that fragmentation is the actual problem.

Lenders are not uniformly withdrawn: the majority describe themselves as active and adaptive. Borrowers are not uniformly distressed: some are pivoting into purpose-built rental or non-residential repositioning. Capital exists. Projects exist. And yet transaction volumes remain suppressed. The reason is fragmentation across four dimensions:

Rate fragmentation: Borrowers expect sub-6% debt. Most lenders are pricing at 6–8% or have exited construction lending. The narrow band of overlap is thin and contested.

Asset class fragmentation: Borrowers are pursuing rental. Lenders are gravitating toward office and retail. The Venn diagram is smaller than either side realizes.

Constraint fragmentation: Borrowers can't raise equity. Lenders can't get comfortable on presales. Each side is staring at a different wall.

Perception fragmentation: Borrowers feel abandoned. Lenders feel misunderstood. Neither side is entirely wrong.

For Borrowers: *The lender you need probably exists but finding them requires highly targeted capital sourcing rather than broad outreach. Generic loan requests to generalist lenders will continue to fail. Precision matters.*

For Lenders: *The deal you want probably exists, but it won't arrive packaged in the format you're accustomed to. Waiting for a perfect pre-sold residential deal may mean waiting until 2029. Expanding credit criteria incrementally, even on a deal-by-deal basis, may be necessary to deploy capital productively.*

Takeaway #2: Development Charges Are Canada's Most Underreported Housing Crisis

Both sides of the capital equation agree: government-imposed development fees are the single biggest obstacle to getting projects built.

In a survey where Lenders and Borrowers disagree about almost everything operationally, the fact that they converge on development charges as the #1 feasibility obstacle is remarkable.

In the Greater Toronto Area, development charges on a typical residential highrise unit have increased dramatically over the past several years. When layered with education levies, parkland dedication, community benefit charges, and soft costs, the total government-imposed fee burden per unit can consume a significant portion of achievable sale price, often rendering feasibility near-impossible at current market pricing. Many sources have publicly cited that on aggregate these government taxes could represent +/-30% of the price of a housing unit. What makes this particularly acute in 2026 is the compounding effect: development charges are fixed and payable regardless of whether the market cooperates. They don't flex with pre-sale pricing. They don't compress when interest rates are high. They are a structurally inelastic cost in a market that has lost the pricing power to absorb them.

For Lenders: If a project sponsor's cost stack is front-loaded with $100,000-$200,000+ per unit in municipal fees before a single shovel enters the ground, the equity requirement to make LTC ratios work becomes prohibitive, which loops directly back to the equity constraint identified by Borrowers as their primary bottleneck. You cannot underwrite your way around this.

For Borrowers: Advocacy matters. The survey results make a compelling case that this is not a Borrower-side problem to solve through smarter deal structuring alone. The cost environment has been shaped by policy decisions, and policy decisions can be changed. Industry voices, collectively and credibly, pointing to development charges as the dominant feasibility obstacle, carry more weight than individual project-by-project negotiation.

**NOTE: The survey closed just days before new announcements were made relating to planned reductions in DC's made by the Ontario Premier and the Canadian Prime Minister in addition to framework expansion policies for DCC's in British Columbia.*

Takeaway #3: 2029 Is the Most Important Number in Canadian CRE Right Now

When a plurality of both Borrowers and Lenders (people with opposing incentives and perspectives) independently converge on 2029 as the year the market rebalances, that number should be treated as a central planning assumption for the industry.

Borrowers at 54.5% and Lenders at 42.3% pointing to 2029 is not coincidence. It reflects a shared read of underlying dynamics that are genuinely structural rather than cyclical: The pipeline of unsold pre-construction units that closed or will close in 2025-2026 needs to be absorbed by the resale and rental market before new pre-construction demand re-emerges.

1. Purpose-built rental projects entering the ground today will reach stabilization in approximately this timeframe.
2. Municipal fee reform operates on a political cycle measured in years, not quarters.
3. Institutional capital that has moved to the sidelines tends to return in waves following extended dislocation (typically 24 to 36-months after the bottom is perceived). If sentiment bottomed in 2025-2026, that points to 2028-2029.

For Borrowers: Projects underwritten today must be stress-tested against three years of flat-to-declining pricing. Capital structures requiring a near-term exit or refinance at improved valuations may not survive. Deals that work in 2026 are those built around cash-flow or income generation, long-term holds, or deeply distressed acquisition costs, not appreciation.

For Lenders: Portfolio management becomes as important as origination. Loans maturing in 2027-2028 may face an environment still not materially improved from today. Covenant monitoring, proactive borrower engagement, and early identification of at-risk credits are front-line priorities in this environment. Lenders who manage their existing book well through this period will be best positioned to deploy aggressively when the rebalance arrives.

For both groups: Market participants who survive this cycle with relationships intact (who communicated honestly, structured deals fairly, and found creative solutions under pressure) will have a decisive competitive advantage when volume returns. The three-year freeze is also a three-year opportunity to position.

Conclusion: From Conflict to Resolution

The 2026 Franc & Co CRE Survey does not paint a comfortable picture. Market sentiment is negative broadly. Recovery is widely expected to be years away. The single greatest obstacle to getting projects built is an externally imposed cost that neither Borrowers nor Lenders can control. And on the operational questions that govern whether deals get done (rates, constraints, asset class priorities, and the perception of who is showing up), the two groups are talking past each other in ways that are now measurable and documented.

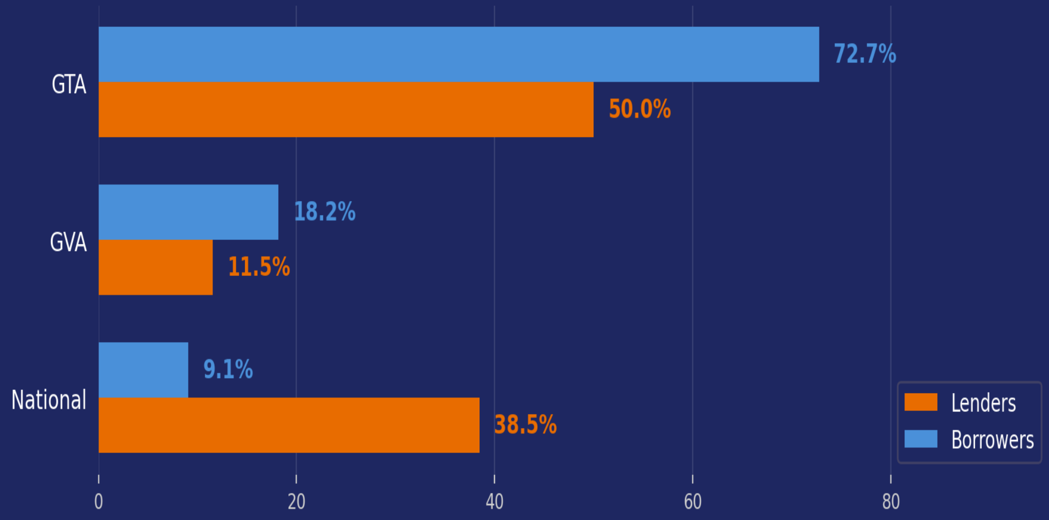
But there is a constructive conclusion available in this data: **the gaps are known**. That is not a small thing. Markets that suffer in silence, where each side assumes the other simply doesn't understand, are harder to repair than markets where the specific points of failure can be named, quantified, and addressed. And some of these gaps are already starting to shrink (the DC announcement recently made in Ontario, the DCC framework expansion in BC and the HST initiative on new homes, are positive cases in point).

The adaptability gap can be closed with better communication and more targeted deal structuring. The rate gap can be bridged not by wishing rates lower, but by **building capital structures that meet lenders where they are** rather than where Borrowers hope they will be.

Canadian commercial real estate has been through structural resets before. The participants who navigate this one most effectively will be those who stop waiting for the old market to return and start building the structures, relationships, and strategies that work in the new one.

Thank you to the 100+ participants who were instrumental in the delivery of this survey/report.

Q17: Respondents' Primary Business Operation Locations



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