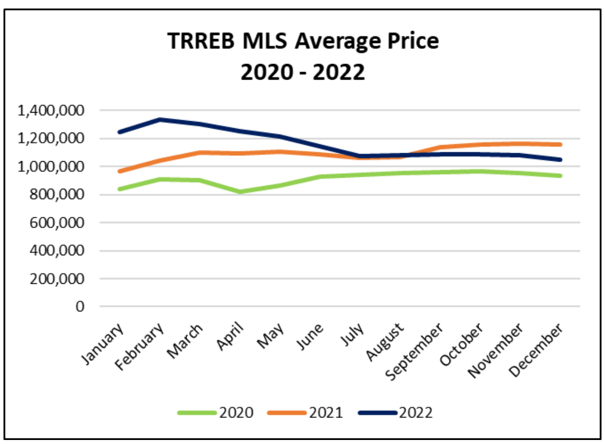
Dear Investors,

Inflation and interest rates were the main talking points for 2022. The Bank of Canada raised the overnight rate by 4% in 2022, an unprecedented move, to control runaway inflation. The largest rate hike in the last two decades and the highest overnight rate since 2008. Higher borrowing costs and increased construction costs have had a negative effect on the housing market in the GTA in the second half of 2022, especially outside of the core.

The Market

After experiencing double digit increases in price since the start of the pandemic[1], the housing market in the GTA is undergoing a correction. There were 75,140 sales reported in 2022, down 38.2% compared to the record setting 121,639 in 2021. The number of new listings amounted to 152,873, down 8.2% compared to 166,600 in 2021.

Toronto Reginal Real Estate Board (TRREB) December average price across all properties was at $1,051,216, a 9.2% decrease over the December 2021 average of $1,157,837[2]. The average selling price peaked at $1,320,000 in February of 2022 but fell sharply to $1,051,216 in December of 2022.



Dez Capital Business

The adjustment to new rates started at the end of third quarter in 2022 and peaked at the end of the fourth quarter. The supply of quality mortgage deals was relatively slow in 2022, particularly in the fourth quarter as the transaction volume in the residential sector was down roughly 40% year-over-year. However, Dez Capital started adjusting its lending costs and issued new loans and renewals with higher rates early in the fourth quarter of 2022. Dez Capital's loans are fixed over a one-year term; therefore, the effect of the rate increase will not be immediately apparent. In 2023, as more loans mature and are replaced with new loans at higher rates, investor's can expect an increase in their returns.

It is Important to note that the increase in private lending rates does not directly correlate to the unprecedented increase in the major bank's prime rate as the private mortgage market has its own market drivers. In addition, due to the uncertain climate and the possibility of a looming recession, Dez Capital has implemented a cautionary policy of issuing loans at a slightly lower LTV and keeping more cash on the balance sheet to allow for more liquidity. Despite these precautions, Dez Capital's investors will see higher returns throughout 2023.

Looking Forward

Inflation will moderate as the economy slows due to higher interest rates, and real GDP growth is projected to slow to 1% in 2023. Other factors such as higher unemployment, and a return to a robust supply chain will further reduce inflation. The Bank of Canada overnight rate will likely remain at 4.25%, or possibly increase to 4.50% in 2023. Higher interest rates, a slower economy, and an increase in unemployment will put downward pressure on the housing market. Nevertheless, there continues to be a housing shortage, therefore we believe a market crash is unlikely. The government has been working to address the housing shortage, but the policies will take years to bear fruit. In the meantime, many Canadians will continue to feel the squeeze as they try to find a place to call home.

1 - CIBC - Benjamin Tal - Outlook for 2023
2 - TRREB - Market Watch
3 - Canada Economic Snapshot - OECD