

# Homes

## INTEREST RATE CUT OFFERS WELCOME RELIEF

Will buyers return to market or wait for deeper cuts?

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The Bank of Canada's (BoC) decision to trim its key interest rate by 25 basis points to 4.75 per cent is a "pivotal moment" that could move prospective buyers off the sidelines while spelling welcome relief for those with a variable-rate mortgage.

"This official interest rate cut marks a pivotal moment for the real estate market heading into summer," says Gillian Oxley, the founder of Oxley Real Estate. "Buyers who have been hesitant may feel more encouraged and confident to enter the market — beneficial for both sellers and buyers."

Sellers have learned that extended days on the market don't necessarily lead to steep discounts, she notes. "The lower interest rate environment will likely support this, as increased buyer confidence and activity traditionally leads to stable or rising home prices, even if properties take longer to sell," Oxley says.

"Reducing previous uncertainty can ultimately mean sellers are more willing to list their homes and buyers are more eager to make offers. Although it's clear the historically low rates of the COVID-19 era are unlikely to return for decades, this interest rate cut offers a promising opportunity to rejuvenate the market for both buyers and sellers as we head into summer."

### MORE CUTS ON HORIZON?

In a bid to cool inflation, the BoC aggressively raised its policy rate from 0.25 per cent in March 2022 to five per cent by July 2023. (That's in keeping with the theory that making it more expensive to borrow money forces consumers and businesses to spend less, driving down prices and slowing the economy.)

While the central bank is expected to take a slow-and-steady approach to relaxing interest rates further, some experts believe more cuts are on the horizon and that some buyers will stay on the sidelines a little longer.

"If you have been riding a variable rate or have a balance on a home equity line of credit, this is the announcement you have been waiting for," says James Laird, co-CEO of Ratehub.ca and president of Can-Wise mortgage lender. "Those who have stuck with a variable rate will be really pleased...to see the rate they are paying finally move off a multi-decade high."

Anyone choosing between a fixed and variable rate in the coming months will probably give variable rates a serious look now that the BoC is in a "rate-cutting mood," Laird adds.

"It will be interesting to see if this first 25-basis point rate cut is enough to stoke demand and cause FOMO (fear of missing out) to return in the housing market or if buyers will wait to see further rate relief."

John Lusink, president of Right at Home Realty, agrees. "The highly anticipated rate cut came through thanks to positive news on the infla-



Patient buyers may wait to see if more interest rate cuts are on the horizon. **ROYAL LEPAGE**



Gillian Oxley, founder, Oxley Real Estate.

tion front," he says. "This is already providing a psychological boost to consumers and agents alike and may be enough to push some buyers off the bench."

### PUSHED TO SELL?

However, the cut doesn't necessarily translate to immediate monthly savings for all homeowners, particularly those locked into a fixed-rate mortgage, he reminds.

"Among that cohort, there is an increase in delinquencies for other debts and loans, pushing some homeowners — particularly those invested in the condo market — to sell."

The condo sector is seeing an increase in inventory, which could result in some prices dropping further, Lusink warns. "So, while the move does signal an openness to future cuts, increasing optimism for a more active fall market, some more patient buyers may stick it out a little longer in hopes that the pattern continues."

Greater Toronto Area realtors reported 7,013 home sales through the Toronto Regional Real Estate Board's MLS® System in May. That's a 21.7 per cent decline compared to



John Lusink, president of Right at Home Realty.

8,960 sales reported in May 2023, with high interest rates shouldering the blame. New listings entered into the MLS® System totalled 18,612 — up 21.1 per cent year-over-year.

Only time will tell if another rate cut is in store on July 24, the next scheduled date for announcing the overnight rate target. "If inflation continues to ease and our confidence that inflation is headed sustainably to the two per cent target continues to increase, it is reasonable to expect further cuts to our policy interest rate. But we are taking our interest rate decisions one meeting at a time," BoC governor Tiff Macklem said when he made the June 5 announcement.

"We don't want monetary policy to be more restrictive than it needs to be to get inflation back to target. But if we lower our policy interest rate too quickly, we could jeopardize the progress we've made. Further progress in bringing down inflation is likely to be uneven and risks remain. Inflation could be higher if global tensions escalate, if house prices in Canada rise faster than expected or if wage growth remains high relative to productivity."

### BY THE NUMBERS

A homeowner who put a 10 per cent down payment on a \$703,446 home (the average home price in Canada in April, according to the Canadian Real Estate Association) with a five-year variable rate of 5.95 per cent amortized over 25 years with a total mortgage amount of \$652,727 has had a monthly mortgage payment of \$4,157.

With the 25-basis point rate decrease announced June 5, their variable mortgage rate will decrease to 5.7 per cent and their monthly payment will decrease to \$4,061. That means the homeowner will pay \$96 less per month or \$1,152 less per year on their mortgage payments.

Source: Ratehub.ca



Some experts believe sidelined buyers will return to the market this summer. **ROYAL LEPAGE**