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How the Bank of Canada interest rate hike could affect rent

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The Bank of Canada's pursuit to control inflation through increases to interest rates will continue to have a trickle-down effect into the country's rental market, experts say.

In the past year, the average rent for all property types climbed to \$2,043 as of September 2022, according to rentals.ca, an industry tracker. This is a 15.4 per cent climb compared to the same time last year.

In Toronto, rent has increased 20.4 per cent compared to this time last year, according to the latest data the Toronto Regional Real Estate Board (TRREB) published on Thursday.

“It’s not surprising at all that rents are climbing”, John Pasalis, the president and broker of Realosophy Realty Inc, said in a phone interview on Thursday.

“I suspect that the string of interest rate hikes we’ve seen in 2022, including Wednesday’s 50-basis-point hike, will put upward pressure on rental prices for the next 12 months,” he said.

The Bank of Canada's latest interest rate hike was an increase of half a percentage point, bringing it to 3.75 per cent. This was the sixth hike made by the central bank this year.

Pasalis added that the surge in rental demand is also directly tied to limited housing supply throughout the country.

“When we see weakness in the re-sale housing market, which is happening now because of higher borrowing costs and limited inventory, this is usually followed by a spike in the rental market,” he said.

For Stephen Brown, a senior economist at Capital Economics, there are both short- and long-term consequences of higher interest rates on the country’s rental market.

He explained that at present moment, the BoC rate hikes have created more demand and competition for rental units as people are forced to wait on the side-lines for borrowing costs to drop.

In the long run he worries the rental situation could worsen.

“One long-term consequence of heightened interest rates is the slowdown it creates in the construction of new homes,” Brown said.

Canada is already facing limited home inventory and a decline in housing starts will reduce the number of homes available in the long run, putting further upward pressure on rents.

“There’s an inconsistency here that the policymakers need to be worried about,” he said.