

Financial Post – February 29, 2024

Posthaste: Sidelined homebuyers just waiting for the Bank of Canada to cut rates

56% of Canadians say they postponed their property search because of higher interest rates, survey finds

Pamela Heaven || February 29, 2024



A recent Royal LePage survey found that 56 per cent of Canada's adult population say they have postponed their property search because of higher interest rates. PHOTO BY TYLER ANDERSON/NATIONAL POST

The swift rise in Bank of Canada interest rates over the past two years has forced millions of potential homebuyers to the sidelines.

A recent Royal LePage survey found that 56 per cent of Canada's adult population say they have postponed their property search because of higher interest rates.

Among them, 51 per cent say they will jump back into the market if interest rates reverse — but by how much?

For 10 per cent all it would take is a 25 basis point cut, the survey found. Eighteen per cent say they are waiting for a cut of between 50 and 100 bps and 23 per cent need to see a reduction of more than 100 bps before they will return to the market.

A fifth, 20 per cent, of sidelined buyers say they no longer plan to buy a home.

The big question for many then is when interest rates will start to go down. The Bank of Canada announces its rate decision next Wednesday on March 6, but most economists think the first cut won't come until June.

Olivia Cross of Capital Economics expects the Bank will use its press conference next week to emphasize the message that its restrictive policy needs more time to work.

Up until last week there was a clear case for holding, with readings on economic growth and employment both coming in stronger than expected. But consumer price index data for January muddied the waters, showing the inflation rate falling back within the central bank's target range.

If shelter inflation, which is exacerbated by higher interest rates, is excluded, then inflation is lower than its average in 2019, said Cross.

The Bank of Canada, however, still has reason to be patient, she said. Though January's inflation numbers were an improvement they followed two months of acceleration and policy makers will likely want to see several months of deceleration before pulling the trigger.

"The Bank may also be concerned about the recent signs of strength in the housing market. Although house prices continued to fall in January, the sales-to-new listings ratio now points to house prices rebounding relatively strongly as we head into the busy spring season," said Cross. "The Bank will therefore be concerned about pouring fuel on the fire if it cuts in April."

There is also the risk that the Bank of Canada will decide to wait beyond June if the economy rebounds, and market bets reflect this uncertainty, said Cross. While the market sees a 30 per cent chance of a cut in April, it has not fully priced in a 25 bps cut for June.

In the meantime, homeowners with a mortgage will continue to struggle.

The central bank's own research estimates that nearly 80 per cent of borrowers renewing a mortgage may face "significantly higher payments" by the end of this year.

A Ratehub.ca survey that polled over 2,000 homeowners suggests most are struggling with higher rates. Almost 70 per cent said it has become more challenging to pay their mortgages since rate hikes began in March 2022, and of those 67 per cent were worried about making their payments once their mortgage renewal came up.

Ways of coping with higher payments ranged from tightening their budgets to switching to a non-prime lender to downsizing their homes, the survey said.

Almost 30 per cent said they plan to refinance their mortgage and despite the prospect of Bank of Canada cuts, the fixed-rate mortgage remains the preferred choice.

“This reflects borrowers’ desire for stability in a volatile marketplace, even as expectations grow for lower variable rates in the near future,” said Penelope Graham of Ratehub.ca.

The same goes for homebuyers. When they re-enter the market, 44 per cent of the respondents in the Royal LePage survey said they intend to obtain a four-year or five-year fixed-rate mortgage, “the most popular mortgage type and term in Canada.”

Only 22 per cent said they would go for a variable-rate and 12 per cent say they would get a short-term fixed-rate mortgage.