Better Dwelling – November 27, 2024

Canadian Mortgage Rates To Rise, Housing Unaffordable Until 2035: Oxford Econ

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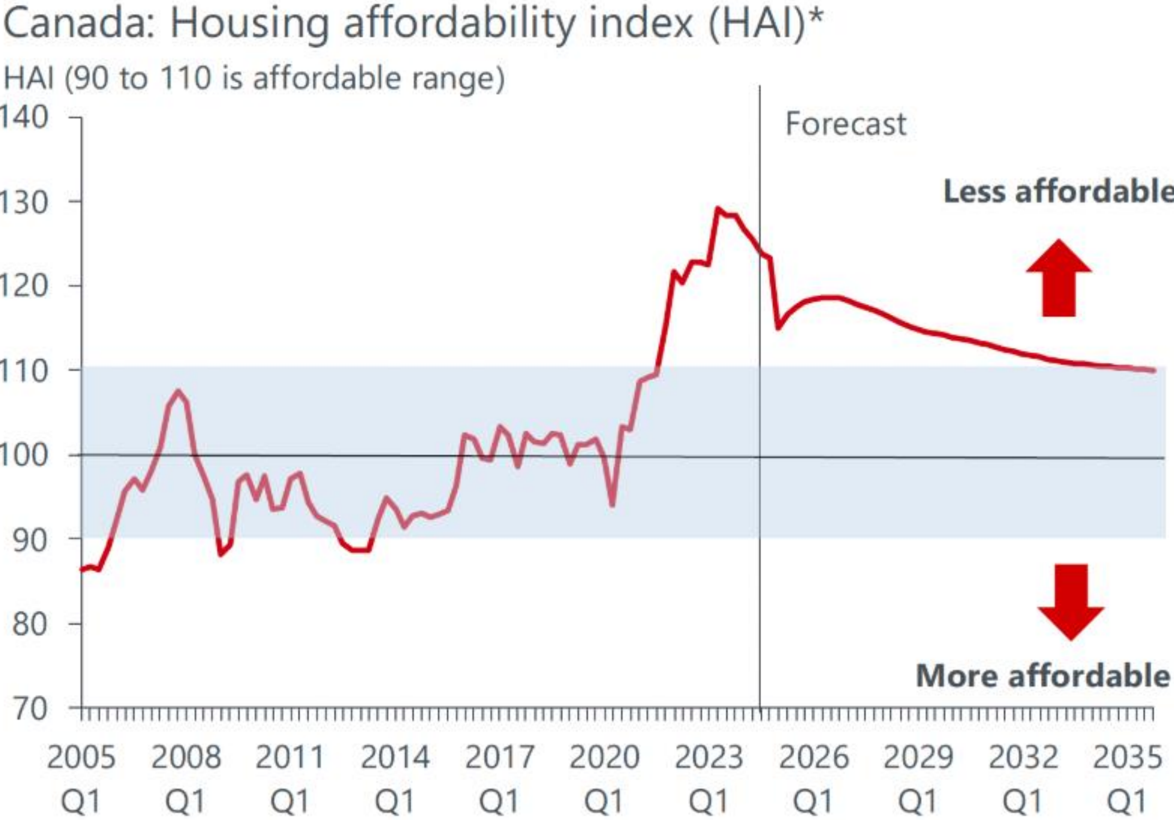
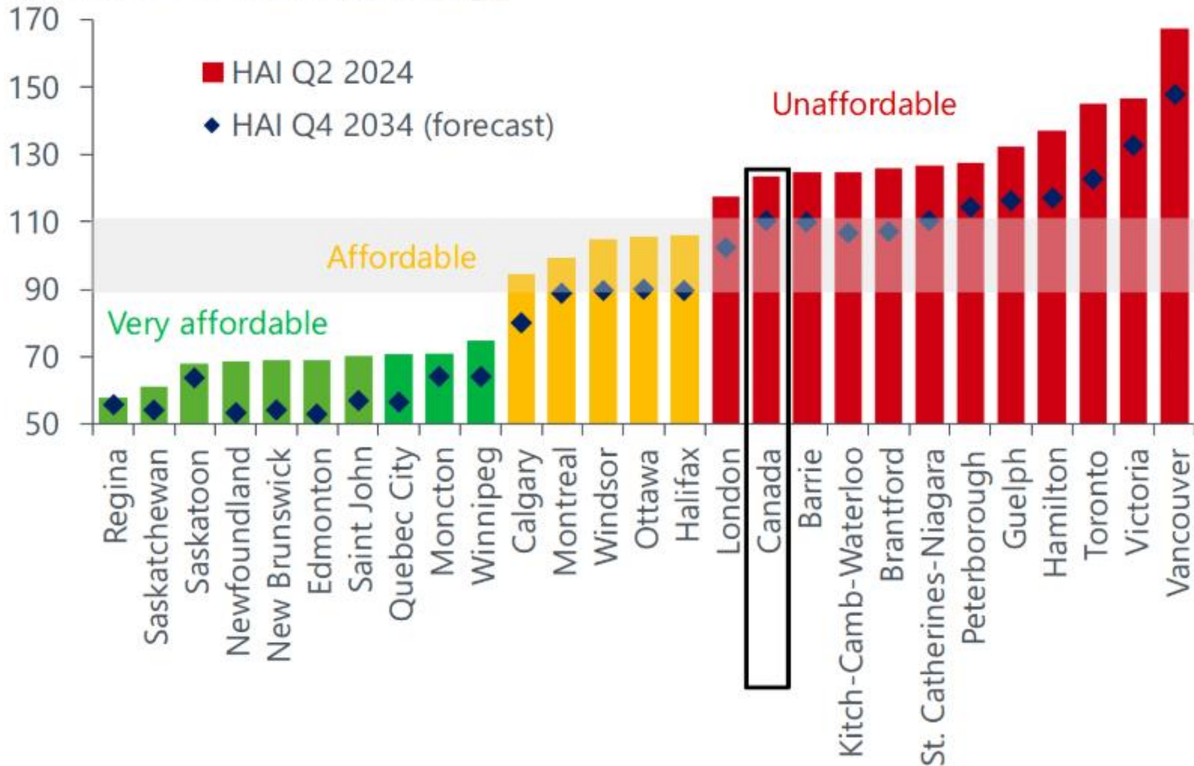
Good news. Canada prevented the mortgage cliff that would have seen existing borrowers pay more. The bad news? The rapid rate cuts and extended amortizations are only expected to help new buyers for a few weeks before further affordability erosion. That was the take in a new report from Oxford Economics, who doesn't see affordability returning until 2035. The fuel being added to the fire means mortgages aren't expected to get much cheaper, with borrowing costs forecast to start climbing in 2026. That's good news for the economy but not so much for those looking for housing affordability improvements that last longer than the election cycle.

Canadian Housing Affordability Won't Return Until 2035, Later In Toronto & Vancouver



Falling mortgage rates and 30-year amortizations are expected to boost affordability early next year. The impact will be short-lived since the excess leverage will help to raise home prices. As home prices rise and mortgage rates start to rise (yes, rise) that affordability boost is expected to fade.



Slower population growth is expected to help slow rising prices, but affordability will take a long-time to return. "…we still think it will take around a decade to restore housing affordability at the national level," explains the report.

The epic combination of cheap credit, bailouts, and increased leverage will take its toll for some time. Their forecast sees affordability returning by 2035 for Canada in general. More expensive cities like Toronto and Vancouver are forecast to stay out of reach indefinitely for the average household.

Bank of Canada To Cut Rates But Fixed Rate Mortgages Already Lower

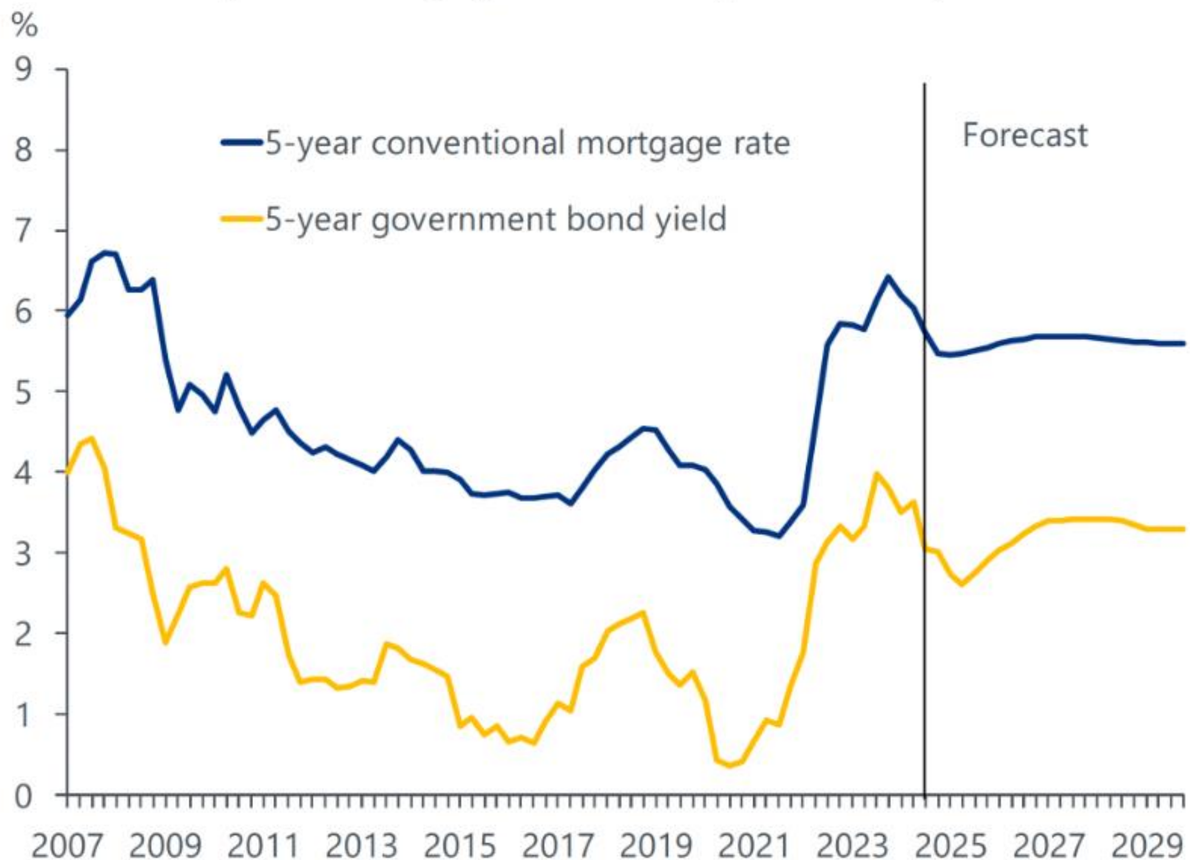
The economists see further rate cuts from the Bank of Canada (BoC), but it won't be helping new borrowers. The aggressive 50 basis point (bp) cut to the overnight rate in

October is expected to almost eliminate the concerns of a rate renewal cliff. The firm's economists expect another cut of 50 bps in December, and four more 25 bp cuts in the first half of the year. When it all shakes out, the overnight rate is expected to fall to 2.25% by June 2025. It's a substantial move, but it only impacts the relatively small share of variable rate borrowers.

The BoC's overnight rate only directly influences variable rate mortgages. Fixed rate mortgages are influenced by Government of Canada (GoC) bond yields. Currently fixed rate mortgages are significantly lower than variable mortgages, so the cuts won't be contributing much more credit capacity than already available in the short-term. Additional real estate activity from further rates would be largely based on sentiment.

"However, we don't think mortgage rates have much further to fall," warns the firm's economists.

Canadian Mortgage Rates Won't Get Much Lower, To Rise In 2026



The decline in fixed-term mortgage rates is forecast to stall around this level before climbing. " The average five-year conventional mortgage rate has already dropped around 100bps from its peak in late 2023 to 5.4% in October 2024. We think it will hover in this range through mid-2025, before rising bond yields and slightly tighter monetary policy cause it to edge higher in 2026," forecasts the firm.

That may sound like bad news for borrowers but it implies good news for the economy. Rates climb when inflation climbs and economic output is running close to peak productivity. As a result, the economy would have to be performing so close to its peak that the central bank needs to throttle credit growth. It's a scenario that's hard to believe in a little over two years but that's a general theme throughout the 2020s.