

# RESEARCH BRIEF

## CANADA MONETARY POLICY

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SEPTEMBER 2023

### Investor Optimism Likely to Build as Central Bank Hits Pause on Interest Rate Hiking Cycle

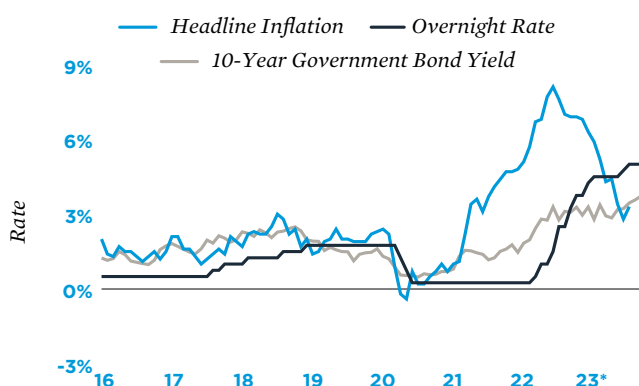
#### Central Bank moves to the sidelines amid softening economy.

As expected, the Bank of Canada held its overnight rate steady at 5.0 per cent during the September meeting. This comes after the Central Bank resumed rate hikes in June and increased its benchmark rate 25 basis points at two consecutive policy meetings. With the unemployment rate trending up for three straight months through July, along with domestic demand beginning to cool and the economy contracting in the second quarter, these factors were enough to convince the Bank that price growth is likely to continue easing over the medium-term. Consequently, interest rate swap probabilities suggest that borrowing costs will hold steady heading into 2024. The BoC did state that it remains concerned about the persistence of underlying inflationary pressures, and it is prepared to increase the policy rate further if needed. In particular, the Bank will be closely watching the evolution of excess demand, inflation expectations, wage growth and corporate pricing.

#### Housing market likely to gain momentum after brief pause.

When the BoC underwent its first conditional interest rate pause in March, Canada's housing market began to recover. As of July, the median price of a single-family home was up just over 8 per cent compared to the February trough. Uncertainty began to mitigate as mortgage rates stabilized, and some buyers returned to the market in an attempt to get ahead of other purchasers. While monthly price growth began to ease once the BoC resumed its rate hiking cycle, this most recent pause is likely to mitigate downward pressure on home prices and may lend further support to ongoing price growth.

#### Canada Monetary Policy Trends

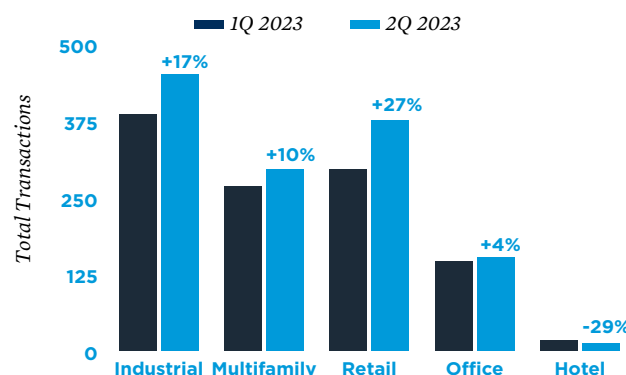


### Commercial Real Estate Outlook

**Interest rate pause to generate positive sentiment.** In the second quarter, when the BoC paused its rate hiking cycle for the first time, commercial real estate investment activity gained some momentum. When compared to the first three months of the year, transaction activity increased roughly 15 per cent; while on an annual basis, the total number of sales were down nearly 40 per cent. This quarterly momentum provided an early indicator that once interest rate uncertainty shows signs of abating, large volumes of deployable investment capital are ready to enter the market. If interest rates hold for the remainder of the year, which is the general consensus, the investment market is likely to see an uptick in transaction activity heading into 2024. However, with borrowing costs still high, lenders will remain selective. Property types with long-term demand prospects and healthy underlying fundamentals — like industrial, multifamily, and more recently essential-based, grocery-anchored retail — will find it easier to receive financing.

**Multifamily remains well-positioned.** With home prices already trending up and borrowing costs expected to remain elevated for an extended period of time, affordability challenges within the home-ownership market will persist. Potential homebuyers are likely to be redirected or will remain in the apartment rental market. Combined with historic population growth witnessed over the past year, and further gains expected in 2023, national multifamily vacancy rates are forecast to continue to trend down and end the year at 1.7 per cent. Rent growth, as a result, is anticipated to hover around 6.0 per cent annually, which is above the pace of inflation.

#### Previous Rate Pause Aided Investment Activity



\* Overnight Rate and 10-year Bond through September, Inflation through July  
Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Statistics Canada



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