# RESEARCH BRIEF
## CANADA MONETARY POLICY

IPA INSTITUTIONAL PROPERTY ADVISORS
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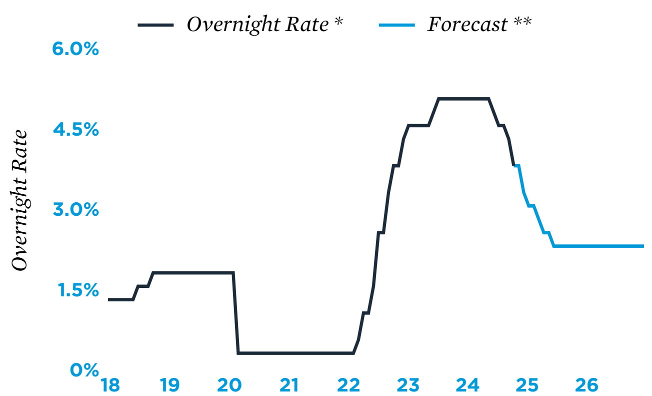
## Central Bank Shifts to Larger Rate Cuts, Setting the Stage for a Strong 2025 for CRE Investors

**Bank of Canada accelerates loosening cycle.** Canada's Central Bank lowered its key policy rate by 50 basis points in October, bringing it to 3.75 per cent – the lowest reading in two years. This bucked the recent trend of three-consecutive 25-basis-point cuts, as Canada's monetary authority has become increasingly concerned about downside risks to economic growth. The Bank of Canada cited many reasons for its outsized rate cut, including inflation roughly returning to the 2.0 per cent target, a still-soft labour market, declining per capita consumption and an economy that continues to operate in excess supply. With price pressures no longer broad-based and the Central Bank concerned about GDP growth, additional interest rate cuts are anticipated over the remainder of the year and into 2025. The general consensus now stands at a terminal overnight rate of 2.25 per cent to 2.50 per cent at some point next year.

**Further outsized rate cuts are possible.** The recent 50-basis-point interest rate cut in October may not be a one-off. In the Bank of Canada's policy announcement, the monetary authority left the door open for another larger move. According to them, if the economy evolves as expected, further rate reductions are in store, though the timing and pacing of these cuts will be data dependent. Notably, there are little signs to suggest economic growth will speed up fast enough to close the output gap, which would keep inflationary pressures muted. An additional 50-basis-point rate reduction in December remains possible as a result. However, money markets were heavily favouring a 25-basis-point cut following October's announcement, but upcoming data could quickly change that.

### Monetary Easing to Continue Well into 2025

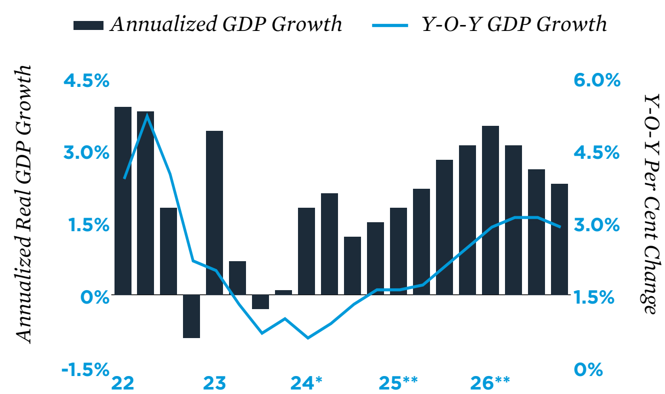



## Commercial Real Estate Outlook

**Fast-falling policy rate to benefit shorter-term loans.** As the Bank of Canada's key policy rate trends down at a fast pace, the commercial real estate sector is poised to benefit. A downwards trend in short-term money will mitigate uncertainty and instill confidence for investors, but more than that, it will aid the development sector. Because construction financing tends to be variable and rates are usually based off shorter-term bond yields, housing starts and building intentions could trend up over the coming year. Reductions in the policy rate will also help fuel consumption as households' debt liabilities gradually ease. In contrast, real estate financing costs, like mortgage rates, are usually quoted around longer-term money such as the 5- and 10-year bond yield, which are largely stabilizing around values consistent with a normalized yield curve. This stability, coupled with healthy fundamentals across the property spectrum, will help stoke investment activity over the year ahead.

**Economic growth will support investor confidence.** Stabilizing borrowing costs are not the only factor that could drive an uptick in investment activity next year. Overall economic growth will also fuel positive investor sentiment. As interest rates fall further over the coming quarters, economic expansion is expected gain momentum over the latter half of 2025 and outperform potential. This uptick in overall activity will likely spur space demand across the property spectrum, helping to drive down vacancies and accelerate rent growth over the long-term. The combination of a more friendly financing environment, along with healthy income growth potential, is setting up 2025 to be a strong year for CRE investment.

### GDP Growth to Gain Momentum in 2025




* Through October 2024; ** Forecast provided by Capital Economics
Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Statistics Canada