Interest rates, oil prices, our dollar & Canada's homes

By Kara Kuryllowicz

Lower interest rates, falling oil prices and the Canadian dollar are making headlines nation-wide, but how they impact homebuyers depends on where they are on the map.

Regarding rates, Adrienne Warren, senior economist of real estate at Scotiabank points out, "A quarter point provides a modest boost to affordability, but it's not a game changer because on average, it will cut monthly mortgage costs by just about $50. Whether you were leaning toward buying or not buying, I don't think the rate cut will change your mind."

Although most economists and experts expected interest rates would be on the upswing by now, it's now predicted the Bank of Canada will make yet another cut in March. It appears interest rates will remain low for much of 2015 with favourable longer-term and fixed rates that will make home purchases more appealing to Canadians already planning to buy in 2015. Although experts are reluctant to weigh in on the variable versus fixed discussion, it could be a good time to lock in. Warren notes, since rates will likely be higher in 12 to 24 months, now's the time to focus on topping up principal payments.

"Lower interest rates will make the housing market a bit stronger through to 2016, but in a number of markets, the single-family home is still quite unaffordable to the average buyer, so we may see a shift in sales compositions with even more condo purchases," says Diana Petramala, economist, real estate, TD Bank Group.

Because the overall economic environment and employment, both of which are affected by interest rates and oil, are the housing market's key drivers, regional differences will be more profound across western, central and eastern Canada. In commodity-dependent provinces, particularly Alberta, Saskatchewan and Newfoundland, economic uncertainty is a legitimate concern, as temporary and more permanent job loss is already a reality.

To date, oil-driven housing markets like those in Calgary and Edmonton have seen a drastic and immediate shift, with existing home sales down 30 to 45 per cent from last year's peaks. While Petramala isn't expecting a recession in Alberta, Saskatchewan and Newfoundland, it will feel like a recession with housing prices expected to fall as much as 10 per cent in Calgary, Edmonton and St. John's in 2015 and into 2016.

As the oil-producing regions battle headwinds, Petramala notes that further east, export- and manufacturing-dependent regions will benefit from the state of the Canadian dollar, a stronger U.S. economy, lower oil prices and lower interest rates. In the non-oil producing regions, unemployment rates will gradually drop through 2015 and into 2016. In Vancouver and Toronto, January sales reached above long-term averages with moderate price increases on the horizon, while prices in Quebec City, Ottawa and Montreal will remain flat – although Montreal still has the second-highest home-price-to-income ratio outside of BC.

"We see little pent-up demand for housing in most markets following the strong run over the past decade," says Petramala. "Last year, mortgage rates fell to what homebuyers thought would be the lowest possible level for borrowing costs. This caused a rush to buy, particularly among first-time homebuyers and average existing home sales jumped well above their long-run averages. Toronto, Vancouver and Montreal still remain relatively expensive and even if mortgage rates head lower, the impact on overall affordability measures will likely be marginal."