Real Estate Talk:
Rising interest rates

Description

The effect of rising interest rates on the real estate market

By **Joseph Marovitch**

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Another week has passed, and buyers are still in **bidding wars** for property. However, noticeably, the ten to fifteen buyers that would descend on a new listing in the past appears to have diminished to two or three buyers now.

The **Bank of Canada** is making a concerted effort to curb inflation by forcing fast and furious increases to the interest rates. The effect of these raises is a squeezing of everyone's disposable income. As lending power diminishes, combined with rising inflation, buyers still searching for property are not as quick to jump the gun and offer wild prices for homes. In fact, according to an article in the ***National Post*** on May 11, 2022, across Canada, sales have decreased significantly due to higher interest rates.

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Note that despite increased rates, Montreal is unique. Montreal has always been the least expensive real estate of the major cities in Canada, such as Toronto and Vancouver. While we are catching up quickly, our market is not dropping in price due to two reasons. The first is that the Island of Montreal is limited in land areas of development. The second reason is Montreal is a densely populated island with high demand but limited space for new construction.

Between diminishing space, a large population, and high demand, both in Montreal and abroad, for Montreal real estate, we have the perfect conditions for rising real estate prices despite wars and pandemics. In other words, Montreal real estate will increase in value either slower or faster but there is no stopping unless the Provincial government scares off investment with draconian language laws.

Another interesting effect of rising interest rates is increased property for sale in the short term. In the past two years, everyone has attempted to take advantage of low-interest rates. Corporations borrowed to purchase property on speculation, international buyers purchased property to keep their money safe in Canada, and individuals borrowed from banks, friends, associates and family to purchase property as well. It is the third group, individuals who borrowed from family and friends, who are hit the hardest.

> '… we are looking at a market that will stabilize at a higher price level faster than anticipated due to the pandemic but buyer and seller markets will even out to pre-pandemic levels.'

While corporations and individuals who have funds and sufficient income to afford property have purchased, individuals who borrow for the down payment do not necessarily have the consistent income to keep up borrowing costs along with rising inflation due to higher interest.

Individuals who borrowed for the down payment have two liabilities that make it difficult to maintain the property purchased. The first is the rising cost of goods and services due to slow supply chains and higher interest rates that affect business. The second liability is the current interest rate they have now.

When their two, three, or five-year terms expire, these individuals will be hit with much higher interest rates. Unless these borrowers have the income to maintain the higher costs now and later, they will have to sell their property. Basically, we are looking at a market that will stabilize at a higher price level faster than anticipated due to the pandemic but buyer and seller markets will even out to pre-pandemic levels.

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Next article: **Summer and the market for buyers and sellers**

State of the market

According to the most recent **RBC Economics report**, home sales across Canada are diminishing and the price of homes is not rising as fast as before. The cause of this is rising interest rates and inflation. It costs more to borrow and to buy. Hopefully, the higher interest rates will slow down purchases and, in turn, reduce the cost of goods and services due to less demand.

> 'It appears that now, and for a little while longer, it is the best time for sellers to sell quickly and lucratively.'

Despite higher interest rates, supply of housing remains low and demand remains high enough to create multiple offer situations. It appears that now, and for a little while longer, it is the best time for sellers to sell quickly and lucratively.

It is still tough for buyers but if we remain on course and keep the virus at bay, the pressure on buyers may decrease.

Have a great week, and stay safe.

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Joseph Marovitch *has worked in the service industry for over 30 years. His first career was working with families from Westmount and surrounding areas, hosting children between the ages of 6 to 16 as the owner and director of Camp Maromac, a sports and arts sleep away summer camp established in 1968. Using the same strengths caring for the families, such as reliability, integrity, honesty and a deep sense of protecting the interests of those he is responsible for, Joseph applies this to his present real estate broker career.*

*Should you have questions please feel free to contact Joseph Marovitch at 514 825-8771, or **josephmarovitch@gmail.com***

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