Alert: 0% Mortgages Could Soon Be a Reality!

Description

If you're a homeowner, your mortgage is probably your biggest concern. Minor fluctuations in the interest rate could have drastic effects on your family's finances. Fortunately, interest rates have been plunging this year. A fixed-rate five-year mortgage is currently available for an astounding 1.59%.

The current interest rate is the lowest in Canadian history. It could be tempting to lock these rates in before it's too late. But the Bank of Canada made a stunning announcement yesterday that could completely change the game. Here's what you need to know as a potential buyer or real estate investor.

-0% mortgage rates

First, a little background. In any country, the central bank declares a key interest rate that banks and financial companies can borrow at. These institutions then lend the money at a higher rate to borrowers like you and me.

This year, with an epic economic crisis, central banks have pushed interest rates to unbelievable lows. The Bank of Canada, for example, has suppressed the benchmark prime rate down to 0.25%. This is why your bank can offer you a 1.5% mortgage rate and still make a profit.

Yesterday, however, Bank of Canada's Governor Tiff Macklem said negative interest rates "were part of (their) toolkit." In other words, pushing the benchmark rate below 0% could be a real possibility. This may seem shocking at first, but negative interest rates are becoming increasingly common; 45% of non-U.S. sovereign debt, worth US$15 trillion, offers a negative yield.

Last year, Denmark's third-largest announced a 10-year mortgage at -0.5%, making it the first negative interest mortgage in the world.

Impact of cheaper mortgages

Toronto-based mortgage broker Ron Butler told me the chances of Canada's interest rates dropping below zero were slim. "[Even] if the central bank goes to zero or negative, the banks DON'T," he said.

However, that doesn't mean that mortgage rates can't fall further from their already historically low rates. Cheaper capital, of course, would encourage even more real estate investment and probably send valuations skyrocketing.

Beaten down real estate investment trusts could be the ultimate beneficiaries of this swing.

Top picks

Real estate investment trusts could be the biggest beneficiaries of low or no-cost mortgages in the future. Particularly, residential REITs like **Minto Apartment REIT** (TSX:MI.UN).

What makes Minto attractive is its valuation and the location of its properties. The company is heavily concentrated in Ottawa, where real estate is more daily priced and on the upswing. Meanwhile, Minto stock trades for a 14% discount to book value per share.

As mortgage rates drop, Minto's ability to acquire properties expands. Lower cost of capital coupled with surging book value and population growth in key markets could make this REIT particularly profitable in the years ahead.

For value-oriented investors looking for a robust income opportunity, residential REITs like Minto may be worth a closer look.

Bottom line

Mortgage interest rates could drop to 0% or lower in the future as the Bank of Canada tries to sustain the economic recovery, potentially pushing the valuation and profitability of residential REITs like Minto sky-high.

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