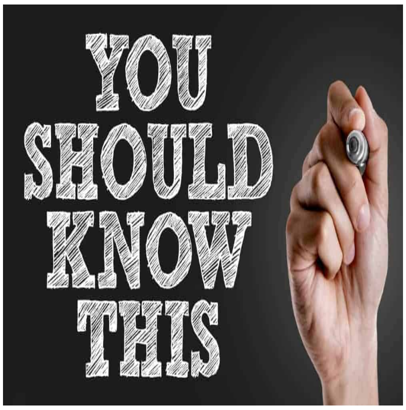

Bank of Canada Raises Interest Rate to 1.5%: What it Means for Your Mortgage

Description

The Bank of Canada, our central bank, just raised the benchmark interest rate by 0.50% to 1.5%, which is merely 0.25% below the 1.75% levels in 2019, before the COVID-19 pandemic hit. It signaled that more hikes are coming. This hawkish stance is for curbing the high inflation we're experiencing. The latest data indicate that inflation reached 6.8% in April, which is much higher than the long-term target of about 2%.

That is, the central bank's rate hike will, over time, cascade down to increases in other interest rates, including mortgage rates. Some pundits are almost sure that the Bank of Canada will announce another 0.50% increase on July 13.

The act of rising rates is expected to cool down the hot real estate market across Canada. This means that real estate values can potentially dip or at least go sideways. Certainly, real estate values should not rise, as they did in the past year.

What do rising interest rates mean for your mortgage?

Assuming you already have a mortgage, ultimately, higher mortgage rates translate to greater interest expenses starting with the next time you need to refinance your mortgage. Use an online mortgage payment calculator to figure out how much extra interest you'll need to pay if your interest were to increase by 1%, 2%, etc.

Ratehub.ca explains that

> "Canadians with variable-rate mortgages and home equity lines of credit (HELOCs) should understand the effect of this 50-basis point increase on their current mortgage payments and budget for a further 1-2% rise in rates by the end of 2022."
> *Ratehub*

What if you have a fixed-rate mortgage? Ratehub further advises, "Households who currently have a fixed-rate mortgage will remain unaffected by this announcement until their mortgages come up for renewal." It also recommends that "If you have a renewal coming up, shop around and lock in a rate as soon as you are within 120 days of your renewal date."

Real estate values should cool down, as the Bank of Canada raises the benchmark interest rate. Therefore, investors looking to buy a property should consider holding off doing so for at least the remainder of 2022 to see how the real estate market reacts to the rising rates.

Other real estate investments

Rising interest rates will also weigh on Canadian real estate investment trusts (REITs). Interestingly, the 0.50% rate-hike announcement triggered a negligible reaction from the residential REITs in Canada. Across **Canadian Apartment REIT** (or CAPREIT), **InterRent REIT**, **Killam Apartment REIT**, and **Boardwalk REIT**, the average movement was -0.21% on the day with the biggest moves being CAPREIT down 0.91% and Boardwalk up 0.76% on the day.

This is too short a period to observe the real effects of rising rates, though. It would be a good idea for interested investors to wait and see how rising rates will *really* affect Canadian REIT stock prices (not just residential REITs) through 2022 and potentially through 2023.

Canadian REITs can be appealing real estate investments that provide passive income if you can buy quality ones at decent discounts. Other than residential REITs, you should also explore other REIT industries, such as industrial, healthcare, retail, office, self-storage, and data centre REITs.

REITs that provide yields of greater than 5% include **NorthWest Healthcare Properties REIT**, **Nexus Industrial REIT**, and **SmartCentres REIT**. Investors can dig deeper into these names through 2023.

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