The nesto-meter

July 2021

nesto
mortgage agency

July 12, 2021

Every year, June rhymes with vacation time for a lot of Canadians as well as many canadian industries. Does that mean the real estate world takes time-off as well? Not exactly.

While there could be a general feeling of a market and demand slowdown, what we are observing at nesto for the month of June 2021 is an increased interest for new purchases as demand for renewals and refinances are both going down. The new improved stress test has been in function for a full month now, but since a lot of deals were funded prior to June 1rst, it is still too early to see its real effect on the overall market and our consumers' behavior.

Volatility wise, the last 4 weeks have been pretty quiet. In fact, we've seen no changes to our best rates since May 2021, making it a pretty steady month. While the average price for a house in Canada is still going up, the median down payment is going down and we now have more users "still looking" than "ready to buy".

As for this month's deep dive, we decided to keep digging into our users' demographics, this time comparing their current living situation as well as the correlation between their employment industry and their self declared credit score during and post COVID-19 pandemic.

KEY TAKEAWAYS

In June 2021, we saw no changes at all to our best mortgage rates, both fixed and variable.

Following last month's trend, June 2021 is showing a continued interest increase for new purchases, while the interest for renewals and refinances keeps decreasing.

In June 2021, the percentage of our users "ready to buy" is slowly decreasing, while 62% of our nesto users are now in the "just looking" category.

In June 2021, our median purchase price increased again by $10,000, now sitting at $450,000, the highest median purchase price we've seen in over a year!

With current low rates and the economy looking up, 2021 sees more owners looking to purchase new houses.

Construction, health and retail were the three industries with the lowest declared credit scores in 2020, at the peak of the pandemic, while tech and financial workers seemed to be the least affected by it.

#1

RATES

A. Volatility

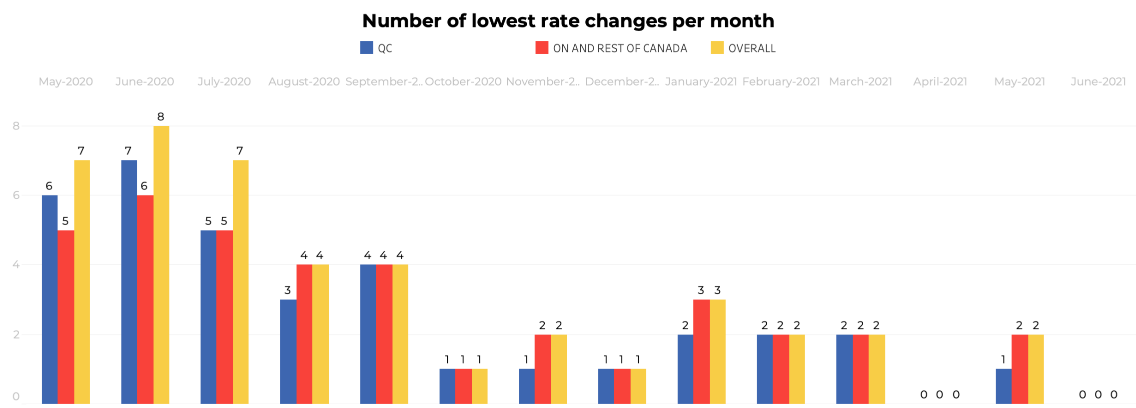

Fig. 1: Number of times the lowest rates offered by nesto to its users changed per month across provinces between May 1st 2020 and June 23rd, 2021. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable (20%+ down payment) and corresponds to the lowest rate nesto could offer its clients at the time.

Over the last 12 months, our lowest rates for insured (5-19.99% down payment) and insurable (20%+ down payment) mortgages, both 5-year fixed and variable, have changed a total of 36 times, which represents an average of 3 times a month. While back in June 2020, volatility was at its peak, with both fixed and variable interest rates fluctuating several times a week, a year later, we are seeing the complete opposite, as there were no rate changes at all in June 2021.

Volatility - by type

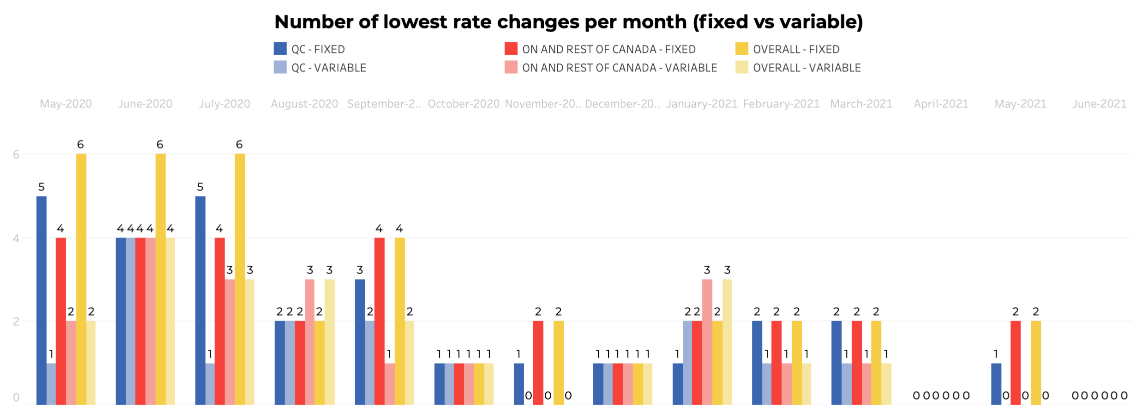

Fig. 2: Number of times the lowest rates offered by nesto to its users changed per month across provinces between May 1st 2020 and June 23rd, 2021 and comparing fixed to variable rates. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable (20%+ down payment).

As stated earlier, in terms of volatility, we saw no movement at all in the last four weeks, for both fixed and variable rates. In comparison, back in June 2020, our best overall fixed rate changed 6 times in the span of only a month. At the beginning of the current year, we also saw a small increase in volatility with our best variable rate, everywhere but in Quebec, changing 3 times in January 2021.

Volatility - Up or Down: difference due to fixed rate increase

If you'd picked a rate in June: 2020 vs 2021

$350k property
10% down payment
25 year amortization
5 year term

Fixed			
	Lowest rate	**Highest rate**	**Difference**
Rate (ROC fixed insurable)	1.69%	1.39%	0.30%
Monthly payment	$1,327.00	$1,282.00	$45.00
Total payments	$79,628.00	$76,892.00	$2,736.00
Total interest paid	$25,122.00	$20,611.00	$4,511.00
Total principal paid	$54,506.00	$56,281.00	-$1,775.00
Money saved	-$2,736.00		
Balance remaining	**$270,259.00**	**$268,484.00**	**$1,775.00**

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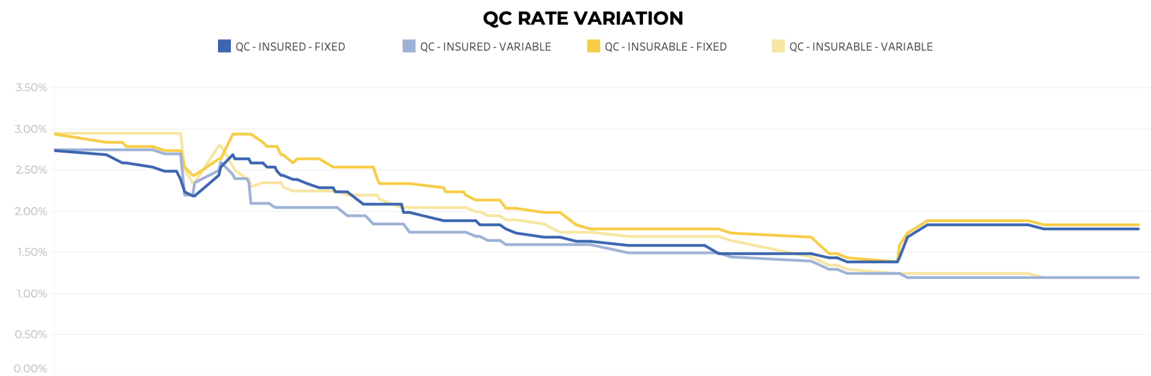
Table 1: This table represents the effect of a 0.30% rate difference on a 350k home, with 10% down payment and a 25 year amortisation after a 5 year term

The absence of volatility in June also means that our lowest fixed rate of the year is still the one we saw back in February 2021, at 1.39%, while the actual lowest fixed rate in Canada is at 1.69%, a 0,30% difference. What kind of impact does that have on a 5 year term?

Scenario 1: You signed a mortgage at 1.39%, our lowest insured fixed rate in 2021. Good for you! You'll end up saving $4,500 in interest fees over the course of 5 years compared to today's best rate, which is at 1.69%.

Scenario 2: You recently signed a mortgage at 1.69%, our best actual insured fixed rate. It's still a very good rate, but at a 0.30% rate difference, you'll end up spending around $2,700 more in total payments over 5 years than if you locked-in a rate back in February 2021.

B. Variance: Lowest rates



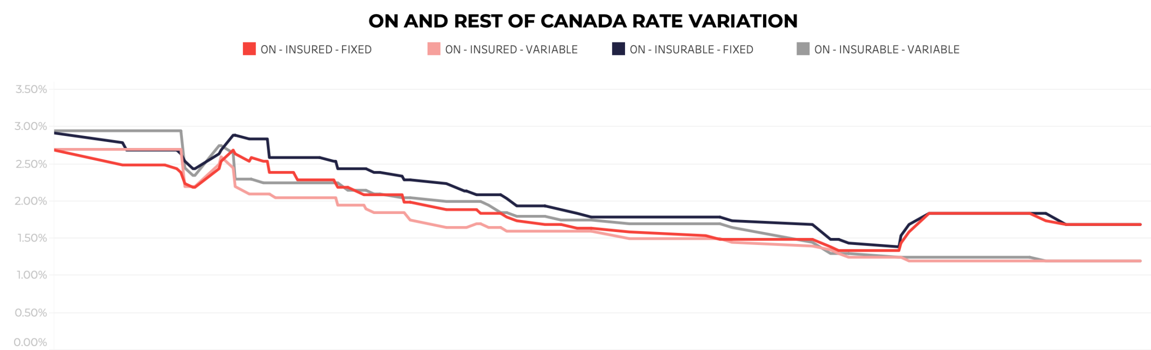


Fig. 3: These graphs show the rate variance from January 1st 2020 to June 23rd 2021 in Quebec compared to Ontario and the rest of Canada.

In terms of variance in 2021, fixed rates have climbed in both February and March, then dropped a bit in May, only to remain stable all through the month of June 2021.

Since January 1rst 2020, our lowest rates have changed by 1.35-1.75%. While our highest insurable variable rate since then was at 2.95%, the lowest available right now is at 1.20%, which makes a 1.75% difference!

If you'd picked a rate in June: 2020 vs 2021

$350k property
10% down payment
25 year amortization
5 year term

Variable

	Lowest rate	Highest rate	Difference
Rate (ROC variable insurable)	1.20%	2.95%	-1.75%
Monthly payment	$1,253.00	$1,529.00	-$276.00
Total payments	$75,188.00	$91,717.00	-$16,529.00
Total interest paid	$17,766.00	$44,276.00	-$26,510.00
Total principal paid	$57,423.00	$47,441.00	$9,982.00
Money saved	$16,529.00		
Balance remaining	**$267,342.00**	**$277,324.00**	**-$9,982.00**

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Table 2: This table represents the effect of a 1.75% rate difference on a 350k home, with 10% down payment and a 25 year amortization after a 5 year term.

This table illustrates the effect of this 1.75% rate difference on a typical scenario: a 350k home, with 10% down payment and a 25 year amortisation after a 5 year term. How much can you save over 5 years by locking-in the lowest rate? A whole lot of money!

Scenario 1: You signed a mortgage at 2.95%, our highest insurable variable rate seen in over a year. This 1.70% rate difference would have you end up paying over $16,000 more in monthly mortgage payments over 5 years.

Scenario 2: You signed a mortgage at 1.20%, our lowest insurable variable rate seen in the last 14 months. In this situation, you'll end up saving over $26,000 in interest fees over the course of only 5 years! That's ...huge!

#2

MORTGAGE TYPE TRENDS

Purchase vs Renewal vs Refinance

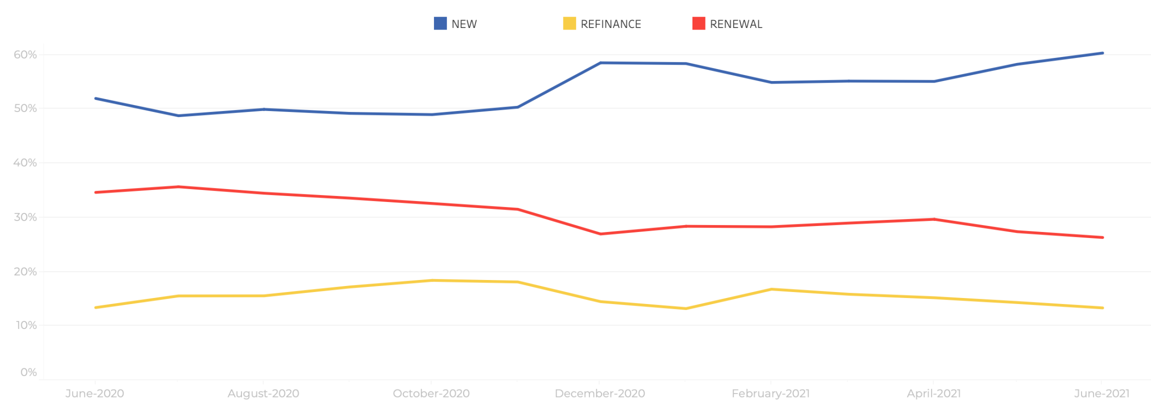

Fig. 4: Trends for proportion of purchases (new mortgages) vs renewals vs refinances from June 1st 2020 to June 23rd, 2021. Sum is 100% for each month.

Following last month's trend, June 2021 is showing a continued interest increase for new purchases, while the interest for renewals and refinances keeps decreasing, this time by approximately 2% since May 2021.

Meanwhile, house prices are still going up which doesn't seem to slow down demand. Will the new stress test end up slowing down the current real estate market? It's still too early to tell.

#3

PURCHASE TIMING INTENT

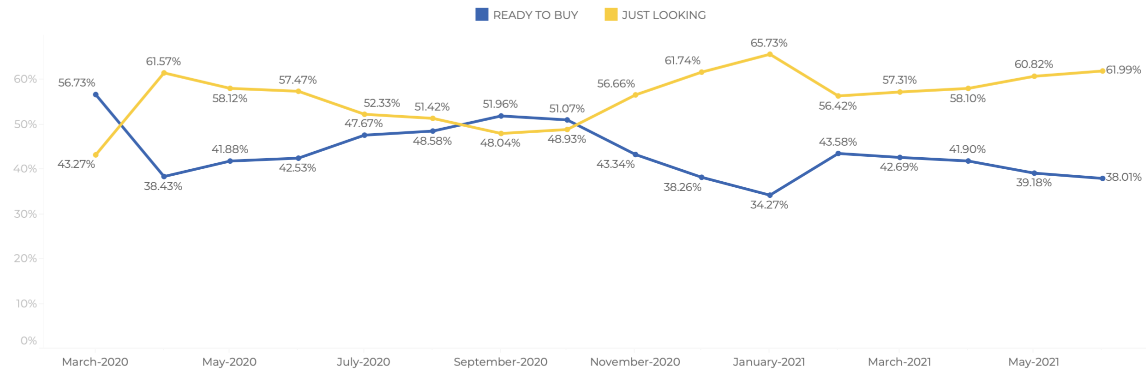

Fig. 5: Purchase intent: proportion of users "ready to buy" vs "just looking" in nesto's mortgage process, showing month by month from March 1st 2020 to June 23rd, 2021.

Looking back at our numbers for August 2020, and again, for October 2021, when the proportion of our users "just looking" vs "ready to buy" was almost exactly the same, we realise what difference a few months can make in the mortgage world.

In June 2021, following a trend that started back in February 2021, our two tendencies are moving apart from each other, the percentage of our users "ready to buy" slowly decreasing, sitting at 38%, while 62% of our nesto users are now in the "just looking" category.

So briefly, the interest for new purchases is going up but at the same time, less users declare themselves "ready to buy" right now than a few months back. Are they simply testing the market, and less in a hurry to buy than they were back in september 2020?

By province

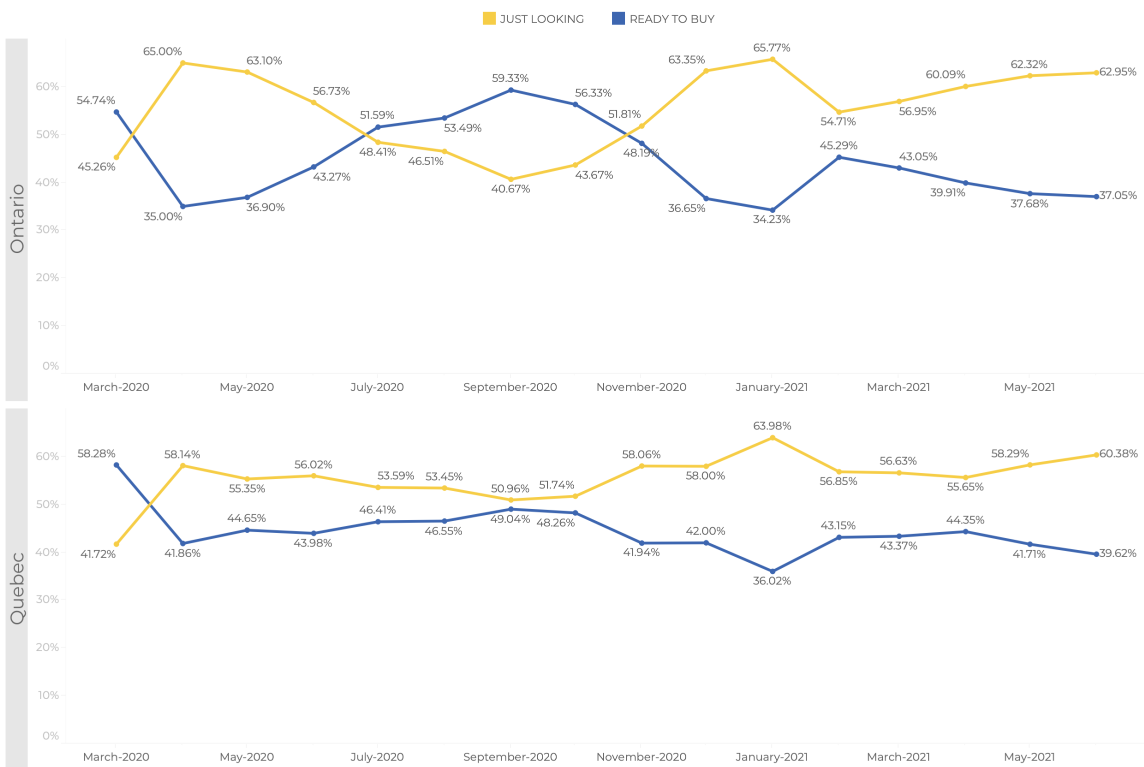

Fig. 6: Purchase timing intent proportion of users “ready to buy” vs “just looking” in nesto’s mortgage process, from March 1st 2020 to June 23rd, 2021 in Quebec and Ontario.

Now, looking at these graphs, we notice the same trend is reflected in both Quebec and Ontario and with very similar percentages! The number of our users “just looking” is on the rise, especially in Quebec, while those ready to buy a house are declining in both provinces.

In May 2021, our best fixed rates went down and didn’t move since. Therefore, we see the exact same trend we saw then: instead of driving more people to buy a home immediately, this rate decrease created an increased interest amongst curious users or those who “just started looking”. We suspect a lot of our current users are actually seeking pre-approvals or rate holds right now to take action on buying a home later in the summer or in the fall, hoping that house prices will have dropped a bit by then.

#4

PROPERTY VALUE AND DOWN PAYMENT

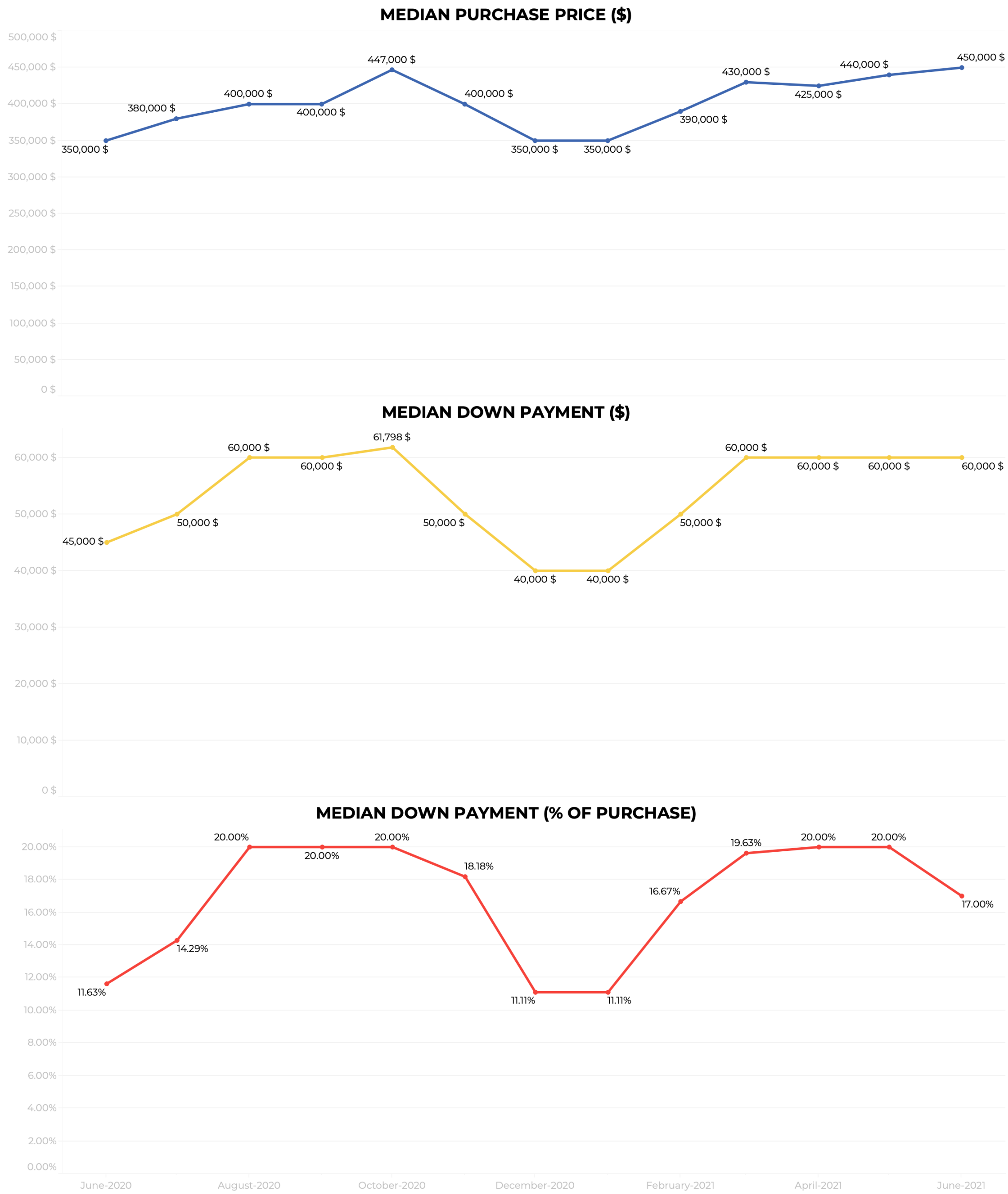

Fig. 7: Graph of intended purchase price vs down payment (in dollars and percentage) from June 1st 2020 to June 23rd, 2021.

Amongst the noteworthy elements of this month's report, we noticed, over the last 4 weeks, a strong decrease in the median down payment percentage chosen by our users, while the overall median down payment amount remained the same. As for our median purchase price, it increased by another $10,000, now sitting at $450,000. This is the highest median purchase price we've seen in Canada, in over a year!

By province

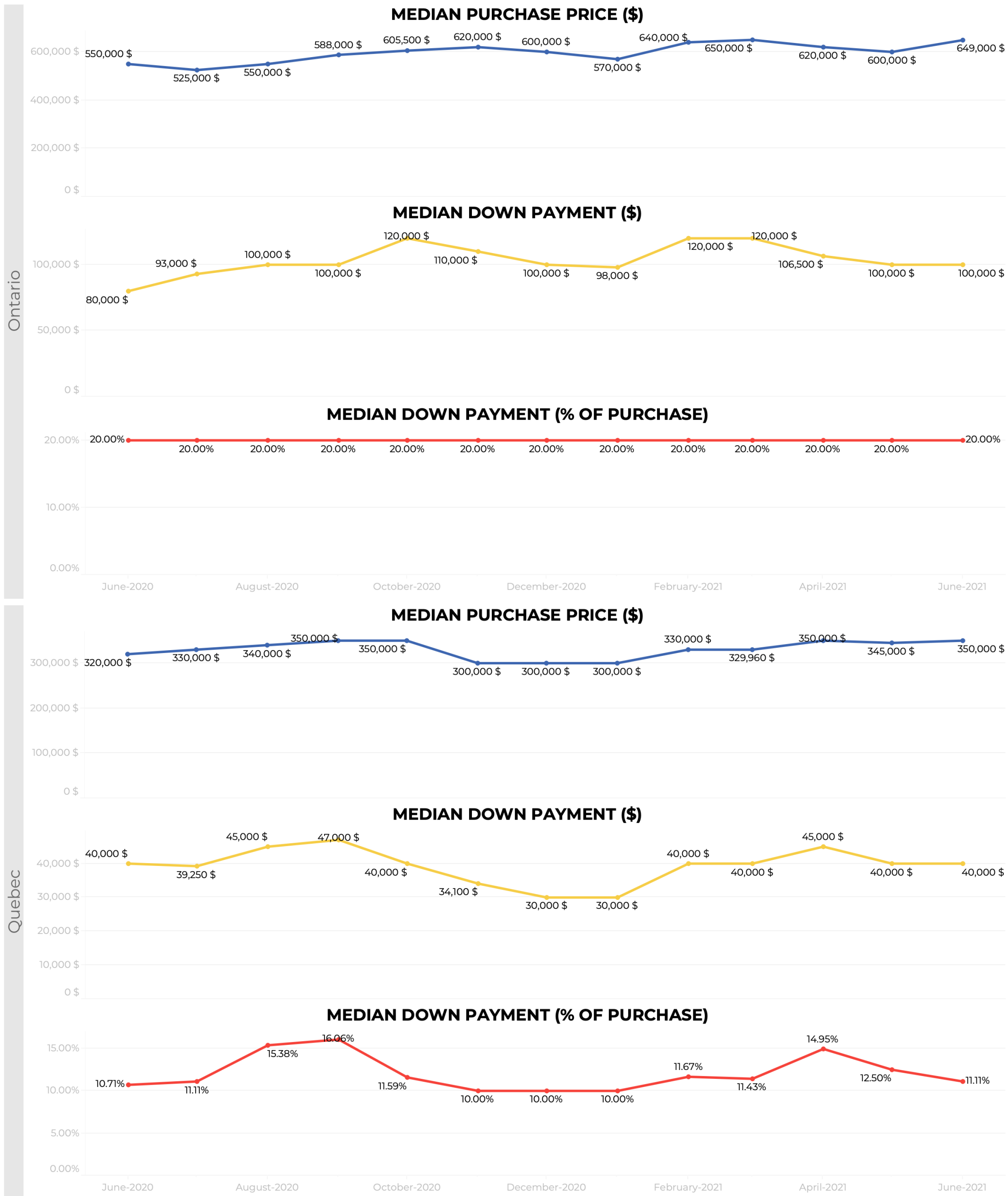

Fig. 8: Graph of intended purchase prices vs down payment (in dollars and percentage) from June 1st 2020 to June 23rd 2021 in Ontario and Quebec.

Comparing our data by province, the first thing we notice is our Ontario median down payment, which has remained at 20% for exactly 12 months now. While our Ontario median purchase price and median down payment amount fluctuated all through the year, the median down payment percentage remained unchanged. It's also interesting to note that our median purchase price in Ontario increased by almost $50,000 in June 2021, despite the new, improved stress test.

In Quebec, on the opposite, amounts remained pretty stable, our median purchase price going from $345,000 to $350,000 and our median down payment percentage decreasing 1%, while the median down payment amount saw no changes from last month, remaining at $40,000. Still, with purchase prices increasing, and Quebec buyers putting the same down payment amount, this means higher monthly mortgage charges for them.

DEEP DIVE

1. Previous living situation of buyers

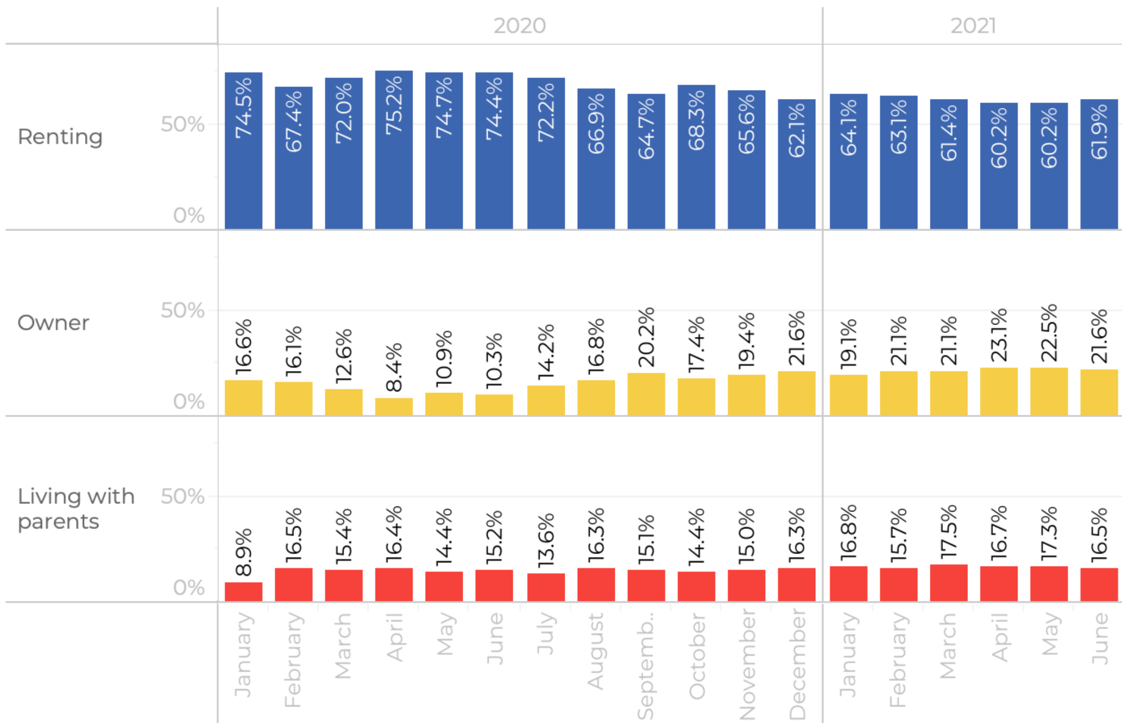

Fig 9: This graph show our users previous living situation when filling an application with nesto in 2020 versus 2021

Getting to know more about our users' demographics is key to better understanding their needs. Compiling our data, we took a look at what the living situation was for our potential buyers, whether they were "living with parents", "renting" or already "owners", at the time they filled an application with us.

Here are our main takeaways:

As the pandemic hit in 2020, current owners were staying put, whereas renters felt the need to move out of the city and took up to 75% of the market share!

Also, with current low rates and the economy looking up, 2021 sees more owners looking to sell at a high price and purchase new houses.

Finally, what this data tells us is that there is a slow but still, steady increase in borrowers living with parents looking to purchase their first property over time.

2. Credit score evolution

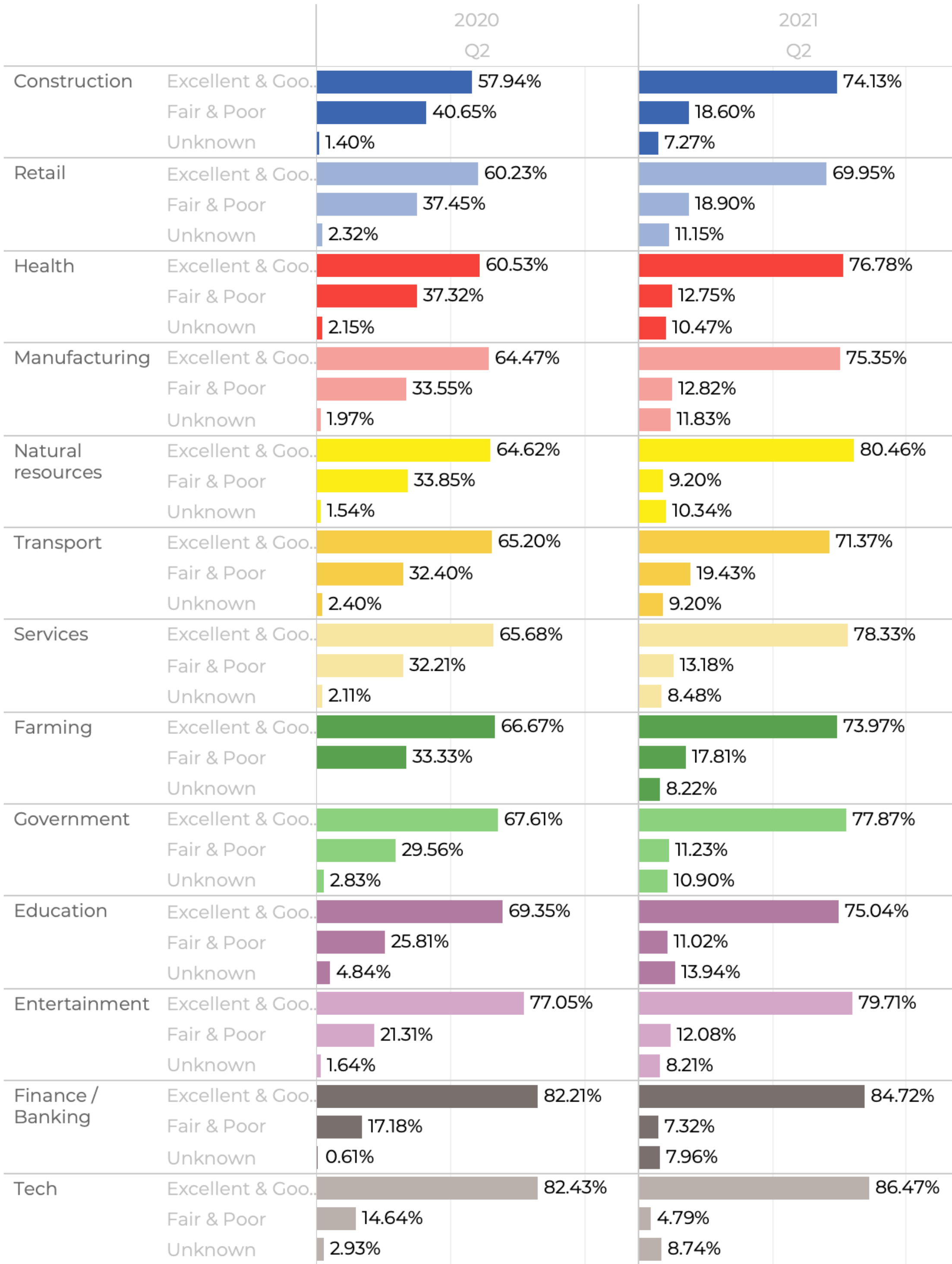

Fig 10: This graph shows nesto users employment industry and self declared credit score, comparing Q2 2020 to Q2 2021.

As our second metric, we decided to take a look at the correlation between our user's employment industry and their self declared credit score during and after the COVID-19 pandemic. Comparing our second quarter data from 2020 to 2021, we noticed a couple of interesting trends:

First, in 2021, all industries saw an increase in good declared credit score, as well as a decrease in fair/poor score and a massive increase in those that had no idea what their credit score was compared to 2020.

Construction, health and retail were the three industries with the lowest declared credit scores in 2020, with less than 61% declaring a good credit rating. It's interesting to see how these percentages jumped back up a year later, with 16-28% increases in proportion for those who declared having an excellent/good credit score in 2021. While the lock-down was a very difficult period for a lot of users, government help and the fact that a lot of these users were staying home therefore spending a lot less money than usual might have helped them improve their credit score in the end.

Technology and financial workers, on the other hand, seemed to be the least affected by the pandemic, both in terms of having the highest declared scores last year and the least difference in credit score year over year. With most industries setting up online services and working remotely, technology workers were definitely on demand all through the pandemic and it shows here. As for financial workers, especially mortgage brokers, the heat of the market definitely helped keep their revenues and credit score at a steady level from 2020 to 2021.

METHODOLOGY

The data used for this study comes from nesto's online application and is solely based on the experience of nesto.ca customers/users, not the national market as a whole.

Data is collected from thousands of monthly users declaring their intent or completing online applications across Canada. The data is anonymized and aggregated for analysis.

Data presented within our Rate volatility and variances report refer to nesto's "best rate" at any given moment. nesto's best rate comes from any one of our many lending partners at any given moment.

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