Prices Down, Interest Rates Up, House Hacking on the Rise.

June 2022

The official start to summer is here, and with flowers rising from the ground, we, too, see other things rising in the housing industry this season: mortgage interest rates.

While we projected in our last nesto meter report that interest rate hikes would continue through the summer 2022, it's now official, with the June 1st announcement that brought the overnight rate to 1.5%. Up from 1.0%.

So, what is the outcome of this rise in mortgage rates and subsequent increase in payments? Is it having an impact on cooling the housing market?

In short: Yes, early indicators from our data are showing symptoms of a hot housing market cooling down. From lower down payments, and house pricing declines...The signs are all there.

Read on and see exactly what the data story is telling.

KEY TAKEAWAYS

Early indicators show a cooling housing market, with some key areas, like Quebec, seeing a $20K decline in median purchase price last month.

Variable insurable mortgages in QC outpaced the variable insurable in ON just slightly, with it coming in above the 2.0% mark.

Whereas last month those “just looking” met with “ready to buy” in an even split; this month there is an increase of users “just looking”, sitting at 55%, and a decrease of users “ready to buy”, sitting at 45%.

House hacking, a popular way for homeowners to offset the cost of their mortgage, is on the rise with many new mortgages formed with an income component considered, for example basement rentals.

The Gross Debt Ratio (GDS) and consequently the Total Debt Ratio (TDS) used to qualify a mortgage transaction in Canada have increased this month.

#1

RATES

A. Volatility

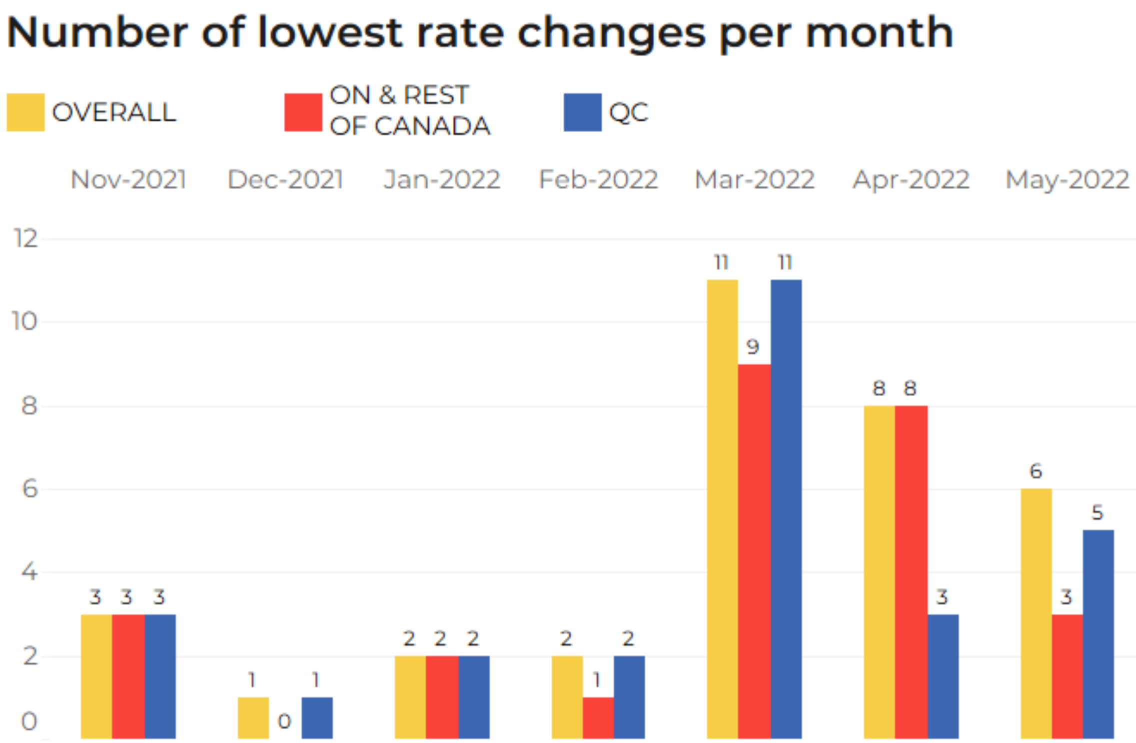

Fig. 1: Number of times the lowest rates offered by nesto to its users changed per month across provinces between November 2021 and May 2022.

Looking at rate changes from November 2021 through May 2022, it becomes clear that the impact of rising prime rates are reflected in the rates offered to users in the nesto database. As seen, prior to the aggressive 0.5% hike announcements that began in March 2022, the average rate changes per month were two; however, now they average between 5-8 per month. While May 2022's average was slightly less than the 8 changes seen in April 2022, our projection is that this will increase yet again following the June 1, 2022 rate announcement.

Volatility - by type

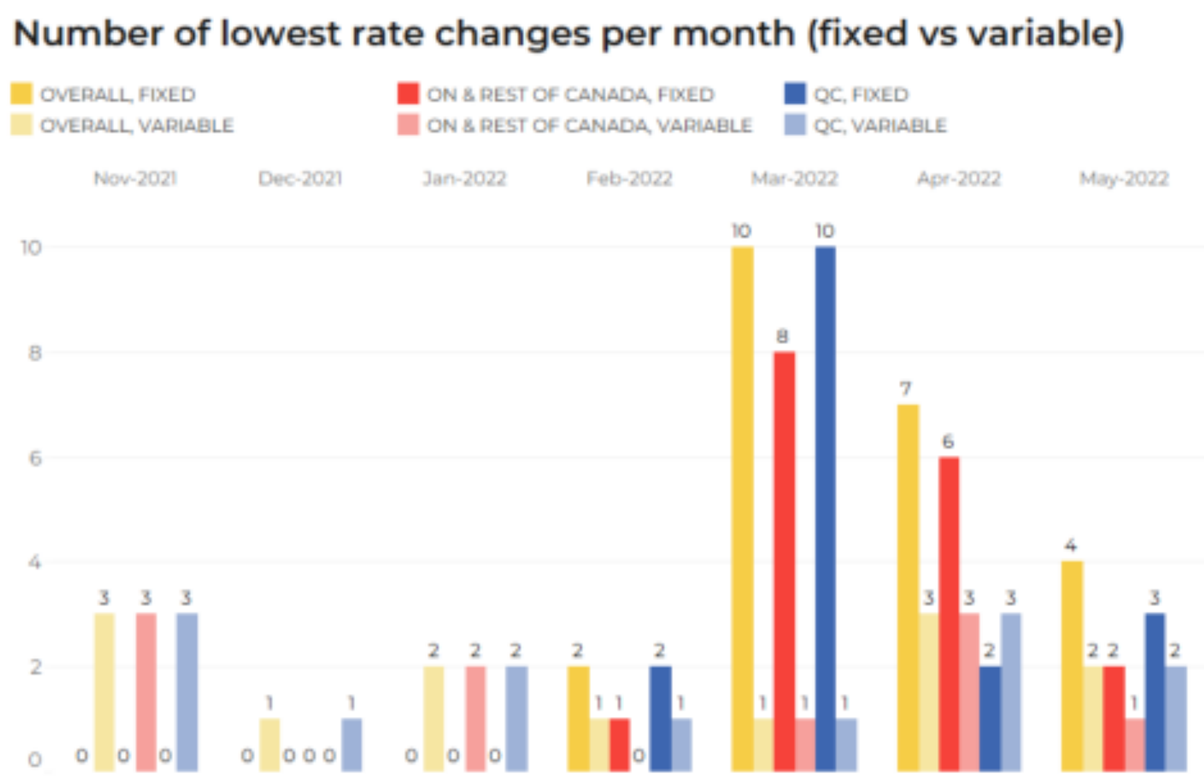

Fig. 2: Number of times the lowest rates offered by nesto to its users changed per month across provinces between November 2021 and May 2022 comparing fixed to variable rates. May 2022 showed fewer rate changes across the board between fixed and variable.

Overall, the graphs show what many in the industry already know: Fixed rates are due for continual increases, while variable rates will take a considerably longer time to get to such high levels. Yes, both are going up, but they are not moving at the same speed. For this reason, no matter the province you reside, variable rates are still a great option to keep mortgage payments low.

B. Variance: Lowest rates

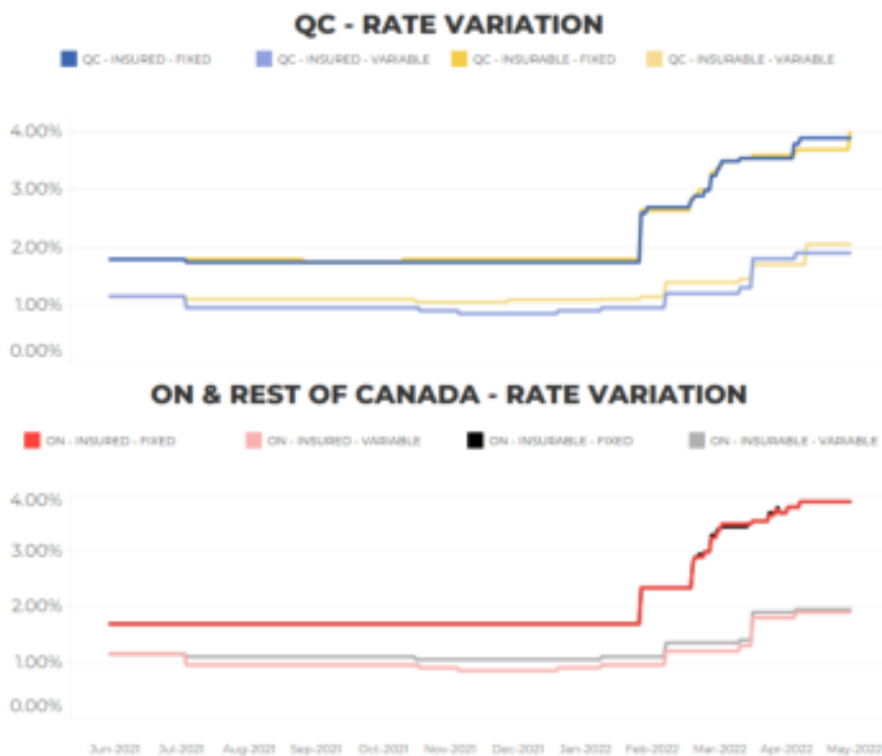

Fig. 3: These graphs show the rate variance in Quebec compared to Ontario and the rest of Canada.

Now let's talk about variance! Fixed rates continue to rise at a faster pace than variables. This gap widened from March 2022 onwards (>2% for fixed, and < 2.0% for variable) which is attributed to the interest rate hikes from the Bank of Canada. Additionally, it can be shown that the variable insurable in QC outpaced the variable insurable in ON just slightly, with it coming in above the 2.0% mark.

#2

MORTGAGE TYPE TRENDS

Purchase vs Renewal vs Refinance

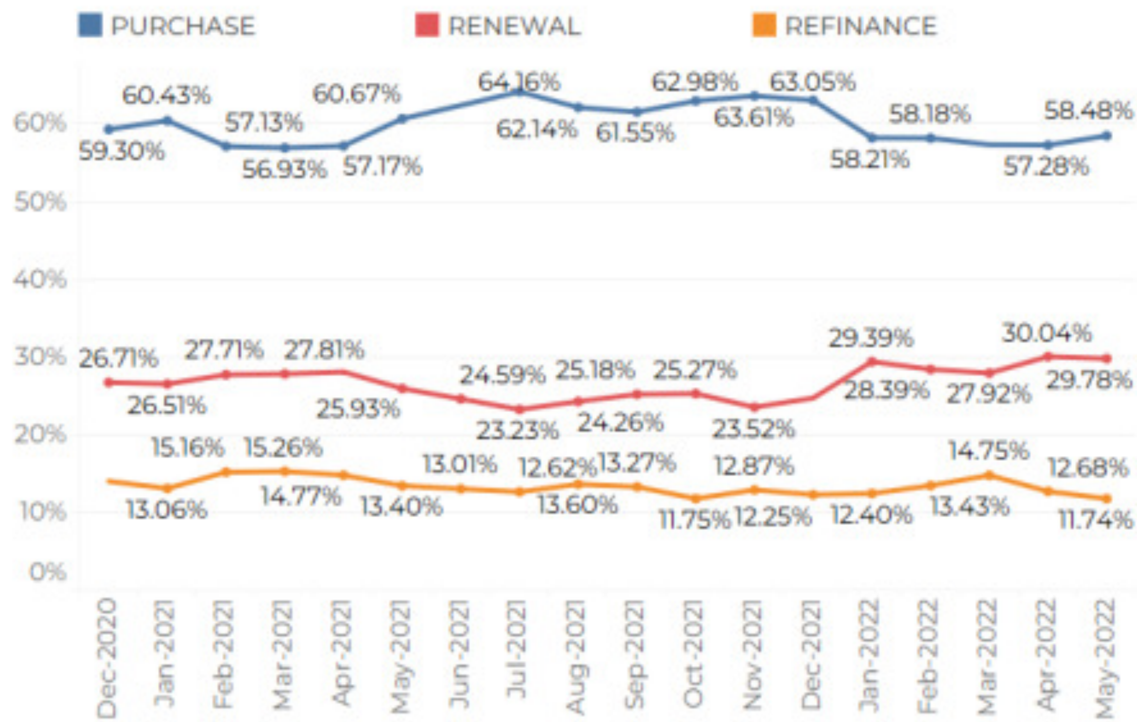

Fig. 4: Trends for proportion of purchases (new mortgages) vs renewals vs refinances from December 2020 to May 2022. We saw a jump in renewals in January and April.

In our last report, we highlighted how renewals and refinances increased against demand for new purchases. We also noted how new purchases have begun a plateau across our database.

Looking at May 2022, comparatively, we see that while renewals are still higher than their standing at the start of 2022, they did fall slightly since April 2022. On the other hand, the highest peak that refinances experienced in March 2022, has seemingly passed, putting the percentage in the 11% range again.

Finally, on the new purchases front, the plateau has continued. While there was a 1% uptick, numbers have been in the same 57-58% range since rate hikes began this year.

Why could the change in renewals and refinancing be? Well, on the renewal front, people still want to lock in their best rates before they rise, so the continuously higher numbers in 2022 compared to 2021 make sense. As for refinances, the dip seen between April 2022 and May 2022 compared to April 2021 and May 2021 can be attributed to higher interest rates. Where people were ready to break their mortgage to refinance with a better rate, they may feel less inclined to now that rates continue to go up.

#3

PURCHASE TIMING INTENT

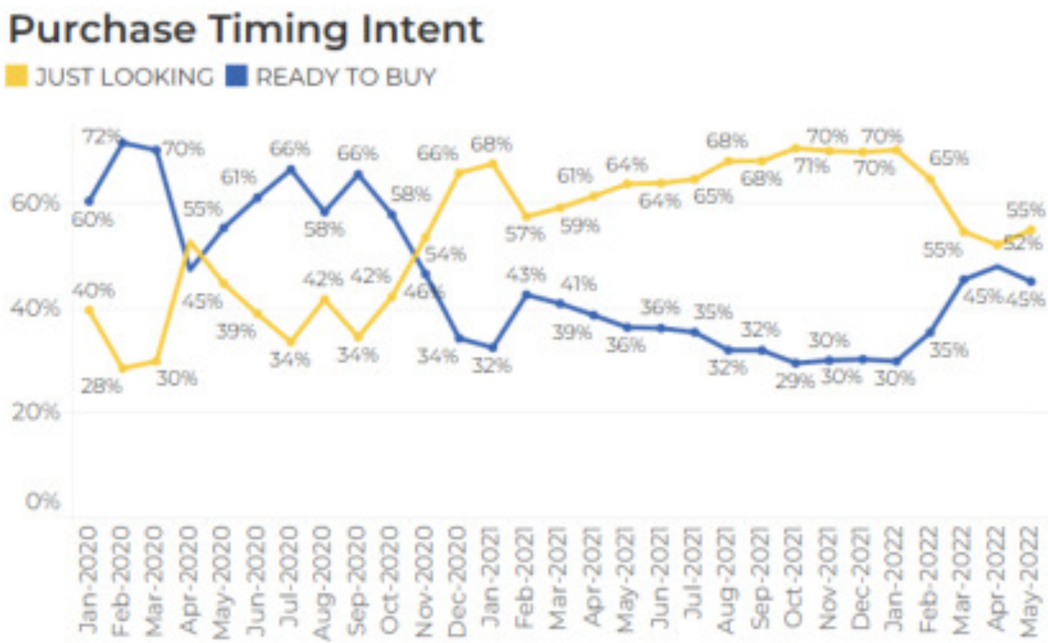

Fig. 5: Purchase intent: proportion of users "ready to buy" vs "just looking" in nesto's mortgage process, showing month by month from January 2020 through May 2022.

Reported last month, in May 2022's nesto meter, we saw a pretty noticeable shift occur between the "ready to purchase" and "just looking" parties. These two seemingly inverted, and met in the middle in an almost even split.

However, looking at the data captured for the past month, that has switched. There is now an increase of users "just looking", sitting at 55%, and a decrease of users "ready to buy", sitting at 45%.

This speaks to buyer hesitancy increasing. Since home prices are still relatively high, and mortgage interest rates are at the highest point since pre-pandemic, it makes sense.

By province

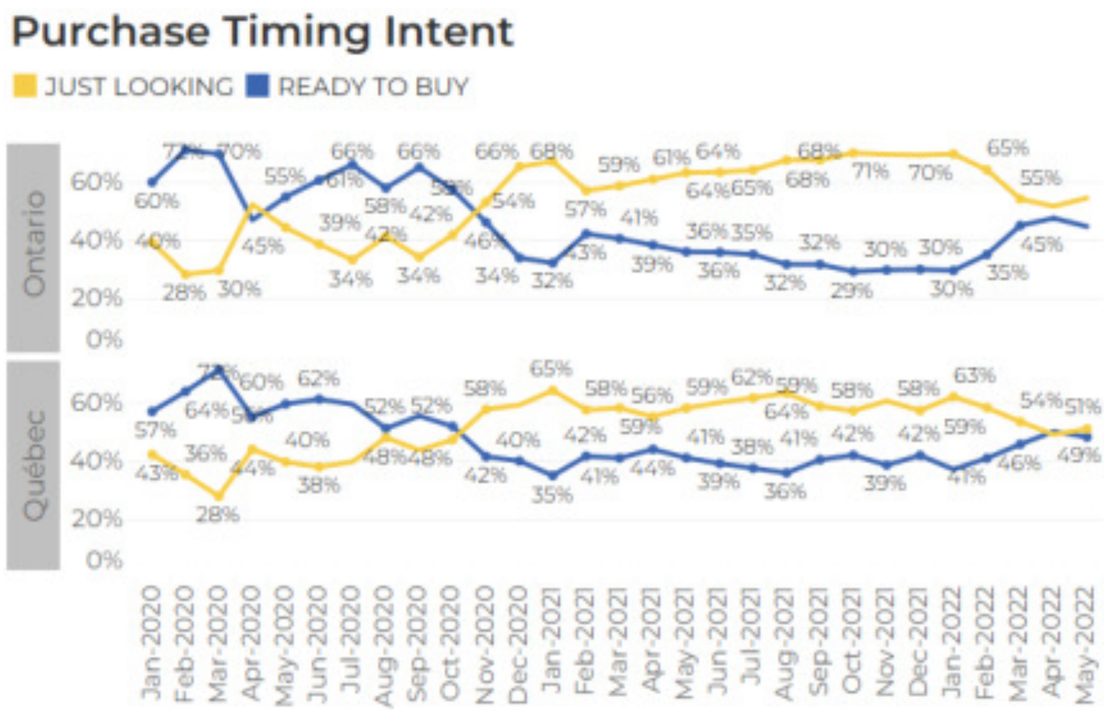

Fig. 6: Purchase timing intent proportion of users “ready to buy” vs “just looking” in nesto’s mortgage process, from January 2020 through May 2022 in Quebec and Ontario.

#4

PROPERTY VALUE AND DOWN PAYMENT

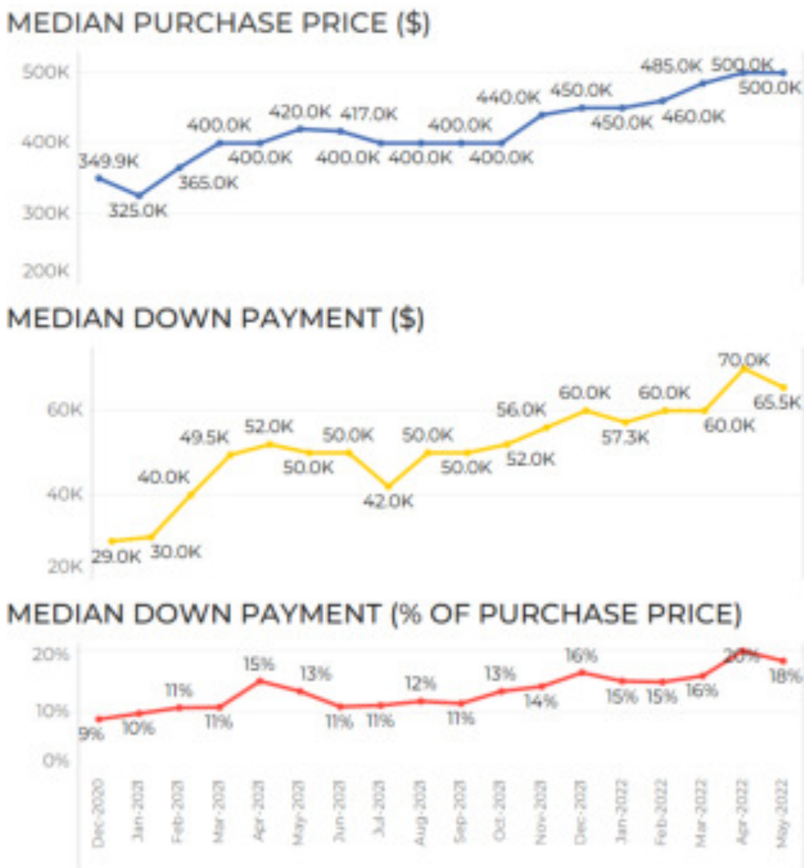

Fig. 7: This chart shows early indications of a cooling market, with down payments dropping by $5,000.

As reported last month, we saw the median purchase price increase from $450,000 (January 2022) to $500,000 (April 2022). This number stayed level through May 2022.

Looking at today's data, and where the market stands; however, we're seeing a bit of decline that could signal a cooling market. Instead of maintaining an average down payment of $70,000 or increasing further, the number dropped to $65,500. While only a few thousand dollars difference, this could speak to early signs of a less aggressive market – one where home prices aren't accelerating month over month, and buyers don't feel the need to outbid others to secure a home.

Hot nesto news: We also see this from our internal sales team who report that this past month, there has been an uptick in buyers being able to offer and secure below-market listing price.

By province

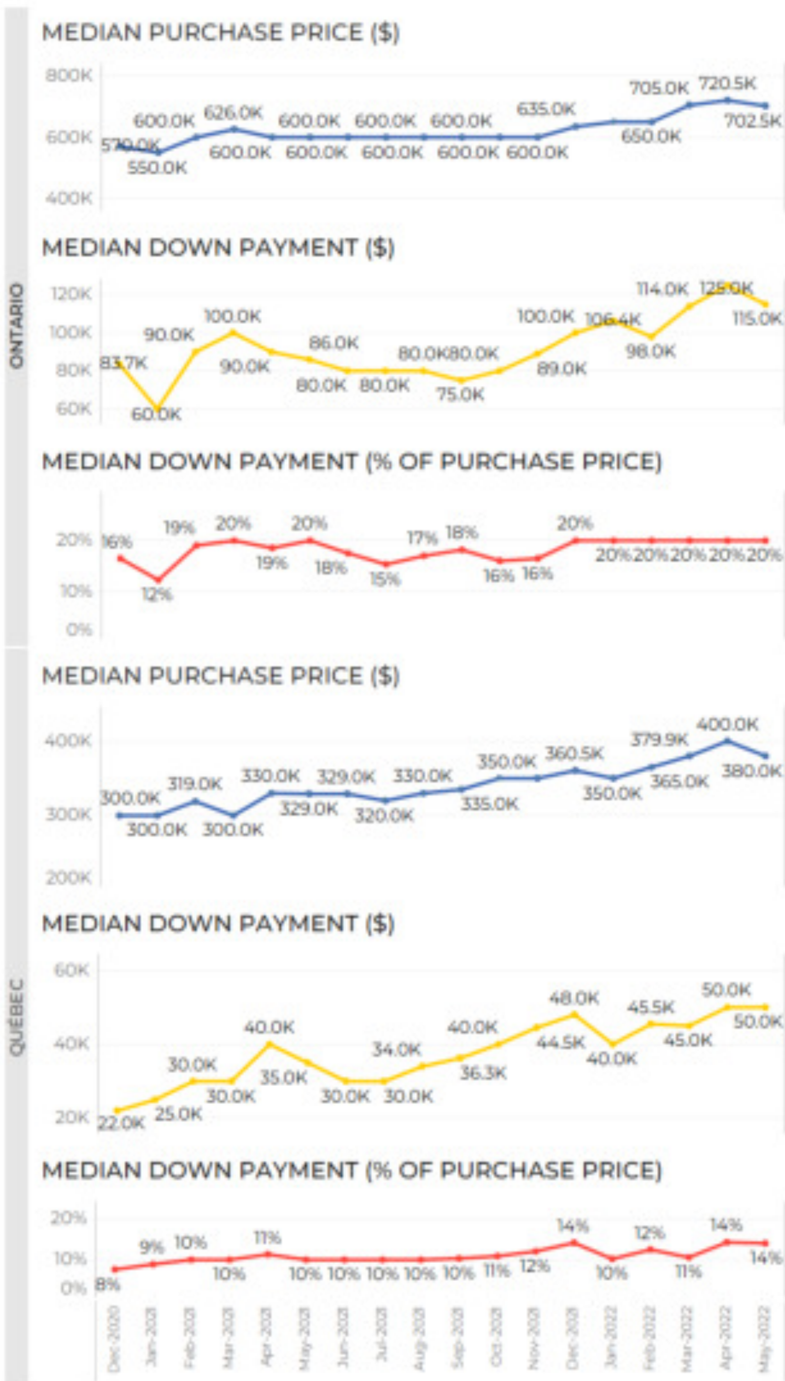

Fig. 8: Graph of intended purchase prices vs down payment (in dollars and percentage) from December 2020 through May 2022 in Ontario and Quebec.

As seen in the charts above, there is a decline happening in both Ontario and Quebec in regards to the average home price and down payment. In Ontario, 20% down payment is the norm, but due to a dropping purchase price ($710,000 vs. $720,500) the down payment dollar amount is now less ($117,500 vs. $125,000). In Quebec, we see both the down payment dollar amount, and percentage amount remain the same, yet, there has been a decline in home prices ($400,000 to $380,000).

RATE HIKE IMPACTS

What is the impact of the rate hike announcements?

Rate hikes undoubtedly shake up the market, and cause higher payments from higher interest rates in their wake. The best way to make sure you're prepared? Foresight. Below we outline where the rates and payments stand today in light of the June 1, 2022 announcement and showcase the impact of the 0.5% hike. As it can be seen, when projecting over a 5 year period, if someone locked in their variable rate *before* June's rate hike, they would have save thousands.

The learning here: Secure a low rate today to avoid further impacts later. Luckily, with nesto's 150-day rate lock hold, you can ensure peace of mind, and keep your payments from being impacted come July 13th's interest rate hike announcement.

After June 1, 2022

		June 1st BoC Increase by 0.50%			
City	**Average Mortgage ($) of City at nesto**	**Fixed Payment/Month (best rate today) after 6/1 0.50% increase**	**Variable Payment/ Month (best rate today) after 6/1 0.50% increase**	**Monthly Payment Difference (Pre-hike / post-hike Variable)**	**Payment difference over 5 years (Variable)**
Rates		**4.64%**	**2.40%**		
Quebec City	$228,486	$1,282.45	$1,012.20	$55.66	$3,399.56
Montreal	$351,148	$1,970.93	$1,555.59	$85.54	$5,132.41
Toronto	$519,102	$2,913.63	$2,299.63	$126.45	$7,587.23
Ottawa	$390,959	$2,194.39	$1,713.96	$95.24	$5,714.28

DEEP DIVE

1. Is the housing market cooling?

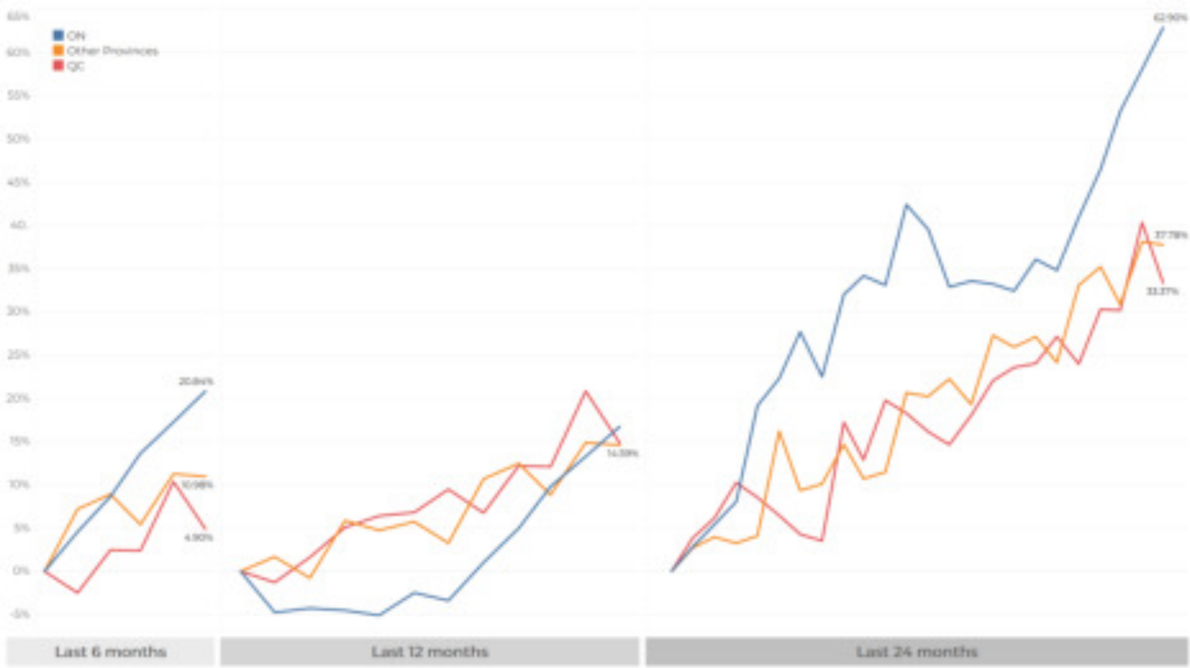

Fig. 9: As seen above, all provinces outside ON are experiencing declines. A key indicator of a cooling housing market on the rise.

When we look at the past 6-12-24 months of average purchase price, it becomes clear: early signals, mentioned in section 4, are pointing to a cooling housing market.

As known, the Bank of Canada's interest rate hikes have been used as a tool to slow inflation and realign the housing market (which was reaching sky high levels in pricing the last 2 years thanks to the perfect medley of low interest rates and consumer demand).

The data across a 24 month period shows that outside of Ontario, home prices are falling. For instance, in QC there is as much as a 6.99% drop. Other provinces in Canada come in at about 1% lower.

This story is much different than the increases seen in the same period last year, where QC increased from 33.03% (March 2021) to 42% (May 2022).

While this is still unfolding, we do expect with a rise in interest rates, that there will continue to be price cuts in the market for new purchases.

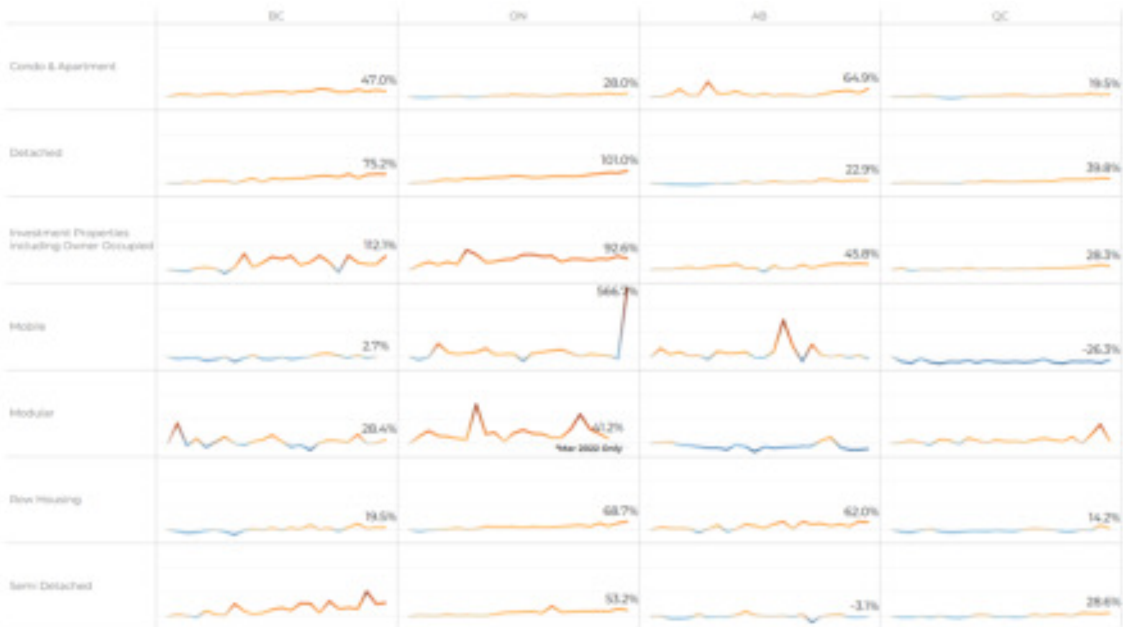

Fig. 10: Most property types across the four provinces saw substantial increases in Average Purchase Price since June 2020.Especially investment properties, which includes detached and semi-detached mutliplexes, are almost at double the levels in both Ontario and BC from 2 years ago. Detached and Semi-Detached homes and Condo & Apartments in all four provinces have seen substantial increases, with levels rising consistently over the period.

2. Are people taking on more levels of debt?

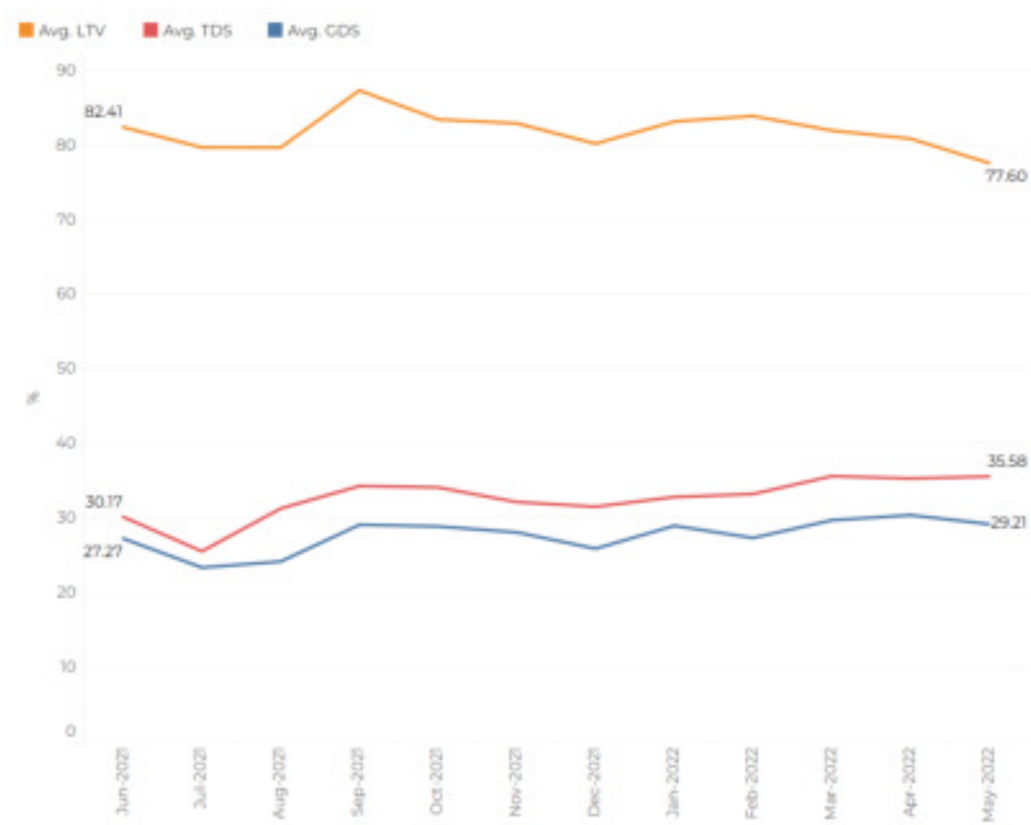

Fig. 11: This graph showcases the Gross Debt Ratio (GDS) and Total Debt Ratio (TDS) from May 2021 to May 2022

The Gross Debt Ratio (GDS) and consequently the Total Debt Ratio (TDS) used to qualify a mortgage transaction in canada have increase for a few reasons. The obvious, price increase impact the payment therefore both ratios. But also the non-so-famous stress test has increased mainly for the fixed rate.

Reminder that the rule for the stress test is to make sure that borrowers qualify at 5.25% (as of 06-07-2022) or the contract rate + 2%. Meaning that if your mortgage rate offered is 3.59%, you then need to qualify at 5.59% (3.59%+2.00%) and not 5.25%. Not so much the same effect on variable rate where we can still obtain rates around the 2.40% meaning that borrowers can still qualify at 5.25%

Increase in price and stress test rate, both justify the increase on GDS and TDS.

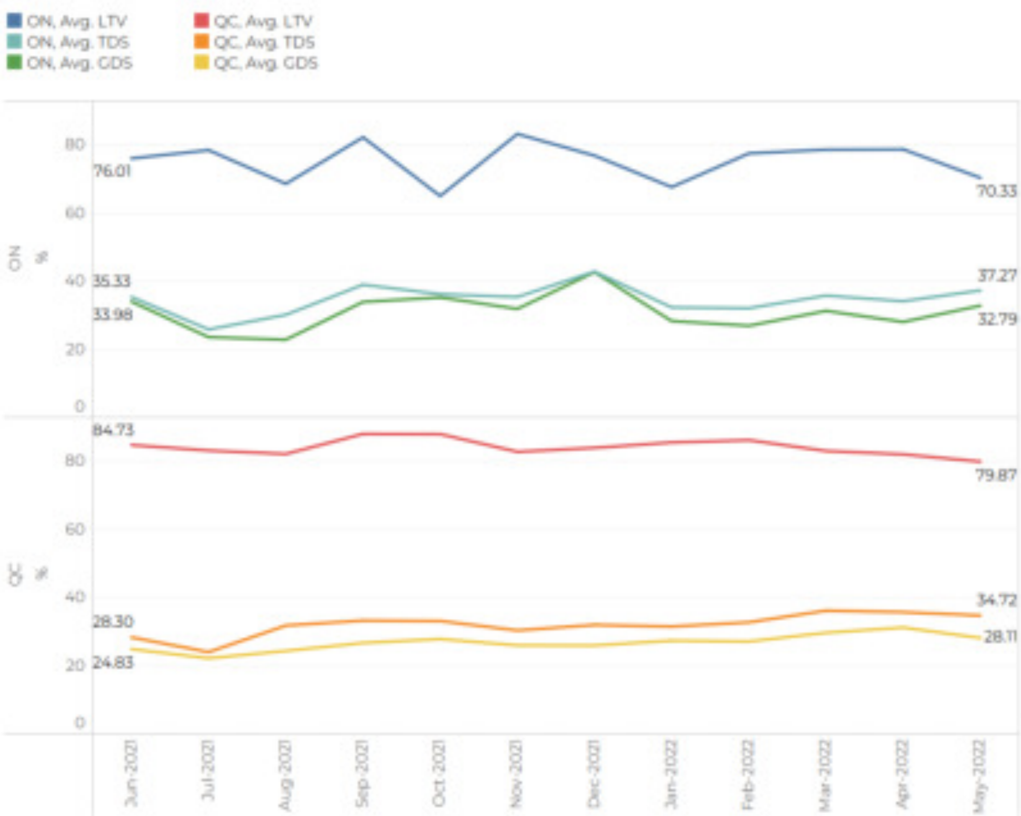

Fig. 12: This chart shows clearly the impact of interest rate hike announcements on the consumer since March 2022. It's especially clear in ON, where it peaked around 2 times since the start of 2022. With rate hikes continuing, it's likely that we will see this occur again.

3. House Hacking: A new tool in light of higher mortgage payments?

		Owner Occupied	Owner Occupied & Rental	Rental
12M ending 05.2021	Own	2.51%	34.92%	20.60%
	Own & Rent or Rent	3.27%	30.40%	8.29%
12M ending 05.2022	Own	3.58%	28.14%	22.93%
	Own & Rent or Rent	3.78%	28.73%	12.83%

Fig. 13: TThe graph above shows the increase in owner occupied and rental over a 12 month period.

House hacking, or finding ways to offset your mortgage payment through renting parts of your home, seems to be on the rise.

Between 2021 and 2022 New Home Applications with intended occupancy purpose as Rental and Owner Occupied + Rental (dual-purpose), have been flowing into demographic FSA areas predominantly identified as Owner Occupied (PRIZM Statistics by Environics. 2021).

This suggests that many new mortgages are formed with an income component considered, for example basement-rentals to offset the cost of monthly mortgage payments and make home ownership more affordable, and purchase of income generating properties (rentals).

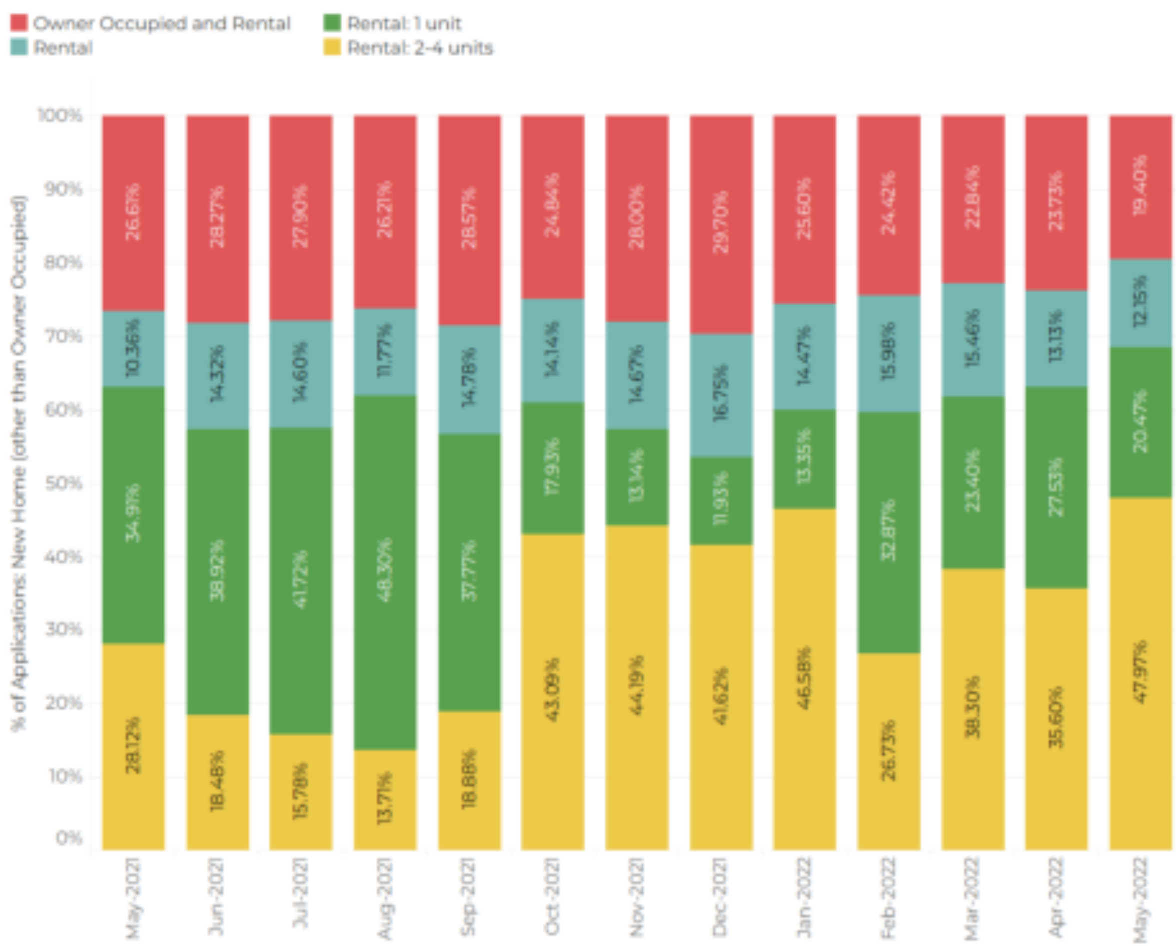

Fig. 14 There is some shifting in non-Owner Occupied types over the last year, with 2-4 unit rentals increasing by 71% (28% to 48%) among the non-owner occupied occupancy class.

			Owner Occupied	Owner Occupied & Rental	Rental
AB	12M ending 05.2021	Own		50.00%	30.00%
		Own & Rent or Rent		20.00%	
	12M ending 05.2022	Own	6.25%	41.67%	24.58%
		Own & Rent or Rent	2.92%	17.92%	6.67%
BC	12M ending 05.2021	Own	2.94%	47.06%	17.65%
		Own & Rent or Rent	2.94%	17.65%	11.76%
	12M ending 05.2022	Own	2.40%	31.83%	14.71%
		Own & Rent or Rent	3.30%	29.73%	18.02%
ON	12M ending 05.2021	Own	2.29%	29.71%	21.71%
		Own & Rent or Rent	2.86%	34.29%	9.14%
	12M ending 05.2022	Own	4.25%	27.32%	27.22%
		Own & Rent or Rent	4.16%	24.76%	12.29%
QC	12M ending 05.2021	Own	2.96%	36.09%	18.93%
		Own & Rent or Rent	4.14%	30.18%	7.69%
	12M ending 05.2022	Own	2.92%	25.64%	21.40%
		Own & Rent or Rent	3.75%	33.22%	13.06%

Fig 15. Ontario, there is an increase in rental home applications from 30%* to 40% of overall apps for the rolling 12 month periods compared. (33% increase Y/Y) In Quebec, it was from 26% to 34% (30% increase Y/Y).

*sum of Rentals by Year

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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