Median Purchase Price Dropped $20,000 in July 2022

August 2022

For many, July sent shock waves through the mortgage and home industry, when the Bank of Canada announced a 1.0% increase to its overnight rate. This move was one of the highest increases in recent history, and left many wondering about the impact on monthly payments as well as the affordability of owning a home in 2022.

While aggressive, this rate hike seems to have done what it set out to do – cool the hot housing market. While we saw incremental shifts occurring in both our June and July monthly reports, this last month, things are wrapped up with a homeowner's gift: Median purchase prices dipped another $20,000 and down payments leveled out in the 13% range, showing competition is dwindling.

Read on and learn more!

KEY TAKEAWAYS

The housing market continues to show signs of cooling down through decreasing median purchase prices dropping $20,000 – from $495,000 to $475,000.

Refinances were at their lowest levels in an almost two year period. Showing that more people are less willing to refinance with the interest rates sitting where they are today.

There's another upward swing from 'ready to buy' to 'just looking'; with the latter clocking in at 60% and the former at just 40%. There's little surprise we see this difference increase each month there's a Bank of Canada rate announcement.

With the rate hike announcement on 7/13, we saw the cost of a variable rate mortgage increase by an average of $187 per month.

In Alberta, median purchase prices increased by $52,000. Being an outlier to Ontario and Quebec, where median purchase prices have either stabilized monthly (ON) or decreased (QC).

#1

RATES

A. Volatility

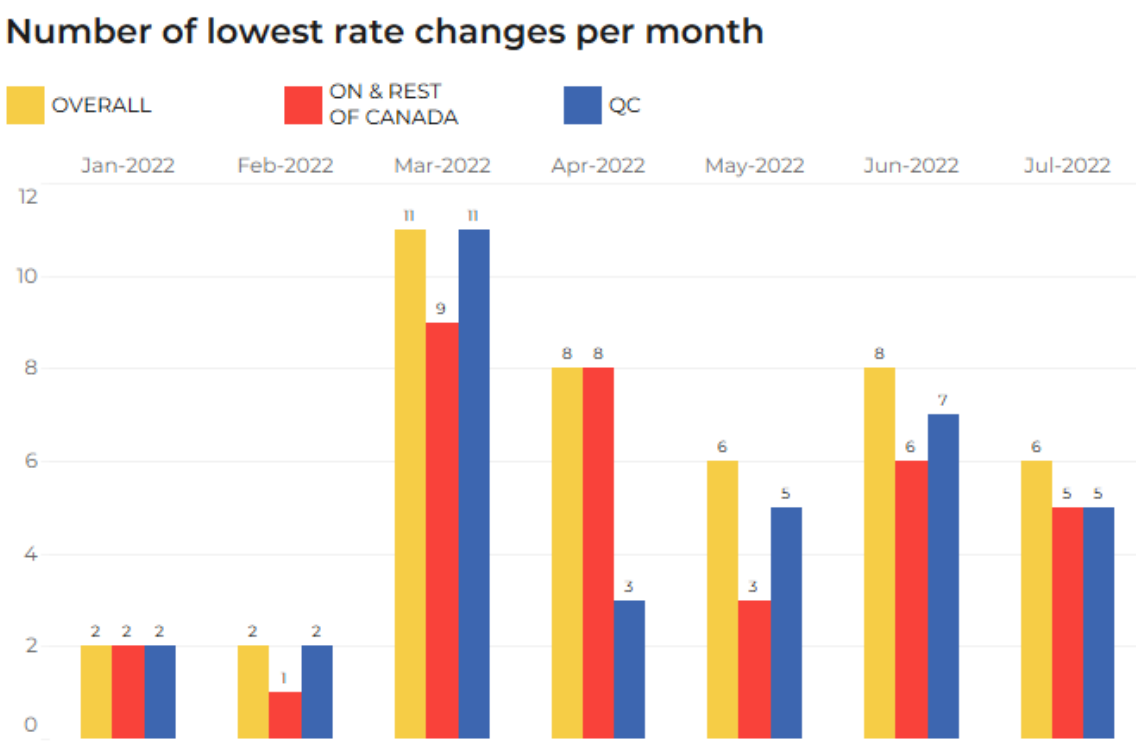

Fig. 1: Number of times the lowest rates offered by nesto to its users changed per month across provinces between January 2022 and July 2022.

Looking at rate changes from January 2022 through July 2022, the impact of a rising prime rate has a clear impact to the rates offered to users in the nesto database. As seen, prior to the Bank of Canada announcements that began in March 2022, the average rate changes per month were 2; however, now they average 5-7 per month. In July 2022, we had 6 rate changes overall, slightly down from 8 total seen in June 2022.

Volatility - by type

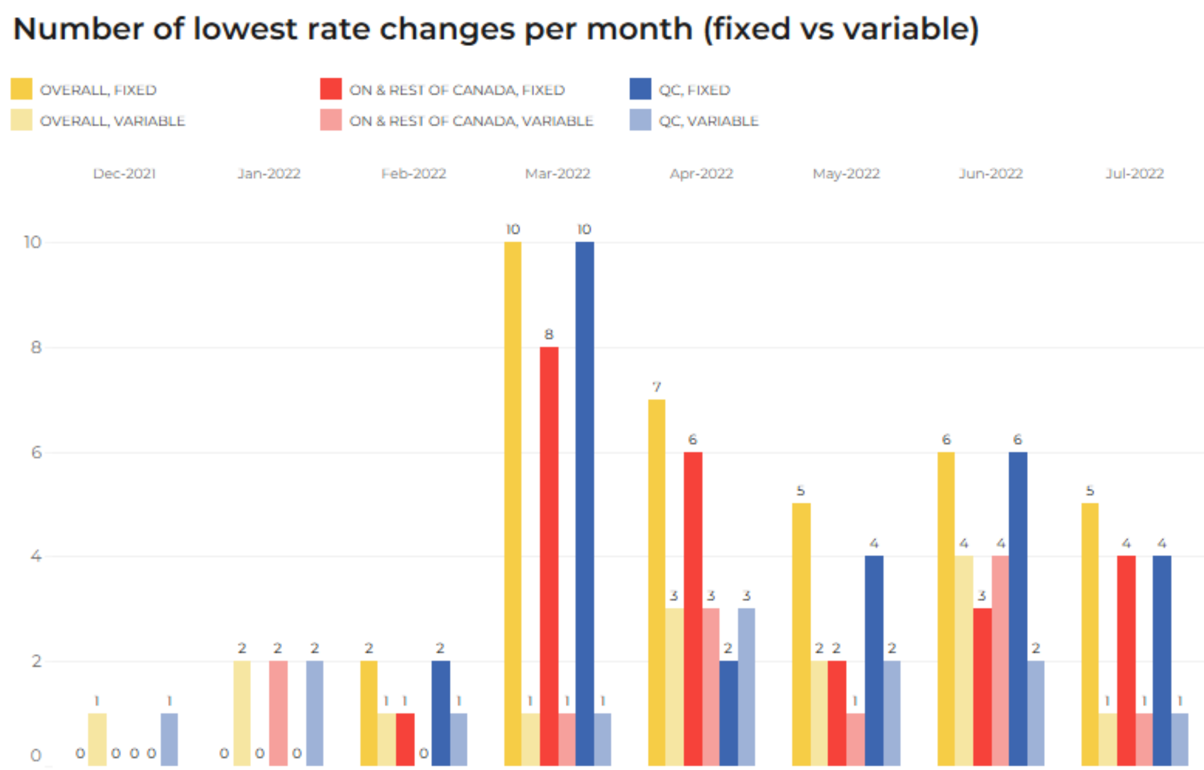

Fig. 2: Number of times the lowest rates offered by nesto to its users changed per month across provinces between December 2021 and July 2022 comparing fixed to variable rates. July 2022 showed fewer rate changes across variable rates, and slightly lower rate changes across fixed rates.

Overall, the graph displays 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 as low as possible in the short term.

B. Variance: Lowest rates

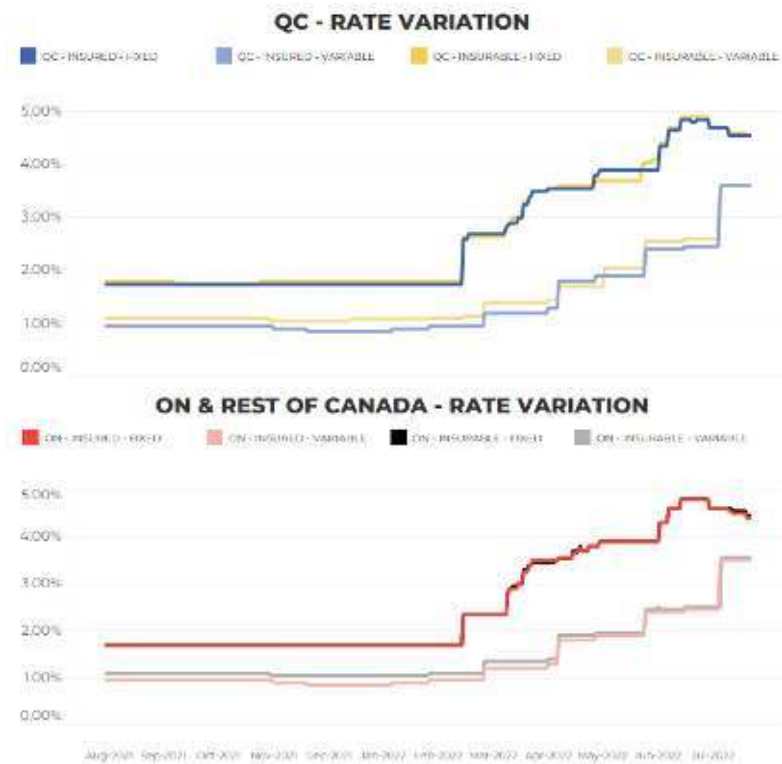

Fig. 3: These graphs show the rate variance in Quebec compared to Ontario and the rest of Canada.

Now let's talk about variance! Fixed rates continue to rise at a faster pace than variables. This gap widened from March 2022 onwards (>4.0% for fixed, and < 4.0% for variable) which is attributed to the interest rate hikes from the Bank of Canada.

#2

MORTGAGE TYPE TRENDS

Purchase vs Renewal vs Refinance

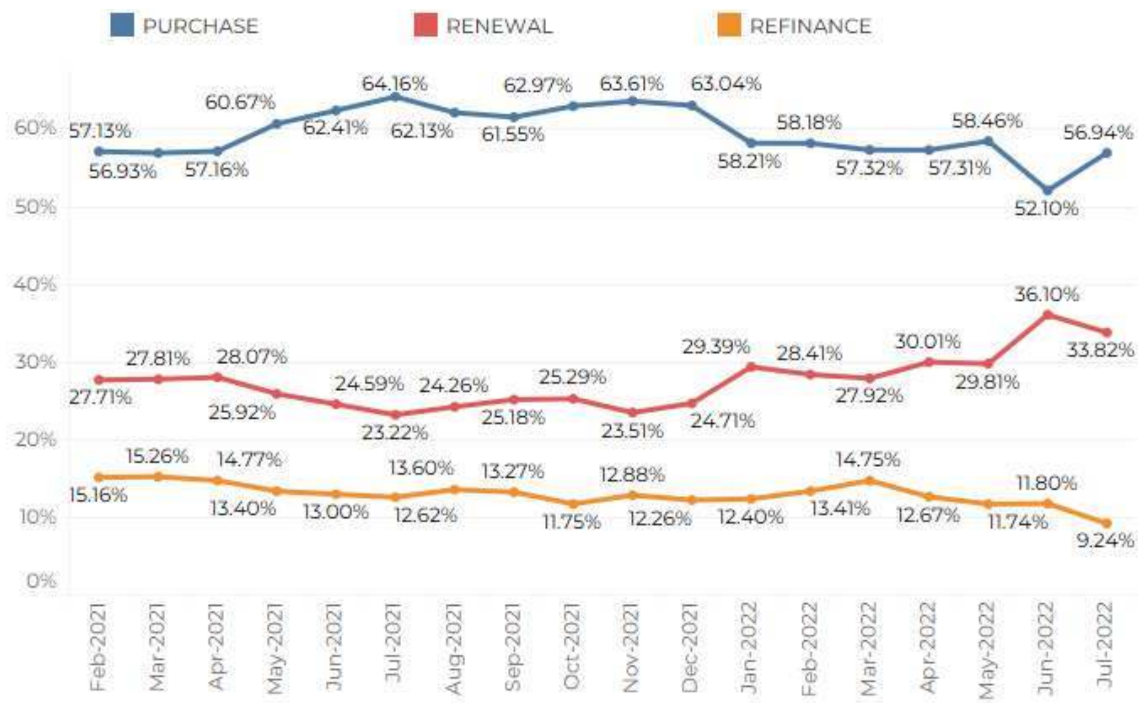

Fig. 4: Trends for proportion of purchases (new mortgages) vs renewals vs refinances from February 2021 to July 2022.

In our last report, we highlighted that renewals again took the lead among mortgage types, and had one of the most major jumps since the start of 2021. Then, renewals sat at 36.11%, up 6% from their previous documented high in April (30.03%) of this year. While renewals are still at high levels, the number in July 2022 did see a slight drop, coming in at 33.82%, or a 2.28% decrease.

On the new purchases front, looking at July 2022, we noticed a 4.84% increase from June 2022. While this increase is a welcomed change, the overall numbers remain the lowest they've been in 2022. Thus showing many first time homebuyers are likely being forced out of the market until interest rates level out, or prices continue trending downwards..

Lastly, when it comes to refinances, we see the lowest number recorded in the lastyear and a half: They reached 9.24%, down 5.6% from this year's high in March 2022. What this simply means is that people are less willing to refinance their mortgages given the current interest rates.

#3

PURCHASE TIMING INTENT

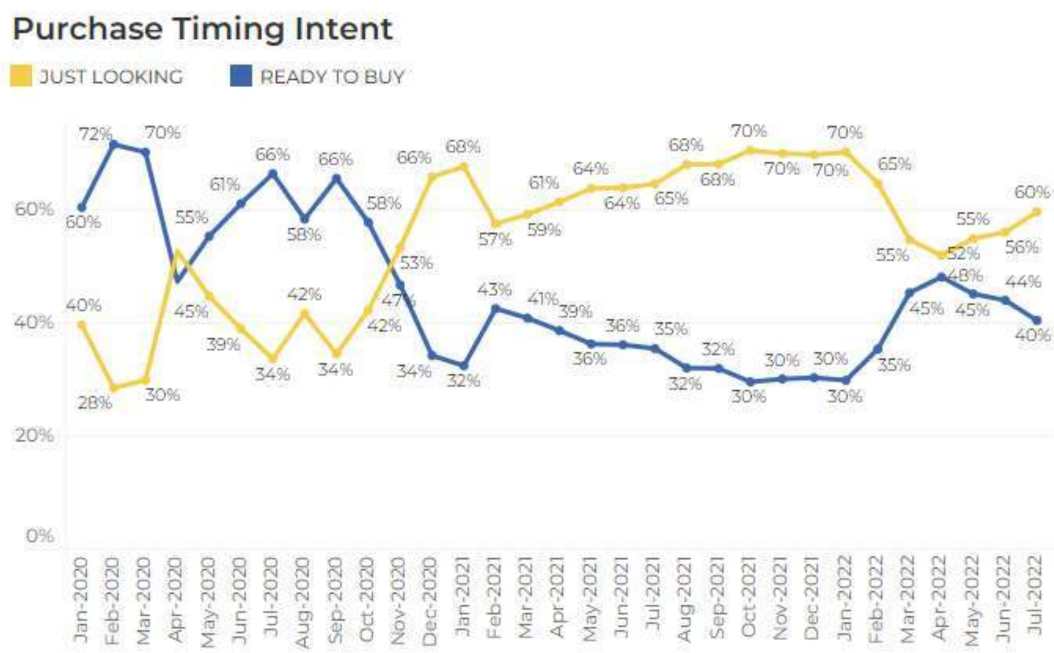

Fig. 5: Purchase intent: proportion of users "ready to buy" vs "just looking" in nesto's mortgage process, showing month by month from January 2020 through July 2022.

Reported last month, there was an increase of users "just looking", sitting at 55%, and a decrease of users "ready to buy", sitting at 45%.

When we look at July 2022, the story around buyer caution is seemingly the same. Since home prices are still relatively high, though dropping quickly, and mortgage interest rates are at the highest point since pre-pandemic, it makes sense to see that 'just looking' continued to have a majority stake at 60% of nesto users, compared to 40% who were 'ready to buy'.

By province

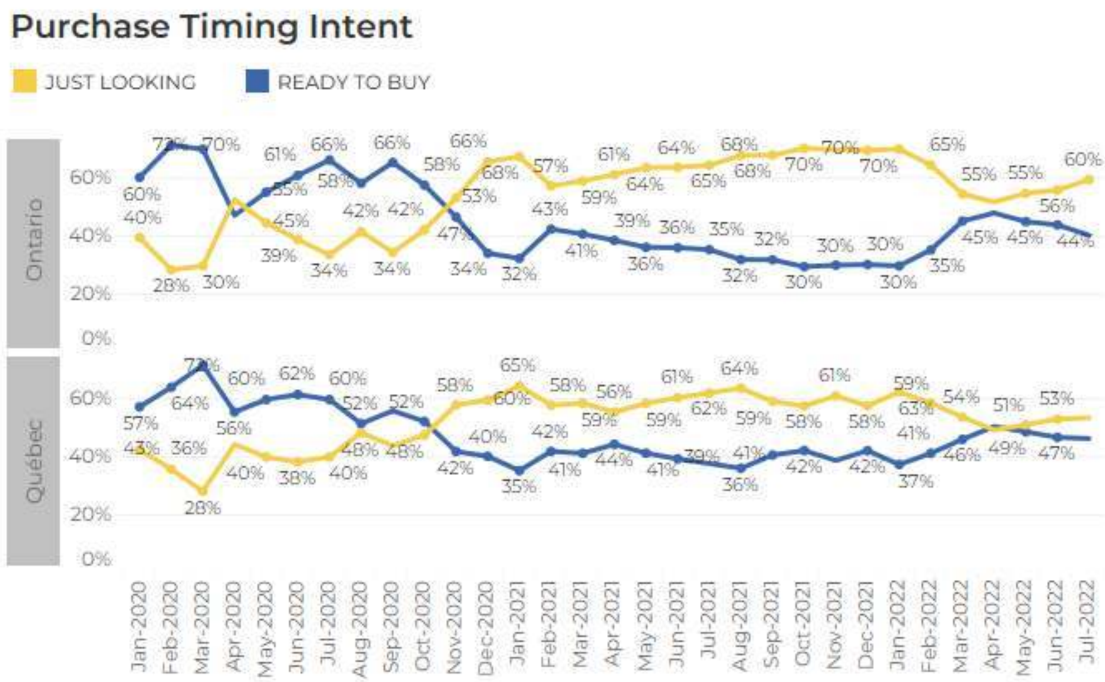

Fig. 6: Purchase timing intent proportion of users “ready to buy” vs “just looking” in nesto’s mortgage process, from January 2020 through June 2022 in Quebec and Ontario.

As can be seen above, in Ontario, potential buyers are more hesitant than their Quebec counterparts – with 60% reportedly ‘just looking’ (ON) compared to 53% (QC). Additionally, whereas only 44% are presumably ‘ready to buy’ in ON, in QC, we see 47% are. This difference could stem from the higher median purchase prices in ON and cost of living. ON median home price clocks in at about $300,000 more than QC’s.

#4

PROPERTY VALUE AND DOWN PAYMENT

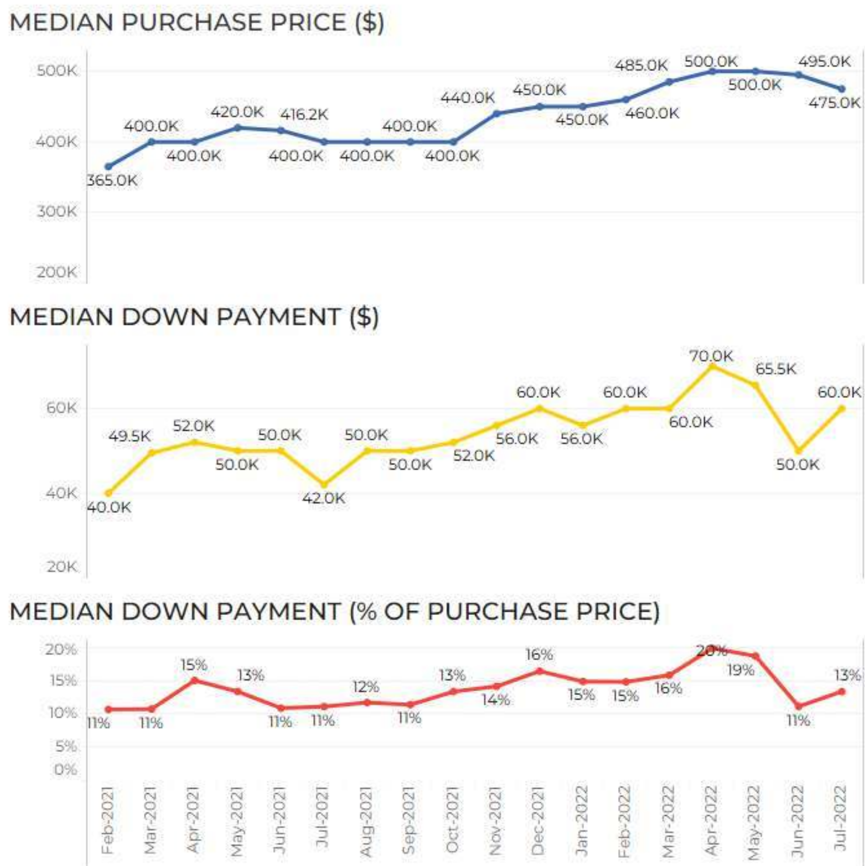

Fig. 7: This chart shows a continuation of the cooling market, with median purchase prices dropping $20,000 over the course of one month.

As reported last month, in June, the market cooling trend continued, as predicted. We saw the median down payment total drop $15,000 in one month, and the median purchase price drop to $496,000 from $500,000.

In July 2022, while median down payments (dollars and percentages) were slightly up across the board – $60,000 from $50,000, and 13% from 11% respectively – the median purchase price continued to fall, dropping from $495,000 to $475,000.

By province

Fig. 8A: Graph of intended purchase prices vs down payment (in dollars and percentage) from February 2021 through July 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 down payment. In Ontario, the median down payment fell once more from the previous low of 17% to 15% in July 2022. Additionally, the median purchase price, that took a fall in Ontario last month, and entered the $600K territory for the first time in 4 months, remains the same: $650,000. In Quebec, the median purchase price decreased, coming in at $390,000. While down payments slightly increased, the percentage remained the same from June 2022 into July 2022, sitting at 10%.

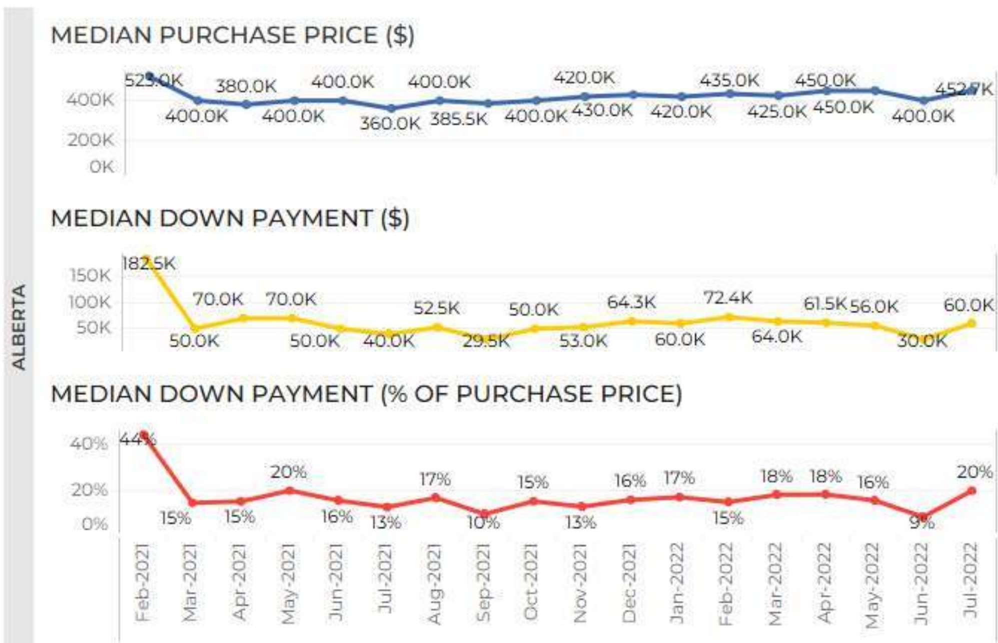

Fig. 8B: Graph of intended purchase prices vs down payment (in dollars and percentage) from February 2021 through July 2022 in Alberta.

However, when it comes to Alberta, the median purchase price increased by $52,000. While the price remains in the $400,000 range as it has for 2022, it's still a notable increase after the market experienced a $50,000 fall the month prior in June.

DEEP DIVE

Why the present isn't like the past: A guide to understanding interest rate increases to stay calm

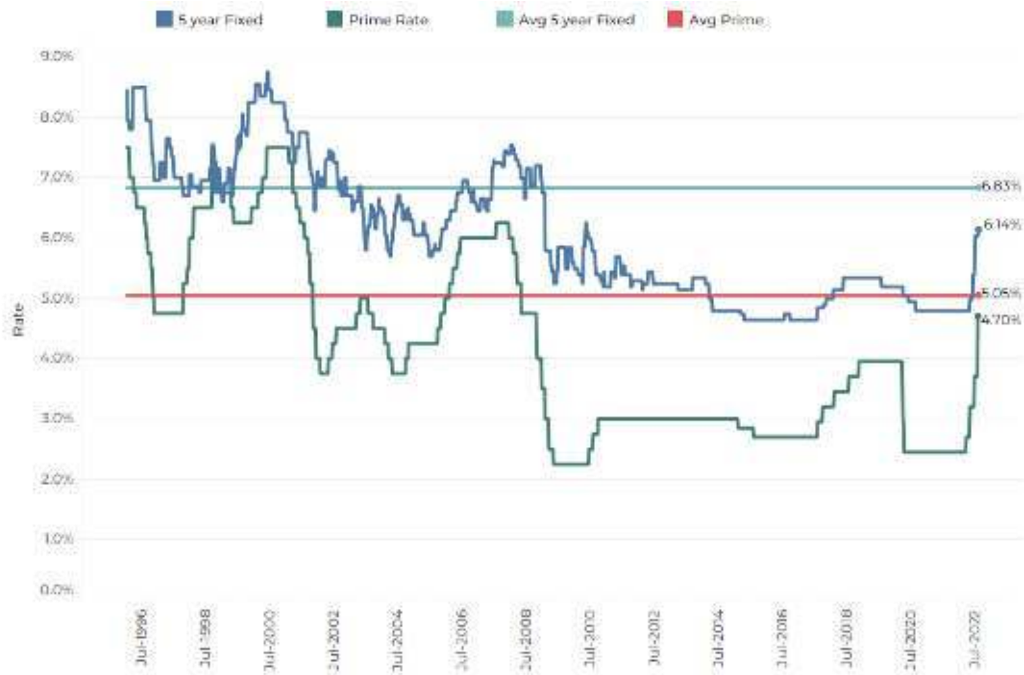

Fig. 9: The graph above shows the Income-to-Mortgage amount for submitted applications among nesto's database. source: statcan

Though it's not unusual for worries to happen in light of recent rate announcements, we do want to remind you that when we look back at the history of the prime rate and Bank of Canada overnight rate, our current standing and situation is much different than years prior – in a good way.

To better understand this, let's take a stroll down history lane.

Rate hikes in the 1970-1980s

In the 1970s, the Canadian government began to slowly raise interest rates in an attempt to control inflation. However, this policy had the unintended consequence of causing a housing bubble. As interest rates rose – capping at 11.25% for a 5 year fixed in 1979 and 19.25% in 1982 – so did the monthly payments on mortgages. This made it difficult for many families to keep up with their payments, and foreclosures became common. The housing crisis was compounded by high unemployment, and by the end of the decade, Canada was in the midst of a recession. In retrospect, it's clear that the rate hikes were a major factor in causing the economic downturn. They also generated a great deal of political instability, as there were several rounds of protests. Thankfully, the situation eventually stabilized and Canada recovered from the recession.

Rate hikes in the 1990's

In the 1990s, the Canadian government began to gradually raise interest rates in an attempt to curb inflation. However, these rate hikes quickly became controversial, with many experts arguing that they were driving up the cost of living and stifling economic growth. The debate came to a head in 1995, when the government raised rates by a full percentage point in just four months. Bringing the prime rate to ~8.0%. This caused a significant slowdown in the economy. The key learning was that Canada's economy is sensitive to rate hikes, something that carries weight into today with the level of rate hikes we're seeing and an indication of when they may end.

Rate declines in 2020

The low interest rates of 2020 were caused by a variety of factors, including the ongoing pandemic and the resulting economic downturn. In an effort to stimulate the economy, the BoC slashed interest rates to near-zero levels. This made borrowing money cheaper and encouraged businesses and consumers to spend. At the same time, the pandemic caused a flight to safety as investors moved their money into assets like government bonds. This increased demand for bonds and pushed down bond yields, which in turn led to lower interest rates on loans. Finally, low inflation also contributed to low interest rates as it decreases the cost of borrowing money. Overall, these various factors combined to create the low interest rates we saw in 2020 through late 2021.

Rate hikes present day [2022]

So, now that you know the history of the prime rate and 5 year fixed rate...What's going on today and are
So, now that you know the history of the prime rate and 5 year fixed rate...What's going on today and are
there reasons for you to worry?

The short answer: no.

Yes, rising rates are nothing to brush off, but they aren't on track with any of the previous hikes we saw in the past. In fact, looking back to the 1970s, we saw that 5 year fixed rates were standing at 11.25%, in the 1990s at 8.95% and then, even as recently as 2018 they were at 5.34%.

Today, 4 rate hikes later, the 5 year fixed at nesto is just 4.34%. A monumental 1.0-7.0%+ lower than previous time periods when rate hikes were made so frequently. So, yes, they are still the lowest they've been compared to the whole history of prime rates.

On top of that, while inflation did reach 30 year highs, and worries about 1970s stagflation abound, we want to remind you that today's job market is strong. We don't have the same recession indicators of the past.

Lastly, while most recessions were caused by credit line issues (2008 crisis, and dot com bubble), today we are seeing issues due to over-demand, under-supply. These types of potential recessions and rate hikes lend themselves to a more fair paced one that's not as deep or long lasting.

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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