



The
nesto-meter

September Recap



nesto's mortgage trends September 2022

01 Rates

With the rate hike announcement on 9/7, we saw the cost of a variable rate mortgage increase by an average of \$43 per month on each \$100,000 borrowed.

02 Mortgage Type Trends

In September, nesto had the highest number of renewals completed compared to any other month in 2022.

03 Purchase Timing Intent

There is an upward swing of 67% on 'just looking' sentiment over 33% for 'ready to buy.' We believe this continued divergence shows a stark market split due to price drops and borrowers sitting on the side lines.

04 Property Value And Down Payment

In Alberta there is a downward trend in median down payments and purchase prices.



Short term mortgages grow in popularity; Renewers at an all time high in September.

September Recap 2022

Leaves aren't the only thing falling this season -- it seems the amount of potential homeowners ready to buy along with their interest in mortgage terms longer than 2 or 3 years is, too.

We projected in our last nesto meter report that interest rate hikes would lead to falling home prices, more buyer hesitancy, and a potential uptick in renewals. These factors all seemed to hold true.

What we didn't predict, but find is growing, is the amount of FTHB **and** Renewers who are seeking fixed rate mortgages over variable for the first time in two years.

Read on to learn about the mortgage industry trajectory.



Section 01

Rates

01



A. Volatility

Number of lowest rate changes per month

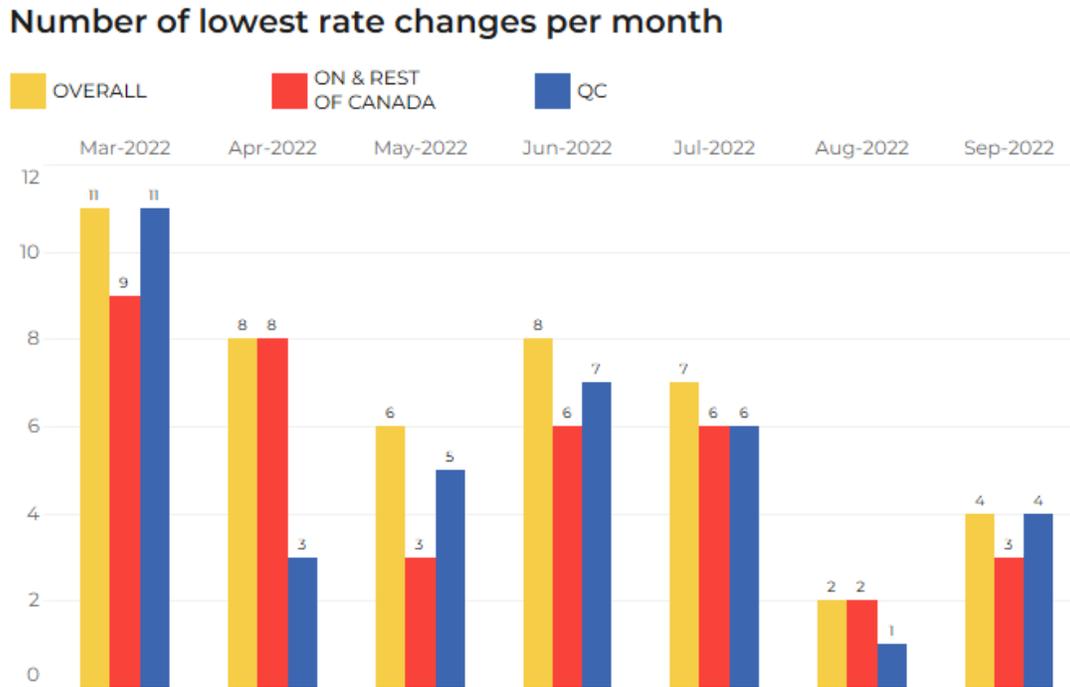


Fig. 1: Number of times the lowest rates offered by nesto to its borrowers users changed per month across provinces between February 2022 and September 2022.

Key Data To Know	TL;DR
<p>Looking at rate changes from February 2022 through September 2022, the impact of a rising prime rate has a clear impact on the rates offered to nesto's clients users in our database. As shown in our last report, it was interesting to notice that when comparing to July 2022, in August 2022, we saw the number of rate changes fall drastically to what they were in early 2022. There were only 2 noted changes overall, with 1 pertaining to Quebec. Yet, that storyline didn't hold: In September 2022, rate changes doubled again to an average of 3.5.</p>	<p>September 2022 had an average of 3.5 rate changes.</p>



Volatility - by type

Number of lowest rate changes per month (fixed vs variable)

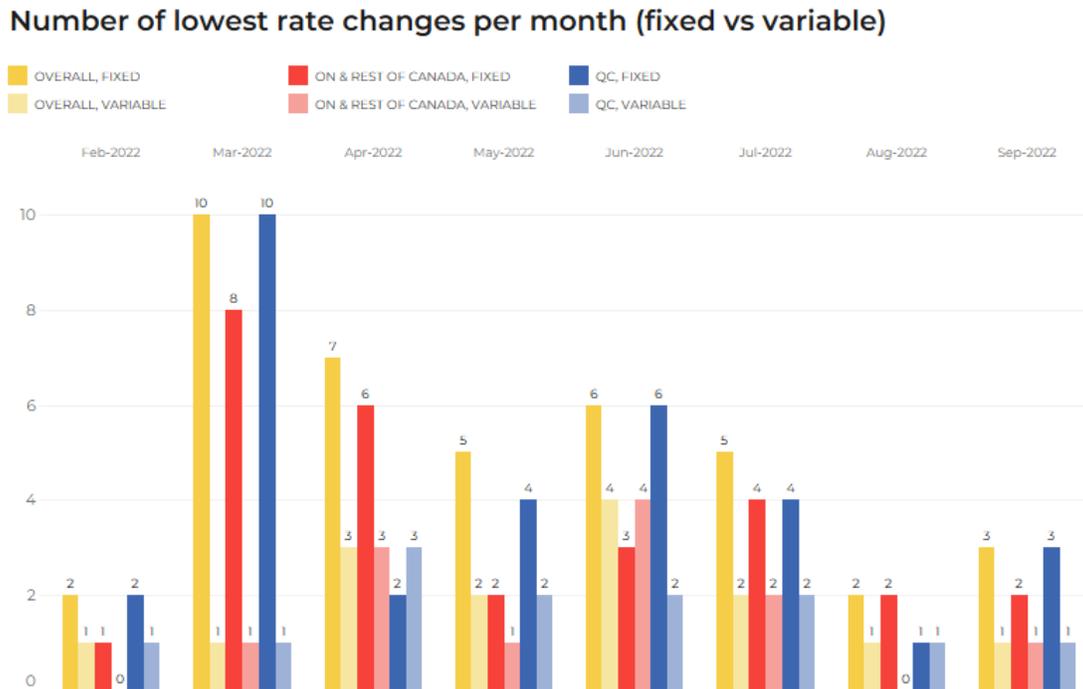


Fig. 2: Number of times the lowest rates offered by nesto to its borrowers changed per month across provinces between January 2022 and September 2022 comparing fixed to variable rates. September 2022 showed +1 increase in fixed rate changes compared to August 2022.

Key Data To Know	TL;DR
<p>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. While August 2022 showed a slower pace for rate changes, September increases went back to standard with 2-3 on fixed, and 1 on variable.</p>	<p>There were the least amount of rate changes on the variable rate mortgage in September 2022</p>



B. Variance: Lowest Rates

QC - Rate Variation



ON & Rest of Canada - Rate Variation

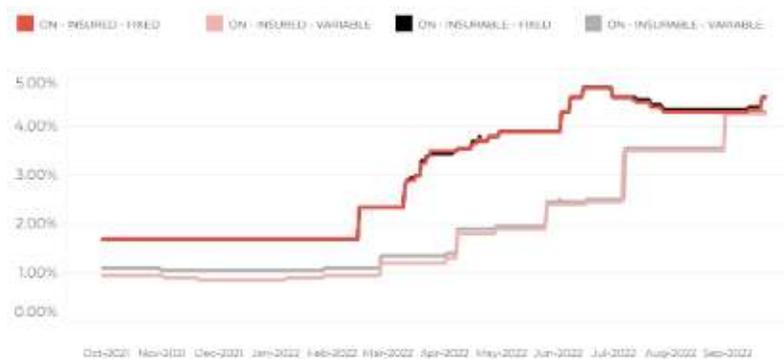


Fig. 3: These graphs show the rate variance in Quebec compared to Ontario and the rest of Canada.

Key Data To Know	TL;DR
<p>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.</p>	<p>Fixed rates continue to rise at a faster pace than variables.</p>



Section 02

Mortgage Type Trends

02



Purchase vs. Renewal vs. Refinance

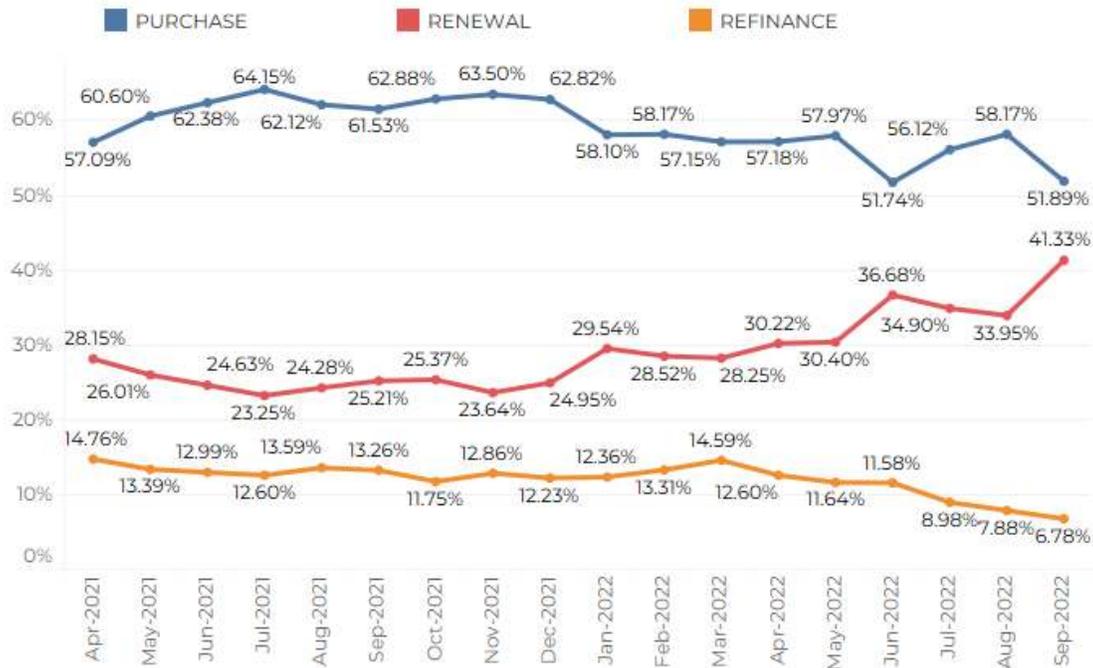


Fig. 4: Trends for proportion of purchases (new mortgages) vs renewals vs refinances from March 2021 to September 2022.

Key Data To Know	TL;DR
<p>As we look back at September 2022, another notable shift has occurred. Whereas new purchases continued to rise in July, increasing an additional 2.78%; renewals decreased by 1.83%. In September 2022, just one month later, new purchases decreased to 51.89% and renewals rose to an all-time-high in 2022 at 41.33%. Our data points align to a common sentiment we see among clients: With an additional rate increase in September, new home purchasers are hesitant to move forward; however, those that do own homes realize that rate hikes are only getting higher and they should renew earlier for savings.</p>	<p>Renewals are currently at the highest levels in 2022, 41.33%.</p>



Section 03

Purchase Timing Intent

03



Purchase Timing Intent

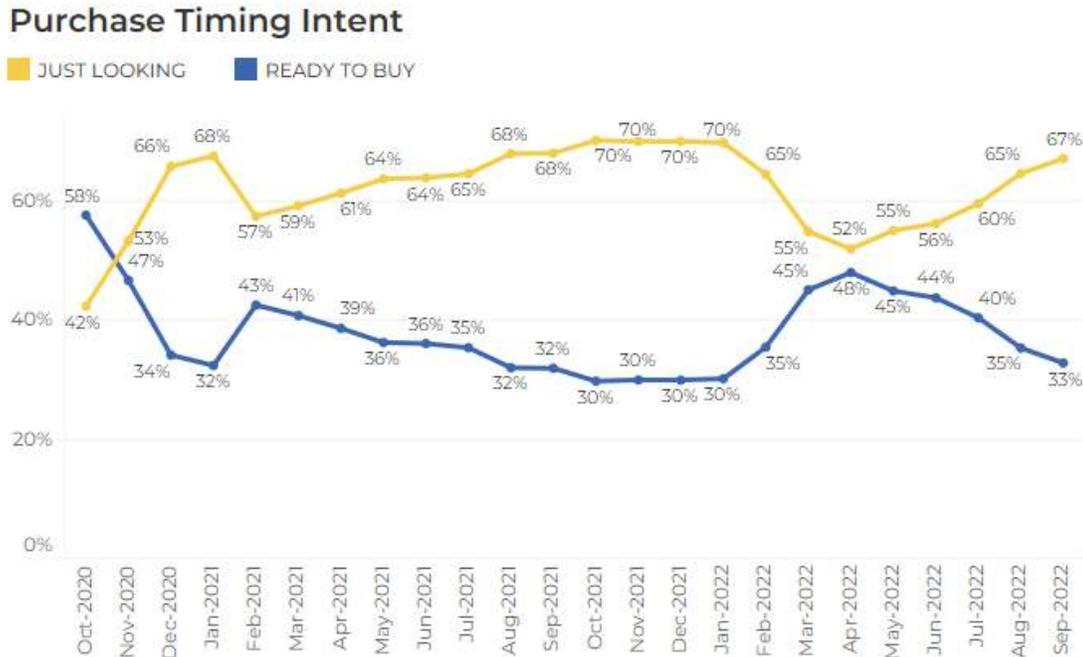


Fig. 5: Purchase intent: proportion of users “ready to buy” vs “just looking” in in their mortgage journey with nesto, illustrated over the last two years from October 2020 to September 2022.

Key Data To Know	TL;DR
<p>Looking at our client's intention in September 2022, the alignment around buyer caution is very much the same as we saw all summer. Since home prices are still relatively high in key markets, 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 67% of nesto applicants, compared to 33% who were ‘ready to buy’. The number of applicants who are less ready to buy continues to increase. With the interest rate announcement on 9/7/2022, it's with little shock that this is the outcome. However, with the launch of nesto's 1% cashback mortgage, our aim is to help clients fight inflation while achieving home ownership.</p>	<p>67% of nesto users are ‘Just Looking’ compared to 33% who were ‘ready to buy’.</p>



Purchase Timing Intent - By Province

Purchase Timing Intent



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

Key Data To Know	TL;DR
<p>As can be seen above, in Ontario, potential buyers are more hesitant than their Quebec counterparts – with 67% reportedly ‘just looking’ (ON) compared to 51% (QC). Additionally, whereas only 33% are presumably ‘ready to buy’ in ON, in QC, we see 51% are. This difference could stem from the higher median purchase prices in ON and cost of living. ON median home prices are approximately \$300K more than QC’s.</p>	<p>In QC, more potential homeowners shifted to ‘just looking’ sitting at 51%, down from 55% last month, still higher than ON.</p>



Section 04

Property Value And Down Payment

04



Property Value and Down Payment

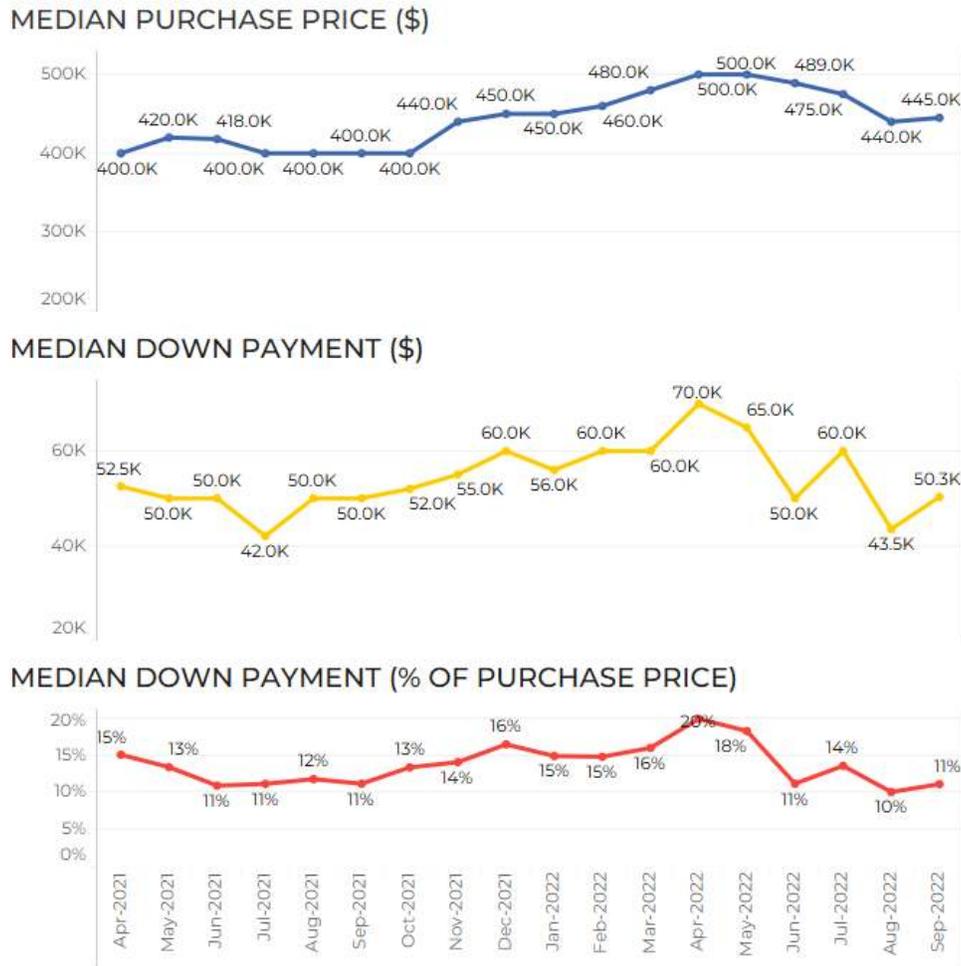


Fig. 7: This chart shows a slight shift in the recent cooling market, with the median purchase price up by \$5,000.

Key Data To Know	TL;DR
<p>In August 2022, both median down payments (dollars and percentages) were down across the board – from \$63,000 from \$43,500, and 13% to 10% respectively – the median purchase price continued to fall, dropping from \$475,000 to \$440,000. In September 2022, we see a slight increase in these numbers. Median purchase price rose to \$445,000, and the down payment rose to \$50,300. Monthly fluctuations are normal and since these numbers are still \$20,000+ below annual highs, a cooling market is still indicated.</p>	<p>In September, Median Down Payments Increased by \$6.800.</p>



By Province

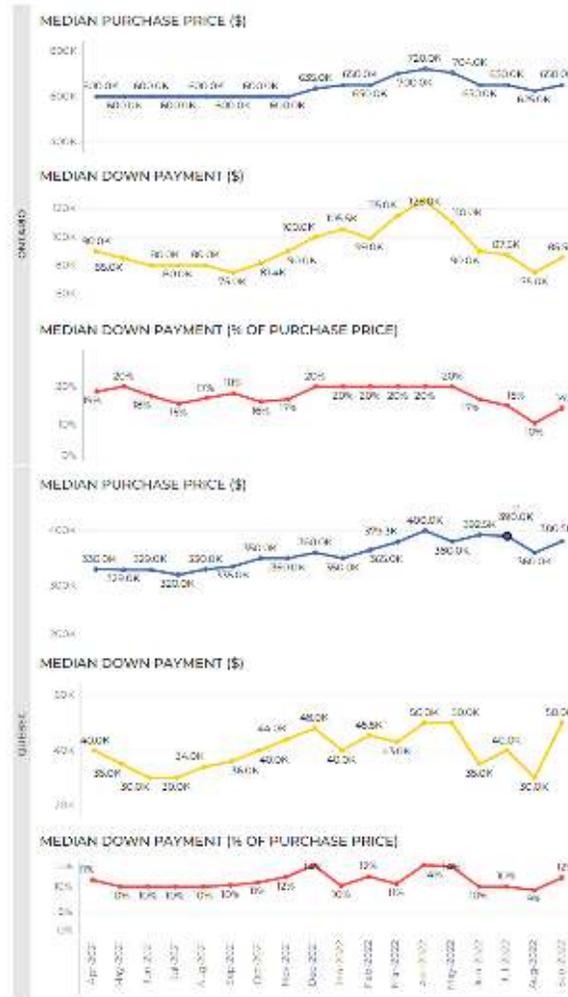


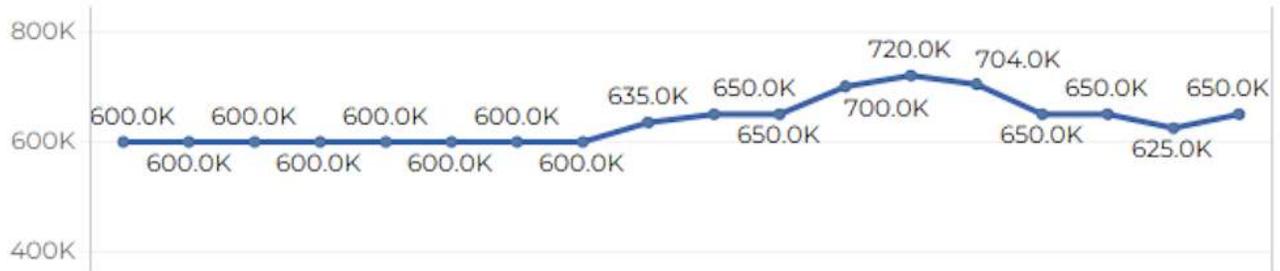
Fig. 8: Graph of intended purchase prices vs down payment (in dollars and percentage).

Key Data To Know	TL;DR
<p>As seen in the charts, in ON and QC, median purchase prices and down payments rose in September 2022. In ON, the down payment percentage sat at 14% and in QC, the down payment percentage was 12%. Both higher than the ~10% they were at in recent months. As noted in the general data chart, monthly fluctuations are normal, and are a snapshot in time. The overall market is within a buyer's range due to overall price drops on an annual basis.</p>	<p>Median purchase price was up by \$20,000 in Quebec,</p>

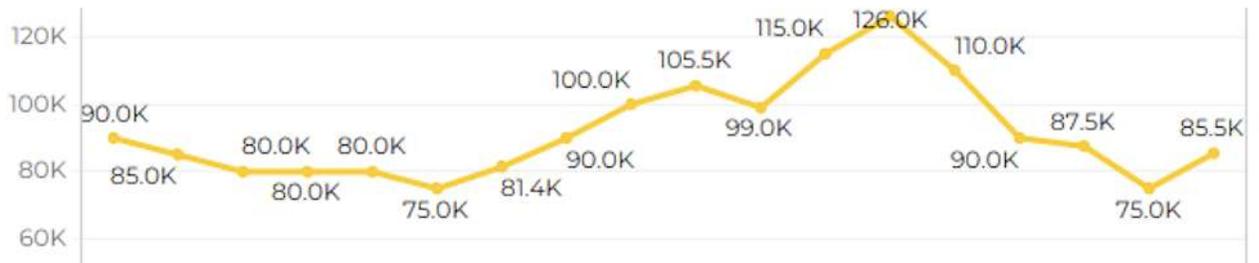


By Province: ON [1/3]

Median Purchase Price (\$)



Median Down Payment (\$)



Median Down Payment (% of Purchase Price)

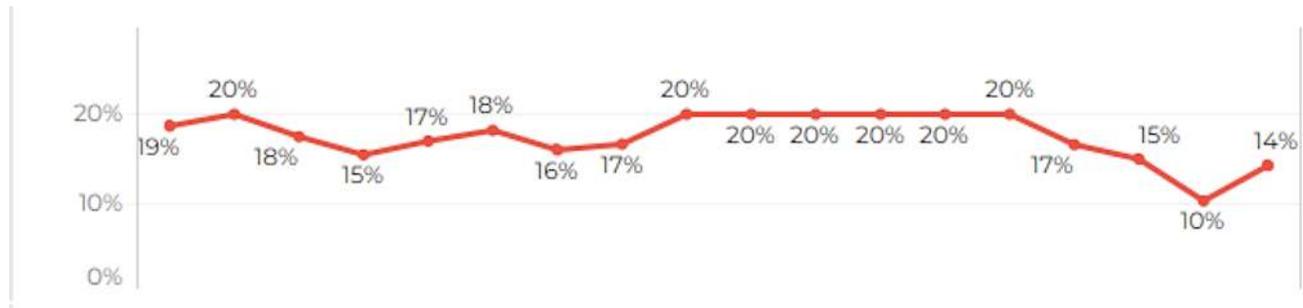
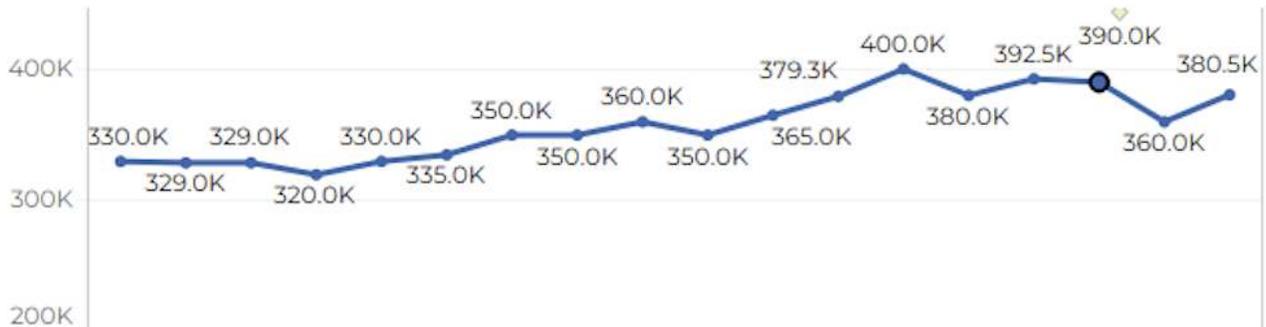


Fig. 8: Graph of intended purchase prices vs down payment (in dollars and percentage) from April 2021 through September 2022 in Ontario.

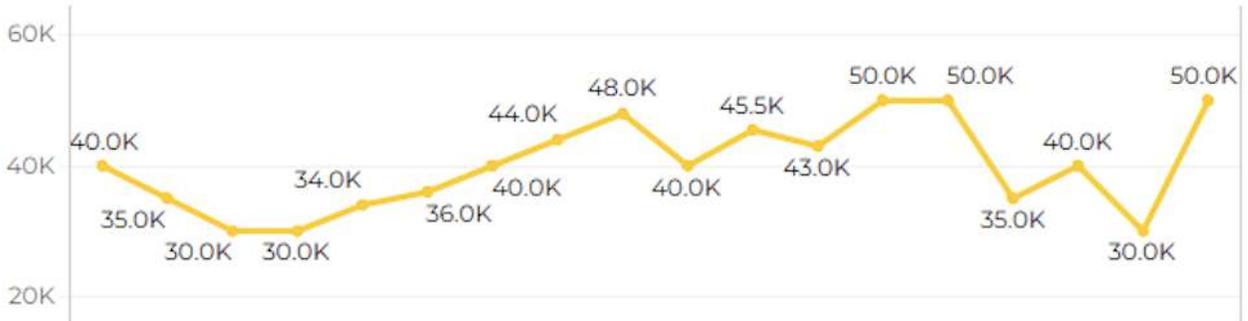


By Province: QC [2/3]

Median Purchase Price (\$)



Median Down Payment (\$)



Median Down Payment (% of Purchase Price)



Fig. 8: Graph of intended purchase prices vs down payment (in dollars and percentage) from April 2021 through September 2022 in Quebec.



By Province: AB [3/3]

Median Purchase Price (\$)



Median Down Payment (\$)



Median Down Payment (% of Purchase Price)

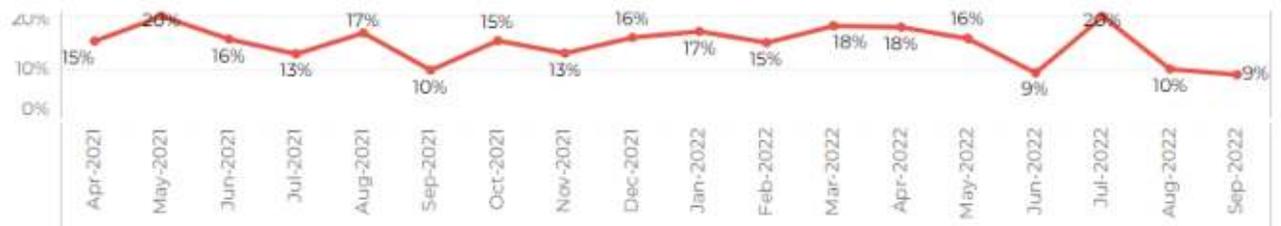


Fig. 8: Graph of intended purchase prices vs down payment (in dollars and percentage) from April 2021 through September 2022 in Alberta.



Deep Dive





What is the trend for mortgage terms?

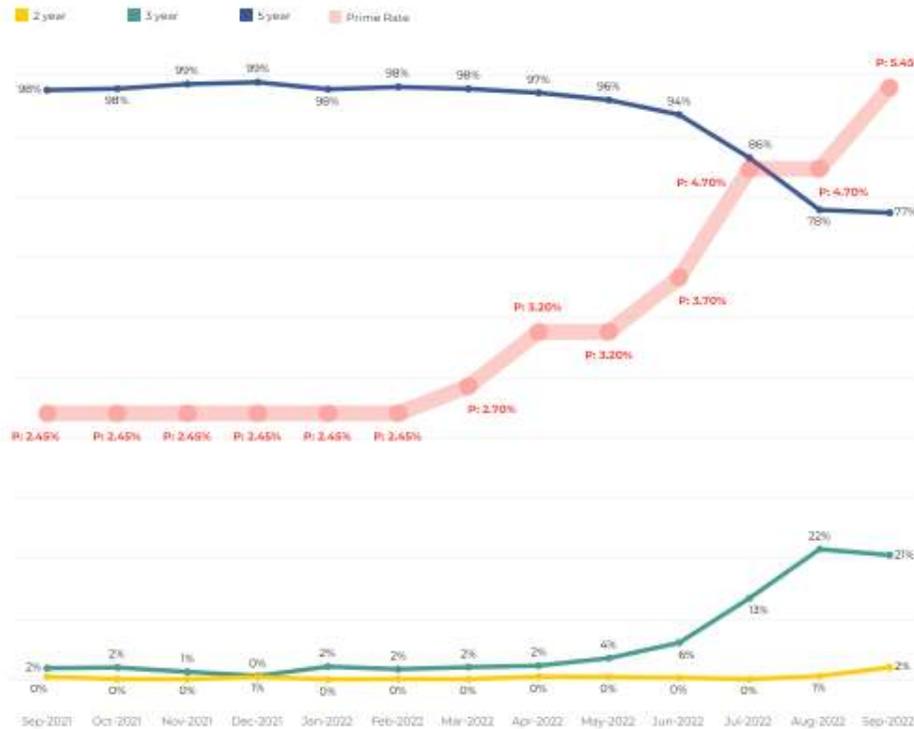


Fig. 9: The graphs above showcase nesto's borrowers preference for a 2-year, 3-year and 5-year mortgage.

While nesto has only recently introduced a short term mortgage (2-year and 3-year), as it can be seen, across the board there is an inverse relationship happening between the once-popular 5-year term and the newer, short term mortgages. This can be quite noticeable in rapid intake of both our 2-year and 3-year terms since their recent introduction.

It makes sense that more nesto clients want to take on a fixed rate mortgage at this time. But why the increased intake of shorter terms? Interest rates are the highest that most have seen in recent years. This scenario gives them the best of both worlds: The chance to have consistent monthly mortgage payments, albeit at a higher proportion towards interest, with the opportunity to renew after 2-3 years with a lower rate.



What is the trend for mortgage types?

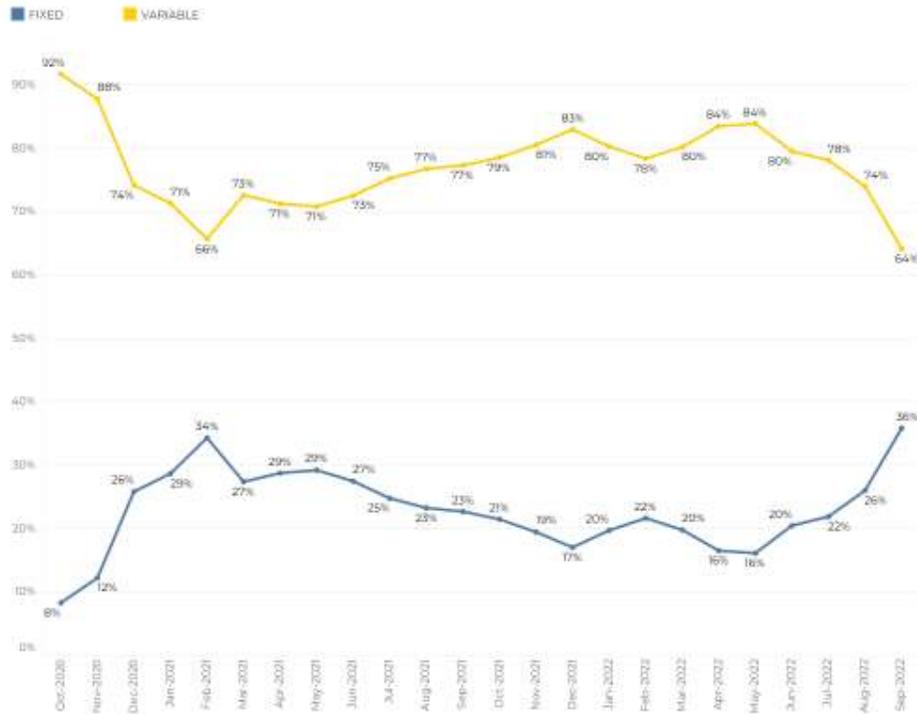


Fig. 10: A measurement of those opting for a fixed mortgage versus a variable mortgage between October 2020 and September 2022.

The peaks and valleys of the variable and fixed mortgage charts above are quite telling in what the average nesto borrowers are favoring presently. While variable rates took the lead in 2020-2021, averaging about 80% of the applications submitted, fixed rate is gaining steam in 2022. There is a consistency in monthly increase for the fixed rate. In September 2022, we saw the highest rate of fixed rate mortgages since December 2020 – 36%.



What mortgage types are FTHB and Renewers choosing?

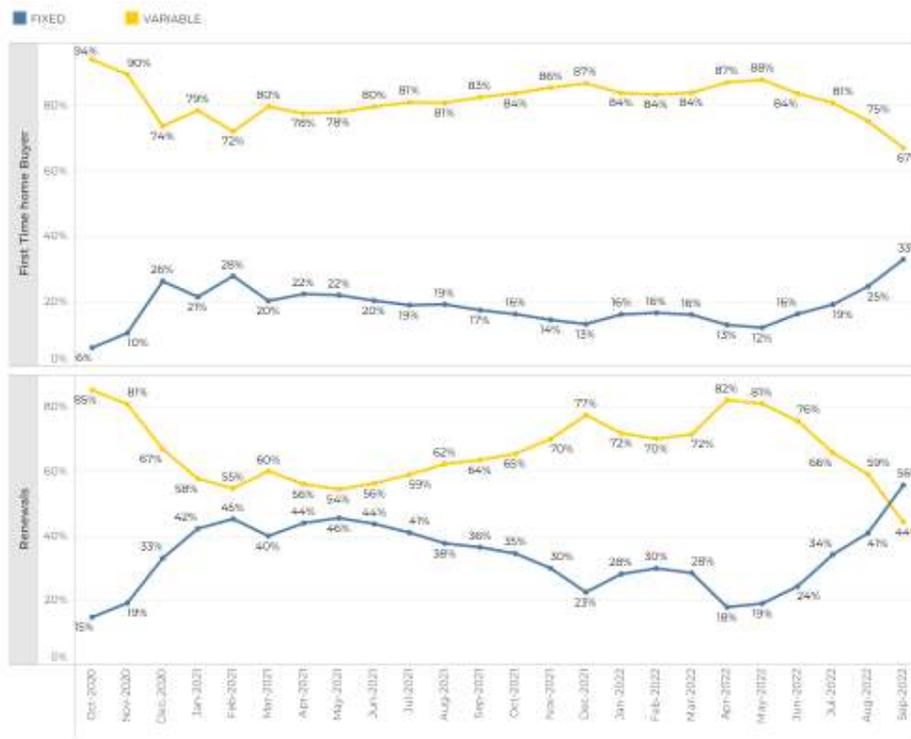


Figure 11: The chart above showcases the preferences for a fixed or variable rate mortgage among first time homebuyers and renewers from October 2020 and September 2022.

Now let’s get into more specifics on each segment and their preferences for a fixed or variable rate mortgage.

First time homebuyers are moving more in the direction of fixed rate mortgages; which, is a surprise as they were advantageously choosing a variable rate mortgage throughout the last 2 years. With interest rates rising so rapidly, it only makes sense that clients will move to protect their mortgage payment with a predictable and fixed payment. . The current market and our data are aligned as seen currently in client sentiment.

Renewers are at a crossing point: Fixed rate is now taking the lead over variable rate mortgages. What does this signal to us? Homeowners who were on a variable rate mortgage in recent years, now fear the interest rate increases, and their ability to afford their mortgage.



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.

Author: Chase Belair,
Co-Founder and Principal Broker at nesto

For press and research-related requests,
email us at media@nesto.ca.