The **nesto-meter**

December Recap





nesto's mortgage trends December 2022

01 Rates

The number of lowest rate changes offered by nesto increased from 3 rate changes in November to 4 changes in December, except in Quebec, which had 3 rate changes in both months.

02 Mortgage Type Trends

Variable rates are significantly higher than fixed rates, eliminating the loophole to qualifying for a higher mortgage amount through a lower stress test rate.

03 PurchaseTiming Intent

In light of the 12/7 BoC rate hike, the portion of users who are 'just looking' increased to 65%, while the portion of those who are 'ready to buy' fell to 35%.

04 Property Value And Down Payment

Median down payments in dollars experience an overall downward trend in ON and QC, returning to July 2021, while median down payment percentages plateau.



Inflation Risks Devaluation: Savvy borrowers increase renewals before higher rates lower property values further

December Recap 2022

With the Bank of Canada wrapping up 2022 with another rate hike on December 7th, nesto's variable rates overtake our discounted fixed rates in Quebec and Ontario. We saw the lowest variable rates offered to nesto clients change once this month after experiencing no changes in November.

A broader perspective saw a 20% increase in renewals over the course of 2022, highlighting compelling demand for mortgages with continued rate hikes. Seeing no end in sight for rate hikes, nesto clients have opted to renew and lock in a lower rate before the prime rate increases even further over the course of the new year.

Finally, overall home purchase data from Ontario, Quebec, and Alberta support our belief that 2023 will mark a more balanced market for buyers and sellers.

Read on to learn about the mortgage industry trajectory.



Section 01

Rates





A. Volatility

Number of lowest rate changes per month

Number of lowest rate changes per month

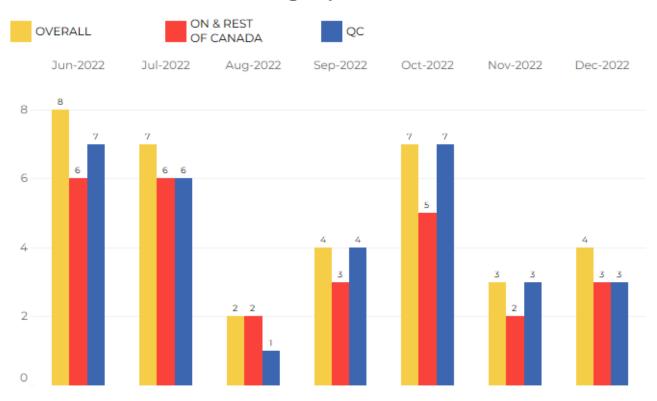


Fig. 1: Number of times the lowest rates offered by nesto to its borrowers changed per month across provinces between June 2022 and December 2022.

Key Data To Know

Looking at rate changes from June 2022 through December 2022, the rising prime rate clearly impacts the rates offered to nesto's clients in our database. The Bank of Canada rate hike on December 7th led to more rate changes offered to nesto clients in December 2022. The overall rate changes occurred more often in December, climbing to 4 changes compared to 3 changes in November. Interestingly we note that there was the same number of rate changes logged in QC in both December and November – 3. Whereas, ON had 1 additional rate change in December.

TL;DR

The number of lowest rate changes increased from 3 rate changes in November to 4 changes in December, except in Quebec, which had 3 rate changes in both months.



Volatility - by type

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

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 April 2022 and December 2022, comparing fixed to variable rates.

Key Data To Know

Looking at this year with a wider lens, we notice that the rate changes fell from their high in spring 2022 when the rate hikes first began. We can also note a trend in how spikes in rate changes align with BoC rate hike announcements, corresponding with shifts in bond markets which predict BoC expectations

December 2022 showed a slight increase in the times fixed rates changed, climbing to 4 from 3 rate changes in November. Changes to the variable rates also increased from no changes last month to 1 rate change logged across Canada in December. As variable rates are determined based on the prime rate, this can be attributed to the BoC rate hike earlier in the month.

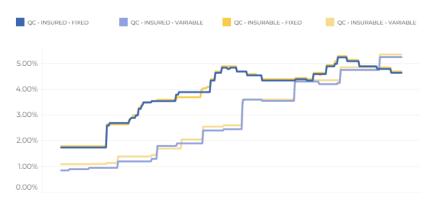
TL;DR

There was 1 more change to fixed and variable rates in December 2022 compared to November 2022.



B. Variance:Lowest Rates

QC - Rate Variation



ON & Rest of Canada - Rate Variation

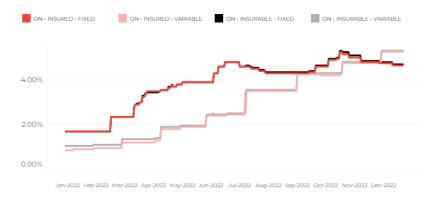


Fig. 3: These graphs show the rate variance in Quebec compared to Ontario and the rest of Canada.

Now let's talk about variance! Earlier this year, we saw fixed rates rise and overtake variable rates significantly. This gap widened from March 2022 onwards (>5.0% for fixed and < 5.0% for variable), which is attributed to the interest rate hikes from the Bank of Canada. We saw the variance grow between fixed and variable rates into the summer of 2022.

Key Data To Know

However, with interest rate hike announcements continuing as the year progressed, the gap between fixed and variable rates narrowed and then converged into November 2022! In December, variable rates overtook fixed rates, greatly contrasting with what we saw in the summer.

TL;DR

Variable rates have overtaken fixed rates, a huge contrast to what we saw in the summer.



Section 02

Mortgage Type Trends





Purchase vs. Renewal vs. Refinance

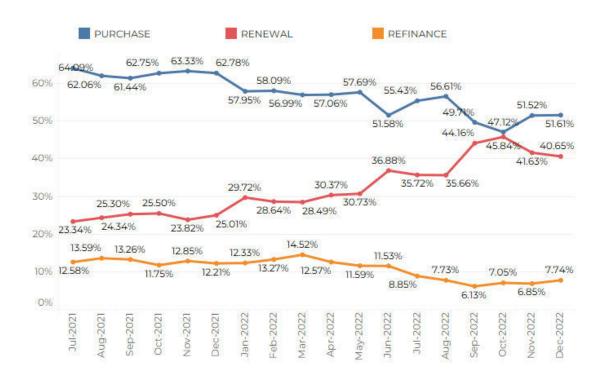


Fig. 4: Trends for the proportion of purchases (new mortgages) vs renewals vs refinances from July 2021 to December 2022.

Key Data To Know

In December 2022, we saw a very small increase in new purchases, while renewals decreased slightly and refinancers continued to plateau. However, from a broader perspective, it is interesting to note that while interest rates have only increased since spring 2021, the number of renewals has gone up by approximately 20%. We can assume that homeowners are starting to predict that the BoC will continue with rate hikes and have decided to act earlier and lock in lower rates now instead of waiting. This can also explain the downward trend of new purchases, dropping by 20% since July 2021. We will see if the spring lending season will bring a marked change along with the season as people can get out and look at properties.

TL;DR

We can note a 20% uptrend in renewals since July 2021, as homeowners act early to lock in lower rates in preparation for more BoC rate hikes.



Section 03

Purchase Timing Intent





Purchase Timing Intent

Purchase Timing Intent JUST LOOKING READY TO BUY 65% 65% 64% 70% 70% 63% 60% 5994 58% 42% 41% 40% 40% 36% 35% 35% 30% 30% 30% 30% 20% 0% Jan-2022 eb-2022 Mar-2022

Fig. 5: Purchase intent: proportion of users "ready to buy" vs "just looking" in their mortgage journey with nesto, illustrated over the last two years from January 2021 to December 2022.

TL;DR **Key Data To Know** Looking at our clients' purchase intent in December 2022, the In light of the 12/7alignment around buyer caution has remained the same since BoC rate hike, the the summer. The increase in buyer hesitancy in December 2022 is portion of users who in line with the December 7th BoC rate announcement. As rate hikes persist, buyers who are 'just looking' continue to have a are 'just looking' majority stake, increasing to 65% in December 2022 from 58% in increased to 65%. November 2022. As such, the portion of users who are 'ready to buy' fell to 35% in December 2022 from 42% in November 2022. while the portion of those who are 'ready The impact of the rate hikes is also highlighted by the data from to buy' fell to 35%. November 2022, where we saw a slight increase in users who were 'ready to buy' and a slight decrease in those who were 'just looking.' This can be explained by the fact that there was no rate hike in November. While the number of applicants ready to buy is still relatively low. through nesto's Rate Lock, renewers can lock their rate with us for 150 days to stay ahead of the next rate hike.



Purchase Timing Intent - By Province

Purchase Timing Intent JUST LOOKING READY TO BUY 68% 70% 70% 70% 60% 64% 65% % 59% 61% 36% 35% 30% 30% 30% 30% 20% 59% 56% 58% 60% 58% 40% 20% 0%

Fig. 6: Purchase timing intent proportion of those "ready to buy" vs "just looking" in nesto's mortgage process from January 2021 through December 2022 in Quebec and Ontario.

Key Data To Know

Contrary to November's data, the portion of Ontario users who are 'just looking' increased from 58% to 65% in December, while the portion of those who are 'ready to buy' decreased from 42% to 35%. As mentioned above, these slight changes can be attributed to the BoC rate announcement on December 7th.

Meanwhile, the portion of Quebec users who are 'just looking' experienced a slight dip from 61% to 57%, while the portion of those who are 'ready to buy' experienced a small increase from 39% to 43%. However, clients who are 'just looking' still hold a majority stake in the province.

TL;DR

In ON, more potential homeowners shifted to 'just looking' sitting at 65%, up from the documented 58% last month. Despite a small uptick in clients who are 'ready to buy' in QC, clients who are 'just looking' continue to hold the majority stake.

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Section 04

Property Value And Down Payment



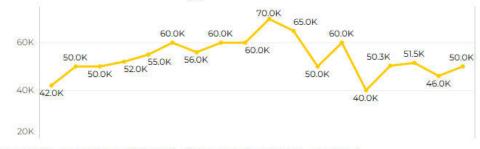


Property Value and Down Payment





MEDIAN DOWN PAYMENT (\$)



MEDIAN DOWN PAYMENT (% OF PURCHASE PRICE)

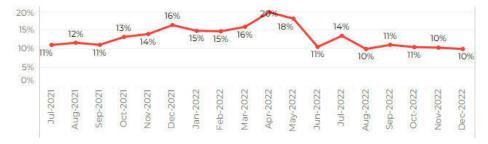


Fig. 7: This chart shows a slight shift in the recent cooling market, with the median purchase price up by \$20,000.

Key Data To Know

In December 2022, we saw a small increase in the purchase price and median down payment. The purchase price increased from \$427,500 to \$450,000, and in tandem, the down payment increased from \$46,000 to \$50,000, respectively. Despite the slight increase in these numbers this month, these fluctuations are not notable and are still in line with the cooling market. Additionally, we can note that the down payments trending up to compensate for the increase in rates over the same period.

TL;DR

In December, negligible increases in the median purchase price and median down payment from the previous month.



By Province

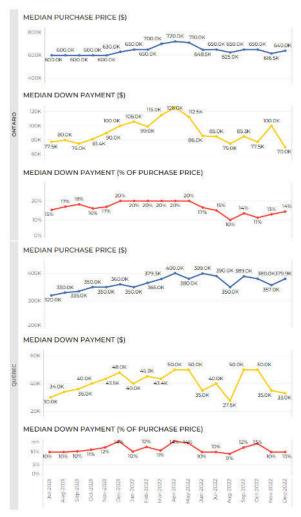


Fig. 8: Graph of intended purchase prices vs down payment (in dollars and percentage) from July 2021 through December 2022 in Ontario and Quebec.

Key Data To Know

After reaching a record high for the year in October 2022, Quebec's median down payment continues to fall, going from \$35,000 to \$33,000 in December 2022. That said, the median down payment percentage has remained at 10%, despite the increase in the median purchase price.

This illustrates a downward trend, returning to numbers in July 2021. The numbers in Ontario tell a similar story, where the median down payment has decreased from \$100,000 to \$70,000, while the median down payment percentage stays relatively stable despite a small increase in the median purchase price. Also worth noting: In Ontario, the average home price has decreased by 11.1% from summer to winter 2022. In line with our belief that 2023 will mark a more balanced market for buyers and sellers.

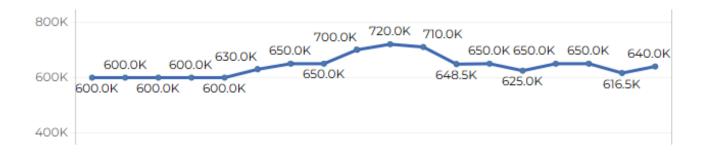
TL;DR

Median down
payments in dollars
experiences an
overall downward
trend in ON and QC,
returning to July 2021
numbers, while
median down
payment percentages
plateau.

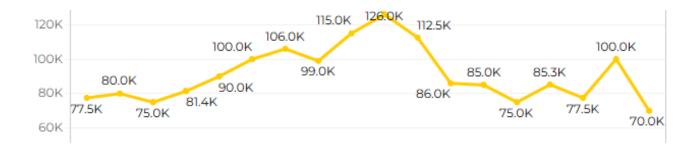


By Province: ON [1/3]

Median Purchase Price (\$)



Median Down Payment (\$)



Median Down Payment (% of Purchase Price)

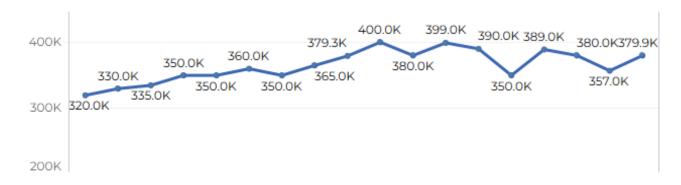


Fig. 8.1: Graph of intended purchase prices vs down payment (in dollars and percentage) from July 2021 through December 2022 in Ontario.

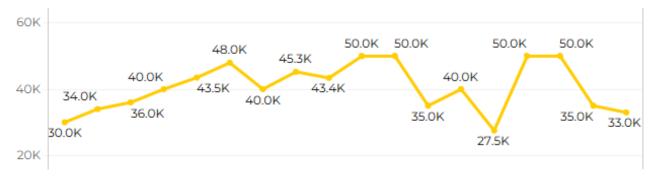


By Province: QC [2/3]

Median Purchase Price (\$)



Median Down Payment (\$)



Median Down Payment (% of Purchase Price)

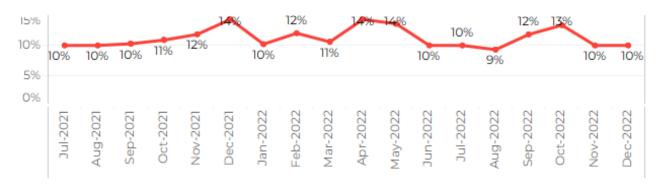


Fig. 8.2: Graph of intended purchase prices vs down payment (in dollars and percentage) from July 2021 through December 2022 in Quebec.



By Province: AB [3/3]

Median Purchase Price (\$)



Median Down Payment (\$)



Median Down Payment (% of Purchase Price)

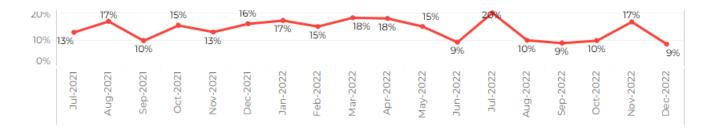


Fig. 8.3: Graph of intended purchase prices vs down payment (in dollars and percentage) from July 2021 through December 2022 in Alberta.

Key Data To Know	TL;DR
As for AB, the median purchase price has decreased slightly but still maintained an overall plateau since August 2022. That said, median down payments have decreased in dollars and percentages – from \$45,000 to \$25,000 and 17% to 9%, respectively.	Median down payments in dollars experiences an overall downward trend in ON and QC, returning to July 2021 numbers, while median down payment percentages plateau.



Deep Dive





How did home buying change over the course of 2022? What type of mortgages and down payments are home buyers opting for now?

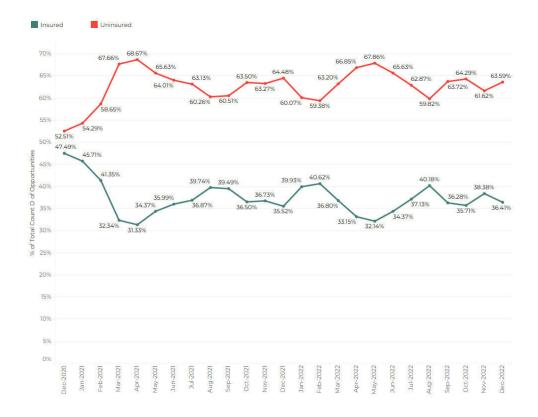


Fig. 9: Graph comparing the portion of applications for conventional mortgages vs insured mortgages from October 2020 to December 2022.

In the previous data on down payments, we noted an overall downward trend in down payment amounts, both in dollar value and percentages, since March 2022, when the rate hikes first began. It makes sense to conclude that with rising rates affecting their cost of living, buyers were contributing less to their down payments. However, a deeper dive into conventional mortgages vs insured mortgages sheds more light on this topic.

In line with the beginning of rate hikes, we can note a dip in the portion of conventional mortgage applications and a responding increase in the portion of insured mortgage applications between April 2022 and August 2022. That being said, conventional mortgages hold the majority stake in applications; most buyers still put down 20% of the purchase price. However, as noted in our previous report, this can be attributed to the fact that buyers who were once shopping in the >\$1M range have shifted to the <\$1M range as properties continue to devalue due to inflationary pressures.



How did home buying change over the course of 2022? What type of mortgages and down payments are home buyers opting for now?

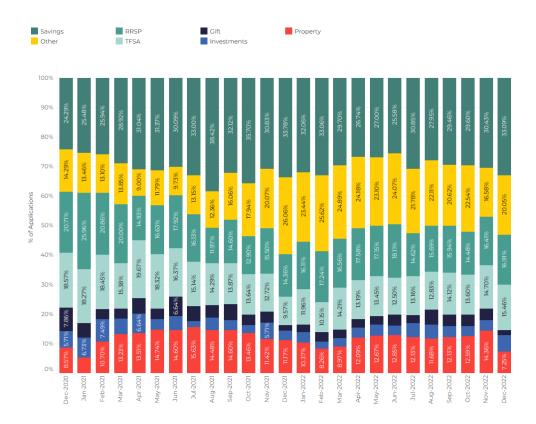


Fig. 10: Graph representing the portion of applications by the source of the down payment between December 2020 and December 2022.

Considering Canada's RRSP Home Buyers Plan, which allows first-time homebuyers to take out up to \$35,000 from their RRSPs to contribute to their down payment, it's possible that a large portion of first-time buyers are being represented in this graph. This is also demonstrated at once by the Savings and TFSA categories taking up many applications and by the dips in the Investments and Property categories. First-time homebuyers don't have a property to sell or cashin equity to invest for their purchase. They are way more likely to dip into investments (RRSP, TFSA, Savings, etc). This is also in line with the data in the graph below, as continued rate hikes create hesitancy among those who want to invest in property or sell their property.



How did home buying change over the course of 2022? What type of mortgages and down payments are home buyers opting for now?

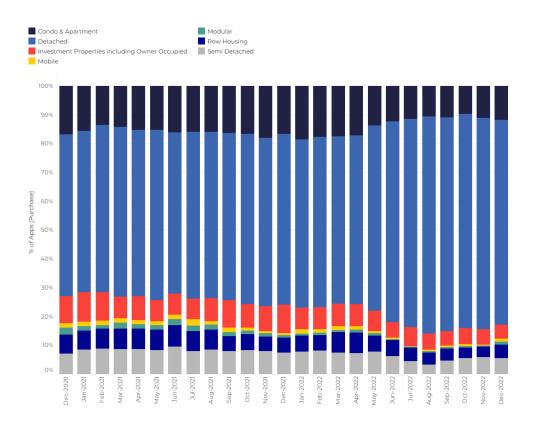


Fig. 11: Graph representing purchases by property type between December 2020 and December 2022.

While detached homes consistently hold the majority stake, we can notice a further increase starting in May 2022. Over the past two years, detached homes have increased their proportion of purchased property types compared to condos. Furthermore, in line with the market cooldown and the BoC rate hikes, we can notice a decline in the number of investment properties as investors pulled back over the course of two years. Notably, both trends align with property devaluations due to inflationary pressures.



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

