

A stylized graphic of a hand with five fingers. The fingers are colored dark blue, medium blue, red, and yellow. The palm area is a large dark blue circle containing the text. The thumb is a small dark blue circle on the left side of the palm.

The **nesto-meter**

January Recap



nesto's mortgage trends January 2023

01 Rates

3 changes were made to the rates offered by nesto for QC, ON, and the rest of Canada in January.

02 Mortgage Type Trends

Variable rates are now **100 bps** higher than fixed rates, a huge contrast to what we saw in the summer. Interest in variable rate mortgages has reached **a low of 19%** of our mortgage inquiries.

03 Purchase Timing Intent

January 2023 shows a **40% difference** in buyer intent between clients who are 'just looking' and those who are 'ready to buy,' the biggest spread we've seen since December 2021.

04 Property Value And Down Payment

Median purchase price in ON **drops by \$50,000** since last month, but remains relatively stable in both QC and AB.



Buyer interest in variable rate mortgages drops to 19% as variable rates surpass fixed rates by 100 bps

January Recap 2022

This January, the Bank of Canada kicked off the first month of the year with another 0.25 bps rate hike. As a result, the gap between variable rates and fixed rates increased further, while client inquiries for variable rate mortgages decreased. It is no surprise that buyer hesitancy has yet to be extinguished, with nesto users who are 'just looking' continue to hold a majority stake over those who are 'ready to buy.'

On the home buying end, both the median purchase price and the median down payment in ON experienced a slight drop this month. Meanwhile, QC and AB prices remained stable with median down payments increasing in both provinces.

Finally, our deep dive this month provides a comparison between variable rate mortgages and adjustable rate mortgages during rate hikes. The data reveals the benefits of an ARM in high interest rate environments. Furthermore, we discuss the average income to mortgage ratios of buyers in QC, ON, and the rest of Canada.

Read on to learn about the mortgage industry trajectory.



Section 01

Rates

01



A. Volatility

Number of lowest rate changes per month

Number of lowest rate changes per month

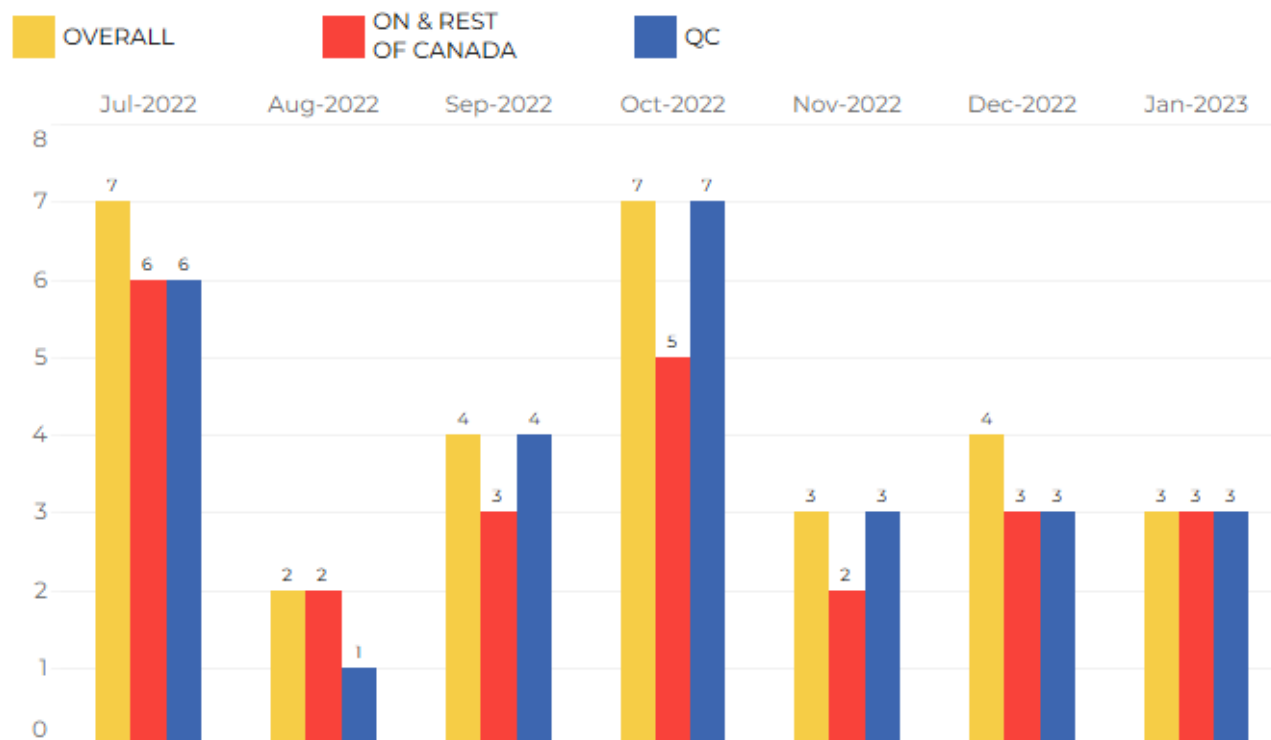


Fig. 1: Number of times the lowest rates offered by nesto to its borrowers changed per month across provinces between July 2022 and January 2023.

Key Data To Know	TL;DR
Looking at rate changes from July 2022 through January 2023, the rising prime rate clearly impacts the rates offered to nesto's clients in our database. The number of rate changes in Quebec remains stable for a third consecutive month at 3 changes. Ontario and the rest of Canada also experienced a total of 3 changes in the lowest rate offered by nesto, averaging 3 overall rate changes across the country for the month of January, a small decrease from December's average of 4 rate changes.	The number of lowest rate changes offered by nesto remains at 3 rate changes for QC, ON, and the rest of Canada in January.



Volatility - by type

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

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

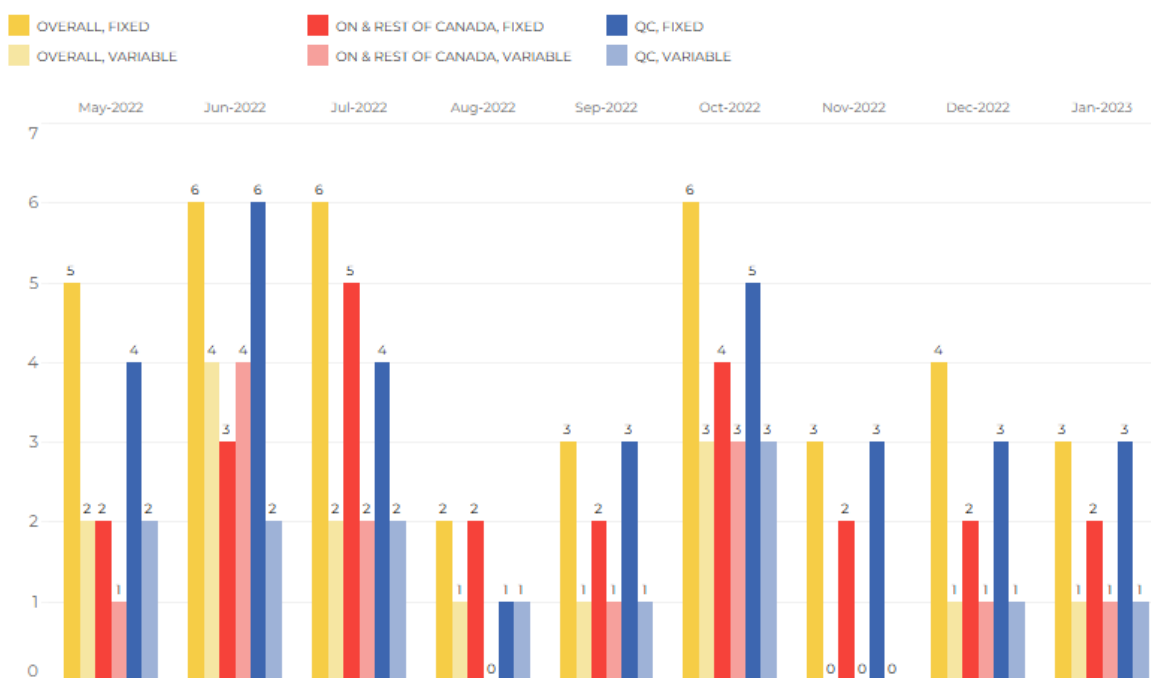


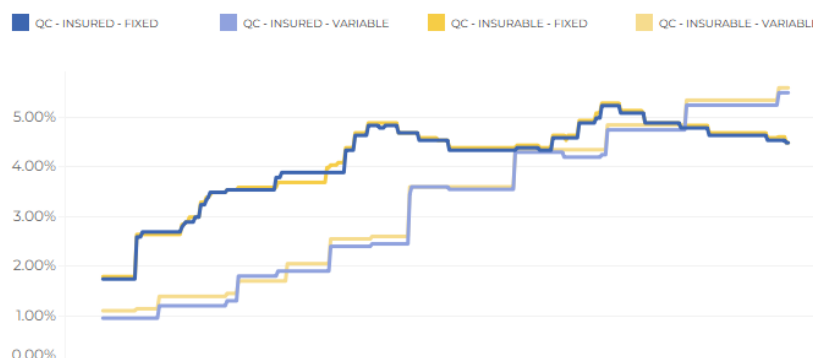
Fig. 2: Number of times the lowest rates offered by nesto to its borrowers changed per month across provinces between May 2022 and January 2023, comparing fixed to variable rates.

Key Data To Know	TL;DR
<p>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.</p> <p>As mentioned above, January 2023 showed a slight decrease in the times fixed rates changed, dropping to 3 from 4 overall fixed rate changes in December. The number of changes to the variable rate remained consistent compared to the previous month, with 1 overall rate change. This change can be attributed to the BoC rate hike on January 25th.</p>	<p>There was 1 less change to fixed in January 2023 compared to December 2022.</p>



B. Variance: Lowest Rates

QC - Rate Variation



ON & Rest of Canada - Rate Variation

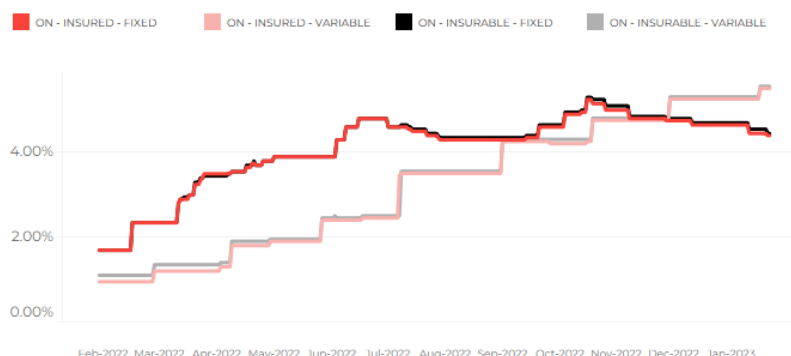


Fig. 3: These graphs show the rate variance in Quebec compared to Ontario and the rest of Canada.

Key Data To Know	TL;DR
<p>Now let's talk about variance! Last year, we saw fixed rates rise and overtake variable rates significantly. This gap widened from March 2022 to the summer (>5.0% for fixed and < 5.0% for variable), which is attributed to the interest rate hikes from the Bank of Canada. However, with interest rate hike announcements continuing as the year progressed, the gap between fixed and variable rates narrowed, converged, and then flipped in December! Now in January 2023, we can see that variable rates have overtaken fixed rates by 100 bps, a huge contrast to what we saw in the summer.</p>	<p>Variable rates are now 100 bps higher than fixed rates, a huge contrast to what we saw in the summer.</p>



Section 02

Mortgage Type Trends

02



Purchase vs. Renewal vs. Refinance

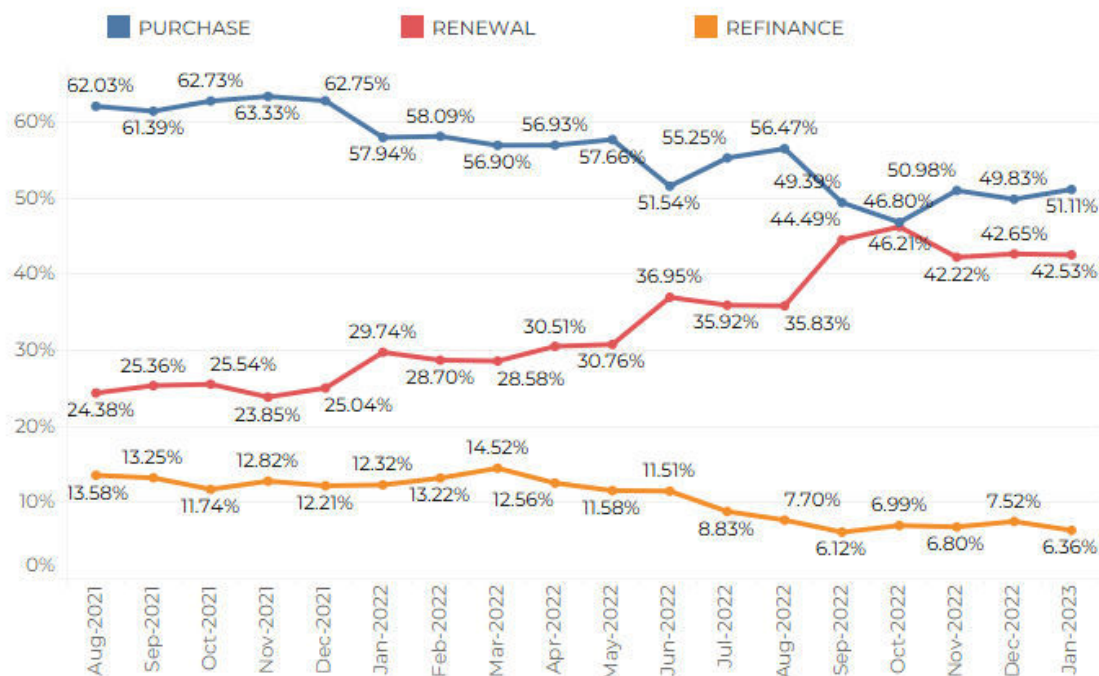


Fig. 4: Trends for the proportion of purchases (new mortgages) vs renewals vs refinances from August 2021 to January 2023.

Key Data To Know	TL;DR
After meeting in the middle with an almost balanced amount of renewals to purchases in October, now, 3 months later, we see purchases are taking the lead. This could signal that the cooling housing market is creating demand again as buyers come off the sidelines due to slightly falling fixed interest rates, the BoC rate hike slowdown, and falling prices on homes in key regions.	New purchases continue to climb due to lower fixed interest rates, falling home prices and a potential slowdown in BoC rate hikes.



Section 03

Purchase Timing Intent

03



Purchase Timing Intent

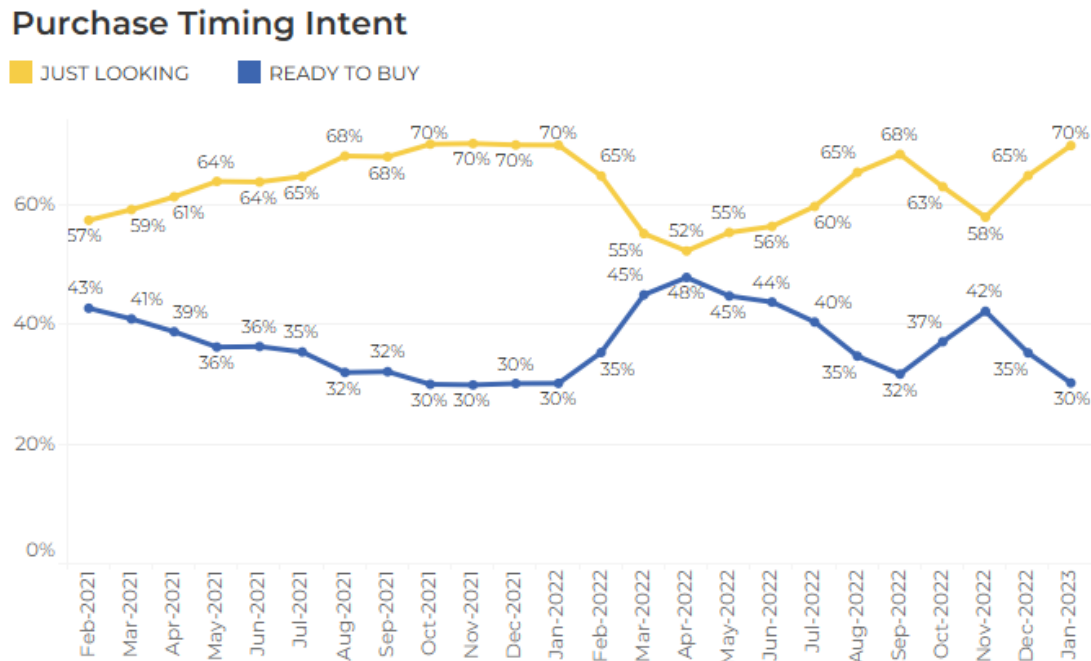


Fig. 5: Purchase intent: proportion of users “ready to buy” vs “just looking” in their mortgage journey with nesto, illustrated over the last two years from February 2021 to January 2023.

Key Data To Know	TL;DR
<p>Our clients' purchase intent in January 2023 reiterates the buyer hesitancy we've been noticing since the summer. With yet another rate hike on January 25th, buyers are continuing to exercise caution. January 2023 shows the biggest buyer intent spread since December 2021, with 70% of clients who are 'just looking' and 30% who are 'ready to buy'. While we're getting more purchase applications versus renewal applications, it still seems that buyers are shopping around for their best rate before settling in.</p> <p>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.</p>	<p>January 2023 shows the biggest buyer intent spread since December 2021, with 70% of clients who are 'just looking' and 30% who are 'ready to buy'.</p>



Purchase Timing Intent - By Province

Purchase Timing Intent

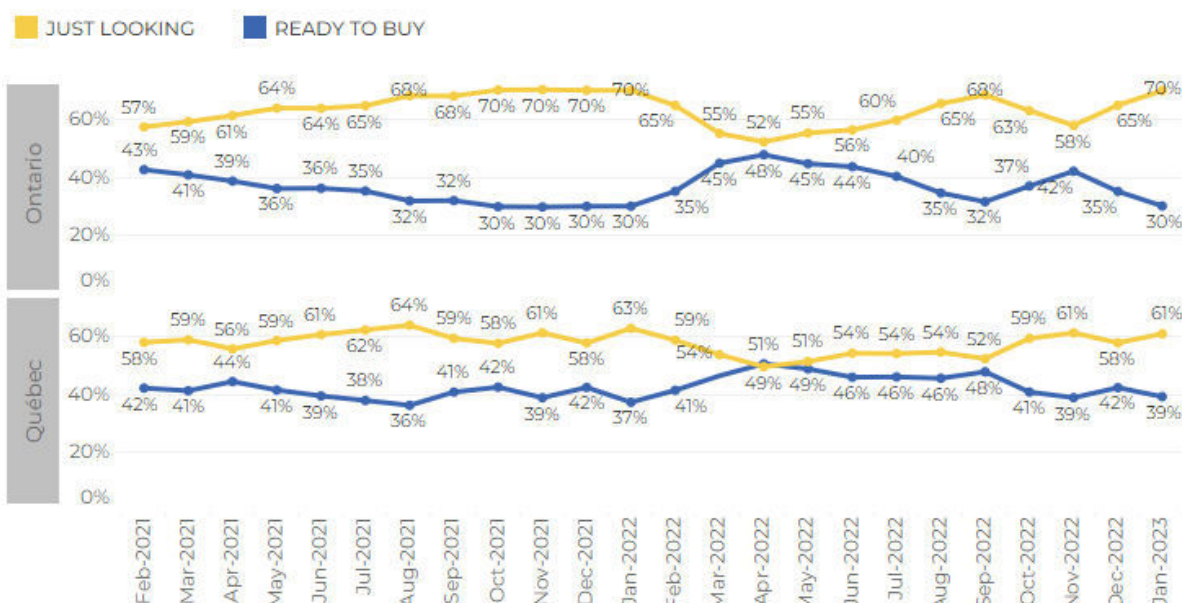


Fig. 6: Purchase timing intent proportion of those “ready to buy” vs “just looking” in nesto’s mortgage process from February 2021 through January 2023 in Quebec and Ontario.

Key Data To Know	TL;DR
<p>Matching the national data above, the portion of ON users who are ‘just looking’ reached 70% in January 2023, while the portion of those who are ‘ready to buy’ decreased to 30%. In QC, users who are ‘just looking’ also hold a majority stake at 61%, but the gap is not as significant as in the rest of the country. This difference can be attributed to a lower average purchase price in QC compared to ON, as illustrated in the data below.</p>	<p>The gap between users who are ‘just looking’ vs ready to buy continues to increase in both ON and QC.</p>



Section 04

Property Value And Down Payment

04



Property Value and Down Payment

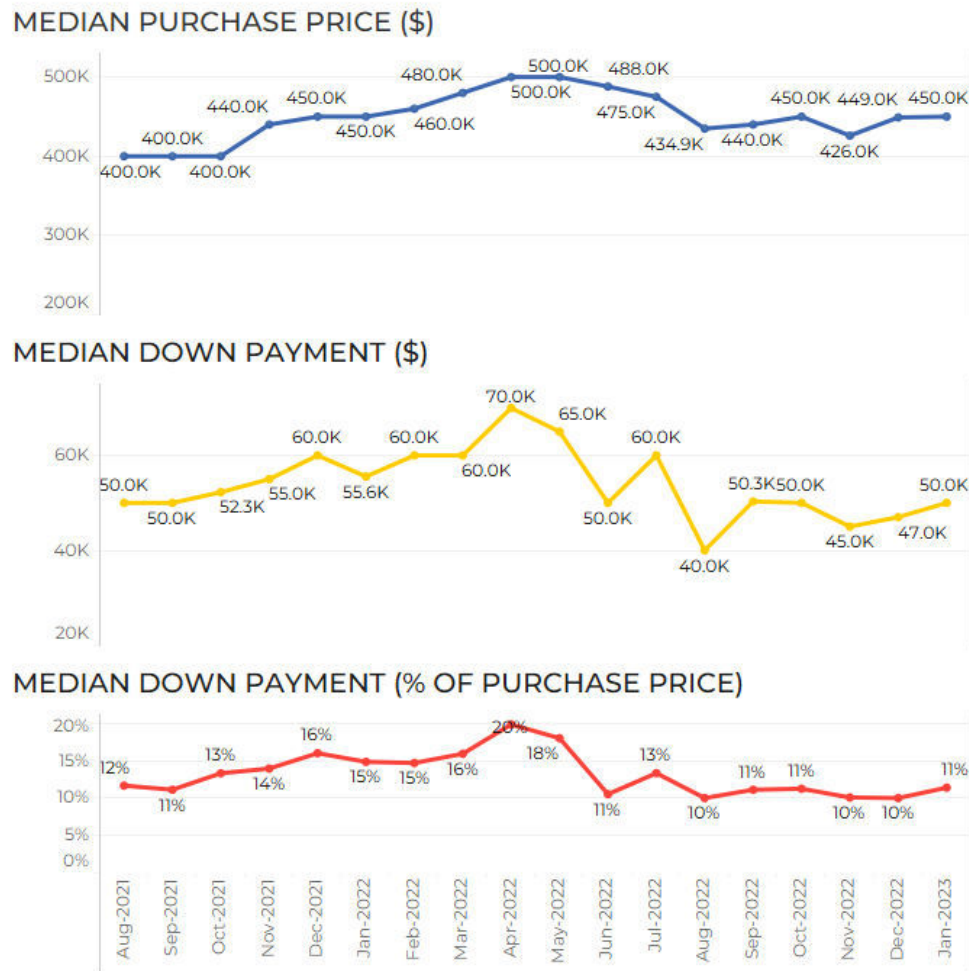


Fig. 7: This chart shows a slight shift in the recent cooling market, with the median purchase price up by \$20,000.

Key Data To Know	TL;DR
<p>In January 2023, we saw a small increase in the purchase price and median down payment. The purchase price increased from \$449,000 to \$450,000, and in tandem, the down payment increased from \$47,000 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, down payments are trending up to compensate for the increase in rates over the same period.</p>	<p>In January 2023, negligible increases in the median purchase price and median down payment from the previous month.</p>



By Province

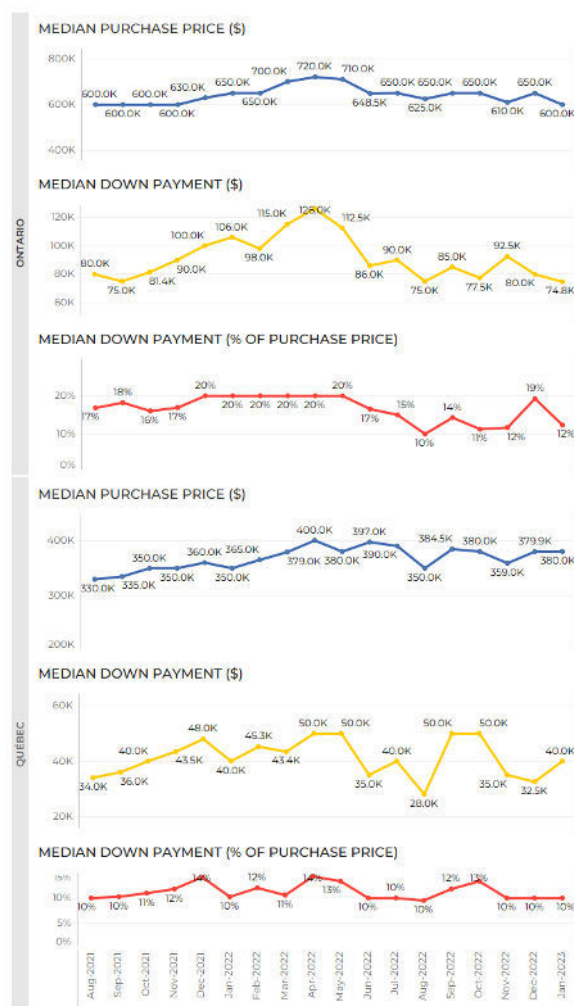


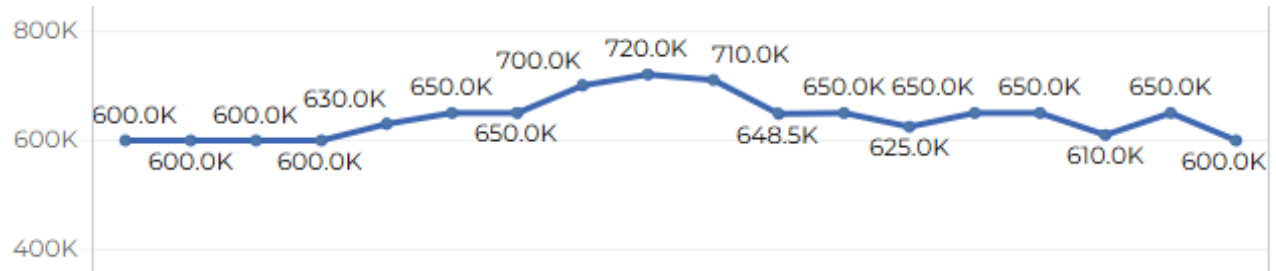
Fig. 8: Graph of intended purchase prices vs down payment (in dollars and percentage) from August 2021 through January 2023 in Ontario and Quebec.

Key Data To Know	TL;DR
<p>In January 2023, Quebec's median down payment experienced an uptick after falling for a couple of months, going from \$32,500 to \$40,000. That said, the median down payment percentage remained at 10%, despite the increase in the median purchase price.</p> <p>The numbers in ON continue on their downward trend, where the median down payment has decreased from \$80,000 to \$74,800, and the median down payment percentage drops from 19% to 12%. It's also worth noting that, in ON, the average home price has decreased by 11.1% from the summer to winter of 2022.</p>	<p>The numbers in ON continue on their downward trend, where the median down payment has decreased from \$80,000 to \$74,800, and the median down payment percentage drops from 19% to 12%.</p>



By Province: ON [1/3]

Median Purchase Price (\$)



Median Down Payment (\$)



Median Down Payment (% of Purchase Price)

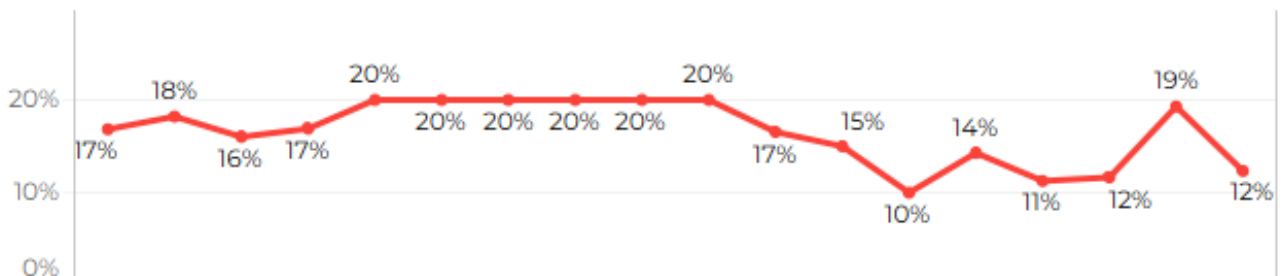
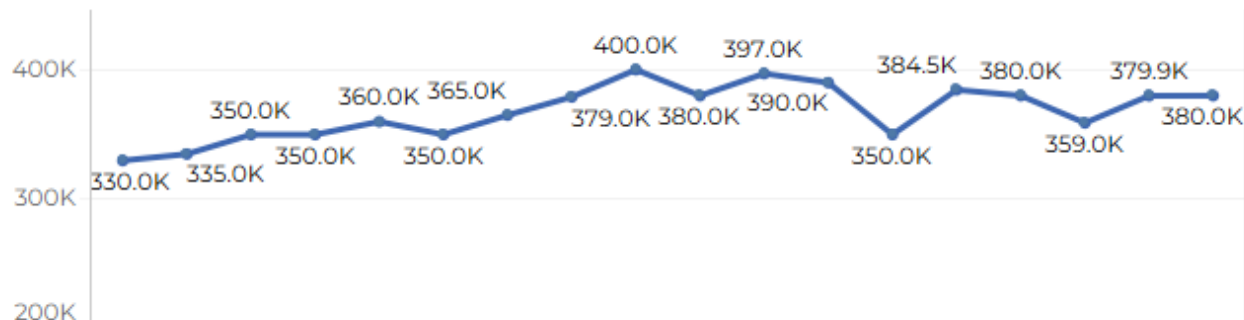


Fig. 8.1: Graph of intended purchase prices vs down payment (in dollars and percentage) from August 2021 through January 2023 in Ontario.

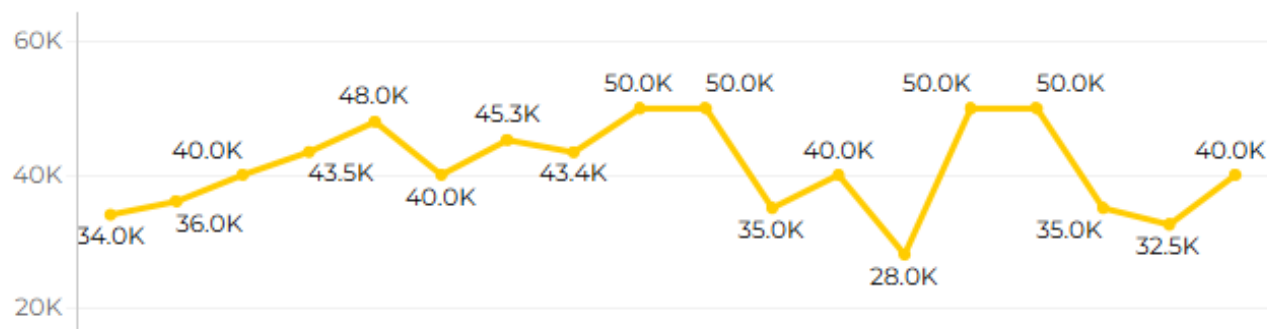


By Province: QC [2/3]

Median Purchase Price (\$)



Median Down Payment (\$)



Median Down Payment (% of Purchase Price)

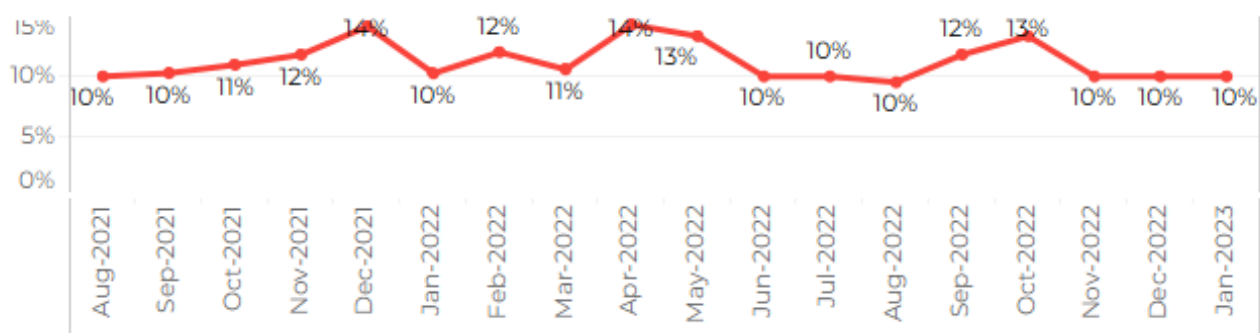
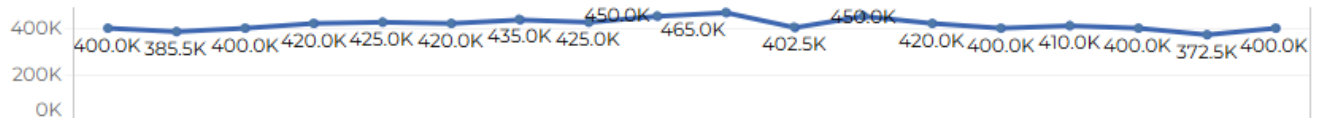


Fig. 8.2: Graph of intended purchase prices vs down payment (in dollars and percentage) from August 2021 through January 2023 in Quebec.



By Province: AB [3/3]

Median Purchase Price (\$)



Median Down Payment (\$)



Median Down Payment (% of Purchase Price)

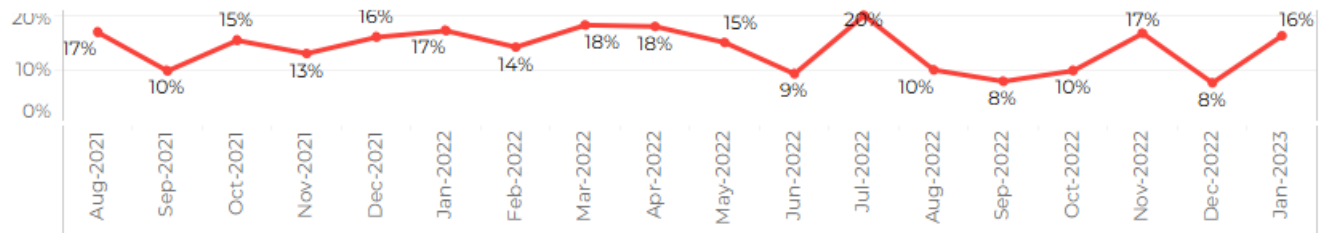


Fig. 8.3: Graph of intended purchase prices vs down payment (in dollars and percentage) from August 2021 through January 2023 in Alberta.

Key Data To Know	TL;DR
As for AB, the median purchase price has plateaued since August 2022. That said, the median down payments in dollars and percentages experienced a significant increase in January 2023 – from \$20,500 to \$75,000 and 8% to 16%, respectively.	The numbers in ON continue on their downward trend, where the median down payment has decreased from \$80,000 to \$74,800, and the median down payment percentage drops from 19% to 12%.



Deep Dive





How the BoC rate hikes affect ARMs vs VRMs

Adjustable Rate Mortgage - since the first prime rate change, Mar 2022

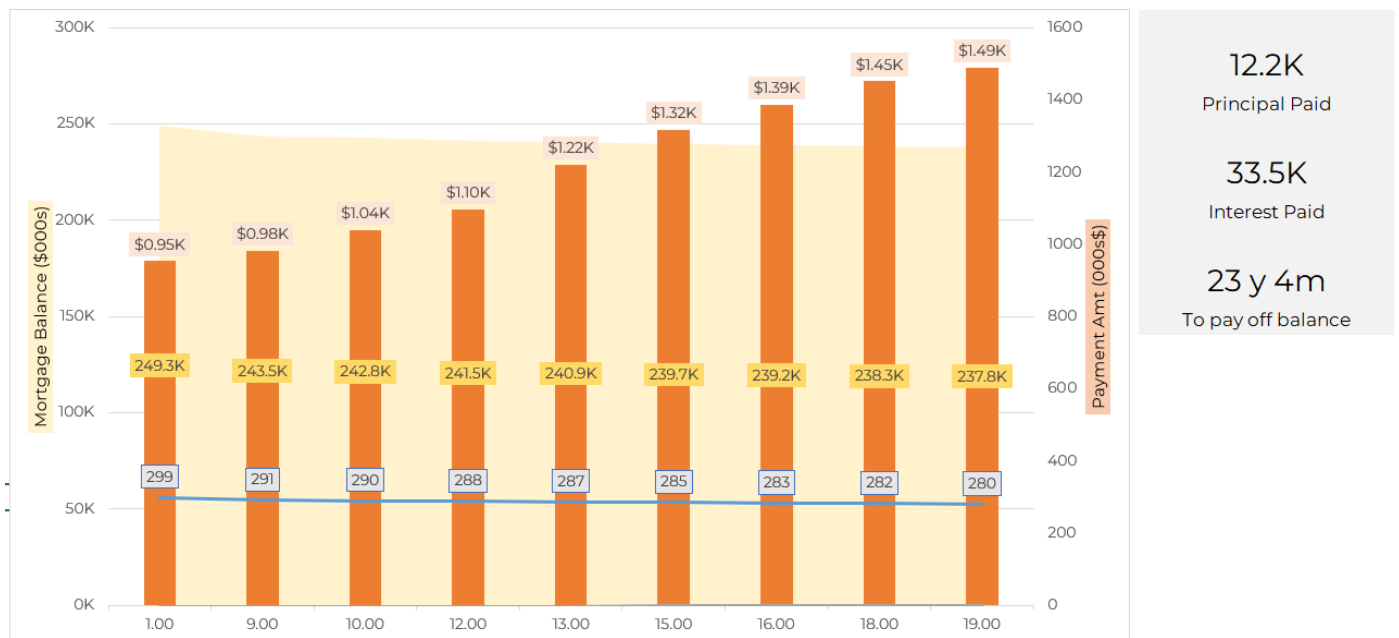


Fig. 9: Graph representing the increase in monthly payments with an adjustable rate mortgage (ARM) since the first BoC rate change.

The two graphs (Fig. 9 and Fig. 10) compare changes in monthly mortgage payments with an adjustable rate mortgage vs a variable rate mortgage*, as influenced by the Bank of Canada rate hikes. While nesto clients holding ARMs experienced increases in their monthly mortgage payments, noticing a very gradual increase over time. True to their name, ARM payments change as interest rates change, basically adjusting themselves so borrowers can pay off their mortgage within their initial amortization period. For this reason, the risk of reaching their trigger point is not an issue for ARM holders.

This is not the case for VRMs. As the graph demonstrates, VRM holders are at risk of experiencing payment shocks as their monthly payments increase very suddenly due to BoC rate hikes. Furthermore, in high interest rate climates, VRM holders run the risk of reaching their trigger points– taking much longer to pay off their mortgage.

*Note: Since nesto only offers ARMs, the VRM graph above depicts simulated data.



How the BoC rate hikes affect ARMs vs VRMs

Variable Rate Mortgage - since the first prime rate change, Mar 2022

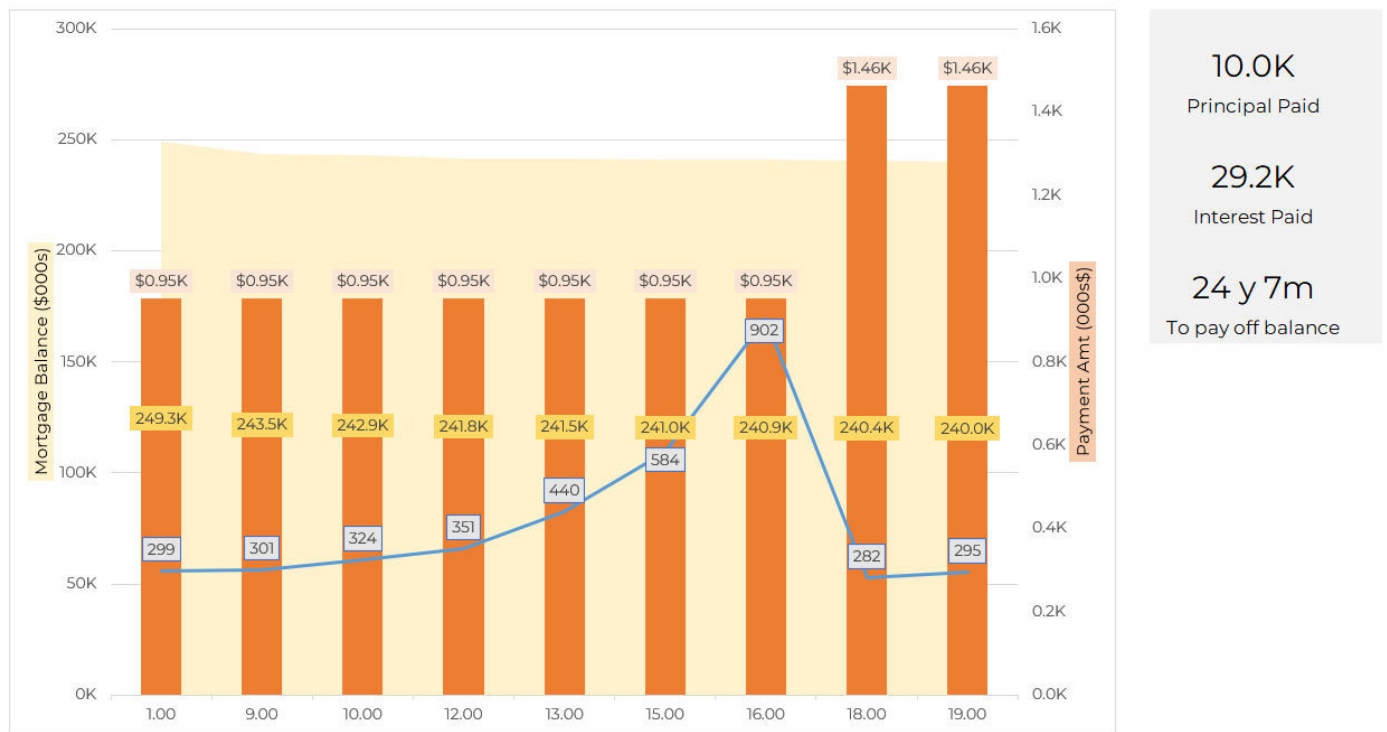


Fig. 10: Graph representing the increase in monthly payments with a variable rate mortgage (ARM) since the first BoC rate change.



What do average income and purchase price tell us about today's home buyers?

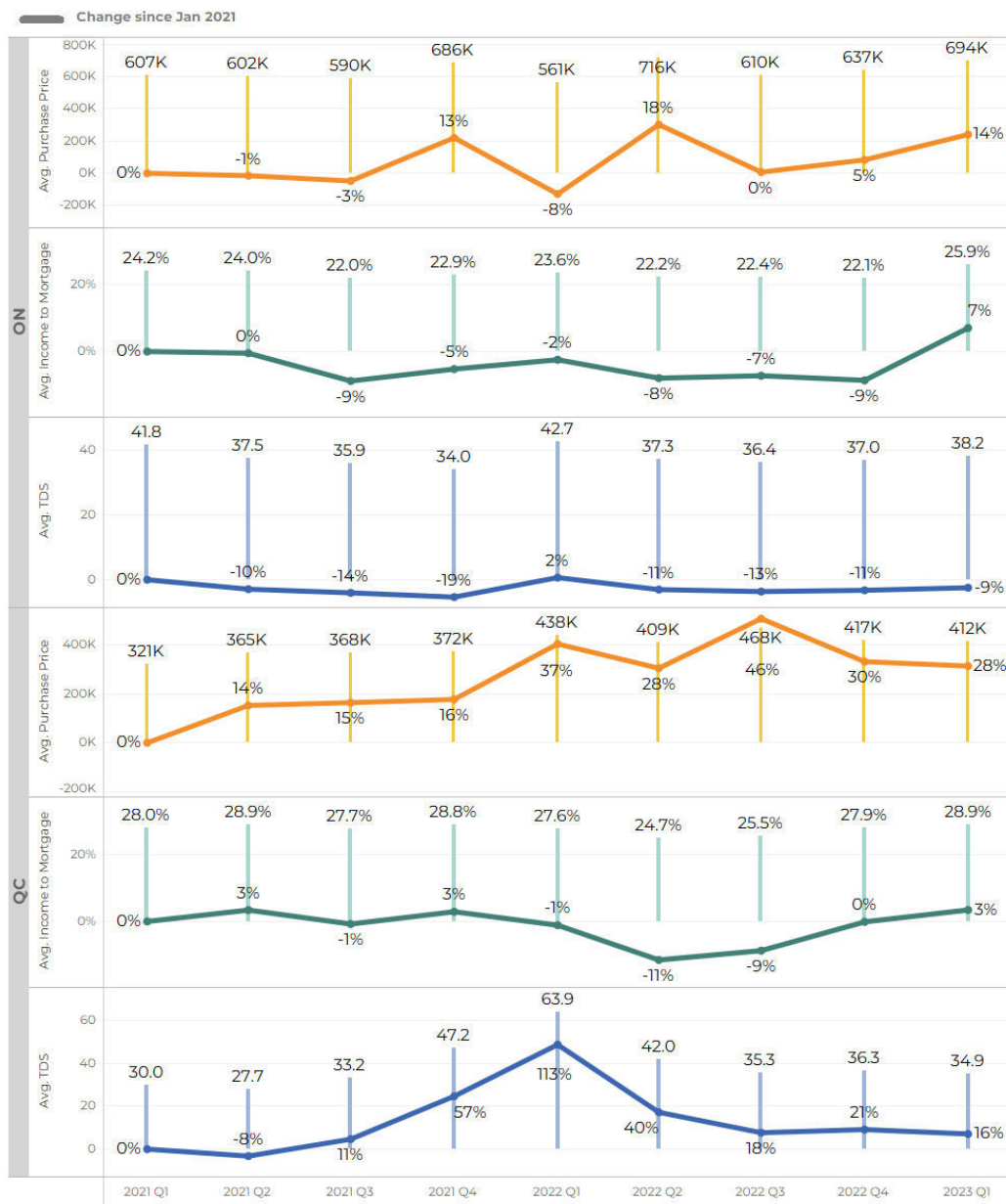


Fig. 11: Graph representing average purchase price, income to mortgage ratio, and TDS ratio in ON and QC from January 2021 to January 2023.



What do average income and purchase price tell us about today's home buyers?

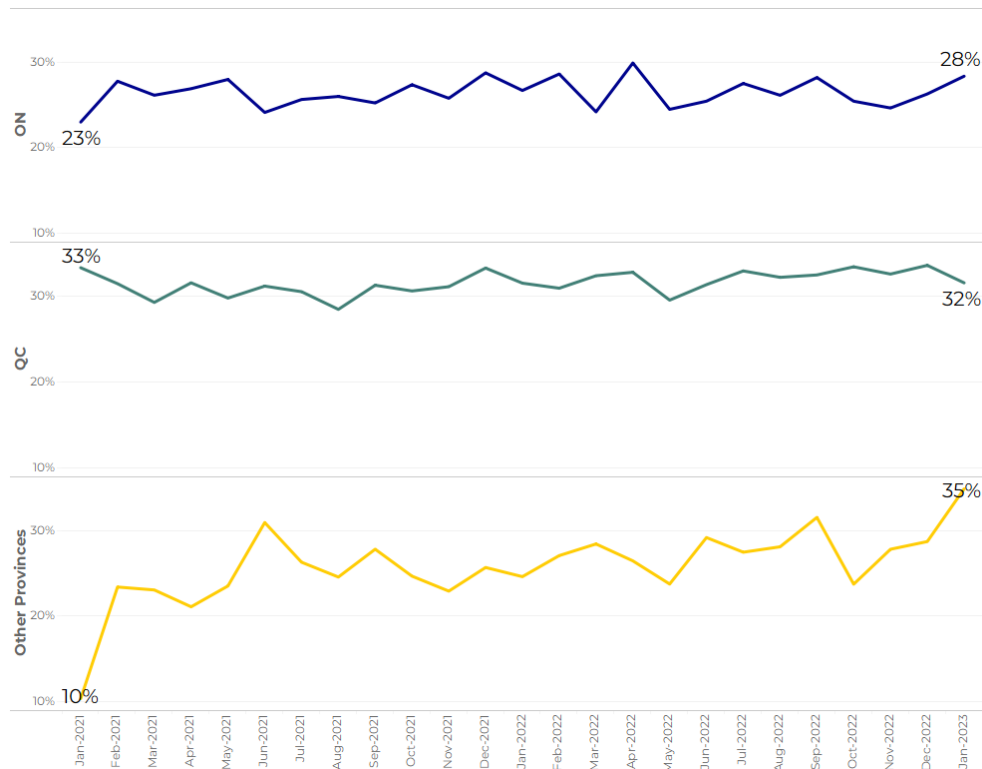


Fig. 12: Graph representing average income to mortgage ratio on ON, QC, and the rest of the provinces from January 2021 to January 2023.

In both ON and QC, we can see an overall increase in the average purchase price of homes over the past two years. Average income to mortgage ratio, on the other hand, has remained relatively stable. What's interesting is that this is not the case in the rest of the provinces, where we can see a significant increase in the average income to mortgage ratio, from 10% in January 2021 to 35% in January 2023. This can be due to many different factors.

For starters, it's possible that people in bigger cities in QC and ON are not qualifying for larger mortgages due to rising interest rates and then are making larger down payments. This could account for the relative stability of the income to mortgage ratio in these provinces, despite increasing rates. Another explanation is that home owners are extending their amortization periods to mitigate increasing monthly mortgage payments.



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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