The nesto-meter

March 2021

nesto
mortgage agency

March 11th, 2021.

Here we are, almost a year later. One year since the beginning of the first global lockdown in our recent history that is still changing the course of so many lives and transforming so many industries today.

Spring is just around the corner which would also normally mean the start of the busy season for the mortgage industry. The thing is, for most of 2020 and now 2021, seasonality patterns have not been a reliable metric and while purchases were supposed to decrease slightly in January and February 2021 prior to the home buying season, they never did.

One thing happened though in the last month: After decreasing significantly since June 2020, rates finally went back up in February 2021, twice.

In this March 2021 issue, which covers data from January 2020 to now, adding February 2021 to the mix, you will find updated statistics on our 4 key monthly metrics: Rates volatility and variance, mortgage type trends, purchase price vs down payment and purchase timing intent.

As for our monthly deep dive, 2 interesting questions came to mind while scrolling through our data. First: the choice between a fixed and a variable rate. Is there a major difference between our users initial intent when filling out their application and their final choice, after speaking to an advisor? Second: Condos versus Houses. While the first lockdown brought our users to clearly choose houses over condos back in March 2020, what's the situation now?

KEY TAKEAWAYS

Mortgage rates have changed a total of 67 times in the last 12 months, an average of 5.15 times a month.

February 2021 only saw 2 best rate fluctuations in 28 days, which is 50% less than the same period last year.

In February 2021, after decreasing for 8 months, fixed rates are going back up, while variable rates offers are going down.

Refinance requests are showing an increase in February 2021, absorbing a portion of our new purchase volume, which is still high, representing 55% of our users intent.

In terms of mortgage volume requests, we experienced a 148.2% increase from Jan to Feb 2021.

While many of our users are still initially opting for the variable rate, a majority of them end up with a fixed rate after speaking to one of our advisors

Despite a momentarily increased interest for condos in Ontario, in December 2020, our canadian users still show a much bigger interest for houses, in February 2021.

#1

RATES

A. Volatility

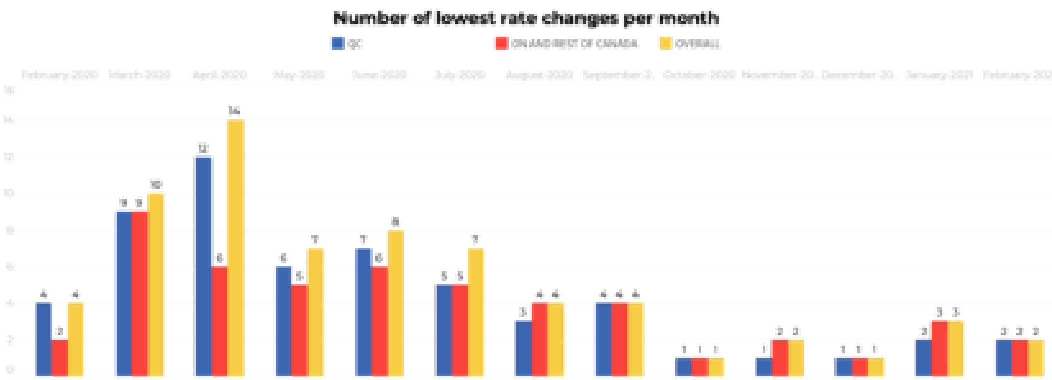


Fig. 1: Number of times the lowest rates offered by nesto to its users changed per month across provinces between February 1st 2020 and March 1st, 2021. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable (20%+ down payment) and corresponds to the lowest rate nesto could offer its clients at the time.

Looking at this graph, we can still clearly see the first lockdown effects on volatility, with a high of up to 14 rate changes recorded, only for the month of April 2020. Compared to this, February 2021 has been pretty steady!

Looking at our lowest rates for insured (5-19.99% down payment) and insurable (20%+ down payment) mortgages, both 5-year fixed and variable, on a yearly basis, mortgage rates have changed a total of 67 times since February 2020. That's an average of 5.15 times a month.

Although February 2021 only saw 2 rate fluctuations in 28 days, which is 50% less than the same period last year, it also revealed the first rate increase in a very long time and a substantial one at that.

Volatility - by type

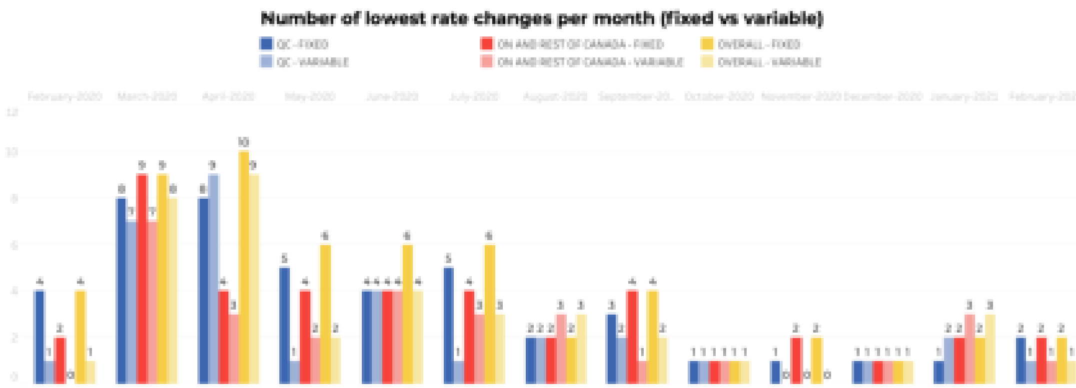


Fig. 2: Number of times the lowest rates offered by nesto to its users changed per month across provinces between February 1st 2020 and March 1st, 2021 and comparing fixed to variable rates. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable (20%+ down payment).

In February 2021, again, fixed rates were the ones moving most often, just like it was the case of most of 2020. Amongst the changes, variable rates went down, thanks to a deeper discount on prime, while fixed rates were the ones going up.

Comparing Quebec rate fluctuations to the rest of Canada, this time, we get identical results. 2 changes for fixed rates and only one change for variable.

For the first time in months, you could consider the variable rate discount of prime - 1.20 being offered, “a sale”.

Volatility - Up or Down

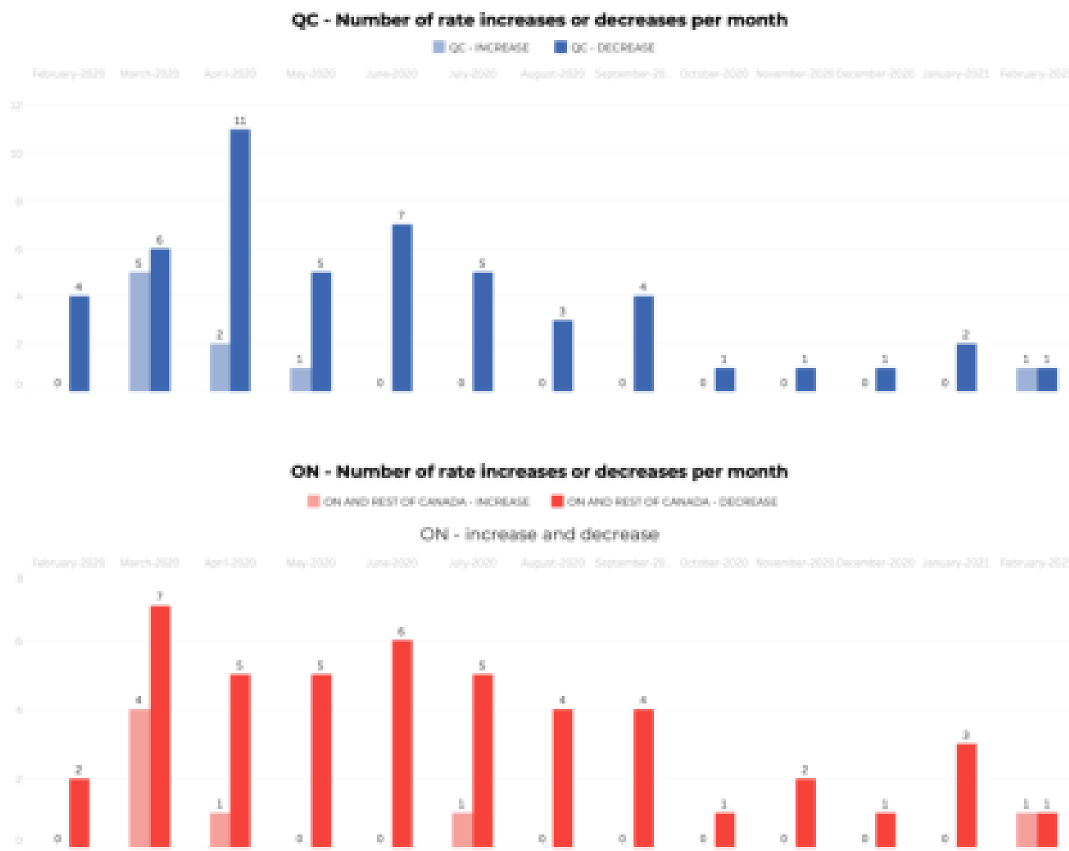
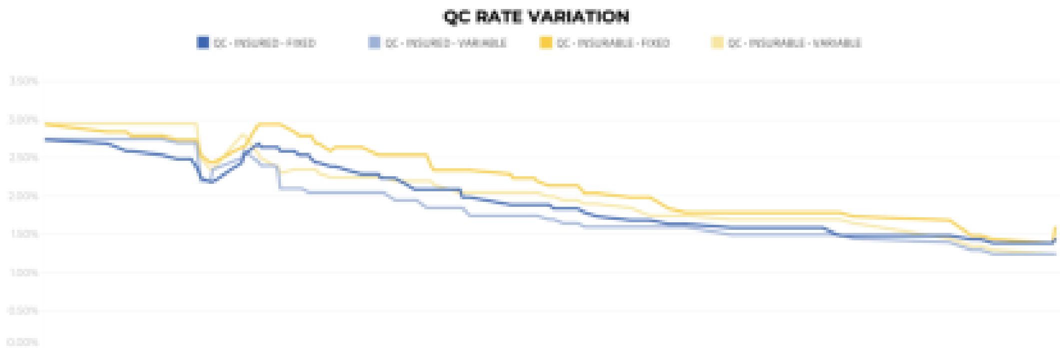


Fig 3: Number of times the lowest rates offered by nesto to its users increased or decreased per month across provinces between February 1st, 2020 and March 1st, 2021. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable (20%+ down payment).

Our team decided to bring back this graph for our February 2021 report to highlight the fact that, after seeing mortgage rates decrease and go lower than we even thought possible for the past 8 months, for the first time since July 2020, we saw an increase in mortgage rates across Canada in February 2021, and again, while writing this report, another rate increase, on March 1st, 2021.

The recent increase in fixed rates is in response to the growing belief that US inflationary pressures will rise quickly. In turn, the five-year Government of Canada (GoC) bond yield surged higher. The 5 year GoC Bond holds a lot of influence over the fixed rate offers in our mortgage market place. When the 5 year bond spikes, and remains there for a dew days, one can often assume that an increase to fixed rates will follow. Note that this metric is unrelated to Variable Rate Mortgages.

B. Variance: Lowest rates



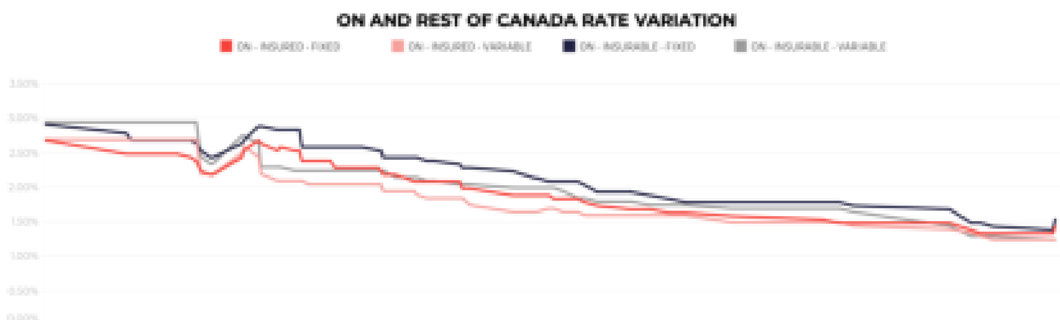


Fig. 4: These graphs show the rate variance from January 1st 2020 to March 1st 2021 in Quebec compared to Ontario and the rest of Canada.

In the last 12 months, our rates have changed 67 times, 70 times if we go back to January 2020.

According to this graph, they fluctuated from 1.35% to as much as 1.70%, our highest insurable variable rate registered at 2.95% while the lowest was at 1.25%.

While fixed and variable rates for the same category (insured or insurable) had been trending towards each other, getting closer and closer each month, February is breaking the trend. Fixed rates took an increase at the end of the month and are now pulling away from variable equivalents, widening the gap.

With Fixed rates pulling up, and the existing Variable rate discounts remaining on the shelf, one could say that the variable rate is currently “on sale” compared to it’s fixed counterpart. This does not mean that the variable rate is a better option in this environment. Fixed vs Variable will always be a case by case decision by the borrower themselves, influenced by many factors and supported by professional advice.

If you'd picked a rate in Febuary: 2020 vs 2021

$350k property
10% down payment
25 year amortization
5 year term

Variable

	Lowest rate	Highest rate	Difference
Rate (ROC variable insurable)	1.25%	2.95%	-1.70%
Monthly payment	$1,261.00	$1,529.00	-$268.00
Total payments	$75,634.00	$91,717.00	-$16,083.00
Total interest paid	$18,513.00	$44,276.00	-$25,763.00
Total principal paid	$57,121.00	$47,441.00	$9,680.00
Money saved	$16,083.00		
Balance remaining	**$267,644.00**	**$277,324.00**	**-$9,680.00**

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Table 1: This table represents the effect of a 1.70% rate difference on a 350k home, with 10% down payment and a 25 year amortization after a 5 year term.

This table represents the effect of a 1.70% rate difference on a 350k home, with 10% down payment and a 25 year amortisation after a 5 year term. Let's just say 1.70% makes a huge difference in a 5 years span!

Scenario 1: You signed a mortgage at 2.95%, our highest insurable variable rate seen in over a year. This 1.70% rate difference would have you end up paying $16,000 more in monthly mortgage payments over 5 years!

Scenario 2: You signed a mortgage at 1.25%, our lowest insurable variable rate seen in the last 13 months. In this situation, you'll end up saving over $25,000 in interest fees over the course of only 5 years!

#2

MORTGAGE TYPE TRENDS

Purchase vs Renewal vs Refinance

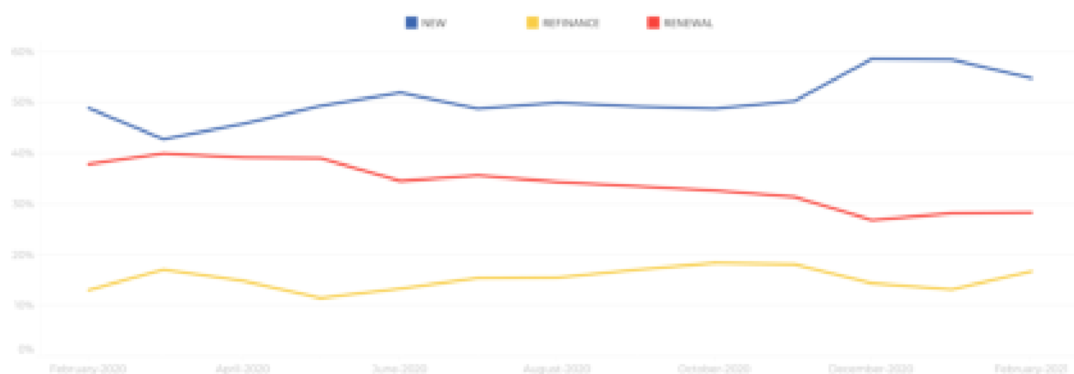

Fig. 5: Trends for proportion of purchases (new mortgages) vs renewals vs refinances from February 1st 2020 to March 1st, 2021. Sum is 100% for each month.

Just like it was observed in our last report, “seasonality” wasn’t really a thing in 2020 and, according to this graph, 2021 seems to be following the same trend. As the end of February is usually the time when the real estate market starts picking up again, our data shows that this clearly occurred at the end of November, beginning of December this time around.

After another small drop in January, refinances are showing an increase in February, absorbing a portion of our new purchase volume. Reaching the highs seen back in October and November, they now represent almost 20% of our users’ intentions.

Are rates moving back up influencing our users’ behaviors? It’s most definitely one of the main motivators!

We expect refinance volume to increase as media headlines signal a potential end to the low rate era and consumers rush to jump in in fear of missing the boat.

#3

PURCHASE TIMING INTENT

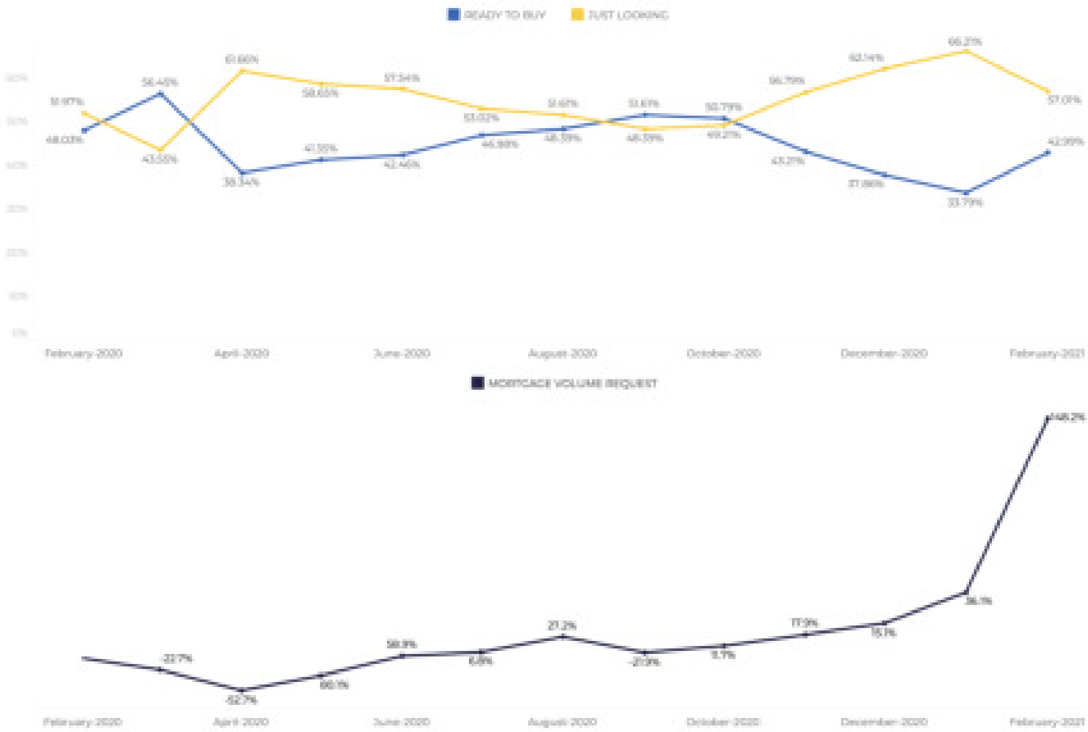

Fig. 6: Purchase intent: proportion of users “ready to buy” vs “just looking” in nesto’s mortgage process, showing month by month from February 1st 2020 to March 1st, 2021.

In February 2021, 55% of our users declared they had the intent to buy a new property, but were they ready to buy, or just getting started in the process (self declared: Just looking)?

In the span of only a month, from January to February 2021, almost 10% of our users fell in the “Just Looking” category, while 10% less, logically, are “Ready to buy”.

However, in terms of mortgage volume requests, our data shows the highest jump recorded in years, a 148.2% jump since last month, to be exact.

What is this due to? Canadians want a home and the pandemic has proved this more than ever. A 148% increase can’t be allocated to one metric, but the obvious one is this: Coming from an environment where low rates seemed like forever, having media headlines across the nation declaring that rates on their way up is poised to cause FOMO(fear of missing out) in soon to be homeowners.

By province

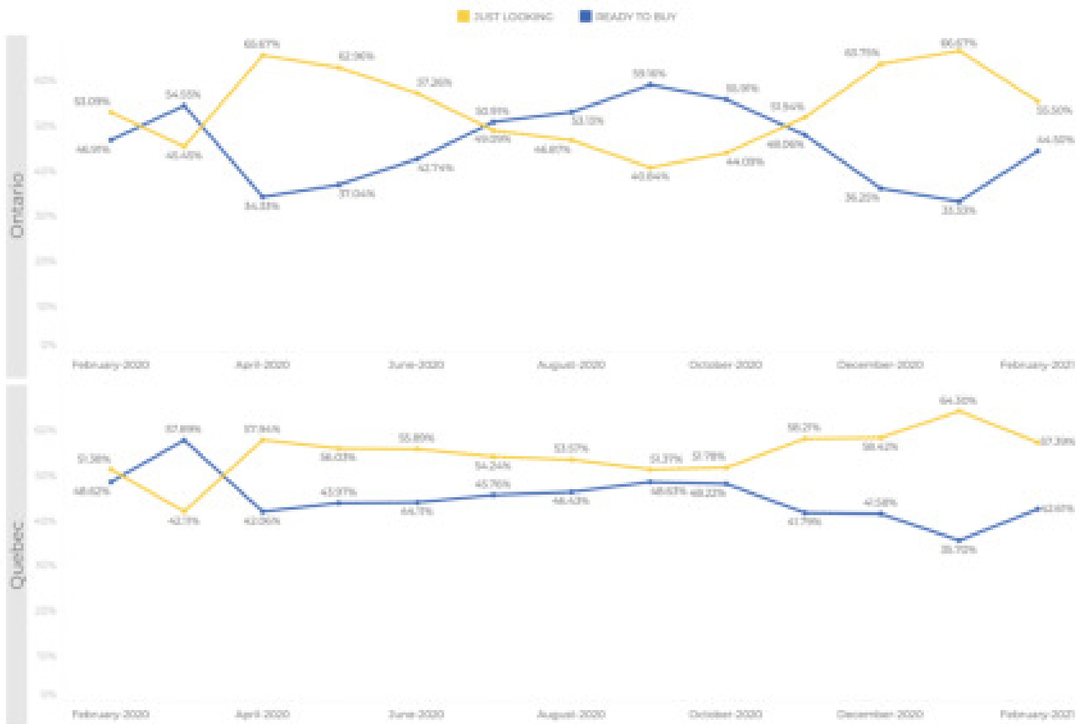

Fig. 7: Purchase timing intent proportion of users "ready to buy" vs "just looking" in nesto's mortgage process, from February 1st 2020 to March 1st, 2021 in Quebec and Ontario.

Now, what happens when we compare our intent data from Quebec to Ontario? At first glance, the overall trend shows to be reflected in both provinces, with the two types of clients (self declared "ready to buy" and "just looking") moving closer to a fifty-fifty split.

Following the 2020 trend, we are already seeing these "just looking" evolving towards more live transactions (self declared: my offer is accepted)"

In Ontario, nesto has aligned with lenders who suit our values, and we had over 50 to choose from in the region.

In Quebec, nesto has aligned with 7 lenders who suit our values, and we only had 10 to choose from.

This lack of lender diversity which we are working hard to address is easily a major influence of two major pain points that we recognize in Quebec, but not the rest of Canada:

Interest rates are generally .05% to .15% higher in Quebec

- Lack of competition and available lenders.
- Some of the lenders with the best rates and mortgage products do not have access to the Quebec marketplace.

Financing Delays

- From a 10 day to 14 day deadline, a borrower buying a home in QC needs a “Final Approval”, showing no conditions outstanding in order to secure the property. While this rule is unique to Quebec, we support it entirely as it protects borrowers in so many ways(deep dive in future report)
- With the above in mind, it’s important to know that 2 primary lenders carry the majority of the mortgage volume requests that come in from the Broker Channel(nesto, MPH, Planipret, etc). When these companies to get too busy, all Quebecors suffer.

In February of this year, 1 of these companies experienced a staffing shortage that caused a 4-5 day backlog treating incoming files. Being a very mature lender, they advised their partners right away of the delays. As a result, mortgage brokers across the province began avoiding this lender, sending their files to similar Mortgage Financing Companies in the province, companies that were unfortunately not equipped to carry the massive increase of volume on short notice. Low inventory, increasing rates, approval delays are not pillars of an ideal mortgage experience, but it is the reality of many home buyers in the province of Quebec today.

#4

Property value and down payment

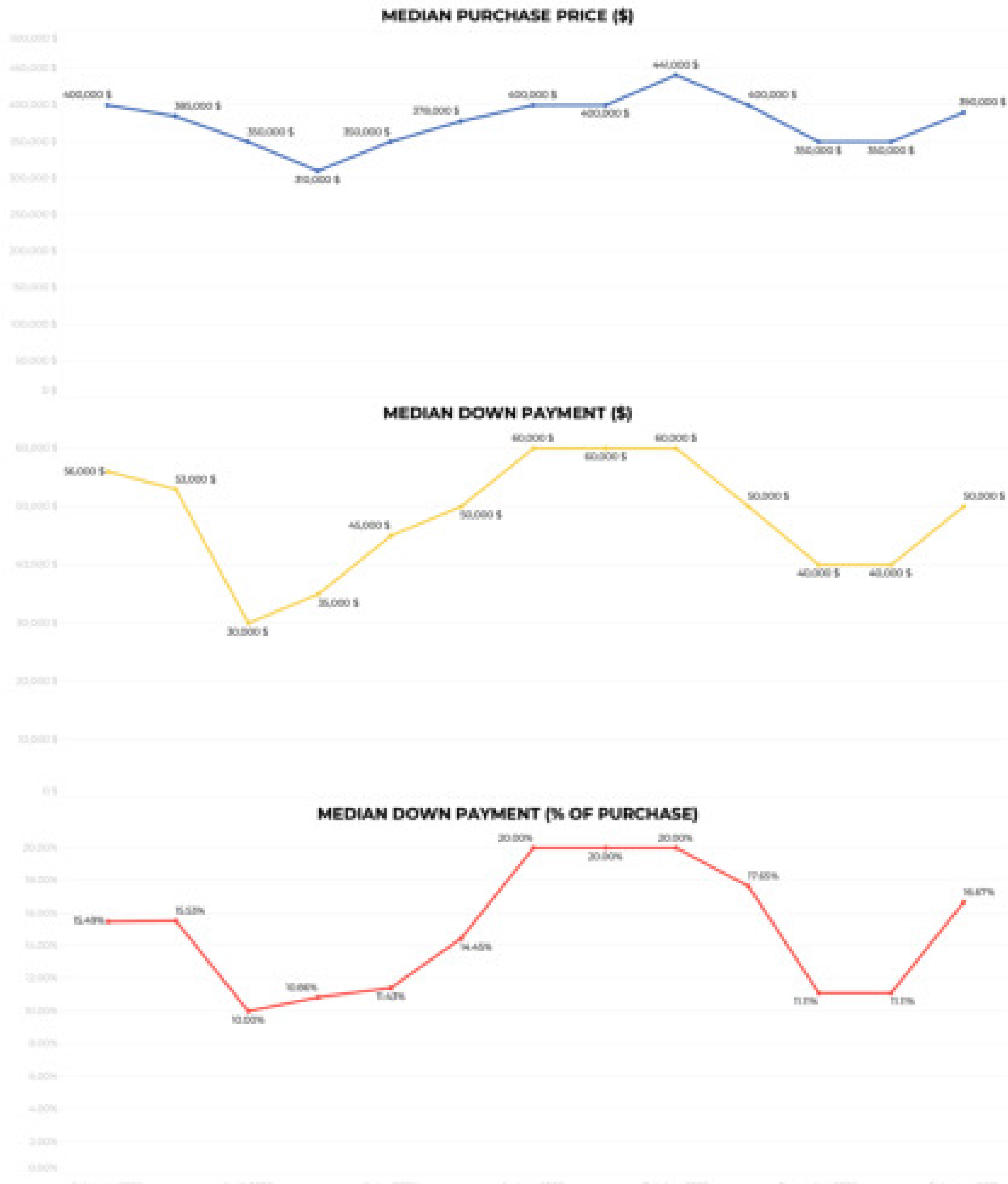

Fig. 8: Graph of intended purchase price vs down payment (in dollars and percentage) from February 1st 2020 to March 1st, 2021.

After decreasing for numerous months, since October 2020, both our median purchase price and down payment are going back up in February 2021, and again, it's not a small jump!

In the last month, the median purchase price has gone from $350 000 to $390 000, while our median down payment is now at $50 000, which represents a jump from 11 % of the purchase price to almost 17%!

We've been talking and hearing about bidding wars and houses selling at prices that are way over their market value for many months now, and this data seems to finally be showing the results of the current trend. In the GTA, Ottawa and many other Ontario markets, one can expect their purchase offer to be discarded if they insert any protective(and highly recommended) conditions. It's not rare to find out after you have an accepted offer that the property has a negative history that impacts it's marketability in the eyes of a lender, or has internal features not up to code, etc. The most common one in a normal real estate market is when the Appraisal(lending) value comes in lower than the purchase price. That's an expensive problem to fix in a normal environment, and sometimes an impossible one in this environment where homes are selling for $200,000 above asking price. Needless to say, this competitive market and pattern of unconditional offers is not healthy in normal times, let alone an environment where rates are on their way up and there are rumoured discussions of cooling measures taking place.

By province

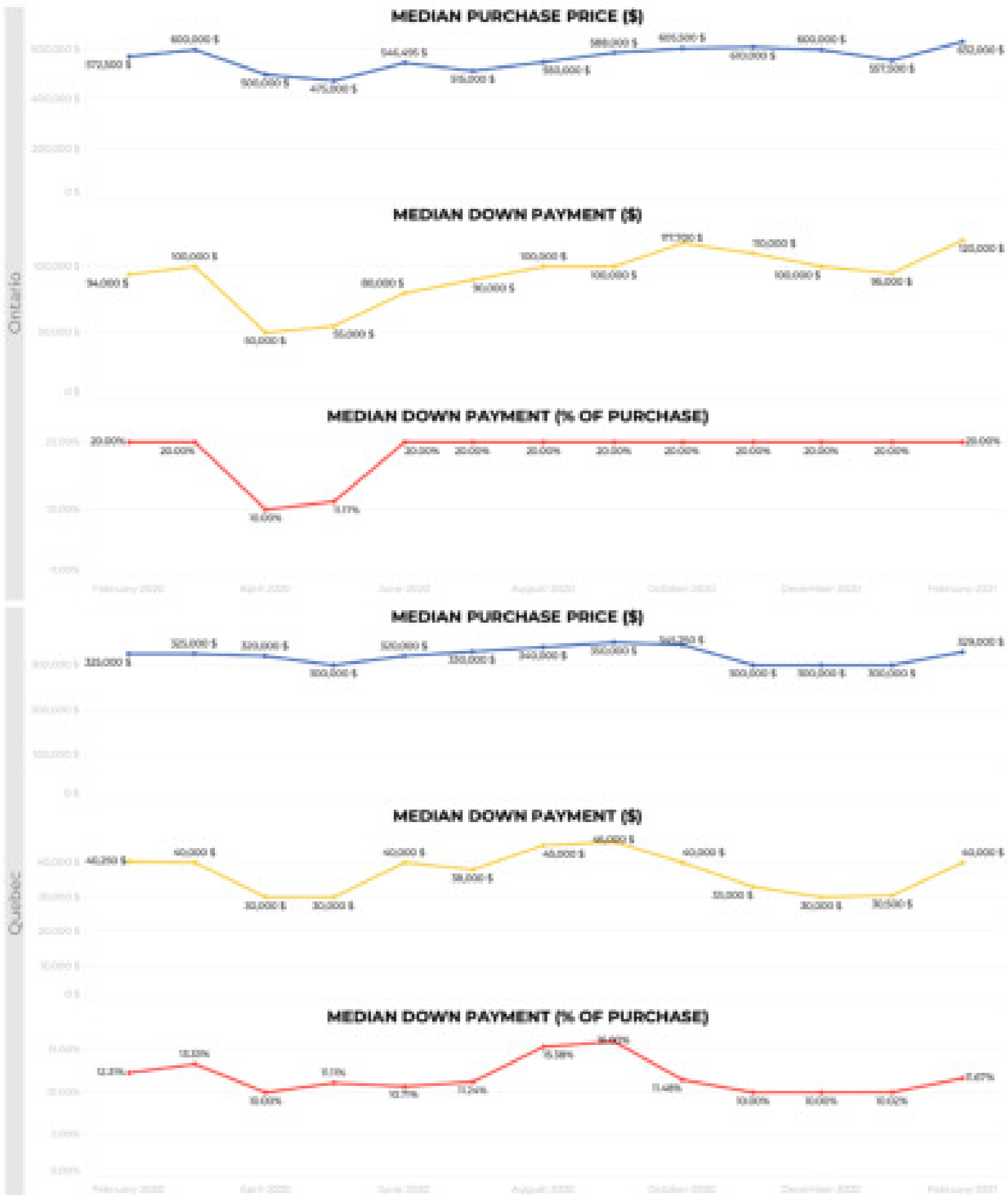

Fig. 9: Graph of intended purchase prices vs down payment (in dollars and percentage) from February 1st 2020 to March 1st, 2021 in Ontario and Quebec.

Looking at this view "by province" sure helps highlighting the changes in the generic view.

In Ontario, the median down payment percentage has been stable since June 2020, remaining at 20% for February 2021 as well, which also means that median purchase price and down payment ($) followed each other and increased proportionally for the last almost 8 months.

In Quebec, however, we see a lot more fluctuations. While our median purchase price is now at 329 000$, an increase of 29 000$ compared to January 2021, our median down payment percentage is increasing but still much lower than what we see in Ontario, representing only 11,67% of the purchase price. While in Ontario all the numbers are higher than 2020, Quebec numbers are slowly coming back to what they were a year ago, having been lower for a while.

DEEP DIVE

Fixed vs variable

Fixed or variable: this seems to be a never ending dilemma. While they both have their pros and cons, they also behave very differently and usually target different types of consumers.

While variable rates are usually lower than fixed, the two have been trending very closely to each other in the past months, confusing some nesto users and making their choice less obvious.

We asked our data: Is there a difference between the type of rate our users intend to go for in their initial online application and what they end up choosing after their call with an advisor? What does the vast majority of them end up choosing?

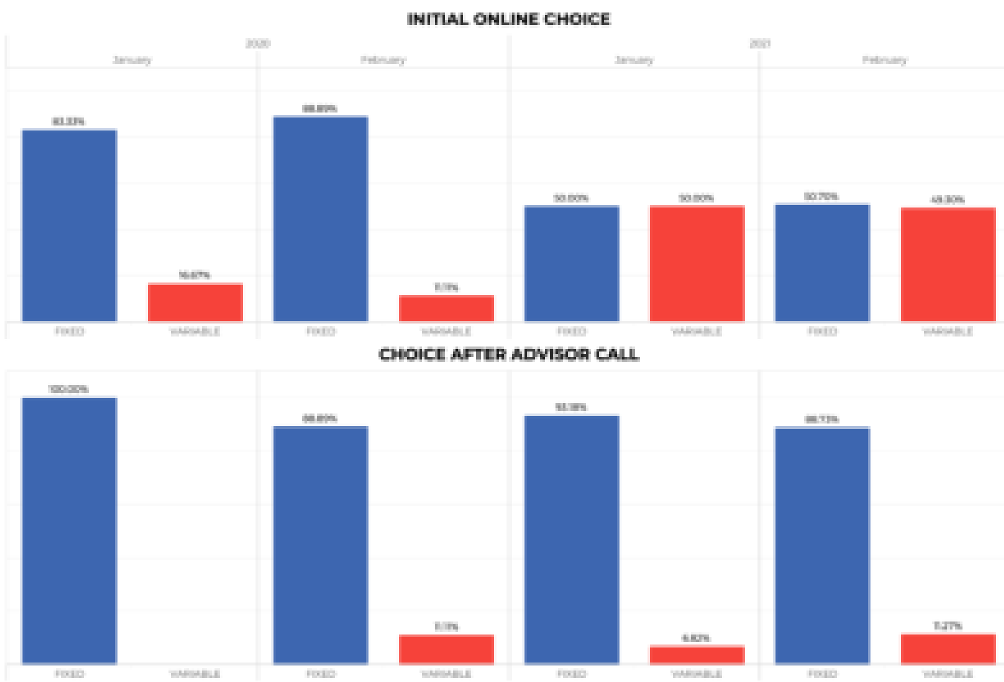

Fig 10: This graph shows our users initial rate choice vs final rate choice, between fixed and variable, comparing January and February 2020 and 2021.

The two graphs above compare our users intent and final choice of rate between 2 different periods of time: January & February 2020 versus 2021.

Comparing the beginning of the 2020 season to that of the 2021 season, the initial interest we're seeing in fixed and variable is almost equal in 2021 whereas the fixed mortgages were pulling a lot more interest than the variable in 2020. As a reminder, fixed rates were slightly lower than variable at the time and though the discount on prime was high (-1.20% as it is back to today), the prime rate itself was much higher

After talking to a nesto advisor and being exposed to the various options and details though, the vast majority of our users chose to go with a fixed mortgage rate in both 2020 and 2021.

Condos vs houses

Backtracking almost 12 months ago, with lockdown and working from home becoming the “new normal”, Ontario started noticing a new trend in the mortgage industry. Condo sales decreased drastically, while our users were now mostly choosing houses with bigger spaces and large backyards in the suburbs over city centered proximity.

Almost a year after the first lockdown, is this trend still accurate?

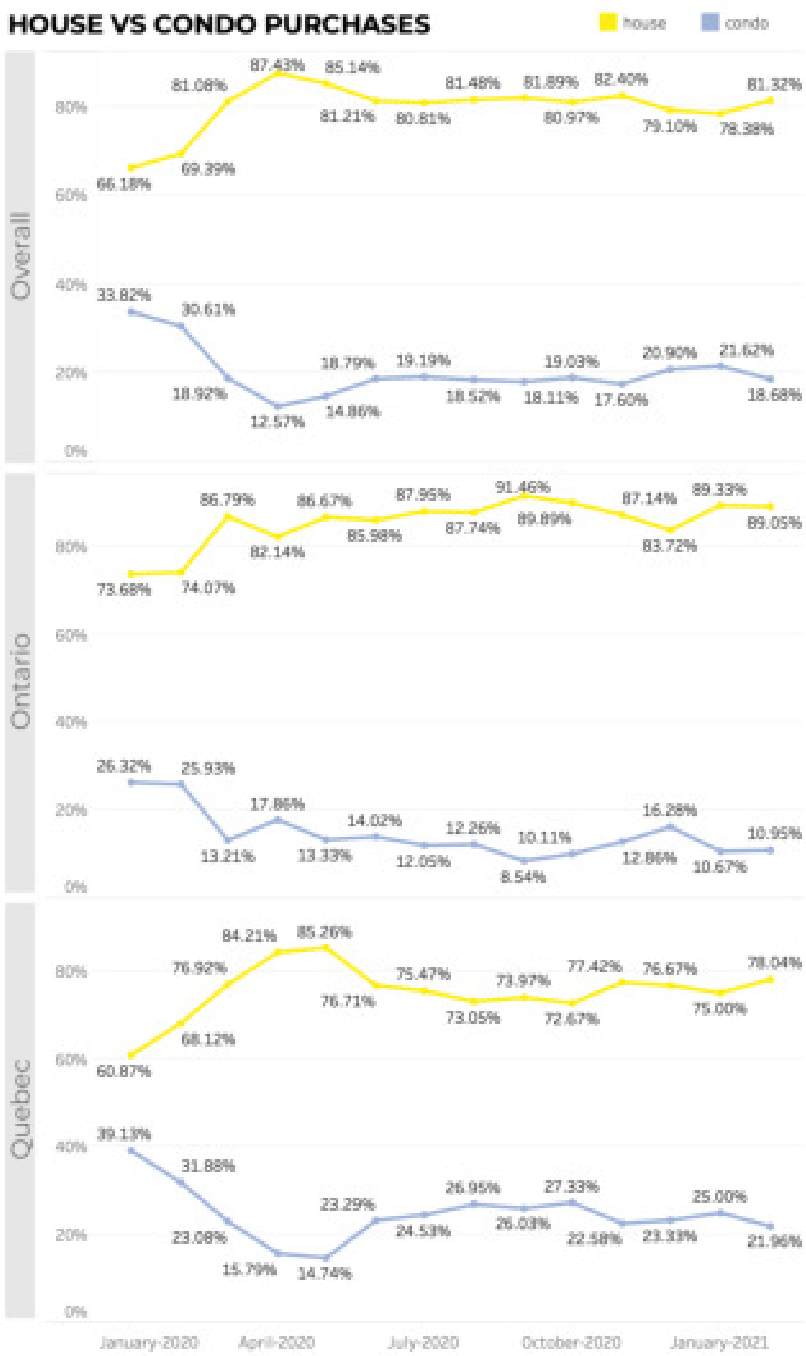

Fig 11: This graph shows our users preference for houses vs condos, in Canada and by canadian province, between January 1st 2020 and March 1st, 2021.

Looking at the data from Quebec, we see a definite trend towards purchasing houses rather than condos at the start of the pandemic (close to 85% of our users chose a house). The trend then stabilises during the summer at a lower proportion (around 75%), while the interest for condos starts growing back a bit, (around 25%) and remains pretty stable to this day.

In Ontario, the trend towards houses also starts to show more drastically in March 2020, at the beginning of the 1rst lockdown. Compared to Quebec, the interest for condos doesn't go up during the summer, and remains pretty low (around 10%) until October 2020. But then, another key factor comes in play: the strong increase in house prices.

In Q4, with condos becoming more readily available and cheaper due to availability, the trend momentarily changed direction in Ontario, only to pick up again towards houses as 2021 began.

CONCLUSION

In February 2021, while our data shows a 5% decrease in our users intention to buy a new property, the interest is still very high. In fact, in terms of mortgage volume requests, our data shows the highest jump recorded in years, a 148.2% increase since January 2021.

After seeing mortgage rates decrease and go lower than we even thought possible for the past 8 months, for the first time since July 2020, we saw an increase in fixed mortgage rates across Canada in February 2021. This sudden fluctuation clearly has an impact on our users behavior, now rushing to take action and secure their rate in fear of missing the boat, whether it's for a refinance or a new purchase.

In hindsight, while most of our users are still initially opting for the variable rate, which is generally lower, a majority of them ends up with a fixed rate after speaking to one of our advisors. Finally, despite a momentarily increased interest for condos in Ontario, in December 2020, our canadian users still show a much bigger interest for houses, in February 2021.

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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