



The nesto-meter

September 2021

September 7, 2021

It's back to school season again! After 2 slower months, both in terms of workload and house sales, labor day marks the end of vacation time as well as the return of consumers into the Canadian mortgage market. Are things really gonna go back to the way they were pre-holiday season, meaning, an overheating demand facing a very low inventory? That's what we'll try to figure out.

In August 2021, things remained pretty stable in terms of volatility. We saw one rate change in both our best fixed and variable rates at the end of July, and none in the past 4 weeks. Nesto's actual best rates still remain very low today, at 1.69% 5-year fixed and 1.05% 5-year variable.

In terms of mortgage type trends amongst our users, what we saw when we last reported, in June 2021, is still true today: a continued interest increase for new purchases, while the interest for refinances has been trending downwards since February 2021. In the last 4 months, we've also noticed a strong, steady decrease in our users' median down payment percentage.

For this month's deep dive, we're looking at 2 very interesting metrics: Our user's interest in buying condos versus houses and the use of a gift as down payment for first-time homebuyers. With current home prices being so high, what portion of the down payment does this "gift" usually represent?

KEY TAKEAWAYS

In August 2021, we saw 3 times less volatility than what was recorded a year ago, in August 2020, with no rate changes at all for the past 4 weeks.

In August 2021, we saw a continued interest increase for new purchases while refinances have been trending downwards since February 2021

The percentage of our users “ready to buy” is decreasing again in August 2021, while lots of them seem to have fallen into the “just looking” category in the last months.

In the last 4 months, we’ve noticed a strong, steady decrease in our median down payment percentage, while house prices still remain very high.

The percentage of our nesto users interested in buying a condo still hasn’t quite reached pre-pandemic levels, but has remained fairly stable for the past 8 months.

Comparing 2020 to 2021 month by month, we see that the proportion of our users using a “gift” as a down payment is higher for each month and keeps increasing.

For the majority of our users, gifts are mostly used to reach 20% down payment thus, avoiding mortgage insurance payments

#1
RATES



A. Volatility



Fig. 1: Number of times the lowest rates offered by nesto to its users changed per month across provinces between July 1st 2020 and August 26, 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 our lowest rates for insured (5-19.99% down payment) and insurable (20%+ down payment) mortgages, both 5-year fixed and variable, we count a total of 29 rate changes. Since July 2020, that's an average of 2.4 times a month, a number that's been trending down in the last, going from a very hectic and unstable pandemic market where rates were changing several times a week (and up to 7 times a month), to the current, more stable situation.

In comparison, July 2021 saw a total of one rate change while August 2021 saw no movements at all.

Volatility - by type

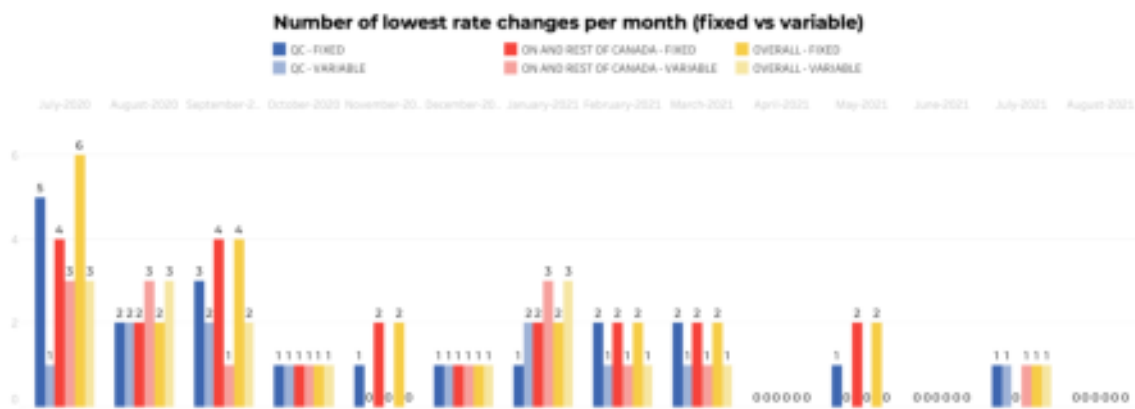


Fig. 2: Number of times the lowest rates offered by nesto to its users changed per month across provinces between July 1st 2020 and August 26, 2021 and comparing fixed to variable rates. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable (20%+ down payment).

In July 2021, our best Quebec fixed rate went down from 1.79% to 1.74% while our best variable rate also decreased, from 1.20% to 1.05%, in all of Canada.

A small movement, but still, more than what we saw in the following 4 weeks, with no rate changes at all in August 2021. That's 3 times less volatility than what was recorded a year ago, in August 2020.

B. Variance: Lowest rates

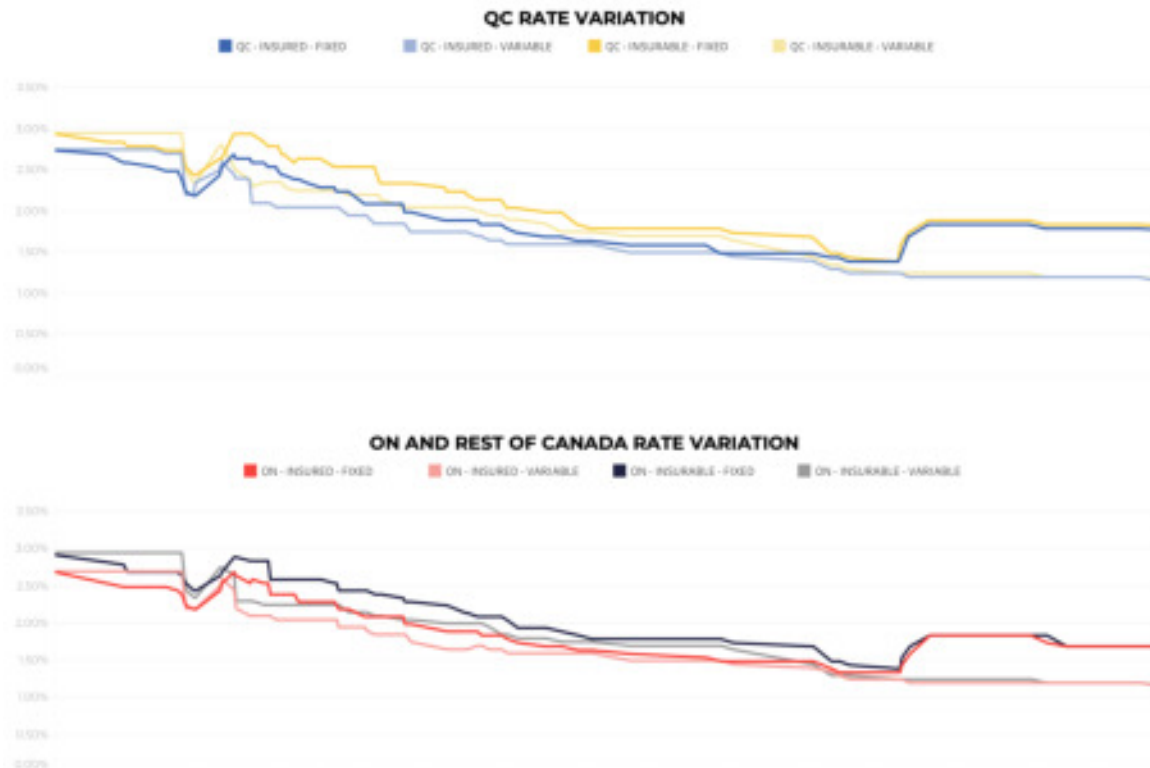


Fig. 3: These graphs show the rate variance from January 1st 2020 to August 26, 2021 in Quebec compared to Ontario and the rest of Canada.

Now let's talk about variance! Looking back over a year ago, since January 2020, rates have changed by 1.35-1.85%, the highest insurable variable rate being at 2.95% while the lowest was at 1.10%, which represents a 1.85% difference.

Looking at the two graphs above, the same trend is observed in both Quebec and the rest of Canada. We saw our best fixed rates climb a bit at the beginning of this year, in February and March 2021. They then dropped a little in May and have remained pretty stable since.



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

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

Fixed

	Lowest rate	Highest rate	Difference
Rate (all variable insurable)	1.10%	2.95%	-1.85%
Monthly payment	\$1,238.00	\$1,529.00	-\$291.00
Total payments	\$74,300.00	\$91,717.00	-\$17,417.00
Total interest paid	\$16,270.00	\$44,276.00	-\$28,006.00
Total principal paid	\$58,030.00	\$47,441.00	\$10,589.00
Money saved	-\$17,417.00		
Balance remaining	\$266,735.00	\$277,324.00	-\$10,589.00



Table 1: This table represents the effect of a 1.85% rate difference on a 350k home, with 10% down payment and a 25 year amortization after a 5 year term.

The table above shows the impact of a 1.85% rate difference on a typical scenario: a 350k home, with 10% down payment and a 25 year amortisation after a 5 year term. That's 0.10% more gap than what we had in June 2021, and while it seems like a small number, this 0.10% can make a big difference on your savings over 5 years!

Scenario 1: You signed a mortgage at 2.95%, our highest insurable variable rate seen in over a year and a half. Compared to the actual best variable rate, this 1.85% rate difference would have you end up paying over \$17,000 more in monthly mortgage payments over 5 years!

Scenario 2: You signed a mortgage at 1.10%, our lowest insurable variable rate seen in the last 17 months. In this situation, you'll end up saving over \$28,000 in interest fees over the course of only 5 years! That's a lot of money!



#2

MORTGAGE TYPE TRENDS

Purchase vs Renewal vs Refinance

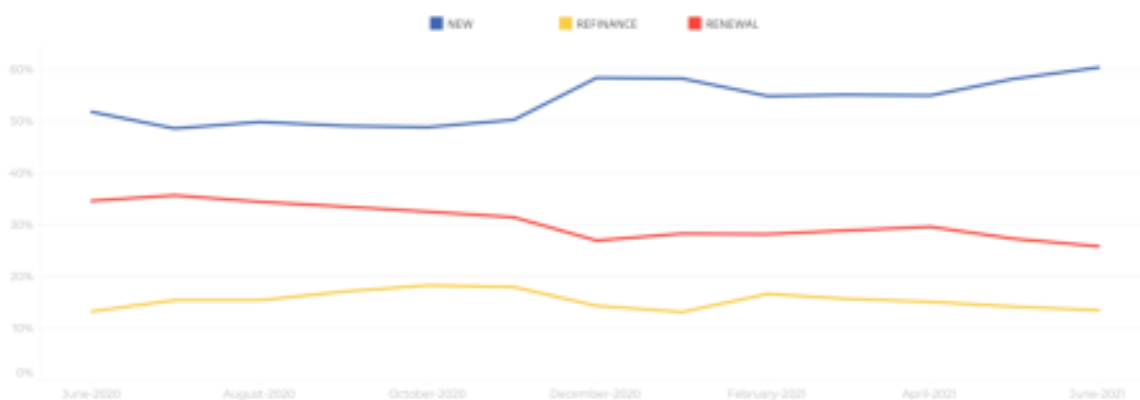


Fig. 4: Trends for proportion of purchases (new mortgages) vs renewals vs refinances from August 1st 2020 to August 26, 2021. Sum is 100% for each month.

Back when we last reported, in June 2021, we saw a continued interest increase for new purchases, despite the beginning of the holiday season. Now a little over 2 months later, the same tendency is observed, with over 65% of our overall demand coming from users interested in purchasing a new home.

On the other hand, the interest for refinances has been trending downwards since February 2021, while the interest for renewals amongst our users seems to have stabilised since July 2021.

While the last 2 months have seen less real estate transactions than May or June 2021, there is no clear sign that house prices will be going down anytime soon, especially because the demand remains very high.



#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 March 1st 2020 to August 26, 2021.

Back in October 2020, amongst our users, the proportion of those “ready to purchase” was pretty much equal to the proportion of those “Just looking”. The 2 trends moved apart from each other at the start of the new year, and again in March, after briefly trending towards each other in February 2021. Now, at the end of August 2021, the purchase timing intentions of our users have never been so far apart, the proportion of those “Just looking” reaching over 66%, while those “ready to buy” only represent a little over 34% of our overall demand. While lots of customers might have only started testing the market this summer, waiting for September to make a move, an increase in those “ready to buy” would be expected for next month, when these users are officially back on the market.

By province

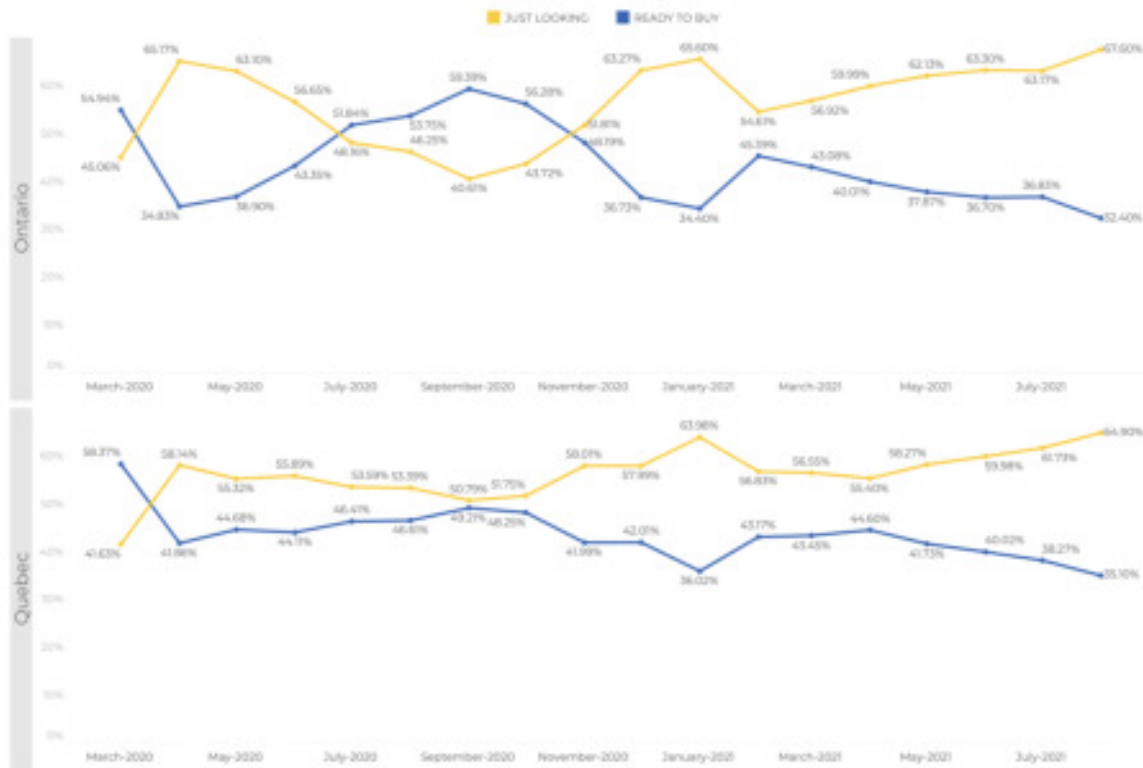


Fig. 6: Purchase timing intent proportion of users “ready to buy” vs “just looking” in nesto’s mortgage process, from March 1st 2020 to August 26, 2021 in Quebec and Ontario.

The overall trend is reflected in both Quebec and Ontario, meaning the number of our users “just looking” is on the rise, while those ready to buy a house are declining again this month in both provinces.

Our two user’s intentions have never trended so far away from each other, especially in Ontario, with a difference of almost 35% between them.

#4

PROPERTY VALUE AND DOWN PAYMENT



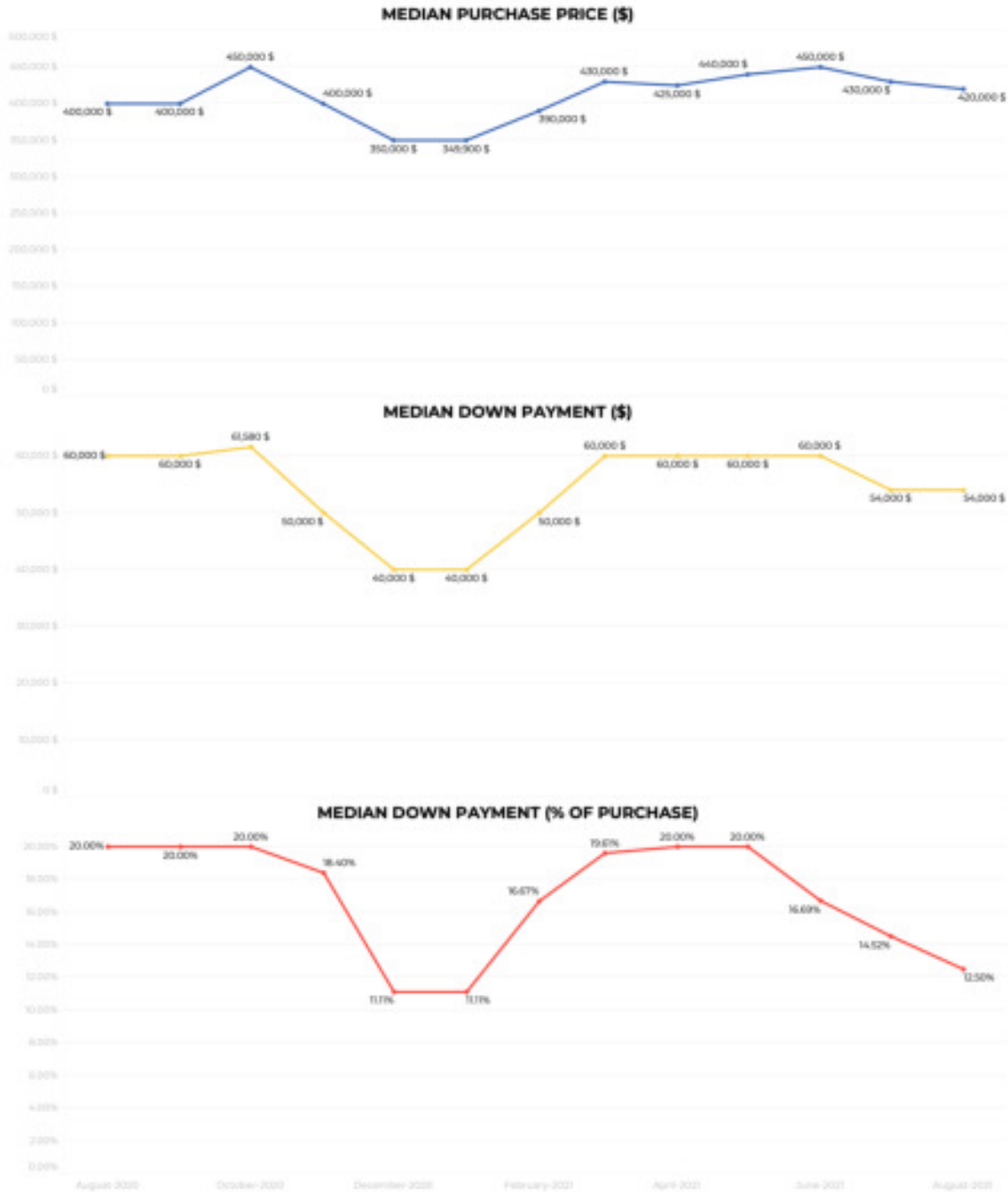


Fig. 7: Graph of intended purchase price vs down payment (in dollars and percentage) from August 1st 2020 to August 26, 2021.

In the last 4 months, we've noticed a strong, steady decrease in our median down payment percentage. While it represented 20% of our users' purchase price back in May 2021, it is now down to 12.5% only, with another 4% decrease from June to August 2021. What's interesting here is that, all the while, the median down payment amount has remained stable, at \$54 000, for the past 2 months. In a nutshell, while house prices are still way higher than they used to be, consumers prefer lowering the percentage of their down payment rather than putting more money down than they had originally planned.

By province

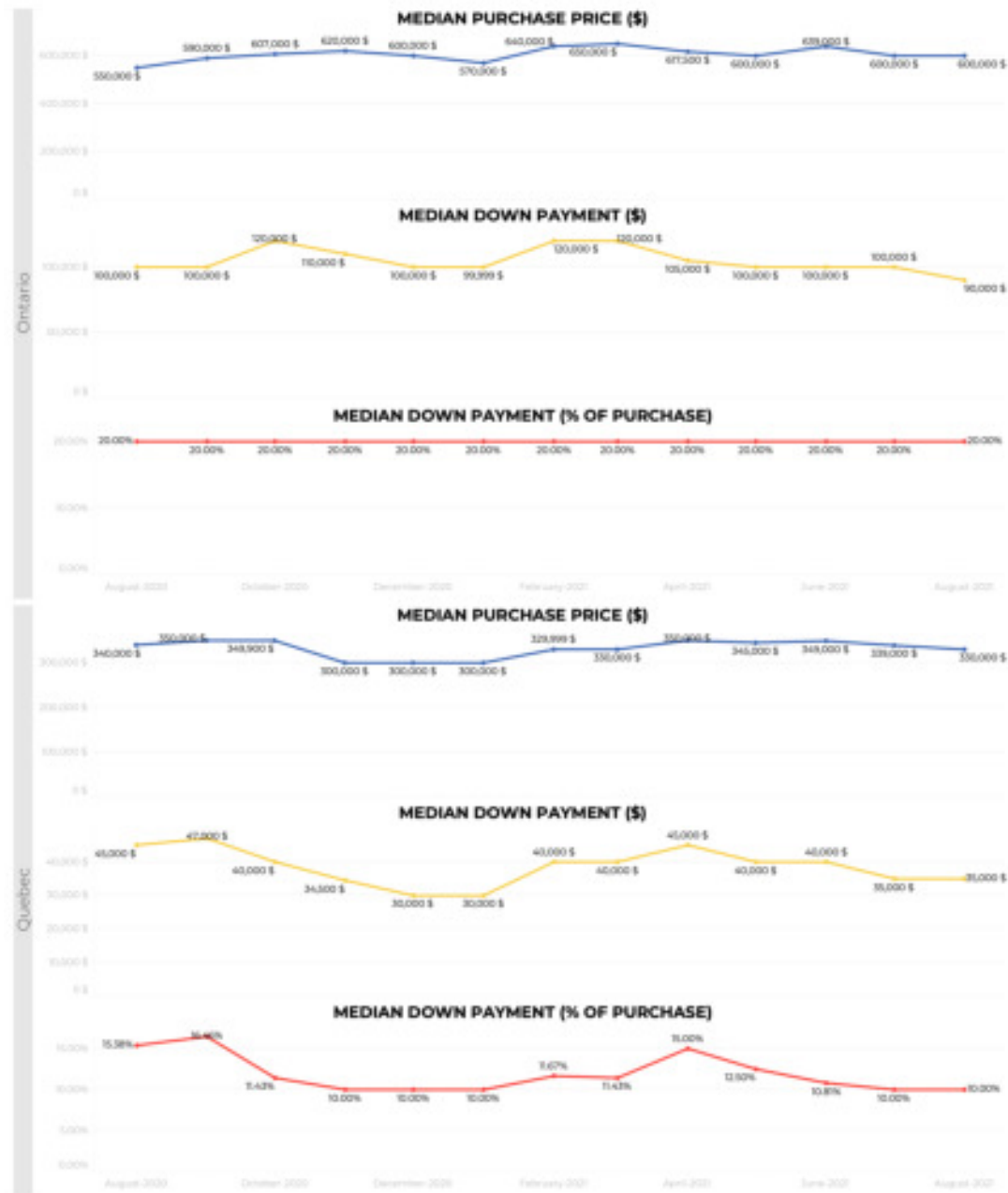


Fig. 8: Graph of intended purchase prices vs down payment (in dollars and percentage) from August 1st 2020 to August 26, 2021 in Ontario and Quebec.

Comparing Ontario and Quebec’s data over the last year, we notice some similarities as well as some discrepancies.

In both provinces, the median down payment percentage isn’t showing any major drops in the last 2 months compared to what our overall Canadian graph is showing us, which can only mean one thing: other provinces now served by nesto are definitely influencing the overall down payment percentage drop in Canada.

It’s also interesting to see the significant gap between median purchase prices in both provinces, from \$330 000 in Quebec to almost double in Ontario, at \$600 000. Will home prices keep going up? From July to August 2021, we actually saw a small \$9000 drop in our Quebec median purchase price, while Ontario remained stable.

DEEP DIVE



1. Interest in condo vs home purchase

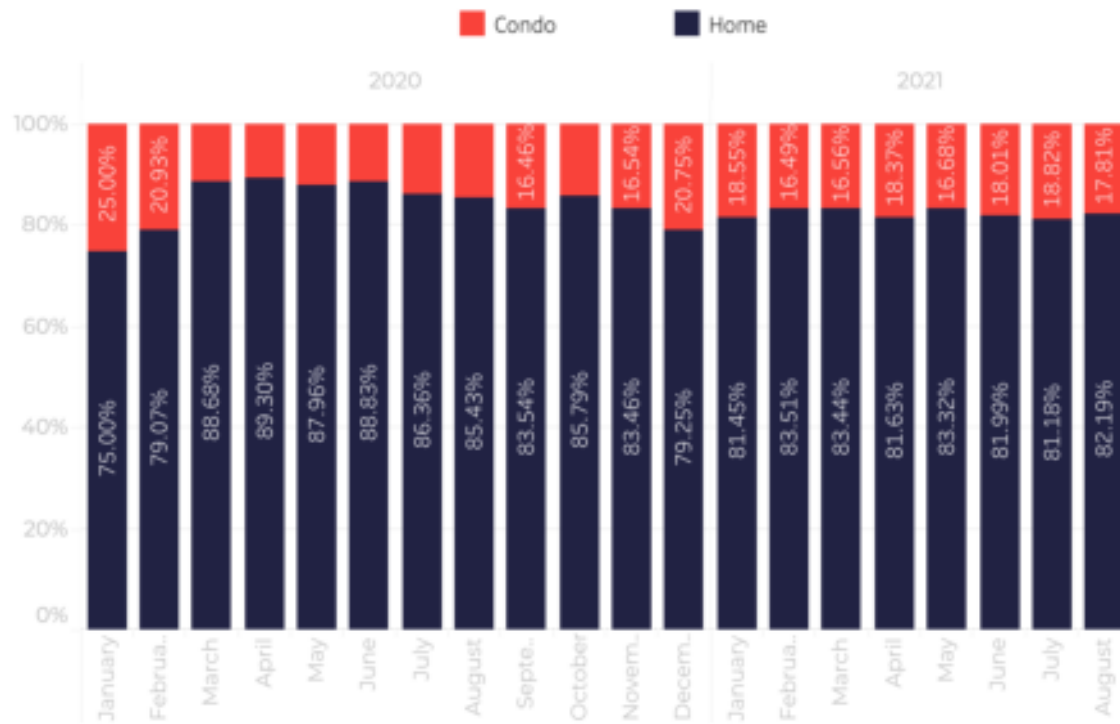


Fig 9: Graph showing the percentage of our users interested in buying a condo versus a house, by month, from January 2020 to August 26, 2021

When talking about real estate and mortgages pre, during and post pandemic, one of the main subjects always remains: condo or house? Which one should you buy? While the first one was always seen as a good and easier investment for a first-time homebuyer or a landlord, it suddenly didn't seem like such a good idea anymore when COVID-19 hit. With students going back home and workers escaping the city, who was gonna rent all of these now expensive, empty spaces?

Here's what our data is showing:

Pre-pandemic, in January 2020, 25% of our users were showing interest for condos, while 75% of them aimed for single-family homes. As COVID hit, we saw the interest for condos drop significantly, until about December 2020, when our numbers almost got back to where they were before the crisis. Today, more than a year and a half later, the percentage of our nesto users interested in buying a condo in the city still hasn't quite reached 20%, but has remained fairly stable for the past 8 to 9 months.

2. First time home buyer - gift as a down payment

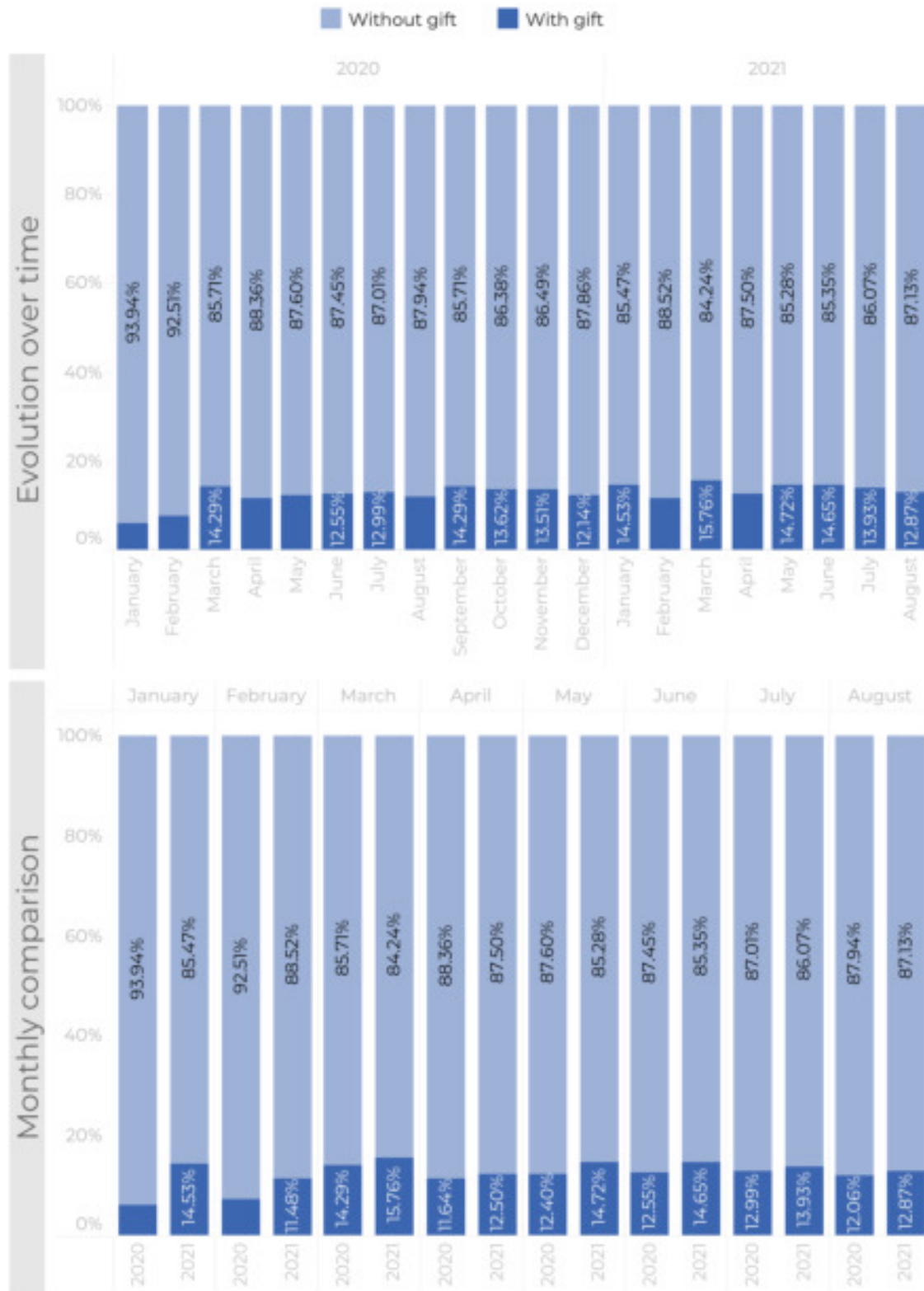


Fig 10: Graph showing the percentage of our users opting for a gift as a down payment comparing each month, year over year

For the second part of our deep dive, we decided to focus on another subject that's been trending lately: The use of a gift as a down payment. Especially popular amongst first-time homebuyers faced with purchase price increase and bidding wars, it's become more and more common for parents or relatives to help their children access property by getting financially involved in the down payment.

Looking at our data, it is pretty obvious this trend jumped at the start of the pandemic, from 5% in January 2020 to over 15% 2 months later, in March 2020. Looking at this year's data, the percentage of our users using a gift as a down payment also seems to increase slowly over time. Comparing 2020 to 2021 month by month, we see how the portion of transactions "with gift" is higher for each month and increasing.

Considering the Canadian household debt service and the increase in property value, it is safe to assume that young Canadians are having more difficulties accessing homeownership.

2.1 First time home buyer - portion of down payment from gift

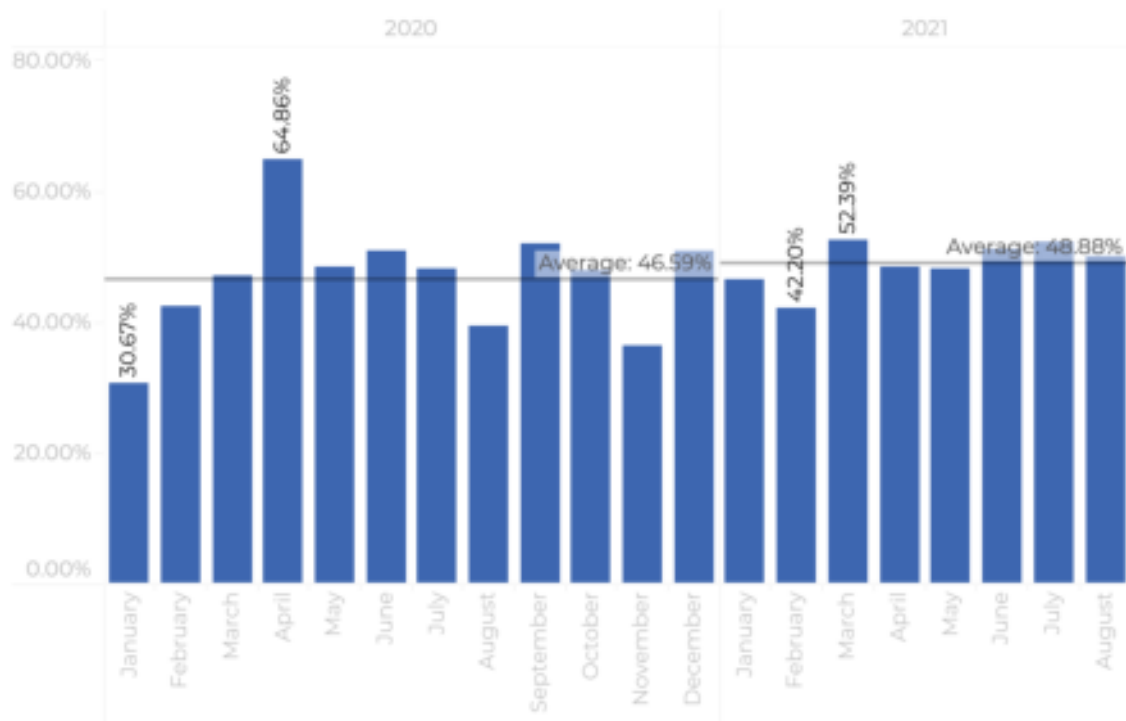


Fig 11: Graph showing the percentage of the down payment covered by the gift from January 2020 to August 26, 2021.

Another interesting data to look at, is the proportion of our user's down payment that actually comes from a gift.

According to the graph above, not only are more first-time homebuyers relying on gifts to help in down payments, the gifts are representing more and more of the overall value of the down payment over time.

Again, we saw this proportion peak at almost 65% in April 2020, at the heart of the pandemic, but it also remained pretty high as the year went on, and still represents almost 50% of the total amount today, for those who decide to use a gift as part of their down payment.

2.2 First time home buyer - main use for the gift as a down payment

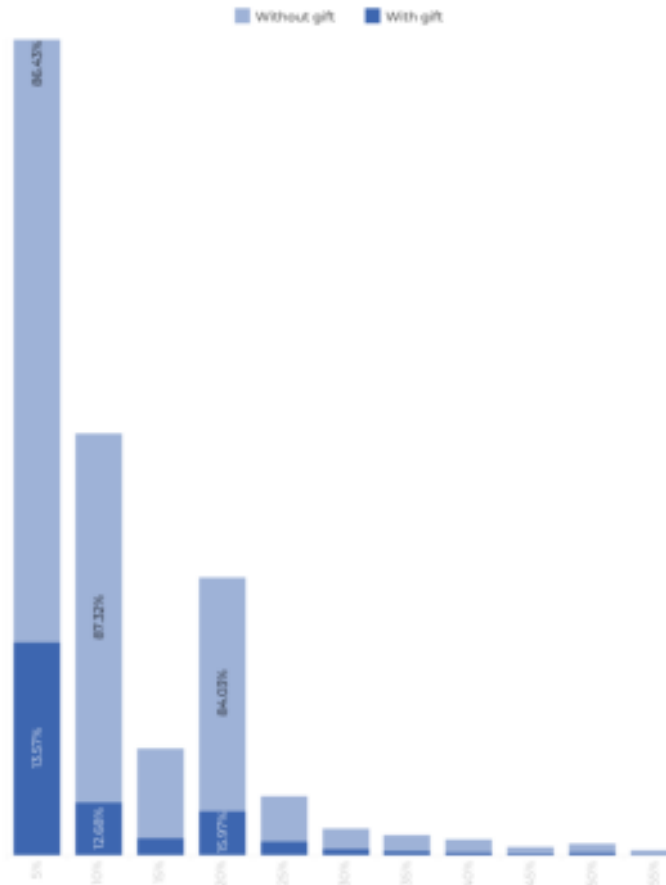


Fig 12: Graph showing the proportion of the gift used as a down payment, and whether it is to reach 5%, 10%, 20% or more.

Still looking at our gift as a down payment data, we were also curious to know the main reason why those who did use a gift as part of their down payment on a property needed it, exactly? What is the main use for it?

For the majority of them, gifts are mostly used to reach 20% down payment thus, avoiding mortgage insurance payments. In fact, according to our data, 16% of those who choose to put 20% down will use a gift to do so. The next use for this gift will be to reach the minimum down payment of 5% needed to purchase a first property, at a proportion of almost 14%.

Considering the cost of mortgage insurance in Canada, it is understandable that buyers want to maximize their down payment to avoid these additional costs. It is important to remember that the insurance premium is taxable in most provinces, which adds to the cost of borrowing. In the end, a 20% down payment represents significant savings for mortgage borrowers.

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.