



The nesto-meter

October 2021

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We're happy to report that some pre-pandemic patterns seem to be returning to the real estate industry. The first week of September 2021 allowed for a collective pause in terms of both purchases and general mortgage inquiries as expected in a pre-covid environment. The month ended with a sizable burst of last-minute mortgage volume, however, spurred by a fixed rate increase that caused many borrowers to follow through with their pending refinance and renewal requests .

In September 2021, we saw a total of two rate changes to our best rates, with additional pressure on the fixed rate to increase towards month's end(FYI: Fixed rates have since increased!).

For this month's deep dive, we look at three very interesting metrics, including our users' interest in: 1) Fixed vs Variable rates; 2) Purchase Timeline between an Application Start Date vs "Move-In" Day; and 3) Update on Status of Approval delays across the country. Is it safe to use the old term "Turnaround Time" yet?

KEY TAKEAWAYS

For the first time since March 2021, more users have opted for variable vs fixed rate

Limited number of lenders passing variable interest rate savings to consumers

Condition-free purchase offers may no longer be the norm according to the median down payment data.

No changes to refinance interest despite record low equity takeout rates and improved turnaround times.

Reduced real estate activity is unlikely to impact prices significantly as growing segment of qualified and would-be home owners remain on the sideline with high interest, but less urgency to act than one year prior

August 2021 saw no movement to best rates at nesto while September 2021 prompted two changes

#1
RATES



A. Volatility

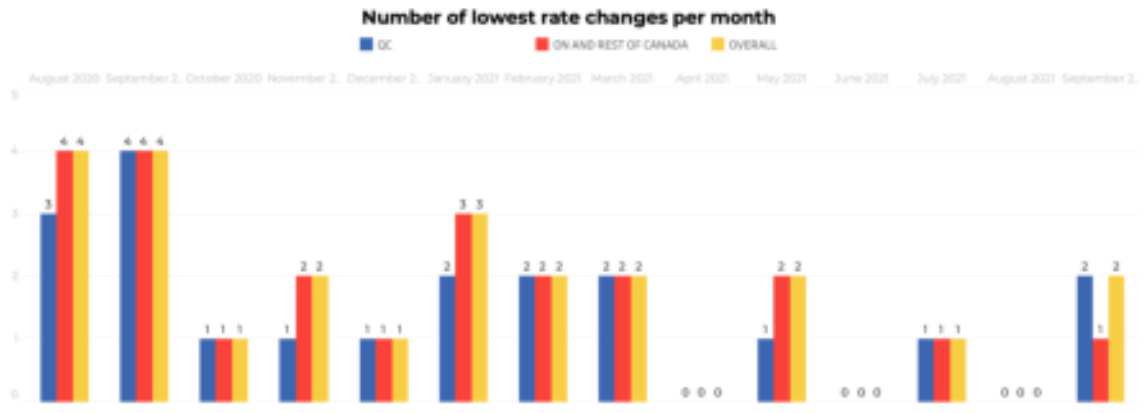


Fig. 1: Number of times the lowest rates offered by nesto to its users changed per month across provinces between August 1st 2020 and September 26th 2021. Lowest rates examined fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable (20%+ down payment) and corresponds to the lowest rate nesto could offer its clients at the time.

Looking at our best rates for insured (5-19.99% down payment) and insurable (20%+ down payment) mortgages, both 5-year fixed and variable, a total of 24 rate changes occurred between August 2020 and September 2021. There has been an average of two changes per month since June 2020 and this is still trending down from a year ago where we saw rates change up to a few times per week.

In comparison, August 2021 saw no movement to best rates at all while September 2021 prompted two changes.

Volatility - by type

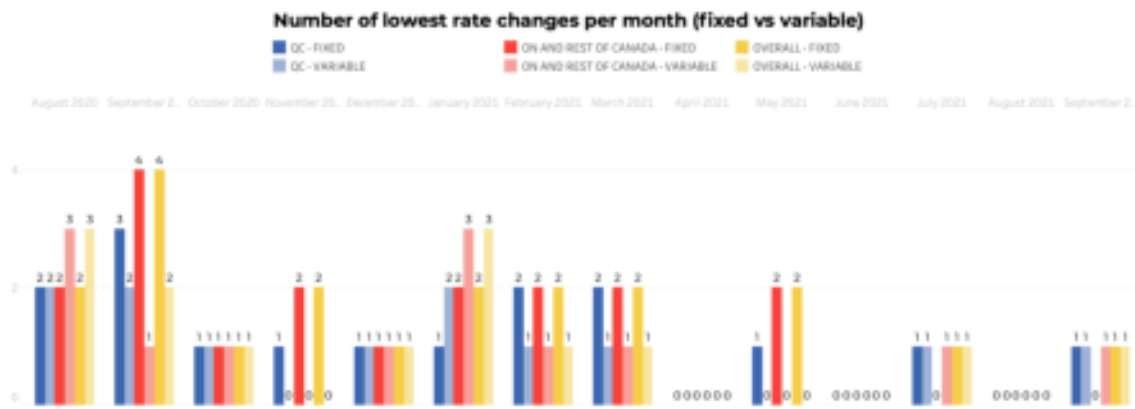


Fig. 2: Number of times the lowest rates offered by nesto to its users changed per month across provinces between August 1st 2020 and September 26th 2021 comparing fixed to variable rates. Lowest rates examined fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable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

In August and September 2021, our best Quebec fixed rate rose from 1.74% to 1.89% while our best variable rate decreased from 1.05% to 0.95% in all of Canada.

B. Variance: Lowest rates

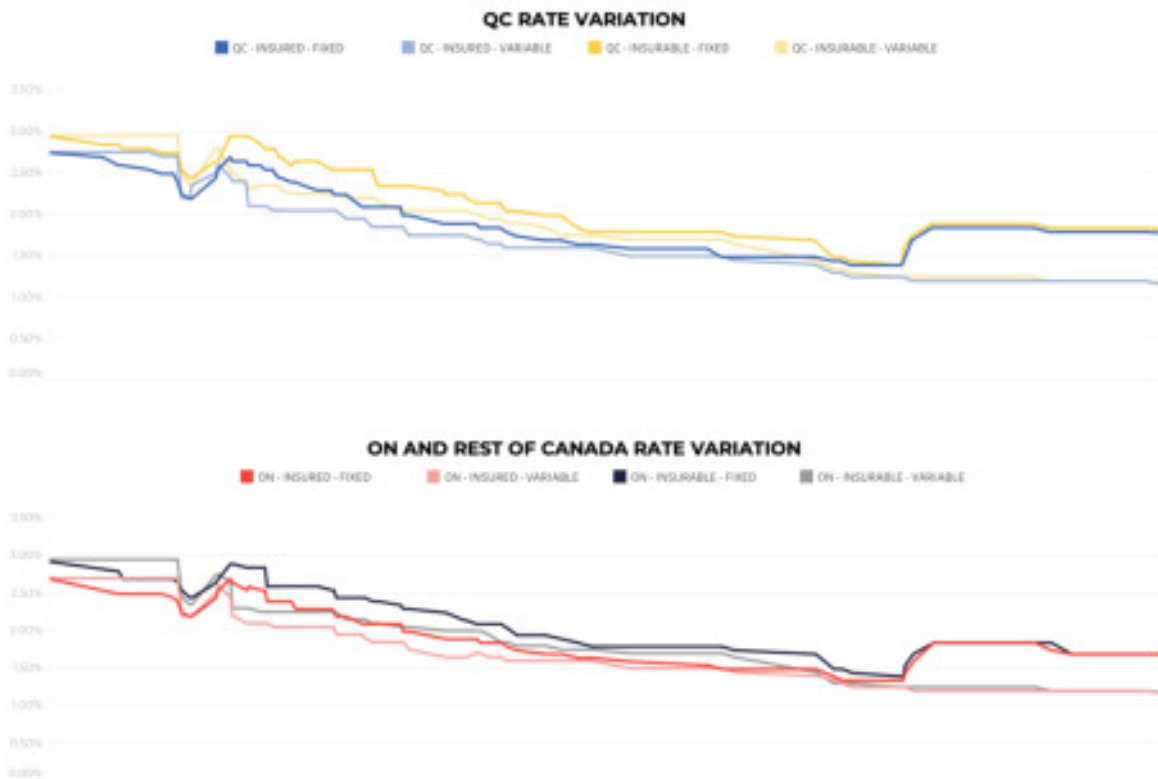


Fig. 3: These graphs show the rate variance from January 1st, 2020 to September 26th, 2021 in Quebec compared to Ontario and the rest of Canada.

Now let's talk about variance! Looking back more than 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 until recent months(hint: They're up early into October).



If you'd picked
a rate in September:
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 \$350,000 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 \$350,000 home, with 10% down payment and a 25-year amortization 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 five 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 see you paying over \$17,000 more in monthly mortgage payments over five 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 five years! That's a lot of money!



#2

MORTGAGE TYPE TRENDS

Purchase vs Renewal vs Refinance

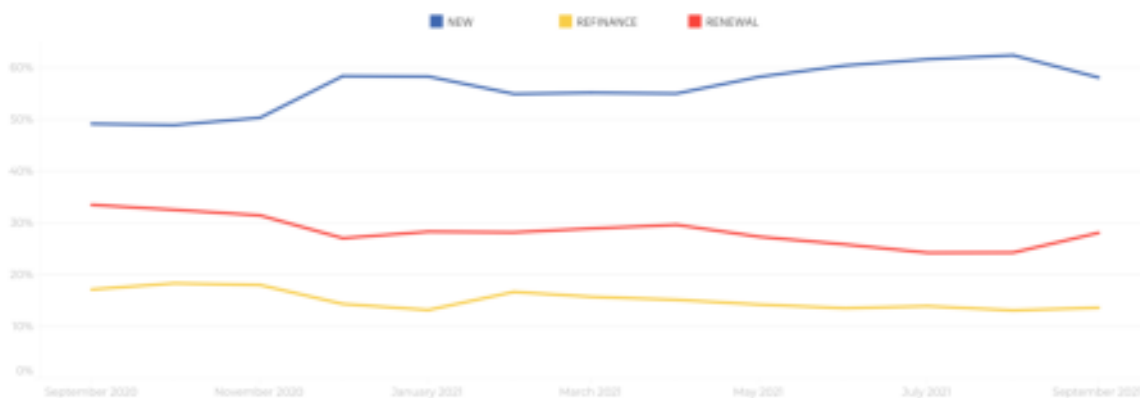


Fig. 4: Trends for proportion of purchases (new mortgages) vs renewals vs refinances from September 1st 2020 to September 26th 2021. We saw a jump in renewals in September.

Back when we last reported, we saw a growing interest for new purchases. This trend is reversing, however, with just over 55% of our overall demand coming from users interested in purchasing a new home in comparison to 65% two months prior. While interest remains high overall, the noteworthy discussion is the difference between the formal intent as opposed to simply being interested in purchasing a home in comparison to one year ago.

The interest for refinancing has been relatively flat throughout Q2 and Q3 2021 despite record low equity takeout rates coupled with improving turnaround times.

While the velocity of price increases is diminishing, it remains unlikely to impact prices significantly as a quickly growing pool of qualified and would-be home owners remain on the sideline with high interest, but less urgency to act than one year prior.



#3

**PURCHASE
TIMING
INTENT**

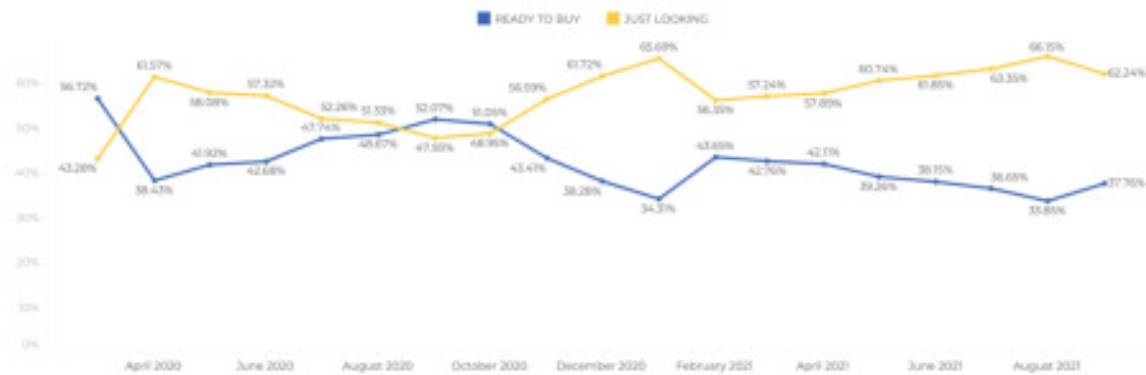


Fig. 5: Purchase intent: proportion of users “ready to buy” vs “just looking” in nesto’s mortgage process, showing month by month from March 1st 2020 to September 26th 2021.

Through Fall of 2020, the proportion of our users we identified as “ready to purchase” was nearly an even split with those “just looking”. The two trends quickly separated into distinguished groups and have remained that way since, with the larger group appearing to be sitting on the sidelines while still keeping up with their mortgage rate homework at nesto.ca.

As stated in our last report, the predictable September increase is expected to trend further upwards as more new and existing pre-approved borrowers enter and re-enter the real estate market with a refreshed attitude thanks to optimistic headlines and newsfeeds regarding the return of a “normal” home buying experience.

By province

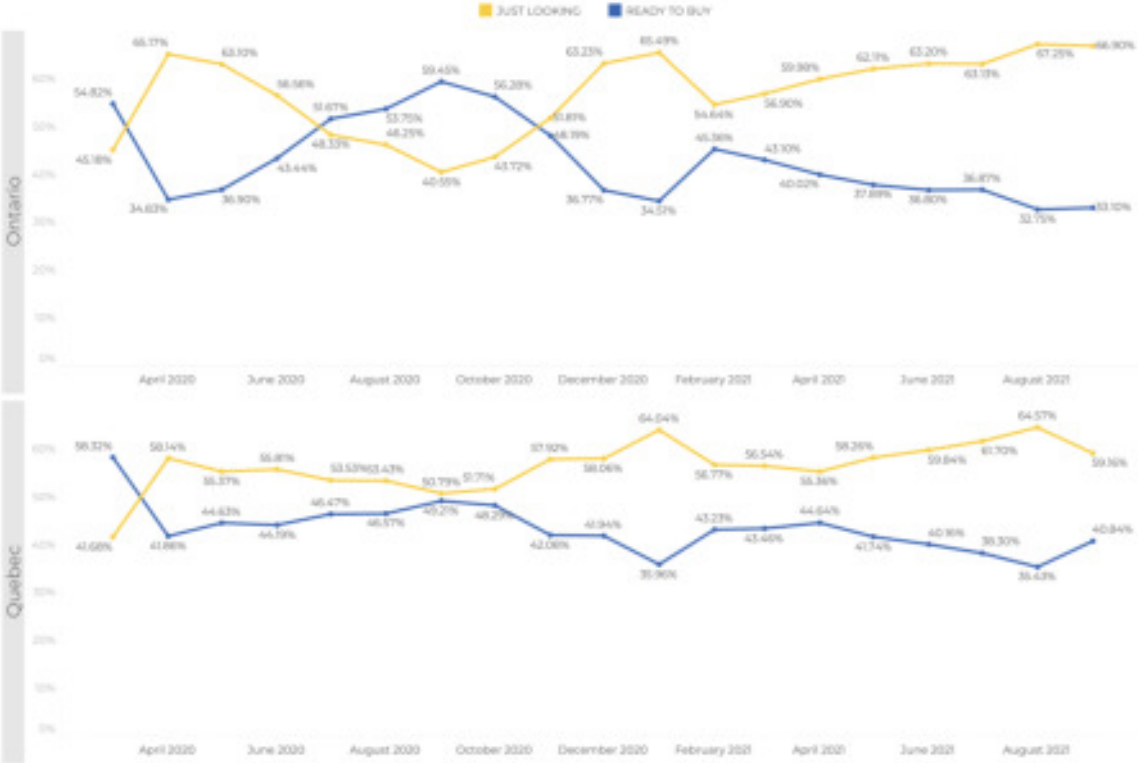


Fig. 6: Purchase timing intent proportion of users “ready to buy” vs “just looking” in nesto’s mortgage process, from March 1st 2020 to September 26th 2021 in Quebec and Ontario.

#4

PROPERTY VALUE AND DOWN PAYMENT



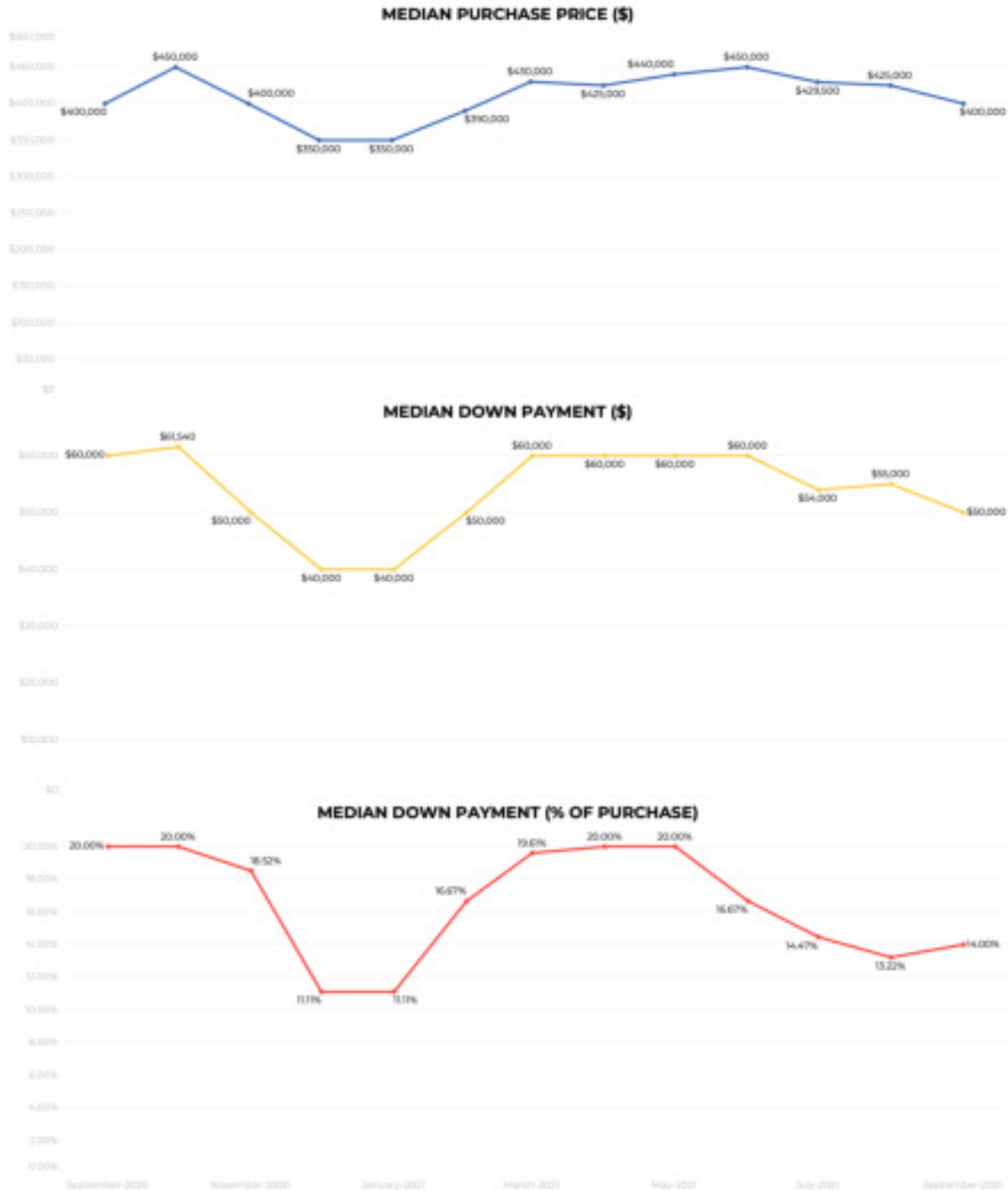


Fig. 7: Graph of intended purchase price vs down payment (in dollars and percentage) from September 1st 2020 to September 26, 2021.

In the four months leading up to the data sample used, we had reported a strong decrease in our median down payment percentage - from 20% of our users' purchase prices back in May 2021 down to 13% today.

In a nutshell, this sample illustrates that consumers have decided to lower the amount of capital they're willing to apply to the transaction. Our assumption is that the reduced urgency has also greatly reduced the number of condition-free offers, which are often accompanied by 20% or more down payment as additional security to access alternative lending options in the event of an obstacle while completing the condition-free purchase.

By province

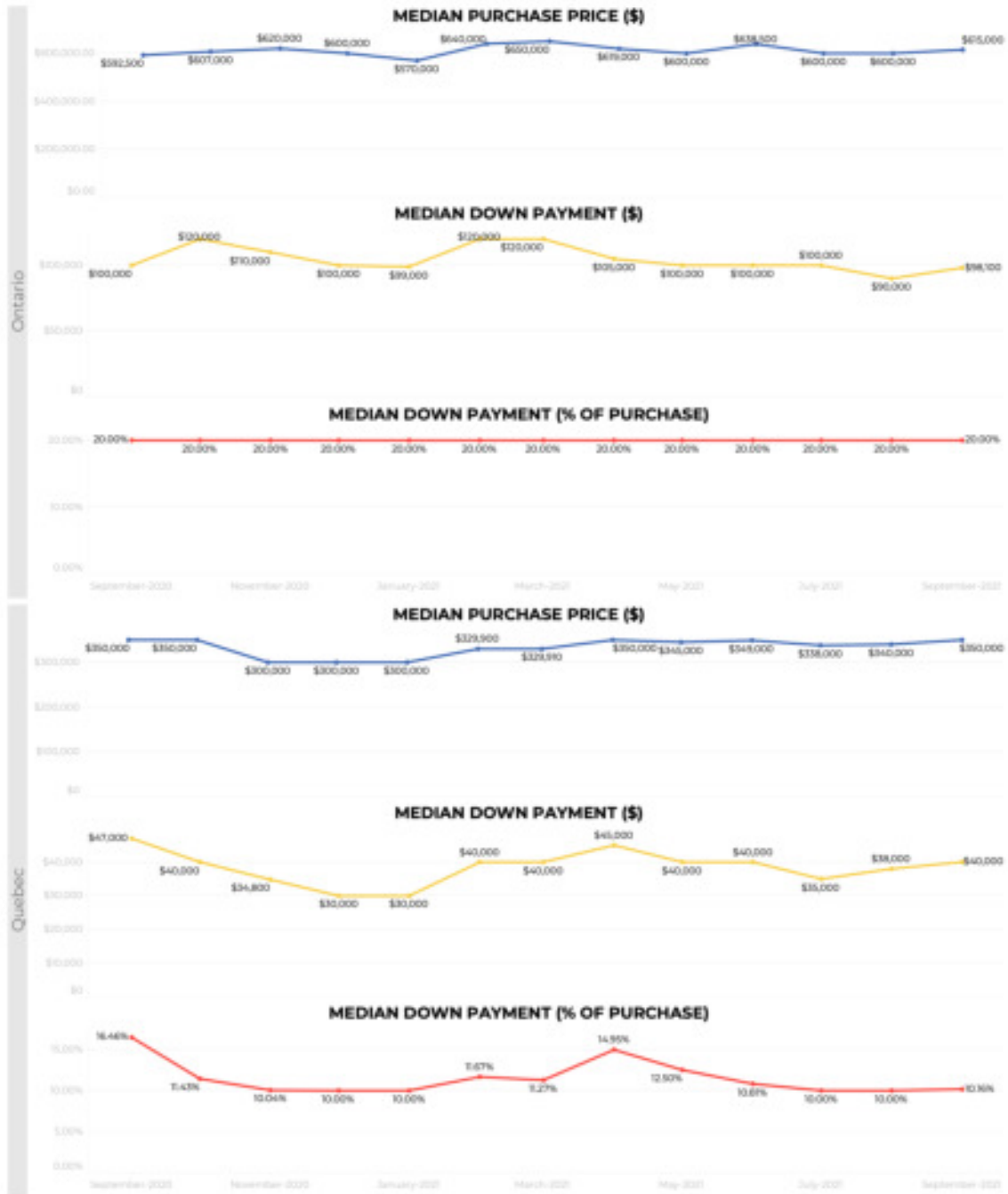


Fig. 8: Graph of intended purchase prices vs down payment (in dollars and percentage) from September 1st 2020 to September 26th 2021 in Ontario and Quebec.

DEEP DIVE



1. Choosing Fixed vs Variable



Fig. 9: Evolution since January 2020 of user's initial interest in fixed vs variable rates vs the type selected after having spoken with an advisor.

Throughout the pandemic and during its initial confinement measures, user interest in variable vs fixed rate was high. One simple influence for this was the visual difference between the two options during the time heavily favouring variable. Not surprising in times of pending uncertainty, however, the vast majority of our customers opted for a fixed rate mortgage after speaking with an advisor.

2021 maintained this trend up until March where the variable inched forward as the more common selection for the first time since nesto's inception. Since June 2020, the cost of variable rate funds that financial institutions lend out in mortgages has been sitting at record lows as evidenced by the introduction of sub 1% 5-year variable rate offers in the last 12 months. Noteworthy in this equation is a year-long hesitation by the majority of Canadian lenders to pass these savings along to consumers.

Today, variable remains the preferred choice by the same margin as March 2021. We expect this trend to reverse, however, as we head towards November and the first signs of sizable increases to fixed rates begin to appear.

2. Home buying timeline - Are Canadians looking further ahead?

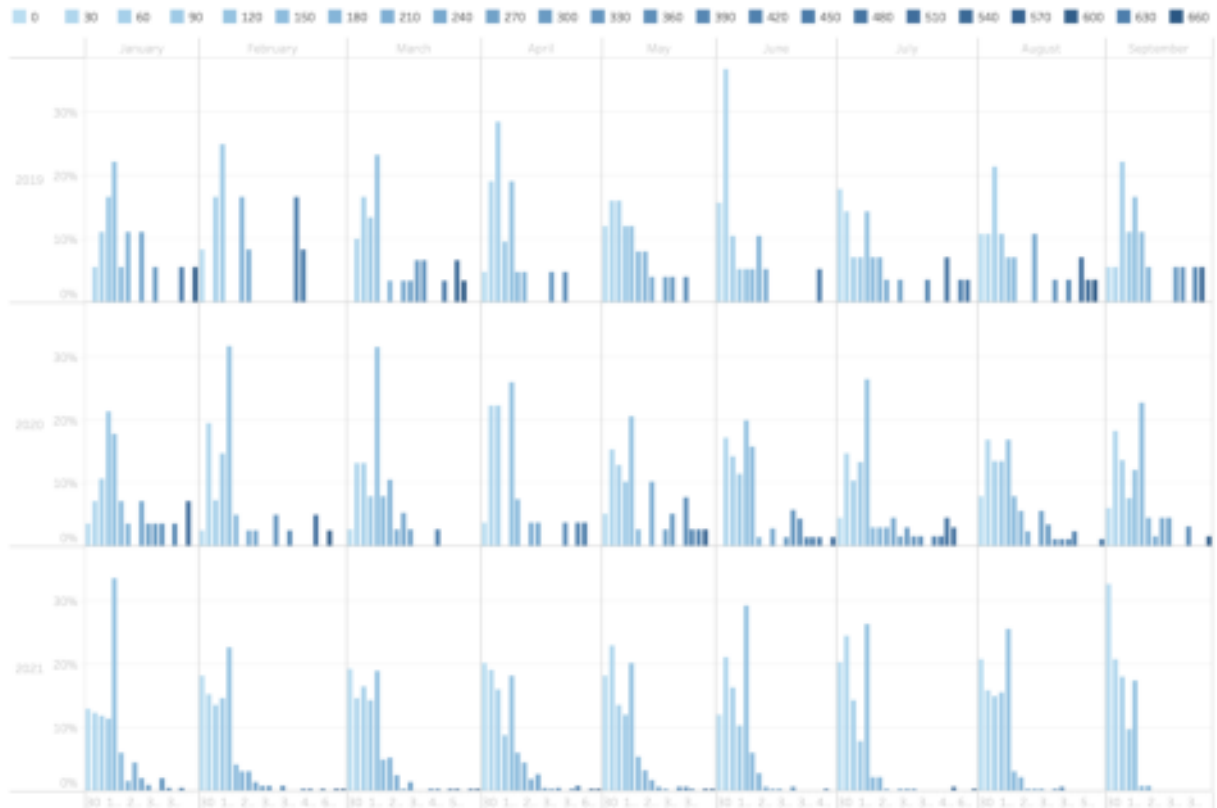


Fig. 10: Proportion of applications grouped by closing timeline by month.

In short, the answer is no. We dive into September for this example with the year-to-date data as a whole telling a different story than our 2020 - and even 2019 data.

In 2019, just over 5% of September inquiries included a planned purchase price that was more than 600 days away from the date of the application. In 2020, this percentage dropped below 3% and currently sits at 0% today.

*Note that September mortgage applications are still being processed at the time of writing.

Historically, new construction applications make up the vast majority of longer term purchases, where a borrower purchases a contract to build from a developer. Our current average closing timeline per user is 68 days. The best interest rates are usually available to those closing within 120 days of the application date.

APPROVAL DELAYS - Ontario

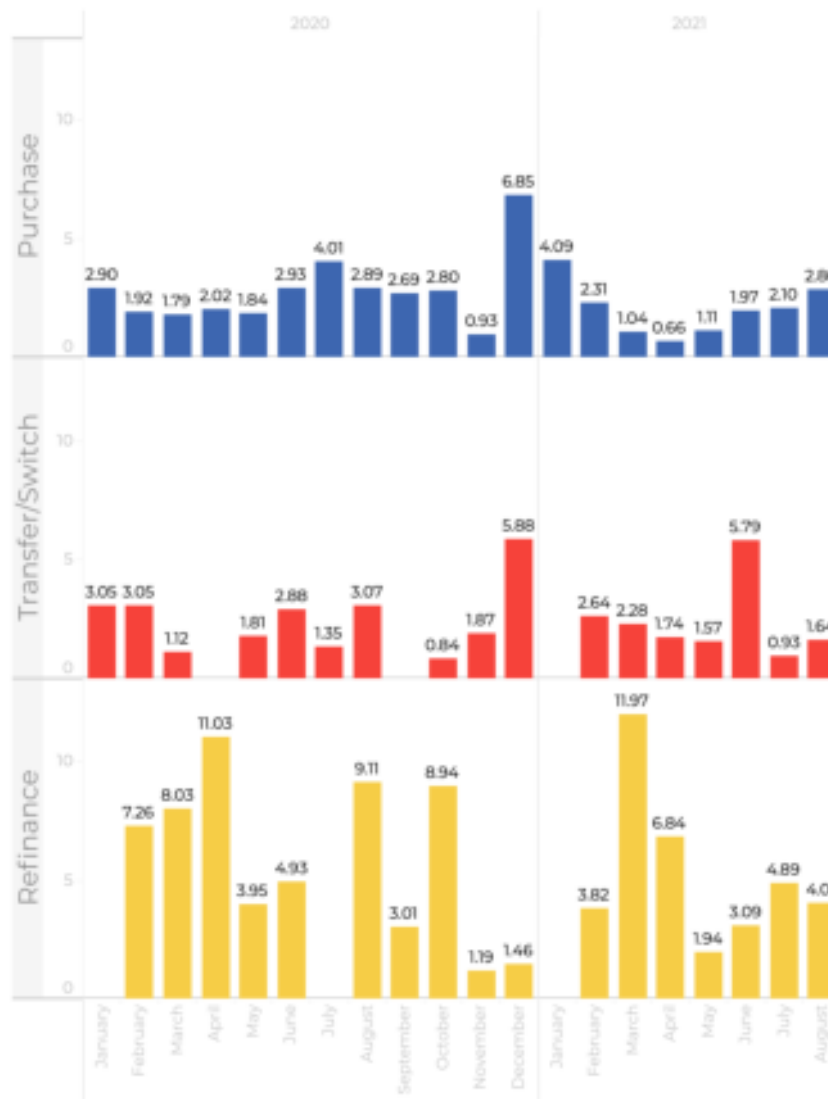


Fig. 11: Approval timelines in days.

Approval delays for all transaction types have largely benefited from the historically slower month of September. The current reduction in overall purchase volume has provided underwriting centres across the country ample capacity to manage all application types, including the previously deprioritized refinance requests within their standard turnaround times.

Still slightly hindering the ability to approve a refinance as quickly as a purchase or a renewal application, however, is the requirement of a third-party evaluation of the property by a Real Estate Appraiser. The overall turnaround time of an evaluation report has decreased significantly in urban environments and we're hoping to confirm in the coming months that the average cost has returned to normal as well. Rural environments remain a challenge for real estate appraisers in meeting existing service level agreements as rural real estate demand is still higher than the years leading up to the pandemic.

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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