



The nesto-meter

April 2021

April 12th, 2021.

In the mortgage and real estate world, March 2021 ends on a tensed note. While [some economists are concerned about the housing bubble, warning against an economic crisis caused by the red-hot Canadian housing market](#), the demand for new purchases keeps going up, increasing the scarcity of houses therefore bringing prices to the roof.

Fixed rates have been increasing for the last two months, showing the first signs of a change while variable rates remained low, decreasing once again in March 2021.

In this April 2021 issue, which covers data from January 2020 to now, 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.

For our monthly deep dive, we decided to tackle three of the most popular topics of the last months: approval delays, purchase price vs down payment variations in Canada and the difference between our users' intentions and final submissions.

KEY TAKEAWAYS

Since March 2020, our best rates have changed 66 times, which is an average of 5.08 times a month.

In March 2021, we saw 2 changes in fixed rates, which kept increasing, while variable rates only saw one rate change, decreasing once again.

For the first time since the first lockdown, the spread between the best fixed and variable rate is approaching 1%

While home prices are still on the rise and low supply, new purchases are showing no signs of slowing down, remaining our most popular users request, at 55%!

In the last month, our median purchase price has increased by \$40,000, now sitting at \$430,000, while our median down payment is now at \$60,000.

In March 2021, approval delays for a mortgage transaction are still much longer in Quebec than Ontario.

In March 2021, while 58% of users accessing the platform had the intention to purchase a new home, that proportion fell to 41% when it came to moving forward with the process.

#1

RATES



A. Volatility

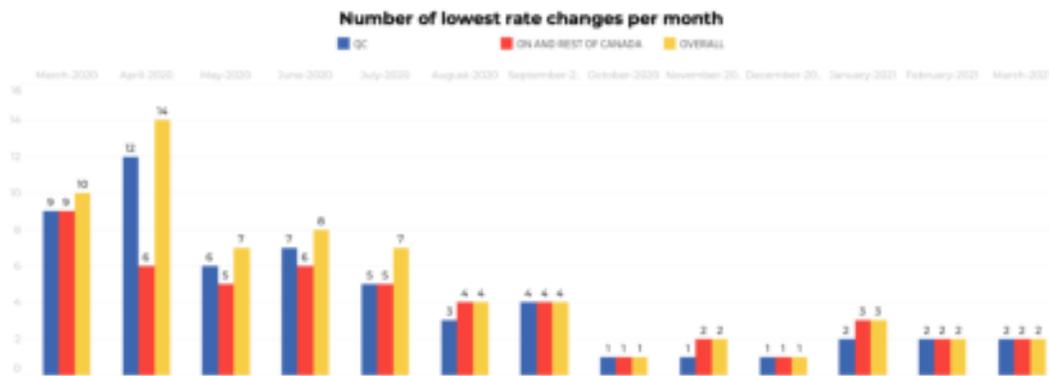


Fig. 1: Number of times the lowest rates offered by nesto to its users changed per month across provinces between March 1st 2020 and April 1st, 2021. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable (20%+ down payment) and corresponds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

“A year later”, meaning almost one year since the day the first ever worldwide lockdown was announced, how is our rate volatility? Are markets more stable?

Like we do every month, we looked at our lowest rates for insured (5-19.99% down payment) and insurable (20%+ down payment) mortgages, both 5-year fixed and variable. Since March 2020, those rates have changed 66 times, which is an average of 5.08 times a month.

While March 2021 was similar to February 2021, with multiple fixed rate increases, it is still way more stable when compared to March 2020, when we saw up to 10 overall rate changes in the span of only a month!

Volatility - by type

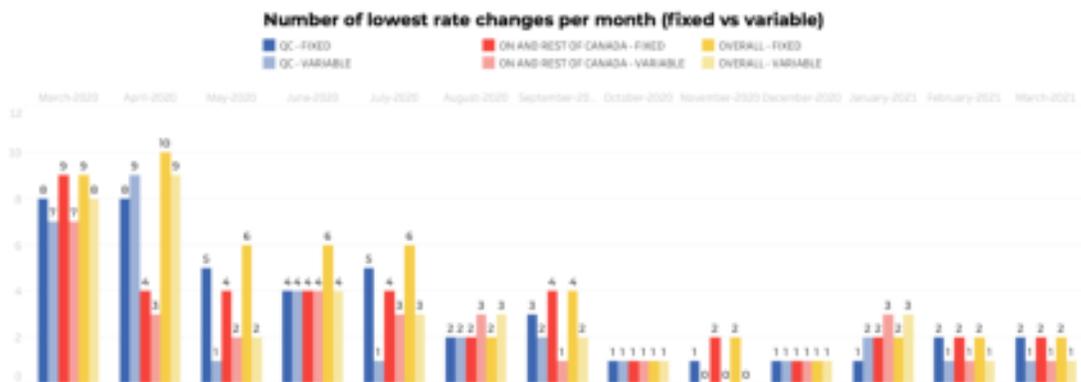


Fig. 2: Number of times the lowest rates offered by nesto to its users changed per month across provinces between March 1st 2020 and April 1st, 2021 and comparing fixed to variable rates. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable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

In March 2021, just like it was the case for February 2021, we saw 2 rate changes in fixed rates, upwards, while variable rates only saw one rate change, and it went down even lower, thanks to a deeper discount from prime rate.

Comparing Quebec rate changes to the rest of Canada shows the exact same results: Fixed rates going up twice, variable rates going down once.

Volatility - Up or Down: difference due to fixed rate increase

 If you'd picked a rate in March: 2020 vs 2021		\$350k property 10% down payment 25 year amortization 5 year term	
Fixed			
	Lowest rate	Highest rate	Difference
Rate (ROC fixed insurable)	1.89%	1.39%	0.45%
Monthly payment	\$1,350.00	\$1,282.00	\$68.00
Total payments	\$81,017.00	\$76,892.00	\$4,125.00
Total interest paid	\$27,385.00	\$20,611.00	\$6,774.00
Total principal paid	\$53,631.00	\$56,281.00	-\$2,650.00
Money saved	-\$4,125.00		
Balance remaining	\$271,134.00	\$277,324.00	-\$6,190.00



Table 1: This table represents the effect of a 0.45% rate difference on a 350k home, with 10% down payment and a 25 year amortisation after a 5 year term

Since fixed rates have been the ones increasing in the last 2 months, we decided to compare our highest to our lowest fixed insured rates from February 2020 to March 2021 and demonstrate the effect of this 0.45% rate difference on a 350k home, with 10% down payment and a 25 year amortisation after a 5 year term.

Scenario 1: You signed a mortgage at 1.39%, our lowest insured fixed rate in 2020. Good for you! You'll end up saving almost \$7,000 in interest fees over the course of 5 years compared to today's best rate!

Scenario 2: You recently signed a mortgage at 1.84%, our highest insured fixed rate so far in 2021. It's still a very good rate, but at a 0.45% rate difference, you'll end up spending a little over \$4,000 more in total payments over 5 years!

B. Variance: Lowest rates

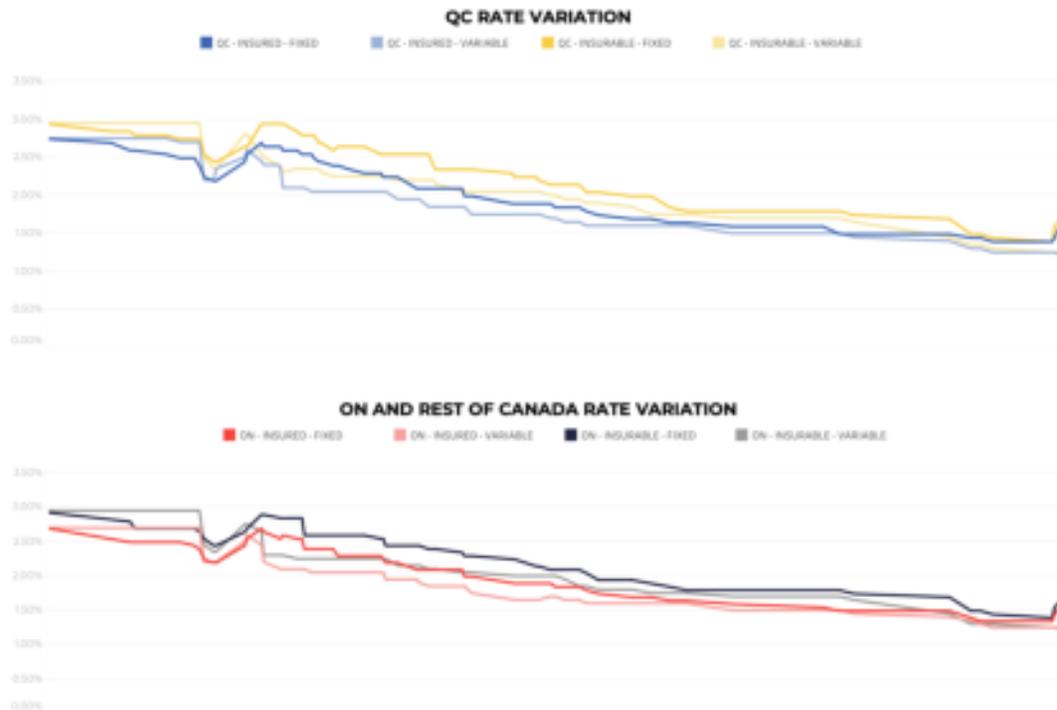


Fig. 3: These graphs show the rate variance from January 1st 2020 to April 1st 2021 in Quebec compared to Ontario and the rest of Canada.

Since January 2020, our best rates have changed by 1.35-1.70% - the highest insurable variable rate was at 2.95% while the lowest was at 1.25%, which makes a 1.70% difference.

While they had been going down since April 2020, fixed rates first started going back up in February 2021. They continued to increase in March 2021 and are still pulling away from variable equivalents which dropped once again this month, at 1.20% (prime -1.25%).

This is the first time we've seen a spread close to 1% between the best fixed and variable options since we were introduced to COVID-19.



If you'd picked
a rate in March:
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



Table 2: 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. That is the exact same rate difference we observed last month, in February 2021! So our rates increased twice in March 2021, by 0.40% total, but the difference between our highest and our lowest insurable variable rate since January 2020 remained the same.

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

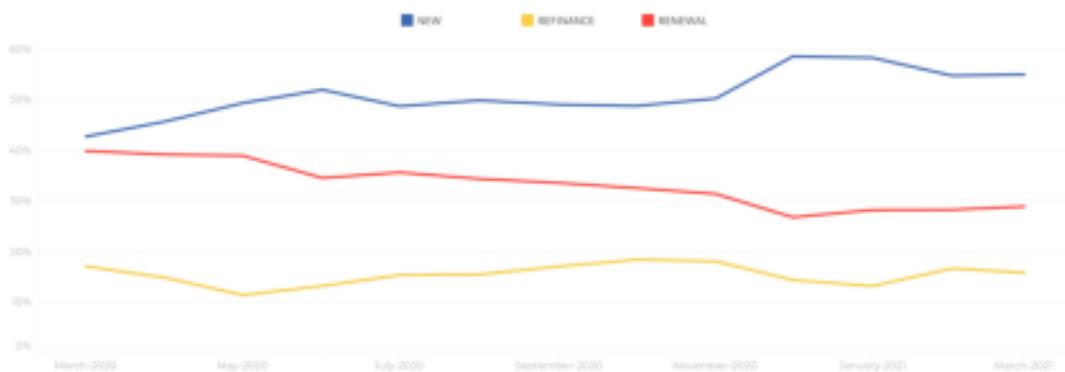
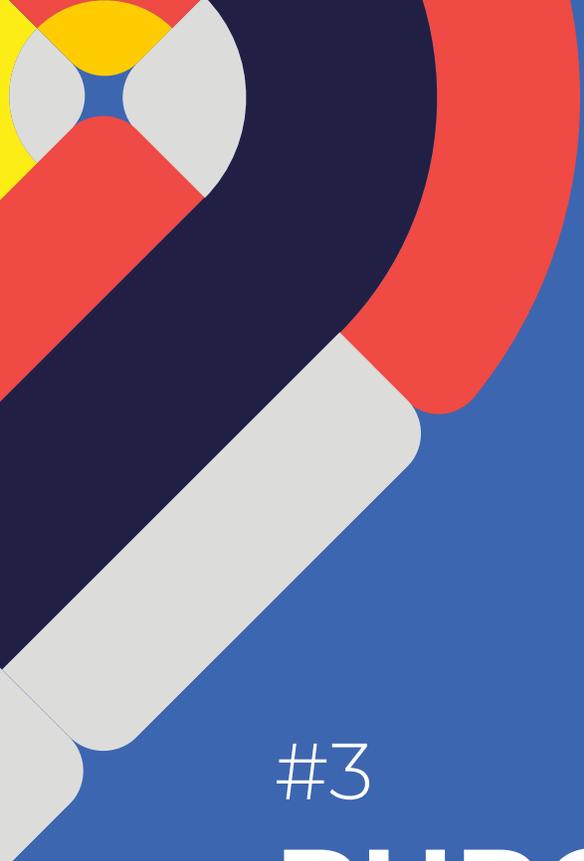


Fig. 4: Trends for proportion of purchases (new mortgages) vs renewals vs refinances from March 1st 2020 to April 1st, 2021. Sum is 100% for each month.

After dropping at the beginning of the year, refinances showed an increase in February 2021, absorbing a portion of our new purchase volume and reaching the highs seen back in October and November 2020, at almost 20% of our users' intentions.

In March 2021, our trend remained stable, with slightly more renewals than refinances. While home prices are still on the rise, new purchases are showing no signs of slowing down, remaining our most popular users request, at 55%!



#3

PURCHASE TIMING INTENT

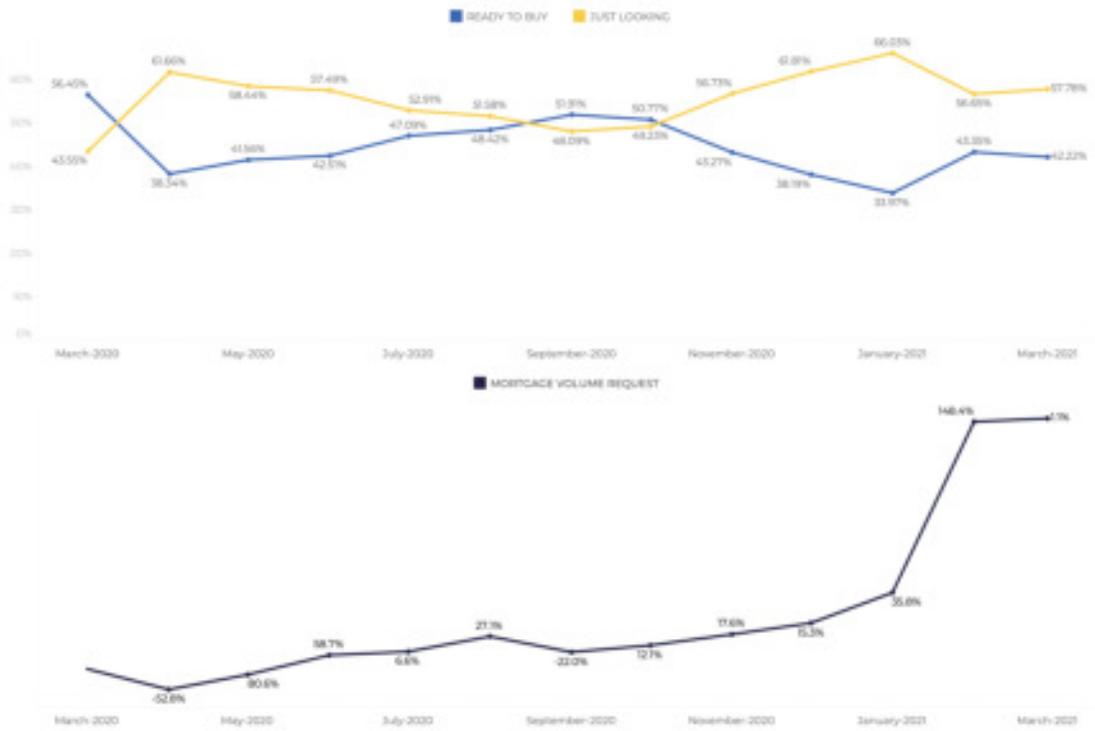


Fig. 5: Purchase intent: proportion of users “ready to buy” vs “just looking” in nesto’s mortgage process, showing month by month from March 1st 2020 to April 1st, 2021.

In terms of purchase timing intent, our March 2021 data is pretty much showing the same numbers as February 2021.

After a drastic increase at the start of the year (January 2021) for those “ready to buy”, the 2 trends remained pretty stable for the past 2 months. Between February and March 2021, nesto users “just looking” increased by 1%, while the number of our users “ready to buy” decreased by the same percentage.

Same goes for our overall mortgage volume request. After a 148% spike in January 2021, we only saw a 1% increase in volume from February to March 2021.

By province

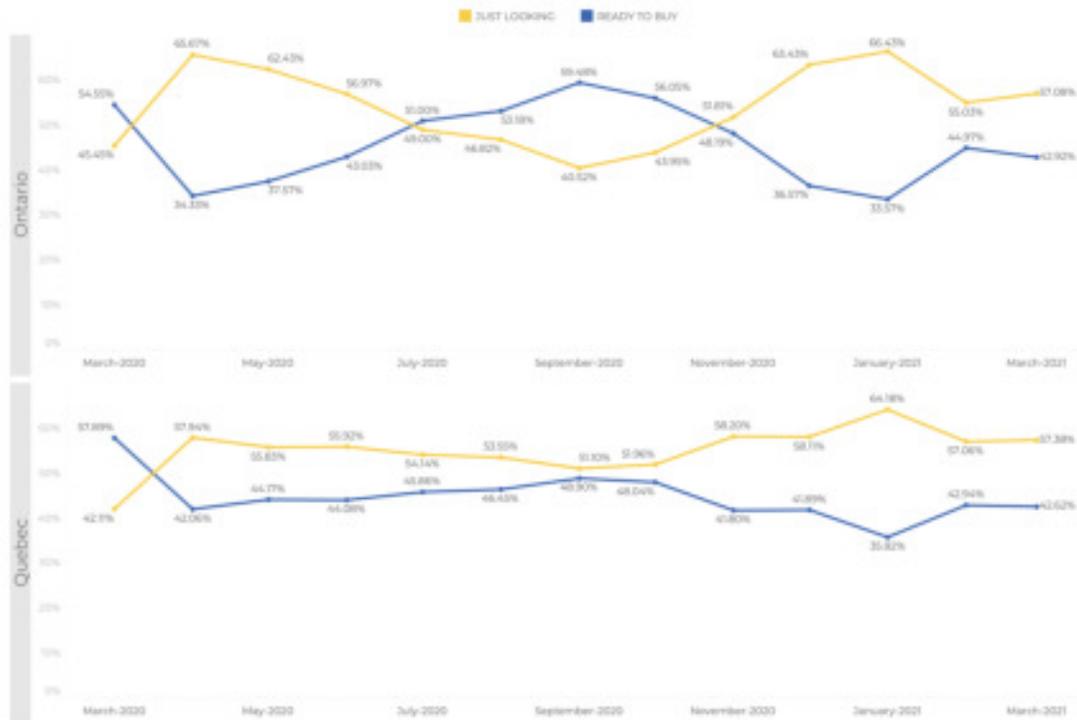


Fig. 6: Purchase timing intent proportion of users “ready to buy” vs “just looking” in nesto’s mortgage process, from March 1st 2020 to April 1st, 2021 in Quebec and Ontario.

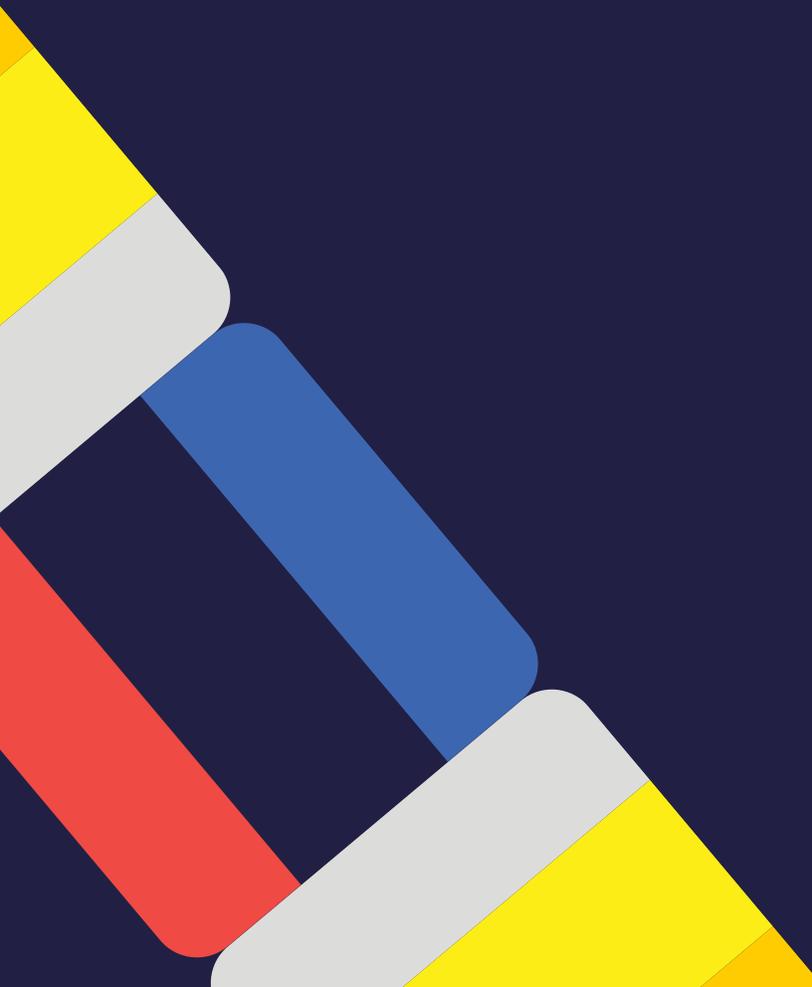
Comparing our users purchase timing intent from Quebec to Ontario also shows very similar results.

Following the 2020 trend, we were expecting to see a lot more of these “just looking” evolving towards live transactions or “ready to buy”, but instead, pre approvals and rate curious users remained strong in March 2021.

One reason why a segment of our “just looking” users are not advancing to further stages is strongly related to the fact that there is a lack of confidence in the real estate pricing and blind bidding process. Less seasoned buyers are either not willing or less willing to continuously make condition free offers of thousands of dollars over asking price without some sort of confidence that the sleepless nights and the stress will reward them with a home.

#4

Property value and down payment



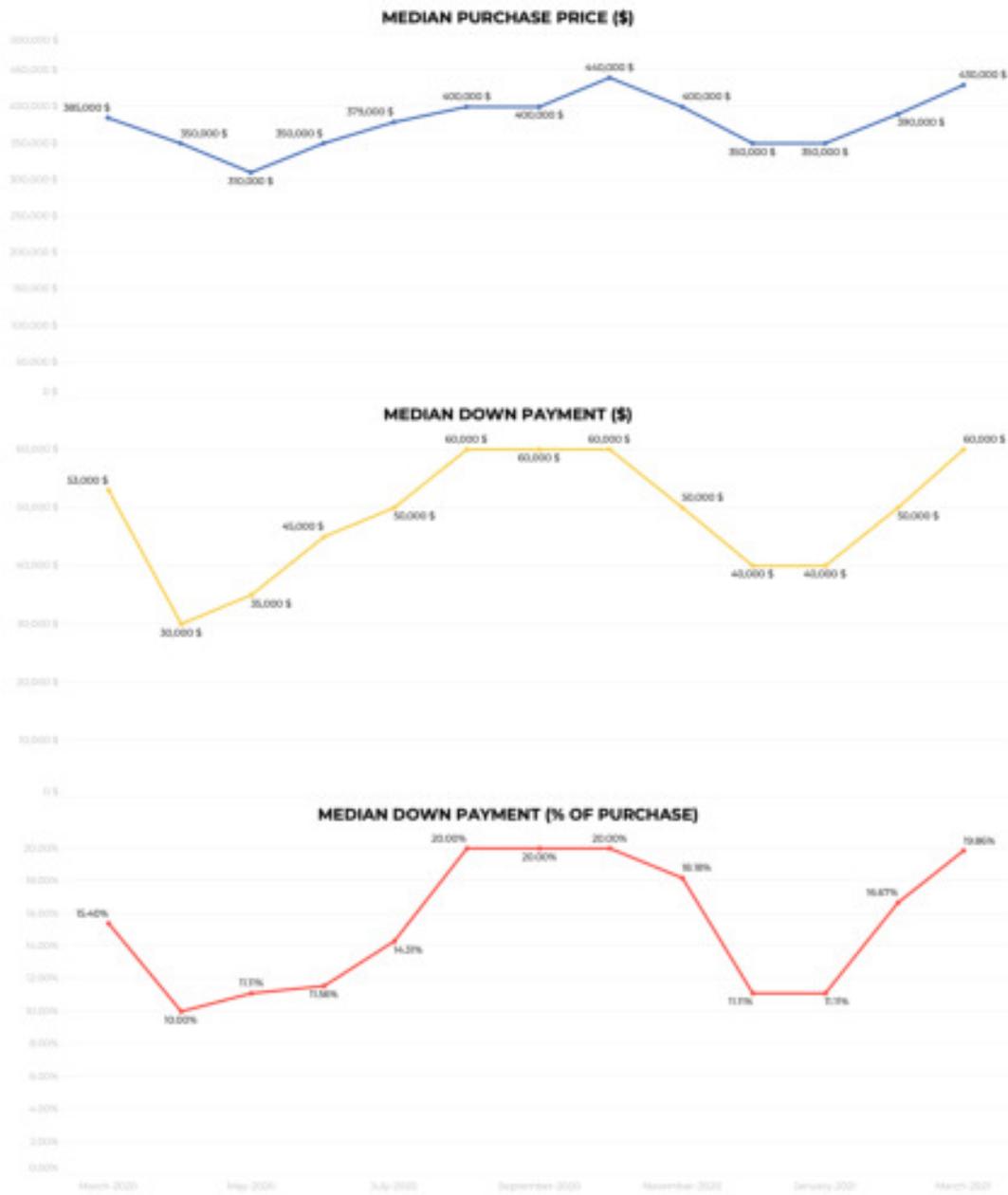


Fig. 7: Graph of intended purchase price vs down payment (in dollars and percentage) from March 1st 2020 to April 1st, 2021.

From January to February 2021, we saw a big jump in both our median purchase price and median down payment. While the offer remains very low in March 2021, those who still plan on buying a house have no choice but to increase their planned purchase price and down payment if they want just a small chance to get access to one the rare properties still on the market.

In the last month, our median purchase price has increased by \$40,000, now sitting at \$430,000, while our median down payment is now at \$60,000, that's \$10,000 more than a month ago.

Only a month ago, our median down payment represented approximately 16% of the purchase price. Now, we're almost at 20%!

By province

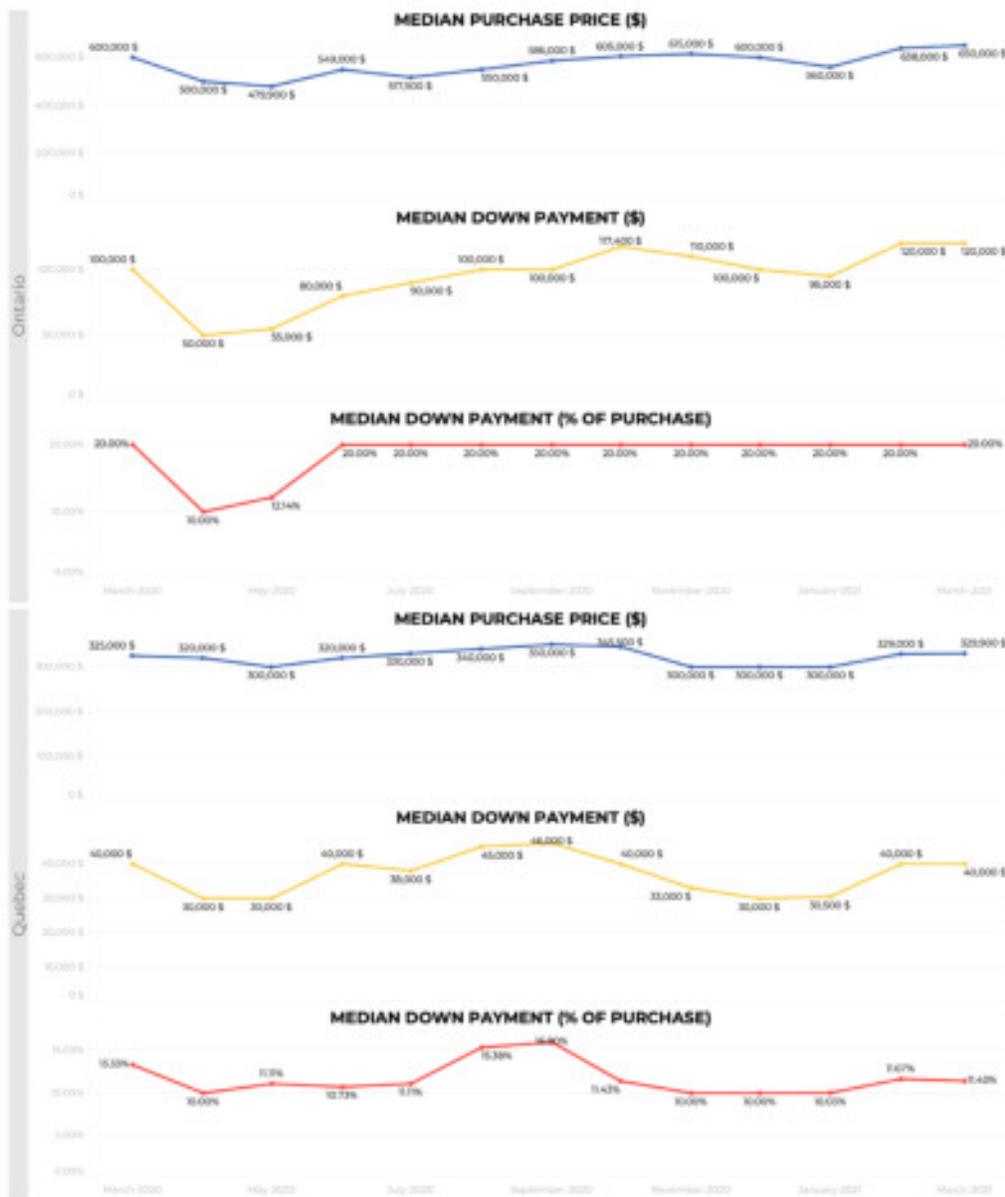


Fig. 8: Graph of intended purchase prices vs down payment (in dollars and percentage) from March 1st 2020 to April 1st, 2021 in Ontario and Quebec.

Now, let's look at the same results, but on a province to province perspective. While our Ontario median down payment remains at 20%, in Quebec, it decreases by less than 1%. In terms of median purchase price, the two provinces are still very far apart. Ontario's median home price is at \$650,000, almost double Quebec's median purchase price, now at \$329,900!

Overall, what we see from February to March 2021 is stability.

DEEP DIVE



Approval Delays

The first part of our deep dive covers a subject we've been discussing but most of all observing for a while now, month after month. Mostly due to the pandemic at first, forcing all lenders to quickly adapt their everyday routine to a new 100%, social distancing online service, approval delays are still a hot topic, almost a year later. Why is that? Because the delays in Quebec are still much longer than the ones experienced in Ontario for the same period.



Fig 9: This graph shows the median approval delay (in days) by mortgage type from July 1st 2020 to April 1st 2021, divided by province.

Starting on July 1st, 2020, and revisiting approval delays, this time splitting our data by mortgage type (new purchase, renewal, refinance) and province, we do notice very different patterns, especially in the last month, where the median delays in Quebec have increased again drastically.

For instance, refinances are experiencing longer delays than usual as lenders prioritise purchases and renewals that have tighter deadlines.

Biases and opinions aside, when there is no financial risk in making an offer to purchase a property, in a market where prices are running away by the day, it is absolutely expected for consumers willing, wanting, but unable to buy a home, to try anyways. In Ontario, a purchase offer is tied to a deposit. The market has removed protection for that deposit via the inability to have your offer accepted with conditions. As a result, consumers must acknowledge risk prior to engaging the home ownership journey, limiting the number of lenders spending their time with borrowers unable to buy homes.

In Quebec, a consumer and their deposit cannot be permanently attached to a purchase agreement without one of the following:

- 1. Documented confirmation they can purchase the property in cash.**
- 2. Final confirmation letter from lender confirming mortgage is complete including an evaluation (if required).**

As a result of point 2 above, our lending partners in Quebec spend more time than anywhere else in Canada underwriting files that will never be completed because there is no risk to a borrower giving it a try.

This could be one of the many reasons why lenders operating in Canada hesitate to open operations in Quebec.

Purchase Price and Down Payment variations

Since this subject has also been at the center of multiple conversations lately, we decided to deep dive and analyse our data for planned purchase price and down payment variations from January 2020 to now. We decided to analyse our data for desired purchase price and down payment when they arrive on our application versus when they finalise their mortgage at nesto, at the end of the process.

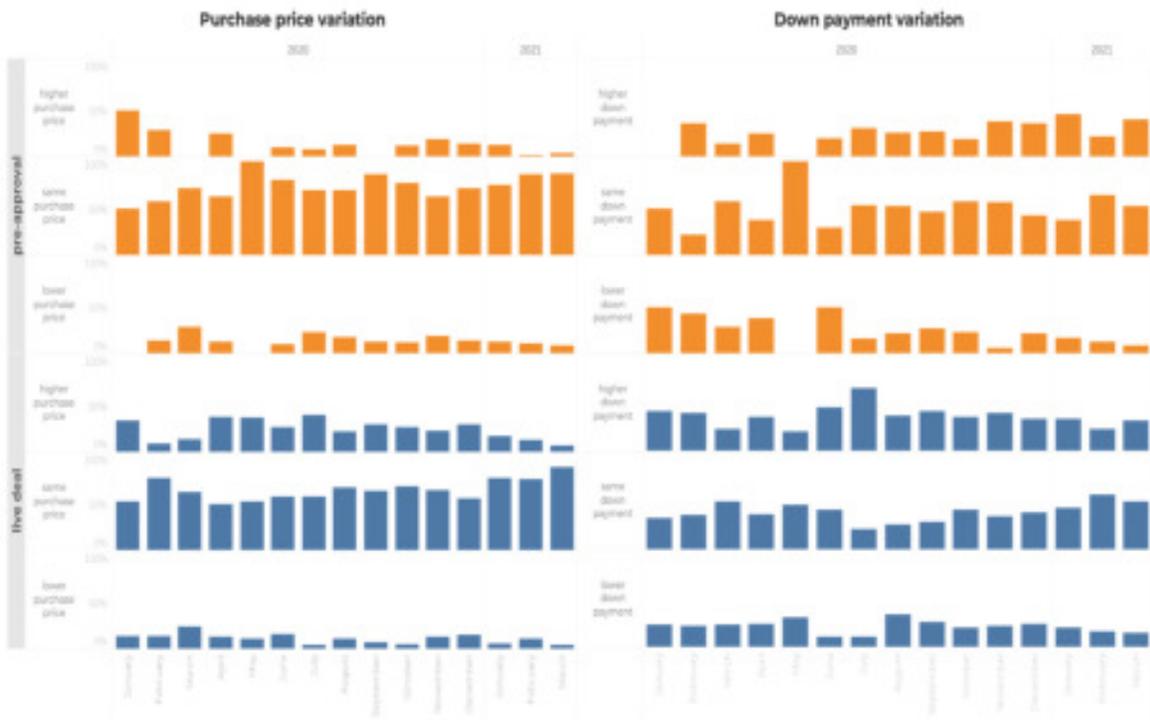


Fig 10: Variation in purchase price and down payment at pre-approval and final purchase vs when users originally expressed their interest, from January 2020 to March 2021

Based on the graph above, it's clear that there is bit of a discrepancy between expected down payment versus actual down payment once an offer is made to purchase.

An influencing factor in this dataset is the nature of Ontario's current real estate market where a borrower is almost required to make an offer without financing conditions for a chance of having the offer accepted. There is no safe way to make an offer with no conditions but the bare minimum requirement would be a minimum of 20% of the property value as down payment to ensure the borrower can access alternative financing options should a prime lender not be satisfied with the property or transaction.

If the borrower does not satisfy the purchase agreement by the due date(buy the house), they will forfeit their deposit and risk further expenses if the seller experiences further losses as a result of the buyer's inability to fulfill the purchase contract. To that end, 20% down payment is needed in order to give the borrower the option of Alternative Financing(B, Private, etc) as opposed to forfeiting their deposit, should there be any issues with the prime(best rate) lenders ability to approve the financing.

This is not an issue in Quebec, where a (approx. 14 day) financing condition is a formal requirement that can only be satisfied by a Final Confirmation letter from the Bank/Lender, or proof of sufficient cash/savings to buy the property in full. As a result of this mandatory condition protecting a borrowers deposit, there is little risk in making and offer which brings an entirely different suite of obstacles facing homebuyers and industry players in the province.

Intent vs live submissions

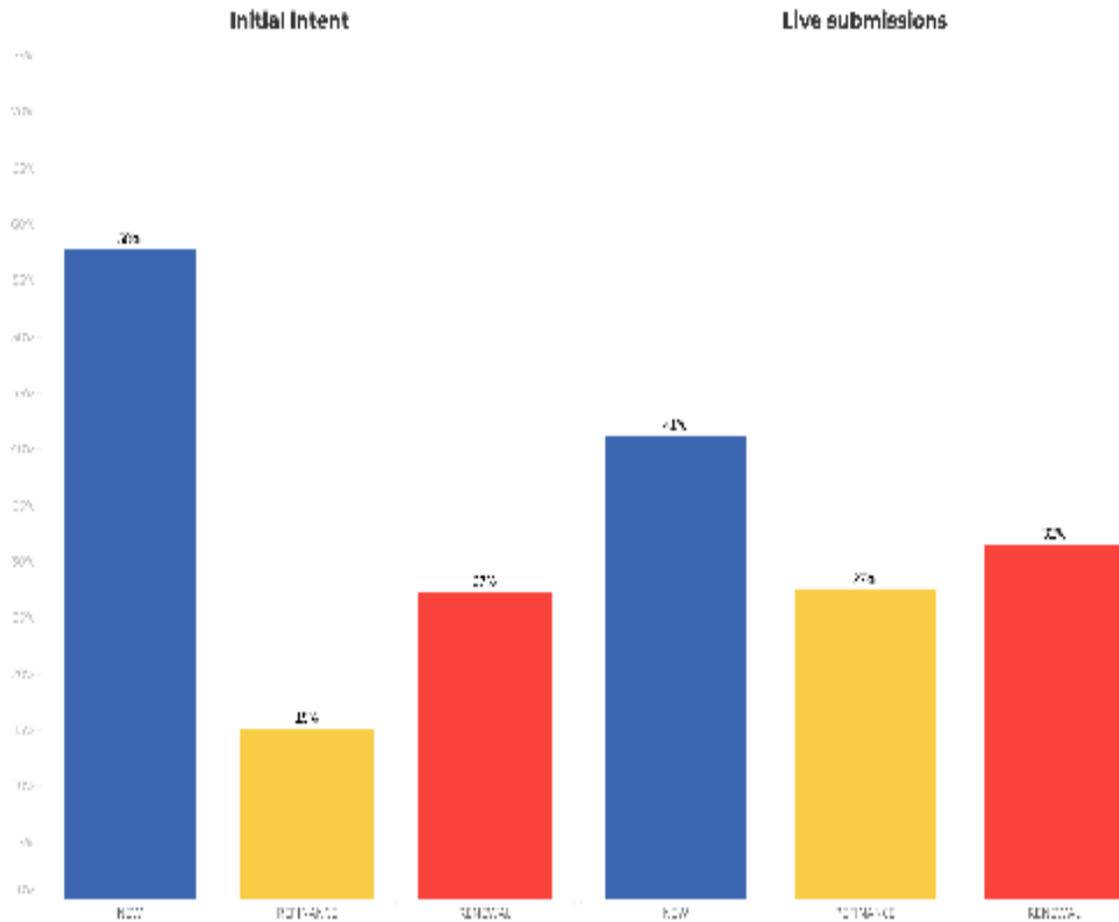


Fig 11: Proportion of purchases, renewals and refinances as initial intent (accessing nesto's platform) vs submissions to a lender for March 2021.

The spread between the intent of our users first arriving to nesto.ca is as expected for this time of year with new purchases being the bulk of our activity. When it comes to finding a home, or having an offer accepted, there are still many factors hindering actual home ownership, including our unforgiving sellers market limiting the many of the want-to-be home buyers ability to get the finish line.

This is clearly not the case for Refinances or Renewals, where the primary market/uncontrollable factors at play are the property values, and lender appetites, both remain high and stable. The increase in refinances follows the first wave of Fixed Rate increases and is expected.

CONCLUSION

In March 2021, while our best fixed rates keep increasing and the interest for new purchases is still on the rise. Our users, despite having to boost their planned property purchased budget by \$40,000, and down payments too are still bullish and optimistic. The current unusual circumstances coupled with the short home supply are inciting the need to buy as soon as possible, instead of the opposite.

At the same time, variable rates remain very low, decreasing once again in March 2021, down to 1.20% (prime -1.25%). With the pre-pandemic spread between the two increasing towards 1%, it is becoming a popular discussion topic with our users.

In terms of approval delays, our data shows that a year after the start of the lockdown, there is still a big difference between Quebec and Ontario in the number of days until approved. This is a result of lower lending diversity with a fraction of the prime lenders available compared to neighbouring provinces coupled with the ability for consumers to make risk-free offers in Quebec. While a mandatory conditional requirement is a phenomenal tool to protect home buyers, there is a cost of shifting much of the homebuying risk from the client, to the lender. In this type of market, it overburdens the lenders to the point that not having the required final approval by the 14day deadline and requiring an extension at the mercy of the seller is not uncommon.

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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