The nesto-meter

October 2020

nesto
mortgage agency

October 14th, 2020

It's one of those typical rainy October mornings, not a soul to be seen in the streets, but the bad weather isn't the main reason for that: As predicted last spring, the second COVID-19 wave has hit, and many of our users are now, once again, back to lockdown mode.

At the same time, for the fourth month in a row, in September 2020, mortgage rates have been decreasing, once again reaching record-lows. The lending industry, as expected, is stimulating the real estate market predominantly with these record-low interest rates. And it's working! Despite the general uncertainty, new purchase volume is steadily increasing amongst our digital users in the last 2 months, as opposed to renewal volume which has remained steady since June 2020.

In this October issue, you will find updated data on our 5 key monthly metrics: Rates volatility and variance, timing, mortgage type trends, purchase price vs down payment and purchase timing intent.

In the second part of this report, we will be discussing two trending topics: Are consumers really looking to purchase houses rather than condos these days? And, how exactly is the current context impacting the approval delays in Quebec and Ontario?

Let's find out.

KEY TAKEAWAYS

Overall, with only 4 rate changes per month for both August and September 2020, lenders have landed on their desired spread between cost of funds and profit margins.

In September 2020, for the fourth month in a row, mortgage rates decreased, reaching record-lows once again.

Fixed and variable rates for the same category (insured or insurable) are trending closer and closer to each other every month, with only a 0.04% difference between them today.

In September 2020, there is much more interest in purchase than renewal amongst our users.

In September 2020, nesto users target houses instead of condos for their next property.

Remote work, economic uncertainty and people returning to the market have a major impact on approval delays in Quebec.

#1

RATES

A. Volatility

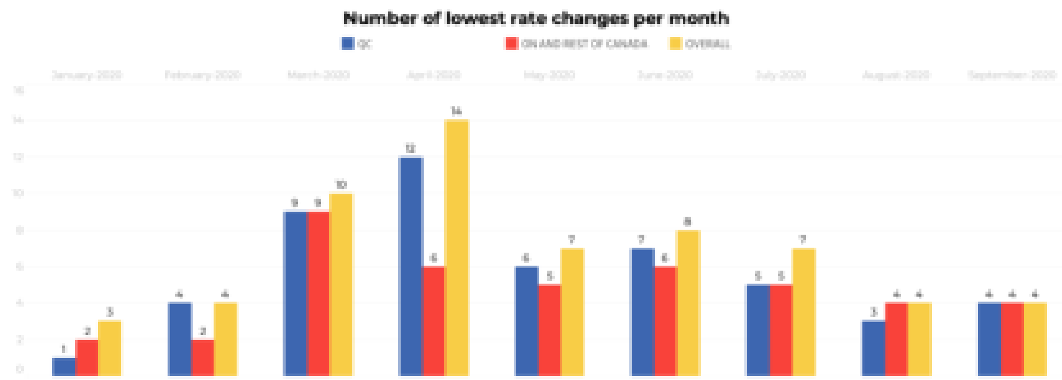

Fig. 1: Number of times the lowest rates offered by nesto to its users changed per month across provinces between January and September 2020. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable (20%+ down payment) and corresponds to the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

In order to measure the evolution of our data and be able to compare our results through time, we, once again, looked at nesto's lowest rates for both insured (5-19.99% down payment) and insurable (20%+ down payment) mortgages, both 5-year fixed and variable, from January to September 2020.

In total, since January, those rates have changed 61 times, an average of 6.78 times a month. After seeing up to 14 rate changes in the span of only one month last April, a clear demonstration of the general uncertainty at the time, the market seems to have settled a bit more in the last 2 months, with only 4 rate changes per month for both August and September 2020. A tendency that could be explained by the fact most lenders have landed on comfortable margins due to the low cost of funds and are willing to keep offering low rates to stay competitive in this market recovery period. It is also believed that their general operating costs have increased as a result of the pandemic, so it leads us to wonder what the true profit margins really are.

Volatility - by type

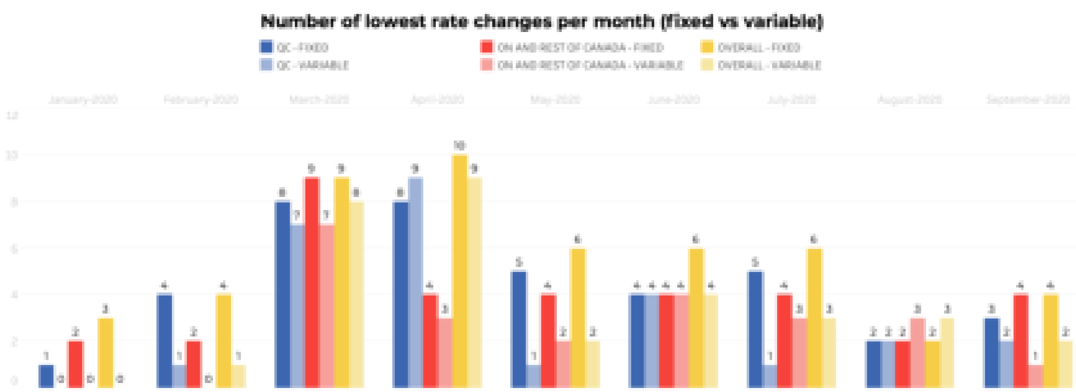

Fig. 2: Number of times the lowest rates offered by nesto to its users changed per month across provinces between January and September 2020 and comparing fixed to variable rates. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable (20%+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

Now comparing the number of changes between our lowest fixed rates and variable rates, as opposed to August 2020, our September data shows that fixed rates have been changing more frequently in the last four weeks. This would make August the only exception to the rule so far in 2020.

Variable rate changes, on their part, were directly related to lenders changing their discount from prime rate. Comparing our digital data from the province of Quebec to Ontario and the rest of Canada, once again, we realise that Quebec is the place where fixed rates changed the least. Less changes to best rates in Quebec compared to Ontario is expected due to the fact that Ontario has a much larger roster of mortgage companies operating in the prime mortgage space.

Volatility : Up or Down

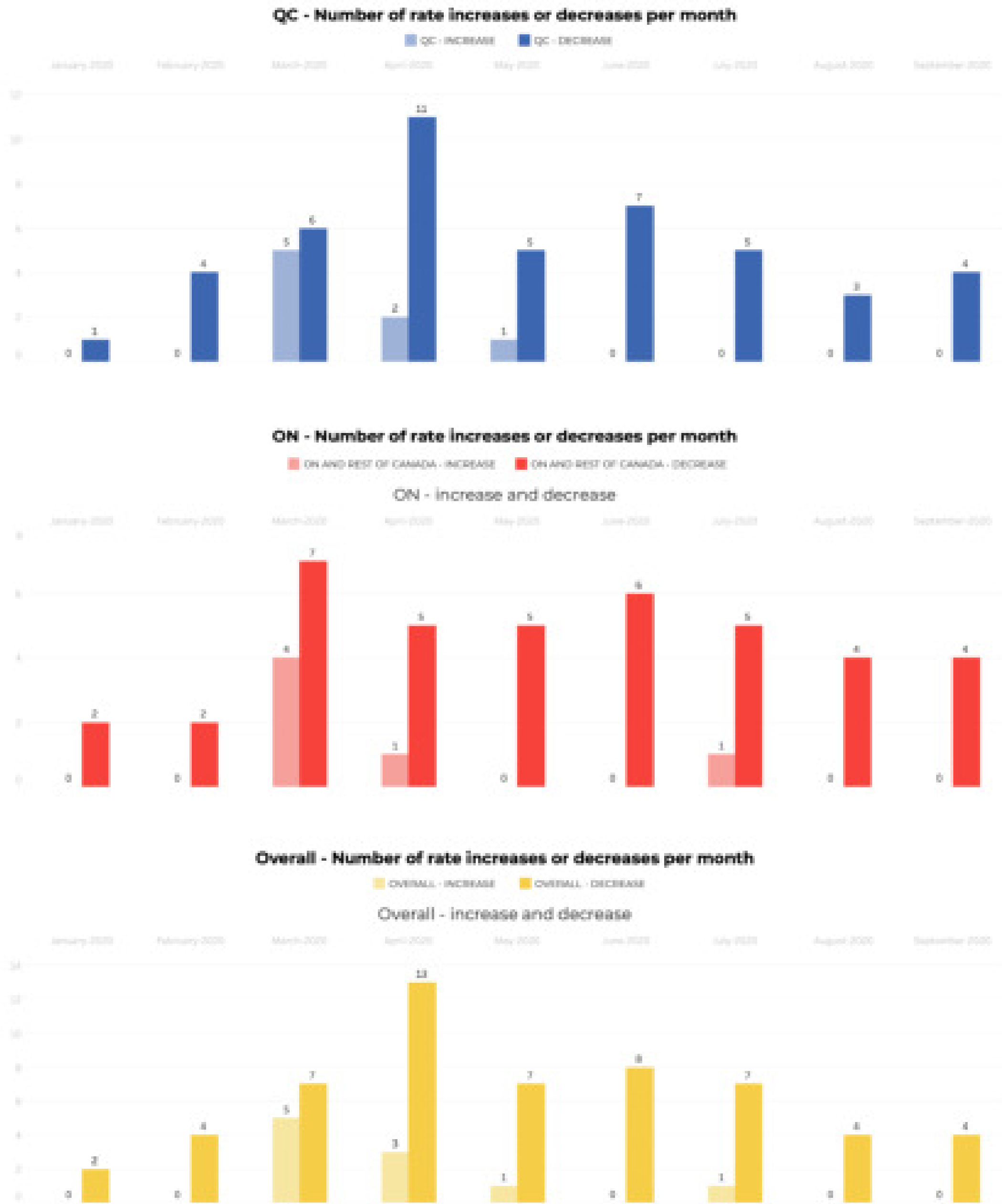

Fig. 3: Number of times the lowest rates offered by nesto to its clients increased or decreased per month across provinces between January and September 2020. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable (20%+ down payment).

Unless you haven't been paying attention to mortgage rates at all in the last months (which we doubt very much if you are reading this report) you probably noticed they have been quite low. Well, once again this September, the rates remain very low and keep decreasing in Quebec, for the fourth month in a row, reaching record-lows. As you can notice in the graph above, Ontario and the other Canadian provinces, except for a quick rate increase in July 2020, are also following the same downward trend.

B. Variance: Lowest rates

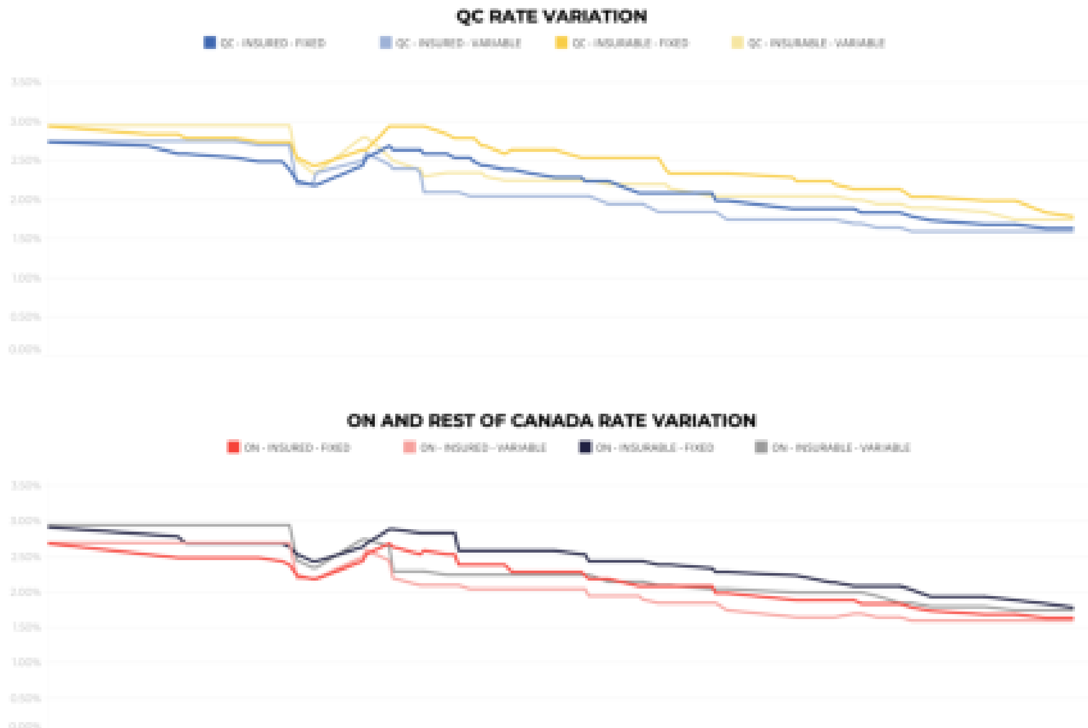

Fig. 4: These graphs show the rate variance from January 1rst to October 1rst 2020 in Quebec compared to Ontario and the rest of Canada.

So, how much have these mortgage rates decreased exactly?

According to our data, since January, rates have changed by 1.05% to 1.20% (the highest insurable variable rate was at 2.95% while the lowest was at 1.75%, a 1.20% difference.)

What catches our attention here, is that fixed and variable rates for the same category (insured or insurable) are trending closer and closer to each other every month, with only a meager 0.04% difference between them. With the fixed rates decreasing almost every week, and the variable rates remaining stable, the two rate types have now almost reached the same level. When this occurs, the primary realized benefit of opting for a variable rate over a fixed is the reduced penalty exposure of the 3-month interest penalty in comparison with the Interest Rate Differential OR 3-month interest penalty (whichever is greater) attached to fixed rate mortgage products.

Differences between highest and lowest rate in 2020

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

	Lowest rate	Highest rate	Difference
Rate	1.75%	2.95%	-1.20%
Monthly payment	$1,336.00	$1,529.00	-$193.00
Total payments	$80,182.00	$91,717.00	-$11,535.00
Total interest paid	$26,027.00	$44,276.00	-$18,249.00
Total principal paid	$54,155.00	$47,441.00	$6,714.00
Money saved	$11,535.00		
Balance remaining	**$270,610.00**	**$277,324.00**	**-$6,714.00**

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Table 1: This table represents the effect of a 1.20% rate difference on a 350k home, with 10% down payment and a 25 year amortisation after a 5 year term.

This table represents the effect of a 1.20% rate difference on a 350k home, with 10% down payment and a 25 year amortisation after a 5 year term. It's always interesting to see how much money you saved, or could have saved, depending on the situation, if you'd taken advantage of the lowest rate possible. Right now, this rate is at 1.75%, and if you'd decided to take your mortgage in the last weeks, your monthly payments would be almost 200$ less than with the highest insurable variable rate, and you would have approximately saved $11,535!
That's a considerable amount!

#2

TIMING

Where would you stand if you'd taken out a mortgage in January?

A. January vs September fixed rates

January vs September fixed rates

January-September, 2020

	Quebec		ON and rest of Canada	
	Fixed		Fixed	
	Insured	*Insurable*	*Insured*	*Insurable*
Jan 1	2.74%	2.94%	2.69%	2.92%
Sept 24	1.64%	1.79%	1.64%	1.79%
Difference	-1.10%	-1.15%	-1.05%	-1.13%

Table 2: Fixed rates in January vs September across provinces. Rates have fallen by -1.05% to -1.15% on nesto's lowest rates.

Let's focus a bit more on the effect of timing, and, once again, compare January 2020 fixed rates to actual rates. According to the table above, If you'd taken a fixed rate in January, you'd still be between 1.05-1.15% higher than the best rate in September.

If you'd picked a rate in January

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

Fixed	Lowest rate	Highest rate	Difference
Rate (QC insurable)	1.79%	2.94%	-1.15%
Monthly payment	$1,343.00	$1,527.00	-$184.00
Total payments	$80,552.00	$91,617.00	-$11,065.00
Total interest paid	$26,630.00	$44,123.00	-$17,493.00
Total principal paid	$53,922.00	$47,494.00	$6,428.00
Money saved	$11,065.00		
Balance remaining	**$270,843.00**	**$277,271.00**	**-$6,428.00**

Table 3: The table above represents the effect of a 1.15% rate difference on a 350k home, with 10% down payment and a 25-year amortization after a 5-year term.

The second table represents the effect of a 1.15% rate difference on a 350k home, with 10% down payment and a 25 year amortization after a 5 year term. With today's fixed rate, compared to January's, in 5 years from now, you will have repaid almost $6,500 more on your principal and saved a total of $11,065!

B. January vs September variable rates

January vs September variable rates | January-September, 2020

	Quebec		ON and rest of Canada	
	Variable		Variable	
	insured	*insurable*	*insured*	*insurable*
Jan 1 rates	2.75% prime -1.20%	2.95% prime -1.00%	2.70% prime -1.25%	2.95% prime -1.00%
Jan rate in Sept	1.25%	1.45%	1.20%	1.45%
Sept 24 rates	1.60% prime -0.85%	1.75% prime -0.70%	1.60% prime -0.85%	1.75% prime -0.70%
Difference	0.35%	0.30%	0.40%	0.30%

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Table 4: Variable rates in January vs September across provinces.

Now, what if you'd taken a variable rate in January 2020?

Based on the discount from the prime rate, variable rates behave totally differently than fixed rates, and that's why you get the opposite trend.

As mentioned in our previous reports, the Prime rate has dropped a lot in 2020. Having chosen a variable rate in January 2020 would have been a great choice, considering your rate would still be 0.30-0.40% lower than today's lowest variable rate.

If you'd picked a rate in January | $350k property
10% down payment
25 year amortization
5 year term

Variable

	Lowest rate	Highest rate	Difference
Rate (insured)	1.20%	1.60%	-0.40%
Monthly payment	$1,253.00	$1,313.00	-$60.00
Total payments	$75,188.00	$78,801.00	-$3,613.00
Total interest paid	$17,765.00	$23,767.00	-$6,002.00
Total principal paid	$57,423.00	$55,034.00	$2,389.00
Money saved	$3,613.00		
Balance remaining	**$267,342.00**	**$269,731.00**	**-$2,389.00**

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Table 5: The table above illustrates what a -0.40% variable rate difference would represent on a 350k mortgage, with 10% down payment and a 25-year amortisation after a 5-year term.

Taking a mortgage at 1.20%, January 2020's lowest variable rate, would have ended up saving you $3,613 on a 5 year term!

#3

MORTGAGE TYPE TRENDS

Purchase vs Renewal

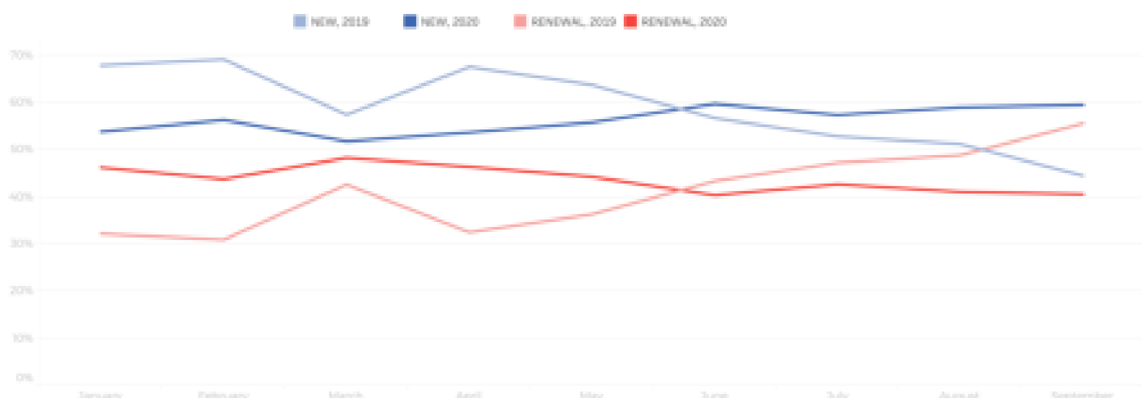

Fig. 5: Trends for proportion of purchases (new mortgages) vs renewals from January to September in 2020 vs 2019. Sum is 100% for each month.

In last month's data analysis, we noticed a much higher percentage of our users being homebuyers, than those intending to renew their existing mortgages. The trend continues in September, with an even bigger gap between the two amongst our users. Whereas in 2019 renewals representing the majority of our users requests. In 2020 however, they continue to lose ground to purchase intent. An interesting and logical find in this COVID19 era, considering the amount of owners wishing to move out of the city to embrace a new, more country-living lifestyle, away from crowds and red zones.

Purchase vs Renewal vs Refinance

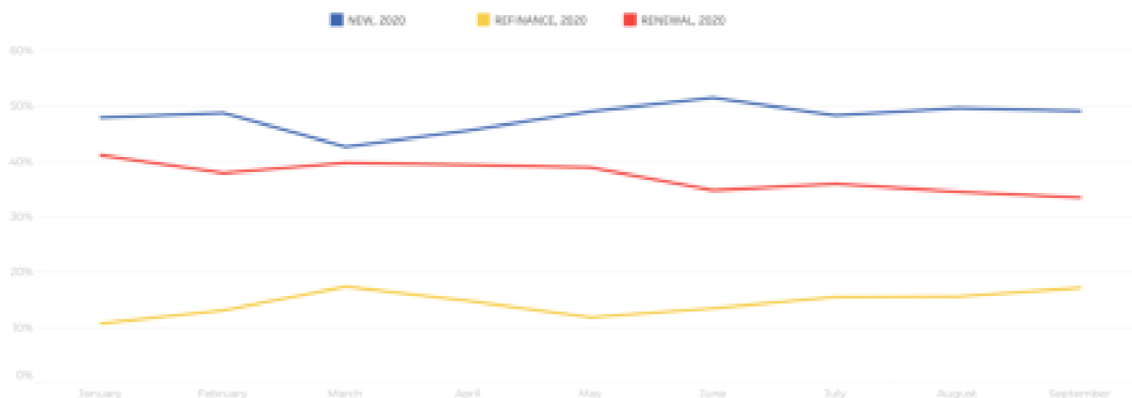

Fig. 6: Trends for proportion of purchases (new mortgages) vs renewals vs refinances from January to September 2020. Sum is 100% for each month.

Looking at purchase, renewal and refinance trends for 2020 specifically, we notice refinances are gaining ground again in September to reach over 17% of user requests, back to March 2020's numbers.

#4

PURCHASE TIMING INTENT

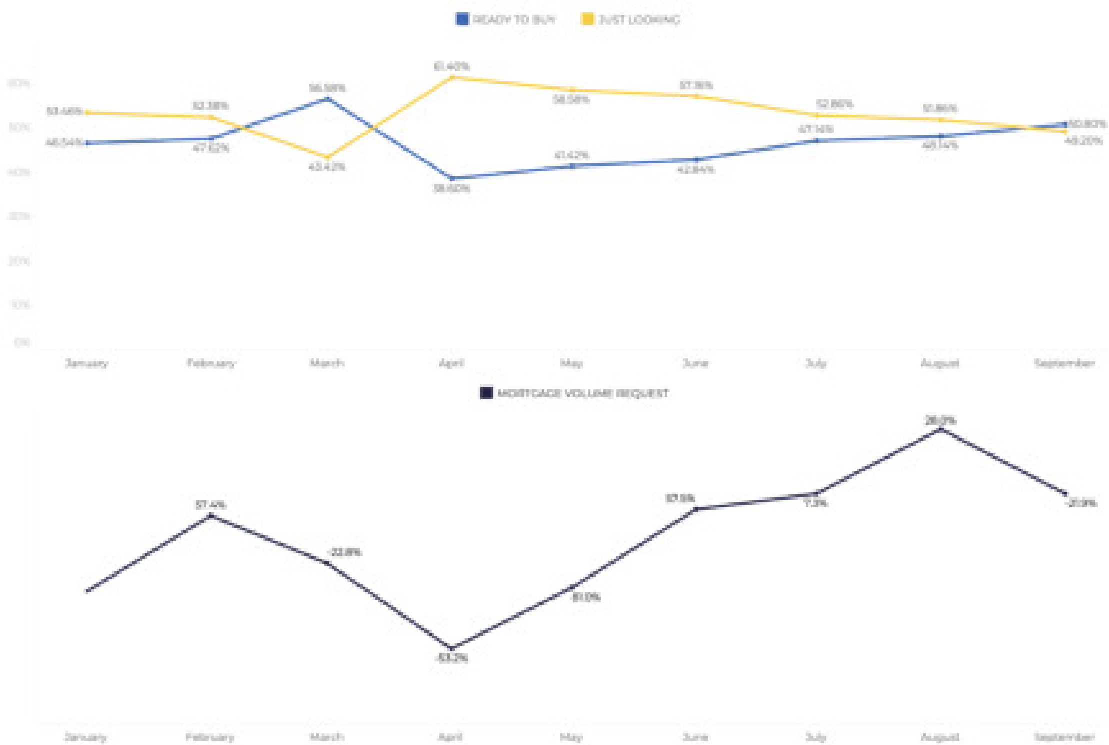

Fig. 7: Purchase intent: proportion of users "ready to buy" vs "just looking" in nesto's mortgage process, showing month by month from January to September 2020.

In August 2020, we saw a big increase in digital users closer to having found their property compared to those who were simply just looking. In September, for the first time since March 2020 and the beginning of the lockdown, the number of people having found a property overtook those who were just browsing by a small, but still significant 1%. The metric had been trending upward since April, from 38% of our users to 50% of them only 6 months later. It's clear that our users are more ready to buy today than earlier this year, and they want to move in faster too.

On the other hand, the overall purchase inquiry volume seems to have finally slowed down. Not surprising, as year over year data indicates the end of Q3 being the end of the "home buying season" but we did expect abnormalities due to the pent up demand caused by confinement.

By Province

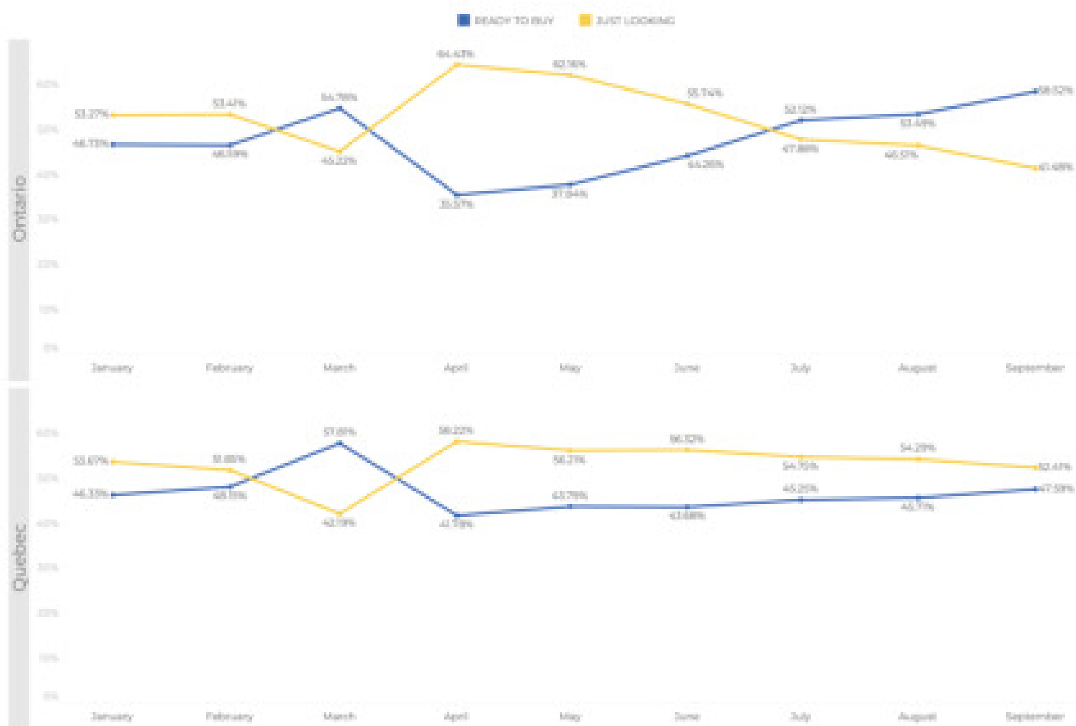

Fig. 8: Purchase timing intent proportion of users "ready to buy" vs "just looking" in nesto's mortgage process, from January to September 2020 in Quebec and Ontario. Highlighted is the first lockdown period, from end of March to June 2020.

If we segment our purchase timing intent data by province, we notice that Ontario and Quebec are pretty much following the same trend. In Quebec, we have more users still in the market as opposed to having found a home, although the difference is almost insignificant (52% against 47%). In Ontario, close to 60% of requests are from users having found a property, while only 40% are just browsing. September seems to be the time when more nesto applicants have found a home and are ready to buy!

Purchase price and down payment : pre, during and post-lockdown

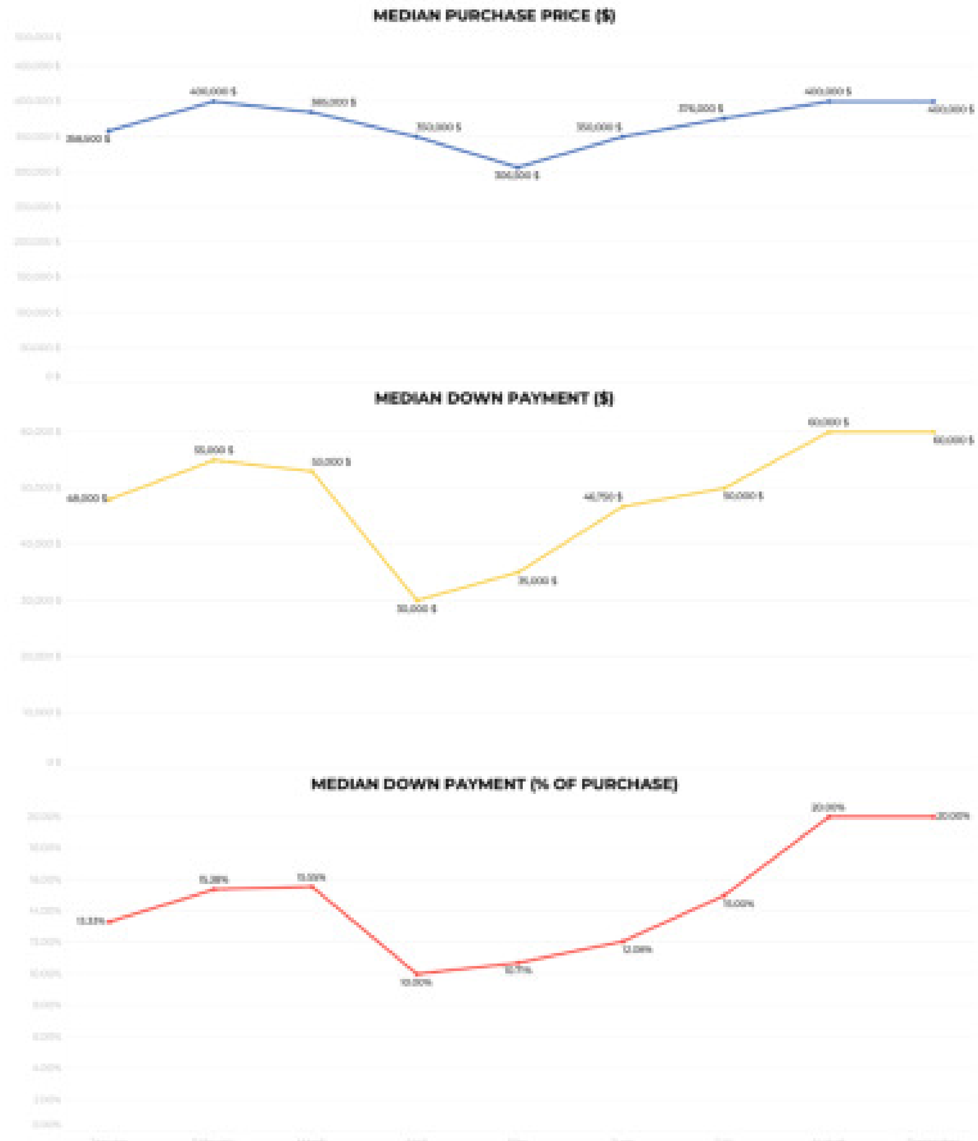

Fig. 9: Graph of intended purchase price vs down payment (in dollars and percentage) from January to September 2020. Highlighted is the first lockdown period, from end of March to June 2020.

Surprisingly, from August to September 2020, the median values for purchase price, down payment amount and percentage stayed exactly the same (we swear, we double checked)! This essentially means that once again this month, our users are looking for a median home price of $400,000 with an available down payment of $60,000, which represents 20% of the total purchase price! We are maintaining pre-COVID numbers.

The fact that we get the exact same results 2 months in a row also gives us a sense of a stabilizing buyer intent.

By province

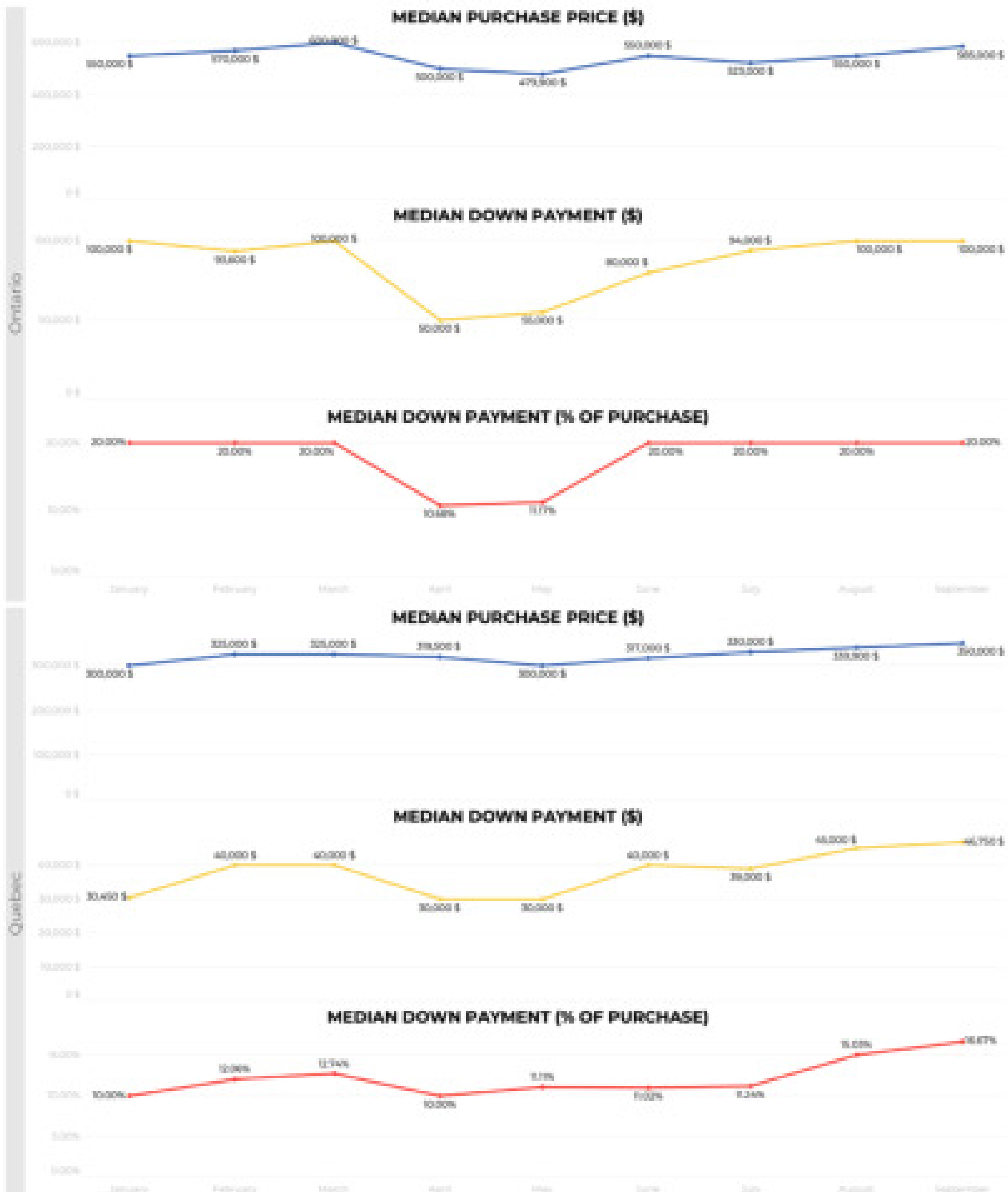

Fig. 10: Graph of intended purchase prices vs down payment (in dollars and percentage) from January to september 2020 in Ontario and Quebec. Highlighted is the first lockdown period , from the end of March to June 2020.

Again, comparing data from Quebec to Ontario, we do notice some slight differences. The median targeted purchase price in Ontario has increased a little while in Quebec, all 3 median values have gone upward since January 2020. The median down payment for Quebec has now reached almost 47 000$ or 17% of the total property value.

DEEP DIVE

PURCHASE TYPE AND APPROVAL DELAYS

Context
September 2020: Despite the second lockdown, mortgage rates are still historically low, and new home purchase volume is still going up. But, what type of properties are consumers looking for, exactly?

Is it true what they say about homeowners fleeing red zoned big cities to go live further away in the suburbs? With remote work now becoming a new standard, are consumers really leaving their pied-à-terre in the city for a COVID-free, less expensive house in the country?

And what about the sudden increase in digital users wanting to make a move and buy a house right now? Are lenders, still accommodating to their new remote reality, ready to deal with such a massive quick-closing demand?
How is this impacting approval delays, especially in Quebec?

Hypothesis 1

Digital consumers are looking to purchase houses rather than condos in the current context.

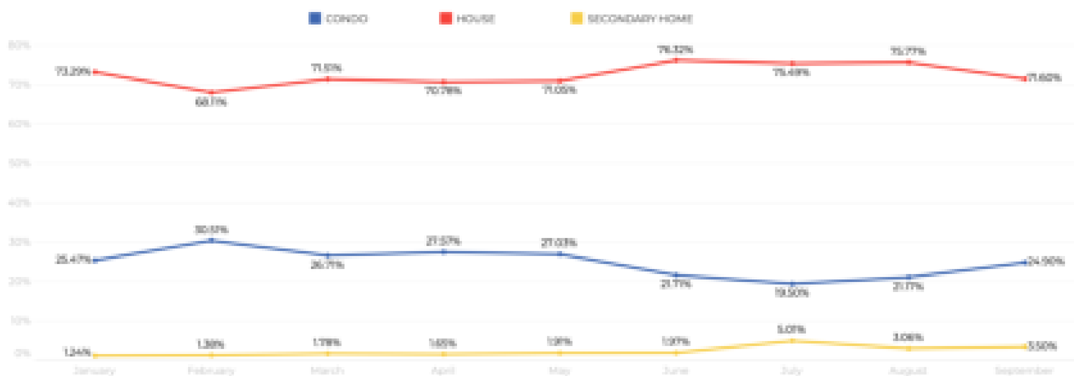

Fig. 11: Overall proportion of purchase intent for condos vs houses vs secondary homes, from January to September 2020.

So, what kind of properties are digital consumers buying?

According to our data, in May 2020, once the market picked up, There was an increase in the number of our users looking at houses, while the interest in condos decreased by almost 10%.

We also saw a spike in July for interest in secondary homes. While it's not an uncommon trend for this time of the year, we believe this years metrics are directly related to the fact our customers were looking for ways to spend less time in the city and take advantage of the low interest rates.

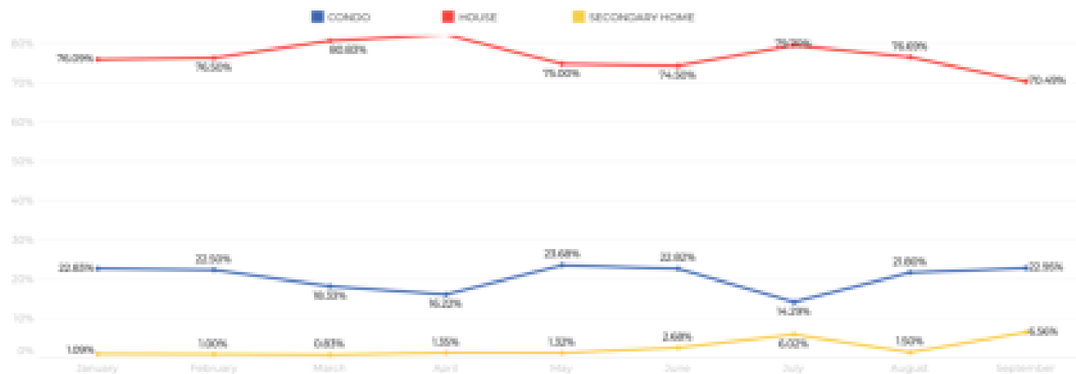

Fig. 12: Proportion of purchase intent for condos vs houses vs secondary homes in Ontario, from January Àto September 2020.

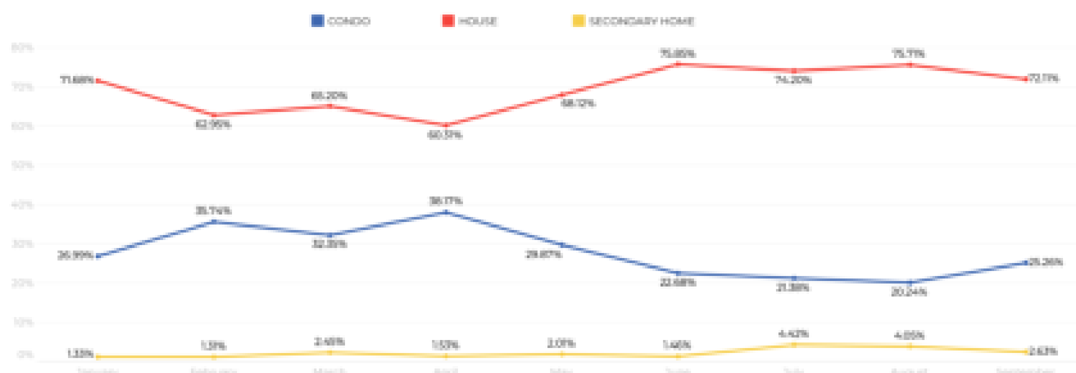

Fig. 13: Proportion of purchase intent for condos vs houses vs secondary homes in Quebec, from January to September 2020.

Now comparing the trend between provinces, we notice the curve in Ontario doesn't exactly follow the same model, with clients in May and June taking a strong interest in condos with a slow down entering July 2020. The first observation could be linked to the hypothesis that, despite the low interest rates, many users were reluctant to commit to a big purchase such as a house in the current context. While condos, a less expensive but historically safe investment, might have been considered a better option. In Qc however, the curve is quite clearly in favour of houses, with an increased interest in primary and secondary homes since May 2020.

We have seen recently on BNN and other media, a notable influx of condominiums hitting the market in both Toronto and Montreal. This is the result of a number of symptoms including but not limited to, remote working capabilities, a down AirBnB/tourist market, students heading back home and owners unwilling to spend another confinement season within their unit. Important to note here is that not all condominium types are included within the discussion. Predominantly, the condos going up for sale are those that rely on common areas for their total value. Condos with a value emphasis on gyms, rooftop terraces, pool + spa areas, etc. are hitting the market with the "fun" aspect of condo-life being regulated to a pause.

Hypothesis 2

Remote work, economic uncertainty and months of pent up demand have a major impact on approval delays in Quebec

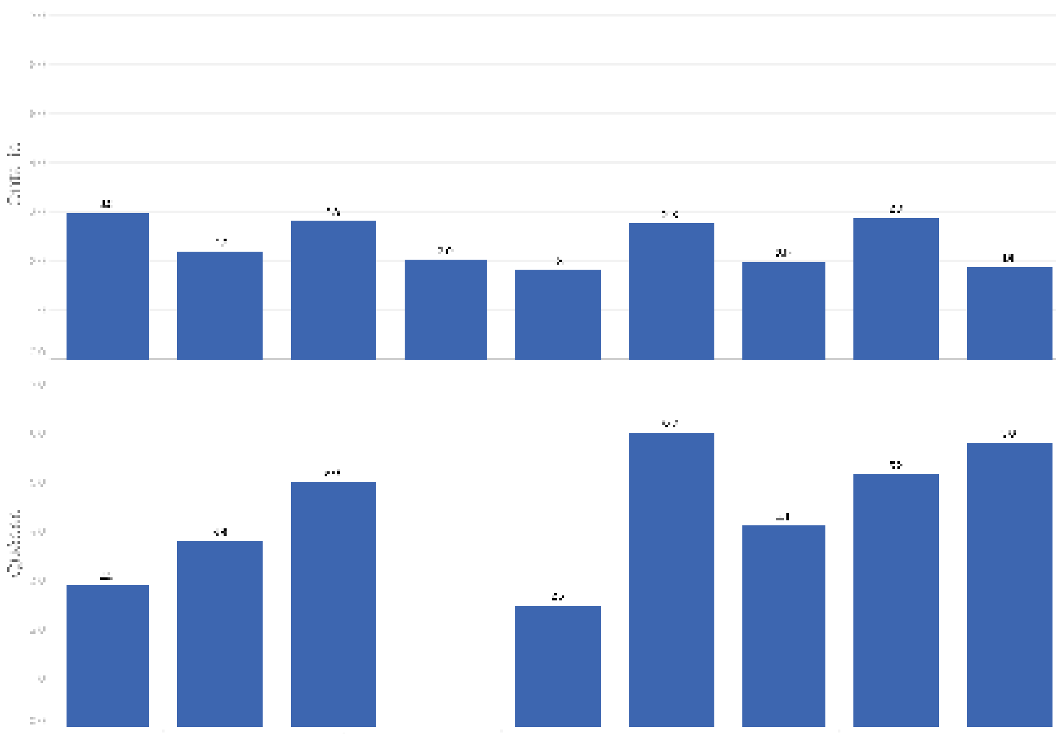

Fig. 14: Median number of days for lenders to approve a purchase submission in Ontario vs Quebec, from January to September 2020

Are approval delays much longer in Quebec ?

According to the above graph, the answer is undoubtedly yes! Comparing the median number of days between a new mortgage file being submitted to a lender and the lender approving it in Ontario vs Quebec, we clearly see a much longer delay for Quebec approvals (up to almost 6 days), while in Ontario, things remained pretty stable through the year (an average of 2.5 days).

First, Quebec saw increased delays in the first quarter, nothing that unusual as the mortgage season builds up. Then, lockdown hit, and while April and May had minimal new submission volume, the few files submitted were approved reasonably fast. As the market picked up again in June, lenders were confronted with new unusual remote working conditions as well as massive pent up demand - a combination that clearly resulted in longer administrative and approval delays. Lenders seemed to get a handle on things in July, with median delays down from 6 to approximately 4 days, but as numerous clients came back to the market in August, the approval delays for the last 2 months reached their previous June high.

Other than just remote work adaptation, another potential explanation for longer delays in Quebec has to do with legal requirements. Home-buying rules in Quebec around approvals for mortgages are strict, requiring a full file before approval, where other provinces approve faster. In Quebec, you are not “locked-in” to a purchase contract until you can prove your means to afford it, known as a Final Letter in the mortgage world and is usually required within 10 days of the acceptance date of the offer. The same does not apply to Ontario, where you can “lock-in” your purchase contract with the swipe of a pen.

The problem with a “final letter” solution is the increased risk for the client to lose its targeted property should things takes longer than expected, which is common in this environement. With many consumers taking 3-4 days to choose a lender once they have made an offer, and the standard deadline being 10 days to prove the funds are available, this leaves 6 days for lenders to complete all of their due diligence, including an evaluation in many cases. While COVID has caused many business and industries to adapt, 10 days for financing within an offer to purchase hasn’t budged yet. With all things considered, the norm for this deadline should be 15 days in order to protect homebuyers, lenders and other professionals from the stress of a deadline that is often out of one parties control.

On the other hand, thanks to its more rigid approval requirements, Quebec borrowers may face more stress during the approval deadline period, but that stress also comes with less risk than their Ontario counter-parts, where being locked-into a purchase contract without a mortgage in place is not unheard of and often a strategy required to win a “hot” property - Purchasing without ondi-tions. An important aspect to be considered.

CONCLUSION

This month's dataset reconfirmed many of our assumptions about the symptoms of a confinement period we've never seen before. Enabled by a future of remote working being the new normal, our users are fleeing the condo-life for more house and land, with less crowding. Borrowers are also increasing their down payments beyond the minimum required, maximizing their purchasing power. We're seeing fewer rate changes amongst our lenders who are no longer using rates as one of many levers to manage capacity and emand as they get settled into remote working. Finally, we are feeling the two opposite impacts of a "financing condition" in Ontario vs "financing deadline" in Quebec, where one exists without exception to protect the borrower in Quebec, and the other may only exists if the borrower is willing to overpay for their desired property in the competitive markets that are Ottawa and Toronto.

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*

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