

# The 12 Steps To Buying Your Home

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What you need to know about buying or selling your home.

## Make sure you're ready to buy.

### 12 steps to buying your home

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If you're thinking of buying a home, you've come to the right place. This web site can turn you into a house-hunting master. But before we jump right in, you have to make sure three things are ready. You, your bank account, and the real estate market.

#### **Are you ready? Be sure.**

Few joys can match the pride of owning the roof over your head, but you will have to make some sacrifices. There's the obvious financial responsibility, but your home will also require constant care. That's what real pride of ownership is all about.

#### **Is your bank account ready? Check it twice.**

Your first home will be the biggest financial obligation you've ever faced. You should already be an experienced saver, and good at managing debt like student loans or credit cards. Ideally, you've also saved up some money for a nice down payment. Talk to your financial institution about the Home Buyers Plan too. Our next step will give you a crystal clear picture about How much you can afford.

#### **Is now a good time to buy? Here's the hottest market tip you'll ever get.**

Markets go up, markets go down and even the smartest experts can't accurately predict when a market will peak or bottom out. The good news is if you're buying a home as a long-term investment (and for long-term enjoyment), you're protected from short-term changes in the market. Over time, real estate has almost always increased in value.

All you have to do is pick a home that meets the needs of you and your family. Then you'll enjoy living in your investment as it grows in value. A home is one of the best financial decisions you can make, and it's tough to live in a stock portfolio!

## Figure out how much you can afford.

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Before you start looking for your dream home, let's find out how big you can dream. Knowing your true budget is the first and most important step in buying a home. Why?

#### A home is a big purchase.

It's probably the most expensive thing you'll ever buy, and there are lots of expenses you might not even know about.

Everybody's total costs are different, but it's almost guaranteed you won't have that much money saved up. Hopefully you have enough for a nice down payment, but for the rest...

Our Income Calculator will help you easily estimate your maximum affordable mortgage payment of principal and interest. All you need to do is enter your monthly income and expense amounts and the calculator will do the rest.

Once you have used the Income Calculator to estimate your maximum monthly total, you can compare this number to the mortgage payments for specific loan amounts. Simply enter your information into our Mortgage Calculator and your payments will be figured out for you.

Cost of buying a home	=	<b>One Time Costs</b> -Down payment -Legal fees -Inspection fees -Taxes	+	<b>Monthly Costs</b> -Mortgage -Utilities -Maintenance -Insurance -Property taxes
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#### Yes, you need a mortgage

Step 9 is practically bursting with tips on arranging your mortgage but for now, we just need to figure out how much a bank will lend you.

#### How much a bank will lend you?

The first step in determining how much a bank will lend you is to understand how much you can afford each month. This is determined using two lending principals. The first lending principle is that your monthly housing cost should not exceed 32% of your gross monthly family income. This principle is known as the Gross Debt Service (GDS) ratio calculation.

The second lending principle used, the Total Debt Service (TDS) ratio calculation, is that your monthly housing cost and payments on all of your other debts (including loans, credit card and lease payments) should not exceed 40% of your gross monthly income.

## Decide what you want to buy.

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#### First, decide where you want to live.

**Urban** – Ahh, the big city. Sure the prices are generally higher, but you can walk to a restaurant, maybe even to work. You'll also have the widest range of housing options.

**Suburban**- Newer schools, newer shopping centres, bigger yards, bigger homes, no wonder so many people love the suburbs.

**Smaller Cities and Towns** – There are many wonderful self-contained communities, and compared to the big city, you can save a bundle.

**Rural**- If you like the idea of owning land, how about a few acres all to yourself? Seclusion is not for everybody, but for some, it's heaven.

#### Next, decide what type of home you want.

By now, you probably have a good idea of what type of home is right for you. To familiarize you with the terminology, here's a quick overview:

##### Single-family detached

As the name implies, the home is not attached to the home next door. Styles range from a single-story suburban bungalow, to a three-story Victorian.

##### Semi-detached or linked

Two houses that share a common wall. Usually less money than a fully detached home.

##### Duplex

A two-family home.

##### Town house

Also known as terrace or row housing. Several homes with a common style and joined in a row. They usually share walls on both sides.

#### The Condo Alternative

Some people can't wait to start gardening on Sunday morning. If you are not one of those people, it's just an elevator ride away. Condos also make a great first home purchase because they're often thousands of dollars less than a detached home.

#### How Condos are owned

You'll own 100% of your unit, and a share of the common areas. Common areas include the necessary plumbing, electrical systems, hallways and elevators. They may also include lots of fun stuff like a private gym or party room.

Condo fees. Membership has its privileges, and it costs. On top of your mortgage and property taxes, condo owners also pay a monthly fee to operate and maintain the common areas. Be sure to look into condo fees, and how well they're managed, before signing anything.

#### New or Resale?

##### Resale. Previously loved.

Nothing can match the charm and character of an older home. As a bonus, the previous owner may have made improvements and upgrades and you get them with the house, usually for less than the cost of putting them in yourself. However, some may have a little too much 'character' like a leaky roof. Know what you're getting into. You should always work with a knowledgeable REALTOR®, and as we cover in Step 10 never buy a resale home without a Home Inspection.

##### Ahh... that new house smell.

You will be the very first person to live in your new home. In fact, your new home may be so new, that it's not even built yet.

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### Decide what you want to buy (cont'd.)

Before you commit to anything, carefully examine the property, the blueprints and visit other homes built by the same company. Have your REALTOR® and lawyer review everything before you sign. While your home is being built, stay on top of the process and remember, you have a legal right to make a full inspection of the house before you accept it as complete.

#### **YOU KNOW WHAT YOU WANT, BUT LET'S TALK NEEDS.**

Are you getting out of a two-bedroom apartment because it's too small? Then your new home should have at least three bedrooms, and probably a second bathroom. REALTORS® call these must-have features "needs". Features you'd like to have are called "wants".

Your strategy should be to find a home within your price range that fulfills all or most of your "needs", and as many of your 'wants' as possible.

## Find a REALTOR® who is right for you.

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You know how much money you have, and you have a good idea of what you want. Now you need the help of a real pro, to make your search a success.

#### **REALTORS®. Highly trained, and constantly training.**

In Canada, licensed REALTORS® are members of their local real estate board, a provincial association and the Canadian Real Estate Association. This system of membership ensures the highest level of service and that you are always treated with honesty and integrity. This is backed by the REALTOR® Code of Ethics. Check our REALTOR® COMMITMENT if you want to learn more.

#### **THE THREE REALTOR® RELATIONSHIPS**

The relationship between a real estate brokerage and a client is called “Agency” and there are three major kinds.

##### **Seller (Vendor) Agency**

The real estate brokerage and all its REALTORS® represent the seller exclusively and it’s their job to get the best offer on the home. They are legally obliged to tell the seller anything known about a buyer. For instance, if a seller’s REALTOR® knows a buyer will pay more for a property, they must tell the seller.

##### **Buyer (Purchaser) Agency**

The real estate brokerage and all its REALTORS® represent the buyer exclusively. They seek out homes that meet the buyer’s needs and help assess the merits and defects of potential homes. They keep the buyer’s information confidential and never disclose information like the maximum amount their buyer is willing to pay. You may be asked by your REALTOR® to sign a buyer agency agreement. In fact, in some provinces, REALTORS® are required to ask you - for your own protection. This agreement ensures that the REALTOR® and the brokerage can look after your best interests.

##### **Dual Agency**

Sometimes, a brokerage may have an agency relationship with the buyer and the seller. Both the seller and the buyer must give their informed consent, and the REALTOR® must always provide full and timely disclosure of all pertinent information to both parties.

#### **SELL AND BUY WITH THE SAME REALTOR®?**

Absolutely! Especially if you’re remaining in the same community. Your REALTOR® is already an expert on your needs, so it can save you a lot of time and energy.

#### **Selecting a REALTOR®**

There are lots of ways to find a REALTOR®. As you drive through prospective neighbourhoods, jot down the names and numbers of REALTORS® on the For Sale signs. Open Houses are a great way to meet face-to-face. Maybe friends or family members have worked with a REALTOR® they love. Interview two or three and pick the one you like best.

#### **How REALTORS® help buyers like you**

Review your list of wants and needs and help you determine your price range.

- › Answer questions about the markets you’re interested in and help you compare homes and neighbourhoods.
- › Use the local Multiple Listing Service® (MLS®). The MLS® is the single most powerful tool for buying and selling a home. Your REALTOR® will give you access to exclusive features of the MLS® system that the public is not privy to.
- › Preview properties to ensure you’re only shown homes that meet your needs and budget.
- › Make appointments and walk you through potential homes, answering all your questions.
- › Give up-to-the-minute information on financing and explain your mortgage options.
- › Negotiate with the seller, smooth out any potential conflicts and draw up a legally binding contract.

#### **Stick with your REALTOR®**

One dream, one team. The REALTOR® you select will become an expert on your specific needs and tastes. Scattering your time and energy amongst multiple REALTORS® will work against your goal of finding your best home. And because most REALTORS® have equal access to the same property listings, there’s no real advantage to having multiple REALTORS®.

## See what's out there.

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The hunt is on! Time for you and your REALTOR® to find that perfect home.

#### Read all about it.

Start reading real estate ads in local papers, or visit [www.mls.ca](http://www.mls.ca). Let your REALTOR® know what you like. Visit areas you're considering and get a feel for them. Make note of the surrounding schools, shopping and recreational areas. Keep an eye out for not-so-great things like large industrial areas, railway tracks and airports. Visit during the day and at night.

#### Open Houses, come on in.

"Open houses" are a great way to see inside the homes of your potential neighborhood. The hosting REALTOR® probably knows the local market inside and out, and will be happy to answer the questions that are bubbling up inside you— don't be afraid to ask!

#### House hunting with your REALTOR® – hunting smarter

If you've been very good, you've armed your REALTOR® with your Dream Home Checklist. Even if you've just talked about it, your REALTOR® knows what you're looking for.

#### Welcome to the wonders of [mls.ca](http://mls.ca)

REALTORS® run an incredible research tool called the Multiple Listing Service® (MLS® for short). You can view information about MLS® listings at [www.mls.ca](http://www.mls.ca), the public advertising portal. Your REALTOR® will start sending you listings of potential homes right away. You'll be amazed how fast and easy it is to zero in on your favourite few homes.

#### Work from a short list

If you and your REALTOR® have done your homework, and used MLS® listings to scout ahead, you only need to visit a handful of homes to make an informed and wise selection.

#### Stay objective when visiting potential homes

Walking through a potential home is a thrill, but try not to lose your head. Don't let a giant kitchen island or swanky hot tub distract you from your real goal, finding a home that meets all your needs and fits your budget. That's why we're arming you with this comprehensive House-Hunting Checklist. Print it out and be sure to take it with you to homes you're serious about buying. Good luck and happy hunting!

## Sell your current home.

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Not many people can hold on to two homes, so you'll probably need to sell the home you have now. Be sure to check our incredibly helpful 10 Steps to Selling Your Home. In the meantime, here's a quick overview.

#### When should you sell?

##### Buyer's and seller's markets explained

When there are lots of people looking for homes but not many for sale, this is called a "seller's market", because the seller has something everybody wants.

When there are lots of homes for sale and not many people buying them, this is called a 'buyer's market' because buyers have more power of choice.

#### Wait for the market to improve?

If you're selling one home and buying another, you don't really have to worry about playing the market. If you sell your existing home for a 'low' price, you're probably also buying at a low price. If you are upgrading to a larger home, this actually works to your advantage. Imagine when your bigger home is on the upswing.

#### Seasonality. Do home sales get frostbite?

It's true. Winter sales tend to be slower, and Spring sales are more brisk. Regardless, there are always people looking to buy and sell, and seasonality is only one of many factors to consider.

#### If you need to sell fast.

Talk with your REALTOR®! They are experts, and know the price that will make your home look attractive, without making you look desperate.

#### Buy first or sell first? The eternal question

Many people are able to time their sale and purchase so they happen on the same "closing date." Buyers can make their offer "conditional" on the sale of their existing home, to make sure they're not left paying for the upkeep of two homes. When selling, you can try to extend the 'closing period' to give yourself more time to find your next home. REALTORS® are very skilled at this sort of negotiation, and can make your transitional life a lot easier.

#### Sell with a REALTOR®, or go it alone?

In the same way that many people decide not to fix their own cars or do their own dentistry, it's wise to enlist a professional when selling your most valuable asset. Real estate transactions are complex, time consuming and involve a lot of legal documentation. Finding your new home and changing your life is hard enough! Your REALTOR® is expertly trained and highly motivated to get you the most for your home.

## Add a Lawyer to Your Team.

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Buying a home involves piles of legal documents. You need someone to translate the 'legalese' and ensure your best interests are protected.

#### **Finding a good lawyer**

There are lots of good lawyers out there. Ask your friends or people at work. REALTORS® will happily give you the names of several good lawyers. They can't legally recommend just one, but they'll only refer lawyers experienced in real estate. Be sure you ask how they structure their fees, and get an estimate of the other legal costs you can expect.

#### **How your lawyer will help**

There are many, many legal steps to transferring ownership of land from one person to another. Even if pitfalls like fraud, government legislation, zoning issues or unpaid taxes don't come up, your lawyer will more than earn their pay by making the legal transfer of the home a smooth one.

#### **Don't be scared of your lawyer**

They are here to help you. Ask questions if you don't understand anything. Explaining legal jargon in plain language is a big part of their job.

## Make an offer.

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You've found a home? Congratulations! Now, if you actually want to make it yours, you have to make a successful offer, one that the seller will accept.

#### Preparing the offer

REALTORS® are expertly trained and will prepare the offer for you. Here's some terms you'll see in the offer:

- › Buyer or Purchaser – That's you.
- › Seller or Vendor – The present owners.
- › Purchase Price – The most important number. Let's hope the seller goes for it!
- › Deposit – A cheque you write to the seller's broker, who deposits it in a trust account. This is your way saying "my offer is serious." The size of the deposit is up to you.
- › Clauses particular to this agreement – Every transaction is unique, and your REALTOR® may add conditions important to you. Making your offer conditional upon a proper Home Inspection is a good idea.
- › Chattels included and fixtures excluded – Be sure you know what is included with the house! The washer and dryer, the microwave, draperies, light fixtures. Don't leave anything to 'chance' because chances are it won't be there when you move in.
- › Irrevocability of the offer – The length of time you give the seller to consider your offer. Usually less than 48 hours.
- › Completion date – The glorious day you take possession! Often 30 or 60 days after signing.

#### Submitting the offer

You've signed on the dotted line and your REALTOR® has whisked your offer to the seller's REALTOR®. This process works best when you don't meet the seller in person.

#### The seller can accept your offer – Fantastic, when do you move in?

The seller can reject your offer – It's not common for an offer to be completely rejected. Your REALTOR® will likely investigate, to see if there was some sort of misunderstanding.

The seller can 'sign back' or counter your offer. The seller wants to alter 'some part' of your offer. It's almost always the price. The seller will cross out the price on your offer and write a higher number. Now it's your turn to sign back, and see if you can bring that number down. It can feel a bit like a ping-pong match. Emotions can run high, so both sides will be reminded that a little flexibility goes a long way. Good luck!

## Arrange a mortgage.

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Money makes the world go round, and a mortgage gives you the power to buy a home. This isn't the most fun step in buying a home, but it's vital.

#### Who do you talk to?

There are hundreds of banks, credit unions and other lenders out there who would love your monthly mortgage payments. So talk to everybody. Now is not the time to be money-shy! Talk to your banker and call around to other banks. Ask people you know. REALTORS® are very knowledgeable about Mortgages and have lots of good advice.

#### Call a mortgage broker

Mortgage brokers are another great resource. They find low rates for a living, and they usually don't get paid unless you sign a mortgage through them, so they're highly motivated to get you the best deal.

#### Your best mortgage might be the seller's mortgage.

You can sometimes take over or 'assume' the seller's mortgage. This is a great idea if the seller is locked into a lower interest rate than you can get right now. Your REALTOR® can help you.

### Mortgage terminology

**Mortgage term** – Typically from six months to five years, the 'term' refers to how long the bank has agreed to lend you the money. At the end of the term, you usually renegotiate a new term.

**Amortization** – The length of time it will take you to pay off the whole mortgage. Often as long as 25 years, if you don't accelerate your payments. The longer your amortization, the lower your monthly payments, but the more you pay in interest over time.

**Interest rates** – Interest is the cost of borrowing money, and the interest rate tells you exactly how much. Using this mortgage calculator, check the difference between borrowing \$100 000 at 6% and at 9% at the same amortization. Surprising, no?

That interest rate not only affects how much you pay, it also affects how much you can borrow. So remember to keep searching for the best rate!

#### How big a down payment?

You want as small a mortgage as possible, which means making the biggest down payment possible. Just remember to set money aside for all the fees associated with buying a home. Not to mention moving, repairs, renovations, new furniture... think ahead.

#### THE RRSP HOME BUYERS' PLAN – A little sweet relief.

If you're a first-time homebuyer with money in an RRSP, you can withdraw up to \$20 000 without paying any income tax. If your spouse is also eligible, that's \$40 000. Ask your REALTOR® how to best take advantage of this plan.

#### Lock into an interest rate; for how long?

It's a tough question. What if you 'lock in' for five years and rates go into a period of decline? That could mean you're stuck paying more than you had to for a long time. But if rates were to steadily climb over the next five years, locking in for five years now would be a great move. For many, a long term mortgage offers peace of mind in knowing that their mortgage payments will stay the same for several years. Your REALTOR® will have a lot of good advice.

#### What you need to apply for a mortgage

- > Letter of employment confirmation – Ask your employer for a letter that confirms your position, your pay and how many years you've been with the company.
- > List your assets – Your car, stocks, bonds, GICs. Show which assets will be used for your down payment.
- > List your liabilities – Car payments, student loans, credit card debt. List all the money you owe, and note how you're paying it off.
- > Social Insurance Number – And your chequing account number, and your lawyer's contact information

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### Arrange a mortgage (cont'd.)

- > Information about the house you want to buy
  - The home is your security on the mortgage, so the lender wants to know all about it.

#### **Don't forget these extra costs**

Face your new financial responsibilities head-on, and you may even dodge some of them. And then won't you look smart!

**Application fee** – Some mortgage lenders charge a fee to process your application. Many lenders will agree to waive this fee, so make sure you ask!

**Appraisal fee** – Your mortgage lender may need to have your new home appraised by a professional, and they often pass the bill on to you. Sometimes your lender will also waive this fee. Again, it doesn't hurt to ask.

**Mortgage broker's fee** – Your mortgage broker may charge a fee that's payable on your closing date. Ask your broker, to avoid surprises.

**Land survey fee** – Lenders may require a survey of your property. Lenders will often accept an existing survey. Get your lawyer on the case.

**Home inspection fee** – A home inspection is so important, we devoted an entire Step to it. Avoid surprises and protect yourself... this is money well spent.

**Home Insurance** – Mortgage lenders require you carry fire and extended-coverage insurance because your home is the security deposit on the mortgage. Often you can have these payments added to your monthly mortgage payments. Shop around.

**Title insurance** – Not mandatory, but it protects you from all sorts of fraud and potential errors surrounding the title to your land. It's normally a few hundred dollars. Ask your lawyer for details.

**Legal fees** – Your lawyer is vital to the home-buying process. You'll pay legal fees for their time and "disbursements" which are the costs involved in title searches, drawing up the title deed, and preparing your mortgage.

**Adjustments** – The previous owner may have paid property tax or utilities in advance, and they want to be credited for those payments. Ask your REALTOR® and lawyer what might come up on the closing date.

**Maintenance and utility costs** – Just a reminder, you now have more regular monthly payments in the form of property tax, utilities. Maybe some repairs are on the horizon...

**Land Transfer Tax** – Ask your REALTOR® or lawyer to calculate the payment.

**The GST and new homes** – Resale homes usually don't involve GST, but new homes do. If you intend to live in your new home (instead of renting it out) there is some relief. Homes costing \$350 000 or less get a 36% rebate. Homes over \$450 000 do not qualify for this rebate.

## Find a home inspector.

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When walking through a home you'd love to buy, it's hard to put aside your emotions and really 'see' what kind of shape it's in. Now that you are buying, it's time to see everything. Home inspections rarely cost more than a few hundred dollars, and their service can save you from unpleasant surprises when you move in.

#### **Your offer to buy may be conditional upon a satisfactory home inspection.**

This is an increasingly standard condition on any resale home. If the seller doesn't want you closely examining the home before you take possession, you have to wonder why.

#### **Go with a qualified professional**

Make sure your inspector is a member of a provincial association of home inspectors. It's your guarantee they have the training and experience for the job. Your REALTOR® can recommend several home inspection companies to choose from.

#### **What will they check during the inspection?**

Lots of stuff. Plumbing and electrical systems, the roof, visible insulation, walls, ceilings, floors, windows and the integrity of the foundation. They check for nasty stuff like lead paint, asbestos, mould, outdated and dangerous wiring, and they'll look for evidence of pests like mice or termites. A good inspector should make you feel like you're watching a CSI detective.

#### **Join the inspection**

There's no better way to get familiar with your new home than being part of this checkup. If any problems are detected, you'll see them firsthand, and you'll also learn some maintenance tips from a genuine pro.

#### **You'll get it in writing**

Their report will summarize the condition of your home. If there's anything that needs work, the home inspector will provide an estimated cost for the repairs.

#### **Home inspection for a new home?**

New does not equal perfect, and construction quality can vary greatly from builder to builder. Repairs and corrections will probably be covered by a provincial new home warranty program, so bad news doesn't necessarily mean it will cost you.

## Close the deal.

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Your offer has been accepted and you can't wait to move in. These are exciting times, but don't break out the bubbly just yet. You have to close the deal. Your REALTOR® and lawyer will do most of the closing work, but here's your checklist.

#### Closing checklist

- › Immediately begin satisfying any conditions of the agreement that require action on your part. Your REALTOR® will fill out the documents stating that the conditions have been satisfied.
- › Have your lawyer begin searching title to the property. This can take a while, so make sure you give ample time.
- › We recommend a home inspection to avoid any unpleasant surprises on move-in day.
- › Well before closing, get your homeowner's insurance. Your insurance broker will give you a 'binder' letter certifying that you're covered. You can't get a mortgage without this letter!
- › Contact your lender and have them finalize your mortgage documents. Have your lawyer review them before you sign.
- › Your lawyer will transfer essential utilities like hydro and water, but you'll have to make sure telephone and cable companies switch their services to your name.
- › If you rent, you must give notice to your landlord, or sublease your apartment.
- › Begin planning your big move! Where are those cardboard boxes?
- › Send out your change of address information and fill out a card at the post office. Contact the Ministry of Transport about changing your driver's licenses.
- › A day or two before closing, you'll meet with your lawyer to sign the closing documents. Your lawyer will tell you in advance what certified cheques you'll need to seal the deal.

#### The big day arrives

Deliriously happy and emotionally exhausted, here you are on closing day. You made it! If your lawyer has arranged everything well, closing day can be surprisingly low on drama. Before you know it, you'll be handed the keys to your new home.

Congratulations!

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## Move in.

Moving day will come sooner than you think, so get planning now.

**‘Closing date’ often means moving date.**

Unless you have major repairs or renovations planned, you probably want to move in the day you take possession. If you intend to move at the end of the month, contact a moving company or truck rental company now. Most people move during this time and there aren’t trucks and movers for everybody. If you can move mid-week or mid-month, a moving company might cut you a deal.

**Go with a reputable moving company**

We’ve all heard moving horror stories. Go with an established, insured mover, so your items are protected.

**Pack it yourself, and pack early**

Nobody will take the same care you will. Start early and spread it out over many days. Label all your boxes by room so the movers know where to put them, and label anything that’s fragile.

**Do you really need to take that with you?**

A new home is a new lease on life, and a chance to liberate yourself from stuff you simply don’t need. If you haven’t used it or worn it in the last year, you don’t need it. Have a garage sale, or give it to Goodwill or United Way. You won’t have to pack and unpack it, and it will become someone else’s treasure.

**Once you move in.**

The boxes are mostly unpacked and you’re settling in nicely. You will now feel a strange urge to begin making changes and improvements right away. That old carpet has to go; a bigger deck would be great for entertaining... slow down! Take time to get a feel for your new home, and more importantly, your new budget. Take a deep breath and enjoy what you have, your new home.