

# Chapter 1

## Looking to Buy a Home?

---

### *In This Chapter*

- ▶ Becoming a homeowner — what's in it for you?
  - ▶ Deciding that you're ready to buy
  - ▶ Owning versus renting
  - ▶ Learning about common homeownership concerns
- 

**D**orothy said it best: There's no place like home. You may be a jet-setting entrepreneur or a stay-at-home parent, but we're willing to bet where you live is your most cherished space. You need a place to wind down, to relax, and to rejuvenate. Whether you own or rent (or mooch off your parents), the place you call home is the foundation of your life.

We all want our homes to be perfect — even though our definitions of perfect change over time. Maybe as a teenager, your perfect bedroom was all black with huge speakers in every corner of the room. Twenty years, three children, two dogs, and a father-in-law later, your idea of perfect is an ensuite bathroom with good water pressure, a Jacuzzi, and a lock on the door. We all need a living space that can adapt to our changing needs and wants, and, of course, what better way to have that living space than to own it?

The idea of owning a home can be scary: Your water pipes could freeze and break, your basement could flood, your electrical system could need a complete overhaul. People can put thousands of dollars into their homes for renovations, thousands more for emergency repairs, and then there's daily upkeep, seasonal maintenance, taxes. . . . But ask homeowners if it's worth it, and they'll nod their heads vigorously and show you their Zen rock garden, the self-designed workshop in the basement, and the "Elvis room" with white and gold sequined walls, blue suede curtains, and pink Cadillac couch.

Even though owning your home can dictate how much money you have for other things and leave you constantly worrying about finances, researching and planning will help you stay in control. You can and should decide how much home you can afford, and that's why this section of the book is geared

toward getting you the home you want — at a price that doesn't leave you eating macaroni and cheese three times a day for the next 20 years. After all, you want your home to complement your lifestyle, not overrun it. You want enough money left over to create that “Elvis room” you've dreamed of.

## *Joys of Ownership*

We probably don't even need to write this section: If you're reading this book, the idea of owning obviously appeals to you. But as a helpful reminder, we'd like to suggest to you some of the advantages of owning a home.

- ✔ **More stability, less stress.** Stability is a wonderful thing — it means that there will be less on your mind. Moving, according to some, is the third most stressful activity in life (after death and divorce). Owning a home means you don't have to worry about moving from one rental apartment to the next, about how much rent will go up next year, about what happens if the landlord decides to sell the place, or even about keeping the landlord happy enough so that you can re-sign the lease. Homeowning also means that you acquire a major investment, which will make you feel more secure when thinking about the future.
- ✔ **It's yours.** It's yours to do with what you want! You too can have an “Elvis room”! On a saner note, you can change even the small things you don't like: the dripping faucets, the ugly shag rug, and the showerhead that goes only as high as your belly button. And all your time, effort, and money go into *your* investment, not someone else's. You no longer have to deal with landlords not fixing things or spending small amounts of money when they do. Of course, many building owners and managers out there respect their tenants and respond quickly to the tenants' and the building's needs. However, good landlords are hard to find, and chances are that your house or apartment simply won't be their priority; their own homes will.
- ✔ **Your sense of community deepens.** Even if you're more anti-social than Mr. Scrooge, owning a home encourages you to appreciate the surrounding community. After all, protecting the value of your property requires you to protect the general area, too. You may start grudgingly by organizing the neighbourhood protest against your local park being turned into a dumpsite (which would mean horrible things for your investment), but hopefully, you'll start to actually like your neighbours. Belonging to a community can be a wonderful feeling. We recommend that you buy a home in an area where the majority of people are homeowners — they tend to care more about the neighbourhood than tenants do.

## Making an investment

Although mortgages may be uppermost in your mind, buying a house isn't just a financial investment. It's a lifestyle investment. What and where you buy will ultimately dictate how you will live. Bought a fixer-upper with the intention of doing all the renovations yourself? Five years later, you may still be devoting all your time and money to it. Bought a home in the distant suburbs, but work in the heart of the city? You may spend more time in heavy traffic than at home. On the other hand, maybe you've become a gourmet cook because your wonderful kitchen deserves to be used constantly, and the once-rec-room, now-home-theatre means you can host the big Grey Cup bash every year.

You will have to make sacrifices when you buy a home — but you can make them *informed* sacrifices. This means you'll have to do some creative brainstorming to imagine the upsides and downsides of various features of the home you're considering. For instance, you may buy a house on a corner lot, knowing that you'll have a lot of snow shovelling and leaf raking to do. You may not mind these tasks too much because you decided before you bought the house that its unobstructed south-facing kitchen windows and bigger garden were well worth the effort.

- ✔ **You're a better person.** Or, at least, people think you are. Ownership of a home often translates into people thinking wonderful things about you: you're mature, you're dependable, and you're stable. And paying your mortgage on time every month (with banks encouraging "direct withdrawal" this is really easy) does wonders for your credit rating.
- ✔ **You can benefit financially.** Even with a mortgage that may seem overwhelming, there are definite advantages to owning a home. Think of a mortgage as a forced savings plan, in which you (usually) cannot skip a deposit or withdraw money, and each payment gives you a slightly bigger part of your asset. Home ownership is also generally considered a good investment — one that grows over time. Another great thing about investing in a home is that if it's your principal residence, you don't pay tax on the amount you earn. The increase in your home's value, similar to other types of investments, is called a *capital gain*. On other investments, you would normally pay tax on these gains, but you're exempted from paying this tax if the capital gain is on your principal residence. (More on capital gains in Chapter 16.)

## *Should You Buy Right Now?*

Although you may think researching real estate markets and waiting for the right time to buy are the only ways to get a good deal, your personal situation is what should really determine your decision to buy. Are you able to pay your mortgage, utilities, taxes, insurance, and whatever maintenance comes up, not only for the next year, but also for the next 5, or 25? (We show you how to get a picture of your financial situation in Chapter 2.)

Are you willing to remain in the same place for the next five years? Considering the closing costs involved whether you're a seller or a buyer (more on closing costs in Chapter 2), you should be prepared to keep your home for at least a few years. It's a good idea to avoid having to sell your home quickly, because chances are you would have to sell at a lower price. So even if the market is at an all-time low and interest rates are way down, buying a home could be a huge mistake if you're in the middle of a career change or planning a move to Luxembourg in a year.



Maintaining a house requires a big commitment — of money and time. Each season presents a list of chores to maintain your home's integrity and efficiency. Overlooking the overflowing eaves or the leaky roof may lead to significant water damage; neglecting your furnace could cause hundreds of dollars in repairs to it and your frozen home. There are many situations in which a little neglect can transform into expensive repairs and sometimes irreversible damage, resulting in huge losses when it's time to sell. If you don't budget the time and money for regular upkeep, be prepared to invest more time and money down the line.

## *Knowing your finances*

Home buying is an investment. Although it is cheaper in the long run to buy than to rent, that initial outlay of cash is enough to send anyone's heart racing. You'll need to take a careful look at your current expenditures in order to evaluate your readiness to take on mortgage payments and home maintenance. Chapter 2 helps you determine whether you're financially ready to buy.

Knowing where your money goes now is a crucial first step. Suppose that after you've accounted for what you spend on food, clothes, transportation, and vacations, you still have a \$15,000 surplus. You're not really sure where it went last year but figure it should be all the cushion you need to cover the new costs of being a homeowner. Once your pipes freeze and you need to call in a plumber, you don't want to discover that you've already spent most of that \$15,000 surplus on gifts for your friends and family as well as regular rounds of drinks for all your pals down at the local pub, and large bouquets of flowers for your partner once you can see straight again.

Have a plan for the future, too. Know what you want to spend on RRSPs. You might have kids and want to contribute to their education; tuition is only going up. Being clear on where you want your financial life to be in five years and ten years will help you make smart decisions now about how much to put into a down payment and how much to carry in monthly mortgage payments.



Don't buy your dream home without leaving enough money to replace the 25-year-old couch that you picked up when you first moved out on your own.

## *Comparing renting to buying*

Owning your home instead of renting almost always makes more sense in the long run, especially if you settle in one area. The biggest advantage of owning over renting is that your monthly payments are an investment (and they'll eventually cease!). The most common complaint about buying a home is having to pay the mortgage, and more specifically, the interest on the mortgage. You can live with your parents until you've made enough money to buy a home outright, but your parents may not want to live with you for that long!

Renting your home instead of owning it does have advantages, and there are times in your life when owning isn't the best option for you. One of the biggest reasons to buy a home is for stability, but if you like your flexible lifestyle, this may be a burden to you. Owning a home is a serious commitment, and if your priorities aren't geared to making regular mortgage payments, or having a permanent address, it may be better to rent.

If you're in one of the following situations you should probably wait a while to buy a home:

- ✔ **Having financial woes:** Although you can leap into home ownership with as little as a 5 percent down payment or less, you still have to come up with that amount. And you'll have to be prepared to make those regular mortgage payments for what may seem like an eternity, not to mention all the other costs of being a homeowner. Getting a mortgage also might be tricky if you've neglected other loans, or have significant debts.
- ✔ **Living in transition:** You haven't decided to live in one place. Saddling yourself with a chunk of property and debt if you think you're really going to want to spend the next year island-hopping around Greece is not the best move.
- ✔ **Lacking job security:** If you end up relocating for employment, you may have to get rid of your home in a hurry. If you don't have a reliable or steady source of income, lenders may not be willing to authorize a mortgage because you can't guarantee you'll have more freelance work in the coming years.

- ✔ **Space uncertainty:** Although you can't really predict having triplets, there's no sense in buying a two-bedroom bungalow if you're pretty sure that your brother-in-law's family of seven and their three dogs will move in with you for an unspecified amount of time. Unless this is your way of ensuring they can't live with you, you may find you have to change houses sooner than you'd like. If you are considering setting up a home office or starting a home-based business in the future, make sure you have a spare bedroom or room in the basement to expand.
- ✔ **Facing a bad housing market:** Generally speaking, you should focus on your own situation rather than the real estate market. But there may be a time when interest rates skyrocket and yet homes sell for twice as much as their listing prices — in these circumstances, it's probably better to wait until the market cools down to buy a home. If a monthly cost analysis shows that buying a home would be 20 to 30 percent more than renting a comparable home, think twice about buying. (We show you how to analyze monthly costs in Chapter 3.)
- ✔ **Waiting for the gravy train:** You and your friend are starting a new dot-com company that will revolutionize the Internet, and you need some start-up capital. You decide to invest all your savings in the company instead of real estate. If your company takes off, you may be able to buy an estate in the south of France instead of a bungalow in the suburbs.

## *Considering homeownership concerns*

You may be skeptical about the complications of buying a home. There are many different kinds of homes and ownership of homes, however, so you don't have to let your hatred of shovelling snow stop you from owning. The following are the most common reservations about home owning:

- ✔ **Unexpected costs:** One of the main arguments for renting is that you know what your monthly costs are, and they don't change. When you own a house, and the furnace breaks down, you have to fix it. But consider that when you rent, your landlord may not get around to fixing things right away, or he may be in Florida for the holidays and you may be stuck in the cold for a while. Although living in the same building as your landlord may guarantee some things are fixed in a hurry, your concern about a missing screen on your bedroom window may not be her priority. And maybe she likes the house at 18°C during the winter and 30°C in the summer. Sometimes paying the money to get things fixed is worth the hassle, but if you pay for a repair in your rented home, you may never see that money again.

So, though the responsibility for repairs in your home will fall on your own shoulders, the main point is that you have the control. And with a mortgage you know from the beginning how much you'll be paying each month for the length of your mortgage; with renting, it's hard to get that guarantee.

- ✔ **Extra work:** Don't like doing lawn work, shovelling snow, fixing leaks? Your partner or child refuses to do your dirty work for you? Instead of renting to avoid such chores, you might prefer to buy a condominium where someone else takes care of the maintenance. If you buy an apartment-style condo, you won't even have a sidewalk to worry about!



Keep in mind that once you move into a new home, you'll have new rates for some monthly expenses like utilities (heating, hydro, water). You may be taking on new costs such as property taxes and home and garden maintenance. New homeowners should also prepare for the worst by ensuring they have a reserve fund for emergency repairs. Make sure you have enough monthly income left over after your mortgage payments to cover these costs, as well.

## *Adding up the costs of homeownership*

Okay, so you want a better idea of exactly what kind of costs a new homeowner faces? Here goes.

- ✔ **Maintenance:** You may have a high-maintenance relationship or a low-maintenance relationship with the home you buy. Be sure your finances can handle the costs of regular repairs. Also, keep an emergency fund for unexpected repairs, and contribute to it on a regular basis. If you dip into it to help pay your way to Tahiti, that's your call, but be aware that your basement could be flooded when you return, and then you may not have the cash to pay the plumber.
- ✔ **Insurance:** You will need proof of fire and extended coverage insurance before you can finalize the purchase of your new home, since the property itself is the *only* security against the loan. If your new home burns down . . . well, you understand. Insurance costs vary, depending on your deductible, the value of your home and its contents, and the type of coverage you get, as well as each insurer's rates. Shop around for an affordable policy that covers you for replacement of your personal property and grants you a living allowance if your home is destroyed. A policy with public liability insurance is also a good idea, as it protects you if someone is harmed on your property. (You'll find more on insurance in Chapter 12.)
- ✔ **Utilities:** When you buy a home, you assume all the heating, cooling, water, and electricity bills for the property. If you live in the colder, draftier parts of this country, you already know that heat is the most important utility there is. And if you've ever rented a house and paid the hydro bill separately for electric heat, you've already been walloped by the biggest bill you've ever experienced. If the house you're buying is new, you'll probably pay less for utilities because of better insulation and construction quality. If you're buying a resale home, ask the owners for copies of their utility bills so you can figure out average heating costs. In Chapter 8 we go over the costs and benefits of various heating systems commonly found in Canadian homes.

- ✔ **Taxes:** Property taxes are calculated based on your home's assessed value and the local tax rates. Unfortunately, property tax rates can fluctuate yearly, and they vary from region to region. Some real estate listings will state the amount of the previous year's taxes for the property being sold. When you're looking at new homes, find out from the selling agent or the owners what the previous year's taxes were. If you need a high-ratio mortgage to buy a new home, your lender may insist that property tax installments be added to your monthly mortgage payments. (See Chapter 3 for more details on high-ratio mortgages.)
- ✔ **Condo fees:** The great thing about living in a condo is that someone else looks after all the pesky maintenance and landscaping stuff. The flip side is you have to pay for it in your condo fees. In addition to your mortgage payments, condo fees alone can cost as much as rent in a decent apartment.

## *Understanding the market*

The housing market fluctuates, experiencing both strong and weak periods. History has shown, however, that the market will rise in the long run. So don't focus too much on waiting for the "right time" to buy. It's nearly impossible to predict how the market will go, and if you wait around forever for the market to be perfect you'll waste tonnes of potential investment money on rent! Generally speaking, after you've bought your first home you'll continue to own it for years to come, and its value will increase. It's your personal situation that really should matter, because that will determine whether you have to sell the home in a hurry, and whether you can really afford to buy in the first place.

Having said all this, chances are you still want to know how the market works, because there are periods when it's best to be a buyer (and conversely, times when it's best to be a seller). You can see what the current market is like by checking out the prices in the local paper and asking your real estate agent how the current market compares to the past 12 months. Your agent can tell you how homes have been selling in the past year, what the *median sales price* was (the *median* sales price is the actual middle price between the highest and lowest selling prices, not the average price), and sometimes even how long homes were on the market, the types of homes sold, and their neighbourhoods.

A good overall economy will naturally produce a stronger market with more people looking to buy. Chances are, of course, there will be more sellers, because with more money, owners may decide to "trade up" and buy bigger homes. A strong economy also produces more construction and housing developments, opening up the market to more new homes.

To understand the housing market, there are a couple of terms and effects that you should know about.

- ✔ **Buyer's market:** Ideally you'll want to buy when many sellers want to sell but few buyers are looking to buy. Homes take longer to sell and so buyers can take more time to make decisions. To sell a home in this market, the seller will have to list at a really good price, and sometimes even offer other incentives, such as secondary financing (see Chapter 3 for a discussion of financing options).
- ✔ **Seller's market:** The opposite of a buyer's market is a seller's market. Few homes are on the market, but buyers are plentiful, which results in fast home sales at prices close to, or even above, the listing prices. Some homes will sell even before they're listed. Because of the rise in sales, a lot of owners may sell their homes themselves. In a seller's market, buyers have less negotiating power, less time to decide, and may even find themselves in a bidding war for homes. So if you're buying in a seller's market, be prepared to make quick decisions. Have all your homework done and your financing arranged. (See Chapter 2 for details on mortgage pre-approval.)
- ✔ **Seasonal influences:** Winter in Canada is notorious for being cold and unpleasant everywhere but the south coast of B.C. People don't like to venture out much, unless it's for necessities like groceries and hockey games (and skiing). Besides, who wants to look for a home when they're busy buying Christmas presents? Frostbite aside, the winter months also tend to be slower for the real estate market because people with children don't like to move during the school year. A lot of homes won't be on the market simply because sellers know their homes look best in the summer with the flowers, the leaves, and the sunshine. This means, of course, that the homes on the market at this time of year probably have to be sold urgently, and so you might find a good bargain. You just might have to deal with snowdrifts and  $-40^{\circ}\text{C}$  temperatures on moving day. The exception to the rule is Toronto. Although the whole city seems to grind to a halt whenever there's a big snowstorm, for the past few years there's been no seasonal slowdown in the real estate market.
- ✔ **Interest rates:** If you need a mortgage to purchase your home (lucky you, if you don't!), you'll find that interest rates make a big difference in how much home you can afford. When interest rates are high, fewer buyers tend to be in the market for a new home. You can see the logic: A 6.5 percent interest rate on a \$200,000 mortgage loan will cost you approximately \$13,000 in interest in one year, while the same \$200,000 loan at a 10 percent interest rate will cost you about \$20,000 interest! Different types of mortgages can increase or decrease your interest rate from what banks consider the current standard. Have a look at Chapter 3 for more information.

