



The Residential Buying Process

This brochure will help you understand the process of buying residential real estate. The information provided is not all-inclusive. If you require further information, please seek expert advice so that you can make informed decisions that are in your best interest.

You've Decided to Buy. Now what?

Mortgages: Pre-qualified vs. Pre-approved

By getting pre-qualified or pre-approved for a mortgage, you demonstrate to sellers that you're serious about buying. You will also get an idea of how much you can afford, which should help to focus your home search. Sellers may prefer offers from pre-qualified or pre-approved buyers over purchasers who have little idea what might they are able to afford.

What is the difference between pre-qualified and pre-approved? Pre-qualification is only a rough estimate of buying power, and pre-approval is a more formal process which may include a credit check and perhaps employment verification. The meaning of pre-approval and pre-qualified may also vary from lender to lender.

The lender may provide a pre-approval letter confirming the mortgage amount and financial terms. If you can obtain a pre-approval, do so, as the lender will already know more about you than if you obtained pre-qualification, and the process of getting final mortgage approval will go more smoothly. However, you should beware that neither a pre-approval nor a pre-qualification are seen as absolute loan commitments. Your lenders will still need to look at property appraisals, verify information, and re-check credit before agreeing to make a loan.

Talk to a Mortgage Broker

Mortgage Brokers are licensed professionals that facilitate the mortgage application process between borrowers and lender(s). Mortgage brokers will look for a mortgage that best suits your needs. Most mortgage brokers are paid a commission by the lender, so they're services don't cost you anything. They can also offer you advice on the lending process and can help you understand what you can truly afford.

Bridge Financing

If you currently own a home, but plan to buy your next home before selling, *bridge financing* may be an option. Broadly, this enables you to borrow an amount equal to (or less than) the net proceeds you expect when you sell your home.

Bridge loans can also be arranged to access some of your present home's equity when you want to build a new home.

Costs

There are other costs involved in buying a home that go beyond the mortgage, such as the down payment. Consider the amount you can afford to put down on the house, as well as several thousand dollars to cover your closing costs (lawyer's fees, mortgage fees, moving costs, etc).

When you write an offer on a property you are usually asked to include a deposit as a sign of good faith for the sellers. This money is held in trust by the brokerage representing the sellers, and will go towards the purchase price. If the transaction falls through prior to the conditions being satisfied or waived, this money is normally returned to you. However, if you haven't made reasonable efforts to satisfy your offer conditions, you may be found liable.

You have the right to ask for interest earned on your deposit(s) while in brokerage's trust account. However, some factors to take into account are: the amount of your deposit, the length of time it will be held, and the brokerage's interest policy on deposits. Be sure to make your industry member aware of this request from the beginning.

In terms of mortgage financing, unless you have a certain percentage of the purchase price as a down payment, you will be required by law to insure your mortgage. Financing that typically exceeds 80% of the value of the property is referred to as a *high-ratio mortgage*, and requires insurance. This insurance protects the lender should you not make the payments on the mortgage and the property goes into foreclosure. Insuring your mortgage will cost several thousand dollars and is usually added to your mortgage amount. There are a number of companies that offer this type of insurance. For further information ask your Mortgage Broker.

Buyers and sellers need be aware that the purchase and sale of property may have tax implications, particularly GST. It is the sole responsibility of the Seller to seek expert advice (e.g. an accountant) regarding the applicability of GST on their resale property (pre-owned). However, if you are purchasing a new home (home to be built or one that has never been occupied), you as the buyer are responsible for the GST. The amount owing varies depending on the price of the property and you will need to apply for a GST rebate. Builders may ask, or offer, to have they buyer assign the GST rebate to them and reflect this in the Purchase Contract. You can speak to your builder, industry member or real estate lawyer if you have any questions about this.

Find a Lawyer

The transfer of home ownership from the seller to buyer must be recorded in the Alberta Land Titles Office to protect the new owner's interests. This must be done by a lawyer. All the necessary documents will be signed in the lawyer's office prior to the possession date. Select a lawyer early in the purchase process and contact him or her once your offer has been accepted. Your mortgage provider will usually ask for your lawyer's contact information, as well. Many firms specialize in real estate transactions, and costs vary. Your transaction depends greatly on the timely and professional conduct of your lawyer, so it pays to do some research. For more information on real estate lawyers contact the Alberta Law Society.

If you are Currently Renting

If you are currently renting and intend to buy a home, be sure to review your lease. It will contain information for notifying your landlord about terminating your lease, conducting a final inspection of the rental unit, and returning any damage deposit. When determining the best possession date for your home purchase, consider the timeframe that applies to the termination of your rental situation.

Time is of the Essence

When buying a property, time is an important factor. When an offer is made, the Purchase Contract will include a variety of deadlines from how long the seller has to consider your offer to the number of days the you have to satisfy any conditions you may have (e.g. home inspection, financing, etc.). These dates are important to monitor and your industry member can help you coordinate the multiple timelines.

Representation Relationships

Know your Options

If you have contacted an Industry member for assistance you should have discussed with them the different types of relationships that you can have with a brokerage.

These relationships include:

- Common Law Agency
- Designated Agency
- Customer Status
- Transaction Brokerage

The Industry Member is obligated to present the *Agency Relationships Guide*, which provides you basic information about your rights and responsibilities and those of an Industry Member for each type of relationship. The Industry Member's obligations to you will vary depending on the relationship that is chosen.

You should choose the relationship which best suits your needs and confirm your choice by signed documentation. Further information on the different relationships is provided at www.reca.ca.

Purchase Contract

The Purchase Contract is a standard form developed by the real estate industry in Alberta that is used to set out the terms and conditions of a transaction between a buyer and seller. Potential buyers and sellers should ask for a copy of this document so they can be familiar with its clauses. These standard form agreements may be modified to reflect the particular requirements and concerns of buyers and sellers.

Accordingly, familiarity with the clauses will help you:

- know what questions to ask their brokerage (Industry Member) or legal representative;
- know what to expect in the preparation of an offer or acceptance;
- be better equipped to negotiate the purchase or sale of a property.

Looking at Properties

Condition of the Property

Caveat emptor is a Latin expression meaning, “let the buyer beware.” Buyers must exercise great care when purchasing a property and it is their responsibility to take the necessary steps to satisfy themselves about such matters as:

- the condition of the property;
- the suitability of the property in meeting their needs;
- the conditions in the Purchase Content appropriately reflect their concerns .

Sellers must honestly answer any questions they are asked about their properties. Sellers must also disclose to buyers any *material latent defects* known to them that affect their properties.

- A *latent defect* is one that is not discoverable through the exercise of reasonable vigilance during an inspection of a property;
- A *material defect* is one that reasonable persons would agree is a significant shortcoming in a property in light of the particular transaction.

Possible material latent defects may:

- render a property dangerous or potentially dangerous to the occupants;
- render a property unfit for habitation;
- render a property unfit for the purpose for which the buyer is acquiring it, at least where the buyer has made this purpose known to the seller or seller’s brokerage.

and may include:

- defects that would involve great expense to remedy;

- local authority and similar notices received by the seller that prejudicially affect a property; and
- lack of appropriate municipal building and other permits for a property.

Inspections

When purchasing a home, buyers may want additional information and clarification to ensure that the property is free of major defects. A prudent buyer should consider professional inspections of any property they are considering purchasing. If you so instruct, your industry member will make your offer to purchase conditional on satisfactory inspection reports.

Some of the more common inspection reports that buyers request are outlined in the Property Inspection Request form found on the RECA website (www.reca.ca).

Inspection Reports

There are many types of inspections that buyers may wish to have prepared by a qualified professional, for a fee.

Some of the most common reports available are:

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| • Appraisal report | • Wood stove Inspection |
| • Electrical Inspection | • Gas Line Inspection |
| • Plumbing Inspection | • Home Inspection |
| • Septic/Sewer Inspection | • Condominium Documents |
| • Water quality/quantity test | • Real Property Report (Municipal Compliance) |
| • Engineers report | • Title Search |
| • Environmental report | |
| • Furnace/Chimney Inspection | |

Offer, Counter-offers & Acceptances

When you choose the property you want to buy, you or your industry member will write an offer on a standard Purchase Contract for presentation to the seller. The offer may be accepted, rejected or countered by the seller. If countered, the negotiations continue until both parties agree to the terms, or the offer expires.

Your industry member cannot make or accept an offer on your behalf unless he or she have been authorized to do so (in writing), but they are your representative for the purposes of communicating and receiving notice of offers, counter-offers and acceptances, unless that authority has been clearly withheld.

You should also be aware that, in general:

- an offer or counter-offer may be withdrawn at any time before it is accepted;
- the withdrawal or acceptance of an offer or counter-offer is only effective the other party's agent, in a method prescribed by the author.
- when an offer or counter-offer has been accepted there is a binding contract between buyer and seller, despite the fact that it may be subject to certain conditions having to be satisfied (e.g. mortgage approval).

Multiple Offers

A seller's Industry Member must communicate all offers to the seller as they are received. However, there are no rules that govern the order in which the seller responds to them; nor is the seller obliged to accept the highest offer. The seller decides which offer, if any, will be accepted, countered, or rejected.

The seller and the seller's brokerage are under no obligation to disclose to a buyer that other buyers have also made offers for the property. Nevertheless, such disclosure may be in the seller's best interest. If a buyer's Industry Member learns of competing offers and any details of the offers from other brokerages, it must be disclosed to buyers so they can determine their next step.

A seller cannot unconditionally accept more than one offer at a time. However, a seller can unconditionally accept one offer, while making a counter-offer to a second buyer, agreeing to sell to the second buyer if the sale to the first buyer does not go through. It is for the second buyer to decide whether such a condition is acceptable.

Terms and Conditions

Buyers commonly add conditions to their Purchase Contract in order to meet their needs. Such conditions include, but are not limited to, obtaining:

- satisfactory financing
- satisfactory property inspection
- sale of the buyers current property
- third party approval of the transaction (e.g. a parent, lawyer, employer, etc.)
- confirmation of tenancy information
- confirmation of seller's mortgage information
- confirmation of renovation costs

Other negotiable terms include the possession date and the inclusion or exclusion of attached goods (affixed to the property) and unattached goods (not affixed to the property).

Property Insurance

It may happen that, through no fault of the seller, a property can suffer damage from accidental causes (fire, flooding, high winds, etc.) between the date the contract is entered into by a buyer and a seller and the date set for completion of the transaction. In Alberta, the risk of loss or damage to the property lies with the seller until the purchase price is paid. If loss or damage to the property occurs before the seller is paid the purchase price, then any insurance proceeds shall be held in trust for the buyer and the seller according to their interests in the property.

Buyers need insurance to come into effect on possession day. Any change in the possession date means the buyer's insurance must change to reflect the new date. Buyers are advised to make arrangements for insurance in advance of the possession date to ensure that it comes into effect for their possession date. Your mortgage lender may also require proof of insurance.

Further Consumer Information

The Real Estate Council of Alberta is mandated to protect the interests of consumers.

For further information on selling and buying residential property, your potential relationship with an industry member, please visit the Real Estate Council of Alberta website (www.reca.ca).

This brochure has been made possible through a generous donation from the Alberta Real Estate Foundation.