

(Source: The Vancouver Island Real Estate Board)

# Buying a Home? Beware of Hidden Costs

So, you've finally found that perfect home that matches your pocketbook. Whether you're a first-time home buyer or a seasoned one, it's important to consider all the hidden costs related to most home purchases.

By far the largest cost is the purchase price of the home, but there are also numerous direct and indirect expenses related to getting a mortgage and gaining ownership that need to be taken into account.

These additional costs can vary from one purchase to another, but generally they include the following:

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## Goods and services tax

A seven per cent federal Goods and Services Tax (GST) is collected on the sale price of goods and services. However, it doesn't necessarily apply to every type of home sale or every form of real estate service.

As a general rule, purchasers of homes that have been lived in or used, do not pay the tax. If the home is new and it will be your primary place of residence, you may have to pay the GST. You may also qualify for a partial rebate depending on the sale price, but often this rebate is signed over to the builder. Your Realtor will be able to direct you to more information about GST.

GST also applies to many other services involved in the real estate transaction, including fees for appraisals, referrals, surveys and legal assistance. The tax is charged on these services whether or not the home you have purchased is exempt from the tax.

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## Land transfer tax

Payable by anyone who purchases property in Ontario, this tax is calculated on the property's purchase price and varies from .5 to 2 per cent.

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## Mortgage application fee

Some lenders may charge you a fee to process your application. However, with the highly competitive nature of the mortgage industry, many will waive this fee entirely, especially if you have other accounts with them.

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## **Appraisal fee**

Before lending you any money, most finance companies will require a property appraisal at your expense. The cost of a basic appraisal for mortgage purposes may range between \$150 - \$250.

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## **Mortgage broker's fee**

> If you use a mortgage broker to find you a lender, you may be charged a fee - around two per cent of the total mortgage - usually payable at the time of closing when the mortgage transaction is complete. In many cases, however, brokers are paid directly by the lenders.

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## **Property taxes**

Be prepared for bulkier mortgage payments if your lender requires that you have your property tax instalments added to your payments. This is usually a condition of high-ratio mortgages, where you are borrowing more than the usual 75 per cent of the purchase price.

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## **Mortgage insurance**

If you have a high-ratio mortgage, the government requires that it be insured against default and that you pay the cost of insurance. The cost to you ranges from 1.25 to 3.75 per cent of the mortgage amount and is added to the mortgage principal.

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## **Land survey fee**

Many lenders require an up-to-date survey of the property you intend to purchase. The survey confirms the property's boundaries and ensures there are no structures, like fences, in the wrong place. If the property is located in a subdivision in an urban area, some lenders will accept a survey that was done within the past five or 10 years. Survey costs can vary. You may want to ask the vendor to provide one as a condition of your offer to purchase.

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## **Inspection fee**

> Before issuing a mortgage, some lenders may require a professional inspection of the home. For peace of mind, you may want the home inspected anyway. Ask your Realtor or lawyer to add a conditional clause to your offer to purchase, making it subject to a satisfactory home inspection. It's well worth the cost, which is usually no more than a few hundred dollars. If the inspection indicates the home needs a major repair, such as a new furnace, you can ask the vendor to pay the cost or negotiate a new purchase price.

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## **Mortgage life insurance**

This is a form of term life insurance that pays off the balance owing on your mortgage if you or your co-borrower dies. Many lenders offer you the option of buying this insurance and adding it on to your monthly payments. You may prefer to protect yourself by taking out your own policy instead. Talk to your insurance agent.

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## **Fire and liability insurance**

Most lenders require that you carry fire and extended coverage insurance that well exceeds the outstanding balance on the value of the home. You'll want to have fire and weather-related damage protection anyway. Public liability is often included in home insurance coverage and you may want to include this as well.

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## **Legal fees**

Even the most straightforward home purchase requires a lawyer to review the offer to purchase, search the title, draw up mortgage documents and oversee the closing. You can expect to pay all legal fees required to arrange the mortgage, as well as "disbursements" - the costs involved in conducting a title search, drawing up the title deed and preparing and registering the mortgage. Lawyers' fees can vary widely, so shop around before deciding on a lawyer.

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## **Other costs**

These include the cost of adjustments to property taxes, utility bills, heating oil and so on, which the vendor has pre-paid beyond the closing date and wants to be reimbursed for. To avoid any surprises, ask your Realtor to explain each cost you're likely to incur.

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## **Maintenance and utility costs**

In addition to budgeting for your monthly mortgage and property tax payments, you'll have to budget for the monthly cost of heating, electricity and other expenses related to your new home.

If you have purchased a condominium, you will also have to pay your proportionate share of owning and maintaining the common areas. This is normally paid in the form of a monthly maintenance fee. In Ontario, at least 10 per cent of this fee must be held in a reserve fund to pay for major repairs.

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## **Moving costs**

Most new buyers will either have to hire a professional mover or rent a truck and do the move themselves. Fees for movers can vary from \$50 - \$100 an hour for a van and three movers. These costs may be even higher at month end or in summer when demand for movers increases.

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