

BUYER INFORMATION PACKAGE

At the time of closing of residential purchases of property, there are additional closing costs that are often unanticipated by Buyers. The following are typical costs incurred at the time of closing, and some information related to closing issues that all Buyers should be aware of before the scheduled date for closing.

DEPOSIT

At the time of presenting an Offer to Purchase you will have to submit a deposit cheque. The cheque is held in trust by the listing brokerage if the Offer is accepted. There's no "rule" as to the amount of the deposit, but it's industry standard for the cheque to be approximately 5% or more of the sale price. The cheque is usually certified and deposited the day after acceptance. Occasionally the deposit funds are wired by electronic transmission. Due to potential security issues, however, electronic transfers are highly discouraged.

SURVEY

If the seller does not provide the Buyer with an up-to-date survey in the Agreement of Purchase and Sale (showing the existing location of fences, buildings and structures), it will often be necessary to have a new one prepared by an Ontario Land Surveyor as mortgage lenders may require it. Solicitors will not give an unqualified opinion of title without an up-to-date survey. Depending on the circumstances, surveys typically cost between \$880 and \$1,310.

TITLE INSURANCE

An alternative to an up-to-date survey is title insurance. There are a variety of insurers that provide this product including the Buyer's lawyer. The cost of title insurance is based on a sliding scale depending on the value of your purchase and the location of your property. Accordingly, insurance can cost up to \$900 and as little as \$450. A note of caution: title insurance does not correct title problems. It merely compensates the Buyer as a result of negative impact resulting from a title defect.

LAND TRANSFER TAX

Purchasers of real estate in Ontario are required to pay provincial Land Transfer Tax on closing. It is paid directly to the Province of Ontario. It is based on the following formula:

- 0.5% is paid on the first \$55,000 of the property value;
- 1% is paid on the next \$195,000 of the property value;
- 1.5% is paid on the next \$150,000 of the property value;
- 2% is paid on the next \$400,000 to \$2,000,000 of the property value;
- 2.5% paid on any property value in excess of \$2,000,000

In short \$4,475 in provincial Land Transfer tax is owed on the first \$400,000, with 2% payable on any value in excess of that amount unless the purchase price exceeds \$2,000,000. In addition to the provincial tax, a municipal Land Transfer Tax applies for purchases in Toronto. Effective March 1, 2017 the formula is as follows:

- 0.5% is paid on the first \$55,000 of the property value;
- 1% is paid on the next \$55,000 to \$250,000 of the property value;
- 1.5% is paid on the next \$250,000.01 to \$400,000 of the property value;
- 2% is paid on the next \$400,000.01 to \$2,000,000 of the property value;
- 2.5% paid on any value in excess of \$2,000,000

This municipal tax is applied to properties found in the following boundaries: Steeles Avenue as the North border, Etobicoke as the West border, Scarborough as the East border and Lake Ontario as the South border.

First time Buyers may be eligible for rebates under both or either of the provincial or municipal schemes. Legal advice should be sought as to eligibility as there are certain qualifications and timelines applicable.

Go to the Chestnut Park website (www.chestnutpark.com) and click on "Land Transfer Tax Calculator" under the "Properties" tab under Services (at the bottom of the page) to calculate land transfer taxes owing according to property value.

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NON-RESIDENT SPECULATION TAX

Individuals who are not citizens or permanent residents of Canada must pay the NRST. This is a 15% tax on the purchase price of a residential property located in the Greater Golden Horseshoe Region. This rule also applies to purchasers that are foreign corporations and taxable trustees. There are exemptions to the NRST and legal advice should be sought if you suspect that you may be subject to this tax.

LEGAL FEES

You will require the services of an Ontario lawyer to act on your behalf to close your house purchase. Your lawyer will charge you for services, including title searching, and for his/her expenses (disbursements). Your sales representative can recommend 3 lawyers to you if you do not have one already.

Before retaining a lawyer, you should ask him/her for a complete breakdown of fees, disbursements, and mortgage work. Most legal work for home purchases exceeds \$1,500 and can be much higher under certain circumstances. Be sure to ask first.

DISBURSEMENTS

There will be other costs which the lawyer will have to pay on your behalf. Basically, things like photocopies, tax certificates, zoning clearance and work orders, couriers, registering of the deed and mortgages, searching executions, mortgage schedules, status certificates (for condominiums) and other incidentals. These disbursements will be in the range of \$600 - \$800.

FEDERAL IDENTIFICATION INFORMATION

The Federal Government has implemented legislation that requires real estate brokerages under the auspices of the Financial Transaction and Reports Analysis Centre of Canada "FINTRAC" to identify the parties to real estate transactions. The legislation is designed to prevent money laundering and the movement of the proceeds of crime. Your real estate agent is required therefore to obtain information from you to complete various forms to be retained in Chestnut Park's files.

STATEMENT OF ADJUSTMENT

Balance due on closing - basically the balance due on closing is the difference between the sale price and the amount of your deposit that was presented with the offer. However, there are certain other items that will be adjusted at the time of closing.

Taxes - if the Seller has paid taxes for the full year, the Buyer will be responsible for his/her portion from time of closing until the end of the year.

Fuel - if the property is heated by oil, then the tank will be filled by the Seller on closing, and the Buyer will be charged on the adjustment with a full tank of oil (usually 200 gallons).

Utilities - all utilities and gas that are metered will be read on closing and the seller will be responsible for them up to the date of closing.

Common element fees - these fees vary, as they're tied to the cost of maintaining your condominium. Fees may include, among many other charges, security, guest suits, building insurance, guest parking, cleaning services, pools, reserve fund contributions and legal services.

These are normal adjustments. Particular attention should be paid to new construction transactions, especially condominiums. There are numerous additional adjustments in these purchases such as developer charges, administrative fees and early occupancy fees. These adjustments, including the Ontario New Home Warranty Fee, could amount to thousands of dollars more.

PROFESSIONAL HOME INSPECTION

This is usually around \$400 and up. The cost will vary with the size of the home being purchased and the inspection company used.

HOME INSURANCE

This varies. Minimally, costs start at \$500. Call for quotes. N.B. – 1st mortgage must be noted on policy.

(Home insurance has become a serious closing issue. See details below.)

MOVING COSTS

These vary from \$200 per hour and up, depending on the company and the number of movers. It will also depend on the size of the vehicle and the time of the month and year you are moving.

THE STRESS TEST

Since January 2017, a “stress test” was introduced that requires financial institutions to screen your mortgage application by using a minimum qualifying rate equal to the greater of: (a) the Bank of Canada’s five-year benchmark rate; or (b) the financial institution’s contractual rate plus 2 percent points. Industry experts claim that this new test will reduce the buyer’s purchasing power by, on average, \$31,000.00.

FIRST MORTGAGE COSTS

Interest adjustment – This is something most Buyers do not understand. Basically, if you are arranging a new first mortgage, your lawyer will receive the mortgage monies from the mortgage company on the morning of the closing date.

However, most mortgage companies use the 1st or the 15th of the month as a payment date. Therefore, if you are closing a deal on, say August 10th, the mortgage company will deduct from the mortgage monies interest from date of closing (10th) to the first of the following month (i.e. September 1st) – interest adjustment date – and your first payment will then commence the 1st day of the following month (i.e. October 1st), and continue on a monthly basis thereafter.

Example: on a \$100,000 mortgage at 5.5% interest from the 10th to the 1st of the following month, interest would amount to approximately \$316 and instead of getting \$100,000 from the mortgage company on closing, you will receive only \$99,684. (Interest adjustment costs will not affect every mortgage, as some will have payment commencing one month after closing.)

Loan processing or bank appraisal fee – Usually about \$300. High ratio mortgages will demand a higher processing fee. A high ratio mortgage is one in which the Buyer is seeking financing in excess of 80% of the purchase price, or in some cases the approved value of the property.

SECOND MORTGAGE COSTS

Usually require the payment of additional legal fees, appraisal and brokerage fees. These vary dramatically, depending on the transaction and the risk as perceived by the lender.

HST

Re-sales – although most used residential re-sales are exempt from HST, almost all services involved with the transaction will be subject to HST, e.g. real estate commissions, lawyer’s fees, appraisals, processing fees, home inspections, insurance, moving cost, etc.

Substantially renovated houses – are subject to HST if purchased from the builder/renovator.

Commercial properties – are subject to HST. This is a complex area and individuals should seek advice from a specialist, e.g. accountant, tax lawyer.

New housing – is subject to HST. It is also a complex topic. Often the HST will be included in the purchase price. There are also H.S.T. rebates available in a number of instances. These rebates are most often assigned to the builder.

Vacant land – this is a very complex HST area. Vacant land attracts HST in most, but not all cases. As a cautionary note assume that it does until the nature of the land, its use and its ownership can be clarified by a specialist.



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CLOSING DATE

Just a note at this point about the procedure on the actual closing date. It will be necessary for your lawyer to obtain the money from the mortgage company on the day of closing.

Lawyers often have many deals closing on busy days, and it is often difficult for them to arrange a closing time until later in the day. It is not advisable to plan for an early morning move into your new home.

Please discuss this with your lawyer.

Your lawyer should be in touch with you within the week prior to closing to arrange an appointment for you to sign documents and bring in the necessary closing money.

INSURANCE CONCERNS

A number of insurance concerns have developed in the real estate industry that could have a financial impact for a Buyer on closing. Although an exhaustive explanation is not possible here, Buyers should be aware of the following:

1. Knob and Tube Wiring

This is an older form of ungrounded wiring that some insurers may not cover or may only do so at greatly inflated premiums. In some cases buyers may be denied insurance altogether or until such time as the house has been rewired. These costs could easily exceed \$5,000.

2. Hydro Service

Insurance companies are refusing to insure properties with 60-amp service and homes with fuse panels instead of breakers. As in the case of knob and tube wiring, hydro service may have to be increased to at least 100-amp service before insurance can be obtained.

3. Oil Tanks

Insurance companies are refusing to insure homes with oil tanks that have not been certified by a Technical Standards and Safety Association (TSSA) technician. This is particularly true for oil tanks that are older than 25 years. In addition, fuel oil companies will no longer provide fuel oil to homes with tanks that have not been certified. Cost of a new fuel oil tank can be in the range of \$2,000. Underground fuel oil tanks are now subject to strict regulation and in most cases must be removed. Seek advice before buying a property with an underground tank.

4. Kitec

Kitec plumbing is a flexible aluminum pipe that was marketed as a cheaper alternative to copper piping. Kitec was sold between 1995 and 2007 and used for potable water, in-floor, and hot-water baseboard heating systems. Kitec pipes are now a concern for insurers as these pipes prove to easily disintegrate and cause material damage, especially in a condominium, as neighbours are easily affected. Some insurers are unwilling to insure the contents of a property if the damage is caused by Kitec. Expert advice is highly recommended.

5. Other Issues

Generally, insurance companies have been shedding risky (in their opinion) policies. In some parts of the country the age and type of structure have also become issues. In Ontario, galvanized steel plumbing is becoming an insurance concern as is insulbrick siding in some cases. Properties owned by absentee owners/landlords may also raise concerns.

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