



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?

Contact a Real Estate Professional

Real estate professionals are licensed by the Real Estate Council of Alberta and complete education in order to offer the public advice on buying and selling real estate. Buying a home may be one of the largest investments people will make. Real estate professionals can assist you in this process of selecting suitable properties and negotiating a satisfactory Purchase Contract. For further information on how to purchase a property, contact various industry members to find one you wish to work with.

Know your Options

An industry member is obligated to discuss the different types of relationships that you can have with them. These include:

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

The industry member is also obligated to present the *Agency Relationships Guide*, which provides basic information about your rights and responsibilities and those of the industry member. The industry member's obligations to you will vary depending on the relationship that you choose.

Choose the relationship which suits your needs and confirm your choice in writing with the industry member. Further information on different relationships and a copy of the *Agency Relationships Guide* and the *Agency Relationships Video* are available at: www.reca.ca in the **Consumer Tools** section.

Contact a Mortgage Professional

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

Your Mortgage

Getting pre-qualified or pre-approved for a mortgage will show sellers that you're serious about buying. You will also be able to focus your property search based on your pre-qualification.

The lender may provide a pre-approval letter confirming the mortgage amount and financial terms. However, you should be aware that neither a pre-approval nor a pre-qualification are seen as absolute loan commitments. Your lenders will still need to look at the property appraisal, verify financial information and re-check your credit before agreeing to make a loan.

Costs

Beyond the purchase price, there are other costs involved in buying a home. The purchase price includes the mortgage, the down payment and the deposit which accompanies the Purchase Contract. Unless otherwise agreed in writing, the purchase price includes any applicable GST.

When you write an offer on a property, you are asked to include a deposit as a sign of good faith for the seller. This money, which is part of the down payment, is held in trust by the seller's brokerage and will go toward the purchase price. If the transaction falls through prior to the conditions being satisfied or waived, the deposit is normally returned to you. However, this depends on your reasonable efforts to satisfy your offer conditions.

You can ask for any interest earned on your deposit(s) while in the brokerage's trust account. However, this depends on the policies of the brokerage. Be sure to make your industry member aware of this request from the beginning.

In addition to the mortgage, consider the amount you can afford as a down payment. 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.

In addition to the mortgage and the down payment, you also need to consider your closing costs which include, for example, legal fees for the transaction and mortgage, registration of your mortgage at Alberta Land Titles, property tax adjustments, moving costs, utility deposits, etc. You may also wish to consider title insurance. Contact your lawyer for further information.

Buyers need to be aware that the purchase and sale of property may have tax implications. It is the responsibility of the seller to seek expert advice (e.g. an accountant) regarding the applicability of GST on the sale of their property. 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 to pay the GST. The amount owing varies depending on the price of the property and you may be eligible for a GST rebate. Builders may ask, or offer, to have the 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.

Contact a Lawyer

You will need to involve a lawyer for such items as title transfer and mortgage registration. Property title transfers between sellers and buyers must be recorded at Alberta Land Titles to protect the new owners. All documents will be signed in the lawyer's office before the possession date. Select a lawyer early in the selling process and consult him or her if you have any legal questions. For further information on real estate lawyers contact the Law Society of Alberta.

Timing

Time is important. When an offer is made, the Purchase Contract will include a variety of deadlines, from how long the offer is open for consideration to the number of days you have to satisfy any conditions (e.g. home inspection, financing, etc.). If you are currently renting, review your lease to help you determine a suitable possession date. These dates are important to monitor and your industry member can help you coordinate the multiple timelines.

Looking at Properties

Buyers must exercise care when purchasing a property and they are responsible for taking the necessary steps to satisfy matters such as the condition of the property and the suitability of the property for their needs.

Disclosures

Sellers cannot conceal defects or mislead buyers about the condition of their property, and when answering questions they must be honest. Whether the seller sells the property themselves or through an industry member, any *material latent defects* must be disclosed to potential buyers.

- 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.

More information on this topic can be found at: www.reca.ca in the **Consumer Tools section**.

Inspections

Buyers can request professional inspections to ensure the property they want to purchase is free of major defects. Any requests for inspections should be included as conditions in the Purchase Contract. If so instructed, your industry member will make your offer to purchase conditional on satisfactory inspection reports.

An Inspection Request Form listing many of the most common types of inspection reports is available at: www.reca.ca in the **Consumer Tools section**.

Purchase Contracts

Developed by the industry, the typical Purchase Contract in Alberta sets out the terms and conditions of a real estate transaction. This standard form agreement may be modified by buyers and sellers to reflect the requirements of their transaction.

When you and your industry member write the Purchase Contract, ensure that it fully reflects your needs and concerns regarding your potential purchase. Once your offer has been presented to the sellers, it may be accepted, rejected or countered. If your offer is countered, the negotiations continue until both parties agree to the terms, or the offer expires.

Being familiar with the clauses will help you to know what questions to ask your industry member or lawyer, to know what to expect in the preparation of an offer or acceptance, and to be better able to negotiate the purchase of a home.

If both the buyer and seller are working with industry members, their representatives cannot make or accept an offer on their behalf unless he or she has been clearly authorized to do so in writing. However, industry members must communicate the progress of the negotiation to their respective parties. You should also be aware that, in general:

- an offer or counter offer may be withdrawn at any time before acceptance;
- withdrawal or acceptance of an offer or counter offer is only effective once either situation is communicated to the other party or to the other party's industry member;
- when an offer or counter offer has been accepted there is a binding contract between buyer and seller, even if it may be subject to certain conditions having to be satisfied.

Multiple Offers

All offers must be communicated to the seller as soon as they are received. However, there are no rules as to 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 industry member are under no obligation to disclose to a buyer that other buyers have also made offers for the home. However, if your industry member learns of competing offers and any details of the offers, it must be disclosed to you. Your industry member should explain your options in a multiple offer situation.

Terms and Conditions

Buyers commonly insert conditions to meet their needs. For example:

- obtaining satisfactory financing
- satisfactory inspection reports for the condition of the property
- sale of the buyer's current home
- third party approval of transaction (e.g. parent, employer, etc.)
- confirmation of tenancy information
- confirmation of renovation costs

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

Property Insurance

Through no fault of the seller, a home 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 completion date 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. As a buyer you will need to arrange your own property insurance prior to the possession date.

Further Consumer Information

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

The Real Estate Council of Alberta is mandated to protect the interests of consumers when working with real estate industry members.

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