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Buying and selling your home

RK | Home Owner

What you need to know. Now.

Do you want to be a Real estate mogul?

Are you a house-flipper?

Are you building your property empire?

Then this isn't the seminar for you...

But if you're interested in...

→ Buying a home as part of your financial plan...
→ Selling a home as part of your financial plan...
→ Investing in a property as part of your financial plan...

....then sit back, relax and let's get to it...

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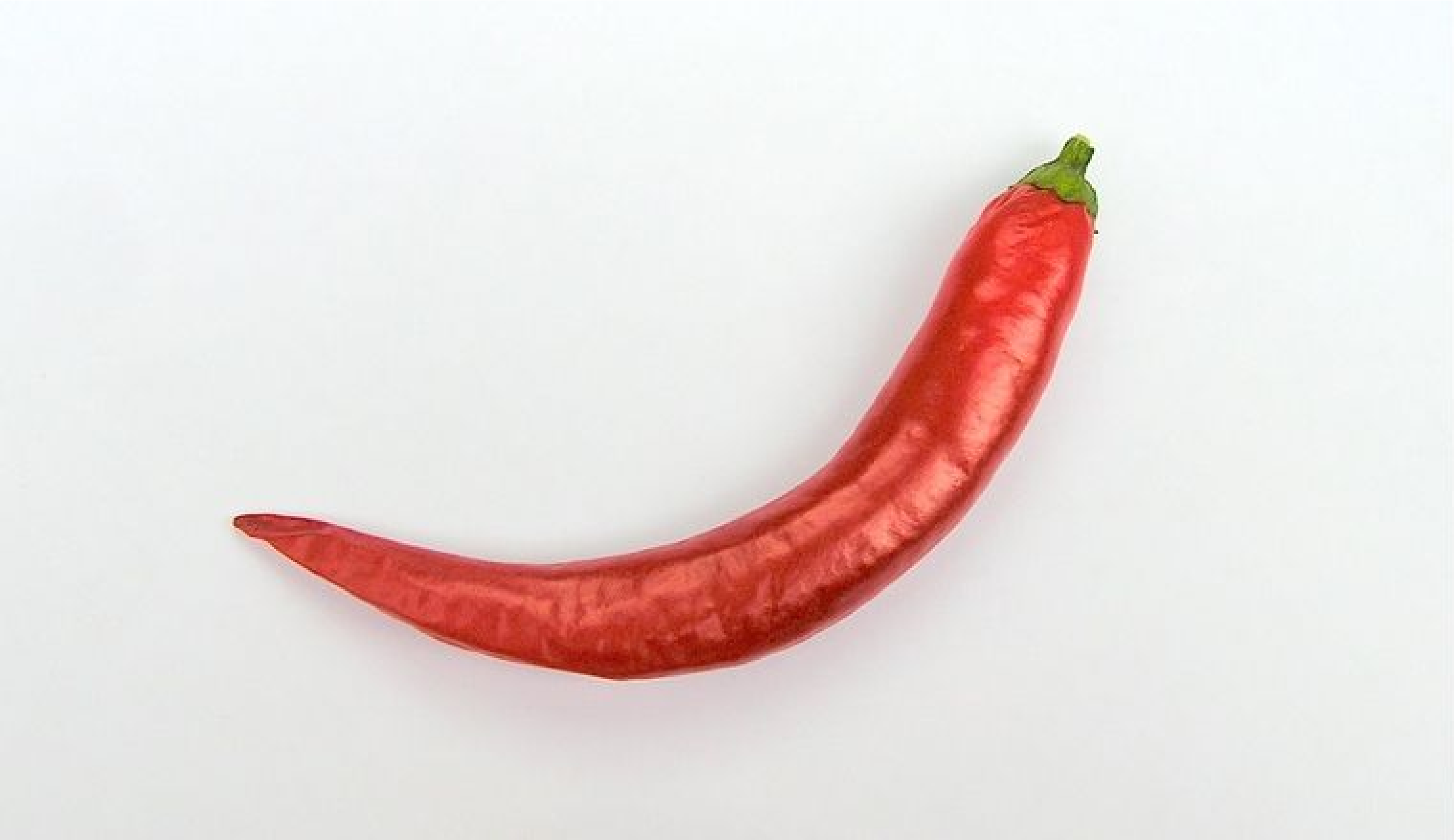
THE MARKET IS...HOT!



Recent headlines declare:

"Priced out of detached houses and other low-rise products, Toronto buyers poured into condominiums units last year to create a 10-year low in inventory, according to a new Urbanation report."

-- Garry Marr, Financial Post, Feb. 1, 2017

"Newly built GTA home passes $1 million on average price."

-- Tess Kalinowski, Toronto Star, Feb. 23, 2017

"Toronto faces 'serious' housing crunch as prices soar 22% and supply drop in half."

--Garry Marr, Financial Post, Feb. 13 2017

But let's add some statistics to these headlines

According to the Toronto Real Estate Board:

→ Price of SFD homes grew by almost 25% between Jan 2016 and Jan 2017.

→ In the same time period, price of semi-detached homes grew by just over 23%, townhomes prices grew by just under 23% and condo prices increased by just over 18%.

→ The areas with the highest year-over-year price increases (for all types of housing) include: Richmond Hill (28,89%), Georgina (29.48%), Aurora (30.10%), Whitby (30.26%), Oshawa (30.35%) and Innisfil (31. 67)%.

→ TREB predicts an average price increase between 10% and 16% for GTA homes in 2017.

So, if you're in the market to buy or sell what do you need to know and do?

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Guide to:
Buying a home

The <u>most</u> important question to ask:

Why are you buying a home?

If you are buying for these reasons:

→ Worried you'll never be able to get into the property market
→ As a way to force yourself to save money
→ purely as an investment (markets have risen so much, it's time to get in!)

...STOP.

THE #1 RULE WHEN BUYING A HOME:

The purchase must be part of your overall financial plan.

THAT MEANS:

→ You need to make a budget that includes ALL your current expenses

→ You need to know how much mortgage you can safely afford based on your personal budget (not on what the bank is willing to loan you)

→ You need to have a strategy for dealing with interest rate increases

Take these steps and you are then financially ready to make the leap to homeownership.

Budget all your expenses

Do you have a budget?
If not, track your spending (all your spending) for 30 days.

Now create a spreadsheet or write down spending categories and log all your spending based on those categories.

Add it all up.

Compare it to your income.

What to look for:
→ Are you spending more than you're earning?
→ Are you spending on items that aren’t a priority?
→ Are you willing to make different choices?

How much mortgage can you afford?

When banks calculate how much you can afford to borrow, they don't take into consideration grocery or daycare costs, car breakdowns, sick days, the cost of clothing, etc. etc.

But can you truly eliminate all these expenses? NO.

To make sure you can afford to own your home, you need to create your own budget that includes how much you can realistically afford to pay for a mortgage.

That's why you need to start with a budget. By having a budget you can make decisions on what you will spend your money on. Maybe you'll give up your coffee per day habit?

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Caffeine powered

The daily cup of Starbucks is costing you =$800 / year

A little liquor

Spend a night each week at the bars?

That'll cost you = $900 to $1,800 / year

Cigarettes

The average smoker spends about $2,100 / year

Cafeteria routine

Anti-brown bagger? It'll cost you = $3,500 / year

As a buyer, here are 9 **Traps** to avoid...

#1: Paying mortgage loan insurance fees.

#2: Paying mortgage life insurance through the bank (unless…)

#3: Buying your just-for-now home.

#4: Buying your forever home.

#5: Falling in love with a show-home (new build) or staging (resale).

#6: You trust the pre-sale floor plan (new build) or stated square footage (resale).

#7: Concentrating only on the mortgage rate.

#8: You skip the home inspection.

#9: You don’t get a real estate lawyer to look over your contract.

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7 first-time home buyer rules

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#1: Buy smart, the first time

Buying smart means ignoring the headlines, ignoring the “hot tips” advice and ignoring the glib advice from others. Buying smart means buying what fits your budget, your lifestyle and your family. It also means not trying to plan—or buy—for the next 25 years.

#2: Do the math

Being able to afford homeownership is more than making the mortgage payment. Add-up ongoing costs (like utilities), as well as one-time costs (like the land transfer tax), and factoring in lifestyle costs, including vacations, daycare and date nights, then decide can you afford it?

#3: Preparation is key

Sports psychology proves that years of preparation and training or key to an athlete’s ability to perform at optimal levels, when needed. The same applies to you. When faced with an emotional decision, such as investing in the single-largest asset you’ll own, you also need to prepare ahead of time in order to make the right decision at the right time. need to be ready.

#4: Tap your network

Now it’s time to talk to friends, family and co-workers about the professionals they’d recommend. Who has a good real estate agent or mortgage broker?

#5: Set your budget

Forget what the bank will loan. Instead, look at your own budget and your bigger financial plan. Now, how much house can you really afford?

#6: Get your money sorted

Is your deposit money easily accessible? Do you know where your down payment will come from? Do you have all your documentation ready? And, if possible, get a pre-approved mortgage rate.

#7: Keep your emotions in check

It’s easy to get infatuated with a beautifully staged place or to feel desperate and jump on just about anything. To avoid making these decisions, walk away and review your needs and wants list.

To find the perfect home ask yourself these 12 questions:

1) Do you enjoy yard work?
2) Do you travel a lot?
3) Do you often entertain or have house guests?
4) Do you need a lot of natural light?
5) Are you handy with repairs?
6) Could you live through a renovation?
7) Are you comfortable with the notion of a condo board making decisions that will affect you?
8) Do you want easy access to public transit?
9) How close to you want to live with your neighbours?
10) How much storage do you need?
11) Do you want to be the first to live in a home?
12) Are you comfortable with smaller spaces or one-level living?

Want some help?

Best apps for buying a home:

No 1. New York Times' rent vs. buy calculator
(https://www.nytimes.com/interactive/2014/upshot/buy-rent-calculator.html?_r=0)
or Rentseeker's rent vs. buy calculator
(http://www.rentseeker.ca/blog/index.php/rent-or-buy-this-new-rent-or-buy-calculator-will-help-you-compare-real-time-costs/2707)

No 2. Calum Ross' mortgage qualifier calculator
(http://www.calumross.com/mortgage-calculators/mortgage-qualifier/)

No. 3. Dr. Karl's mortgage calculator
(https://www.drcalculator.com/mortgage/ca)
or Taxtips.ca loan/mortgage calculator
(http://www.taxtips.ca/calculators/loancalc.htm)

No. 4: What are your closing costs?
Use RateHub's land transfer tax calculator: https://www.ratehub.ca/land-transfer-tax
or CMHC's mortgage loan insurance premium calculator:
https://www.cmhc-schl.gc.ca/en/co/buho/buho_023.cfm

For more tools, go to: romanaking.com

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Guide to: selling a home

Should you sell?

The housing market has never been hotter...so should you sell?

The answer to that question should not be based on the market, but on your own financial plan. As such, can you answer these questions:

→ Are you planning to retire this year or relatively soon?
→ Do you have enough saved for retirement?
→ Do you know what retirement will look like?

Sell before you buy?

There are a number of factors to consider when moving between properties.

The first consideration is cost. Can you afford to hold two properties should your current home sit on the market and not sell for a few months? If you can afford to hold two properties, you're best option is to buy first, then sell. That way you aren't left scrambling to buy because you are running out of time before having to vacant your recently sold home.

Remember, though, you'll want to put at least 20% down on your new home to avoid unnecessary CMHC fees.

Another option is to put in an offer on your new home with a condition that stipulates that you can back out of the purchase should your current home not sell. This option is called a "Subject to Sale Offer" and considered a standard clause in most markets, except really hot markets where competition can heat things up.

To help with the potential cost of paying two mortgage on two properties while each transaction closes talk to a mortgage broker about a bridge loan or a Home Equity Line of Credit. These are two options to bridge the temporary spike in costs that can arise when selling and buying two homes.

Sell as-is or renovate?

The housing market has never been hotter...so should you sell?

The answer to that question should not be based on the market, but on your own financial plan. As such, can you answer these questions:

→ Are you planning to retire this year or relatively soon?
→ Do you have enough saved for retirement?
→ Do you know what retirement will look like?

As a seller, here are 7 **Traps** to avoid...

#1: Are you prepared to sell, right now?

#2: Do you or your listing agent have a marketing plan?

#3: Is all your paperwork in order?

#4: Do you have a plan to stash Fluffy and Fido?

#5: Are you realistic about your price?

#6: Are you prepared to haggle?

#7: Do you know what you’ll pay in closing costs?

Want some help?

Best apps for selling a home:

No 1. Should you break your mortgage?
(https://www.ratesupermarket.ca/mortgages/penalty_calculator)

No 2. How much will it cost to sell my home?
(http://www.flatfee4me.ca/real-estate-commission-calculator/)

No. 3. How to set a realistic sale price?
(http://www.creditfinanceplus.com/calculators/home-value-appreciation-profits-future-sale.php)

No. 4: Need some home staging and decorating help?
Use Wayfair: https://www.wayfair.ca/
or Houzz: http://www.houzz.com/
or Curate: https://itunes.apple.com/us/app/curate-app/id873153457?mt=8

For more tools, go to: romanaking.com

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Home
buying & selling
tax tips

No tax owed if...

Your home is your principal residence

You owe tax if...

You bought property and did not use it as a principal residence.

Be careful if...

You can still qualify for the principal residence exemption if you only rented a portion of your home or only used it as a principal residence for a portion of the time you owned it.

Primer on Capital gains tax

All assets, including all property, is subject to capital gains tax. That means the Canada Revenue Agency will charge you tax on the appreciation of property — a tax known as a capital gain tax.

This tax is calculated and administered differently than income tax or tax owed on dividends or interest earned. The main benefit is that capital gains tax is only calculated on HALF the profit gain.

Plus the actual amount of tax you pay depends on your marginal tax rate. The higher earner you are and the more capital gains tax you'll pay on a property you sell (because your marginal tax rate is higher).

Now, when you sell your primary residence the appreciation on the value of this property is exempt from tax — this is known as the principal residence exemption.

Principal residence exemption

Remember: The Canada Revenue Agency allows you to claim any property you own in Canada and "ordinarily inhabit" as a principal residence—be that a house, cottage, condo, even a trailer. This means you can claim the property with the highest gain as your principal residence for any given period.

Just remember that each family unit (two spouses and children under age 18) can only claim one principal residence between them at a time—so for any given period, you can't claim your home and your cottage too.

As of 2017 (for the 2016 tax year) you still have to notify the CRA that you sold your principal residence, but you still won't be charged capital gains tax as you still qualify for the principal residence tax.

THE GENERAL FORMULA USED TO CALCULATE CAPITAL GAINS TAX ON A PROPERTY:

STEP 1: SALE PRICE OR FAIR MARKET VALUE OF PROPERTY - (PURCHASE PRICE OF PROPERTY + RENOS - EXPENSES) = CAPITAL GAIN

STEP 2: CAPITAL GAIN / 2 = CAPITAL GAIN YOU OWE TAX ON

STEP 3: CAPITAL GAIN YOU TAX ON x YOUR MARGINAL TAX RATE = WHAT YOU OWE TO THE CRA

A FEW THINGS TO REMEMBER:

Claiming investment expenses:

- You can't claim business expenses against a capital gain. You can ONLY claim deductions against business income.
- A general rule of thumb is that an annual expense can be deducted from annual income.
- Claim business expenses on an investment property and you could wind up paying income tax (full tax at marginal rate) rather than capital gains tax.

You won a home!

- Won a home in a lottery? Congrats: These winnings are not taxable. Just make sure you sell the property fairly quickly if you already own a home.

Losing your principal residence exemption:

- You can lose your PRE if you rent out more than 50% of your home.
- The same is true if you try and claim a capital cost allowance (the depreciation value of your home over time).

Avoiding probate:

- If you add an adult-child to the title of your property (while you're still alive, in an effort to avoid probate, etc.) the CRA will consider this is a "deemed disposition." You won't be charged tax, but your adult-child will owe tax from the date their name was added to the deed.

TAKE AWAY

#1: Never make property decisions – buying, selling or investing – without first developing your own financial plan.

#2: Based on your financial plan and your goal, identify your needs.

#3: Each year, check in with your plan. Are you on track (to paying the mortgage down, to earning cash-flow from your investment). Keep track, keep receipts and stick to your own financial plan.

#4: Now, build a team for making it happen (remember: Don't be scared to pay for good, honest advice).

Have questions?

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