A Step-By-Step Guide to Purchasing a Home in 2023

Welcome to your home-buying journey. These are exciting times!
Here's all you need to know to be 100% prepared when the time comes to start looking at properties and submitting offers.

Purchasing a home involves securing financing, finding a suitable property, submitting offers, closing the purchase and many steps in between. With so many things that need to be considered, this process can sometimes be overwhelming.

This Guide will take you through the step-by-step process of purchasing a home so that you know what to expect from it.

STEP 1: What Are Your Must-Haves?

It may seem odd to start with a list of must-haves. However, this is the best way. Ideally, you'll create this shortlist before going online to see available properties.

Going online and looking at properties can generate a set of false expectations of how your next home should look like. You'll find some things that objectively are “nice to haves” but not “must-haves”. However, it's hard to let go of them once you see them.

Let's discover what your must-haves are. The best way to do this is to focus on 3-4 different neighbourhoods that fit your need for proximity to places to you (work, hospitals, schools, parks) and the number of bedrooms and bathrooms you need in your home. Of course, this shortlist should also state if you need a property with wheelchair access or easy access for individuals with different mobility issues.

STEP 2: Score High, Save Big: The Dynamic Duo of Credit Score and Down Payment Boosting

Your credit score determines how much money you can borrow, what interest rate and how much in fees you'll have to pay. Your credit score is based on your credit report, which includes information about your credit history - your payment history, how much debt you owe, how long you've had credit, the types of credit you have, and how often you apply for credit.

Getting your credit score in line also works towards saving money for your down payment and closing costs. However, working on your savings is good even if your credit score is solid.

A down payment *is money you pay in cash to finance your property purchase. This amount is deducted from the property purchase price. Your lender then issues a mortgage for the rest of the amount. So, the higher the down payment, the lower your mortgage, your interest rates and the subsequent monthly mortgage payments you must make.*

The amount of your down payment depends on the purchase price.

$500,000 or less	5% of the purchase price
$500,000 to $999,999	5% of the first $500,000 of the purchase price 10% for the portion of the purchase price above $500,000
$1 million or more	20% of the purchase price

If you have a bad credit score or are self-employed and for down payments below 20% of the purchase price, your lender will require you to purchase ***a mortgage loan (default) insurance.*** This insurance is paid to protect the lender if you cannot make your mortgage payments. The premiums for mortgage loan insurance range between 0.6% to 4.50% of the amount of your mortgage.

Different government incentives help you lower the minimum required down payment. Talk with your lender and a professional real estate agent about your options.

The most significant change you can make in your financial behaviour to help you improve your credit score and increase your savings is to **stop purchasing with credit card debt**. If you cannot afford something in cash, don't purchase it. Even if this means you'll skip vacation this year. The only thing you're allowed to make an exception for is education. If you perceive that a course or program can help you get a better job or a promotion, you can finance it with credit card debt.

Another hack you can use to increase your saving is paying yourself first. This means **putting aside the amount you want to save at the beginning instead of at the end of the month**. This way, you'll stop purchasing unnecessary things and maintain a monthly budget. You can use a budgeting app or a simple Google or Excel sheet to help you with your budgeting. You can open a new savings account with no linking debit cards or checks that you can use solely to save for your down payment.

To remove spending temptations, **unsubscribe from any marketing emails** you're receiving. When going shopping, **write down a shopping list and stick to it**. If you have old stuff to sell, you can **organize a yard sale** and put the money you earn toward your down payment.

STEP 3: Get a Pre-Approval, Not a Pre-Qualification

Yes, there is a difference between pre-qualification and pre-approval.

Pre-qualification is a less formal process involving no credit checks. It's based entirely on the documentation you submit. You can get a pre-qualification done online or over the phone. Since it's based on your documentation and not on official checks done by the lender, it's a rough estimate of what amount you'll be pre-approved for.

A pre-qualification will give you a very rough picture of what budget you'll have at your disposal for your next home purchase. Or at least a good-enough estimate so you can start browsing homes online. It indicates what you can afford, so you don't set high expectations.

❗ ***Do not submit any offers if you're only pre-qualified. You should start submitting offers only after you've been pre-approved. Most sellers will not take your offer seriously without pre-approval, and you might lose a home you really liked.***

You can start the pre-approval process at your bank. However, it's ok to shop around and see if any other lender can offer you better terms. A mortgage broker can help you find the best possible option.

If you want to expedite your pre-approval process, you can ask your preferred real estate agent to help you. Most agents, like myself, have established contact networks with a few mortgage brokers and have our contacts within individual banks.

Remember, even getting pre-approved **DOES NOT** guarantee you can take out the stated amount. Also, if interest rates change between pre-approval and purchase, you must repeat the process. In this case, your lender will likely adjust your pre-approved amount.

It's not wise to start looking at homes without getting pre-approved. You risk falling in love with homes that could be out of your reach. It will then become challenging to find a property you'll love after seeing all those fantastic homes that are out of your budget.

STEP 4: Who Doesn't Love Online Shopping?!

Now that you have gotten your pre-approval, you can start looking at what kind of properties you'll be able to afford.

Type *"properties in [YourPreferredArea]"* on Google and go to either of the top search results. Start with a basic search using your preferred neighbourhoods, the number of bedrooms and bathrooms you need, and the budget you have at your disposal.

You'll now see what type of property you can afford - new build or old, detached, semi-detached, townhouse, or condominium.

You can now expand your shortlist of must-haves with items you know properties within your budget have available - finished basement, open floor plan, pool, etc.

❗ ***IMPORTANT: Understanding the Market***

You may have heard the terms "buyer's market" and "seller's market". Here's what they mean, and more importantly, what they mean for you as a buyer:

A buyer's market *is one in which the supply of homes exceeds demand. Since supply is greater than demand, properties stay longer on the market. This will give you enough time to explore a few options, even visit the properties a few times, before finally submitting an offer. A genuine buyer's market means you can usually negotiate the asking price down, as multiple offers on a property are rare.*

A seller's market *is one in which the supply of homes cannot keep up with the demand. This huge demand pushes prices upwards, and you can expect to be caught in bidding wars with other interested buyers. This means that you'll pay more than the asking price at which the property is listed. You'll have to decide and submit your offer quickly, as properties stay on the market for just a few days.*

As you keep exploring what's available online, you can start refining your search with more criteria (amenities) as you now have the exact amount of money you've been pre-approved for. This will help narrow down your search. You can again google *"properties for sale in [YourPreferredArea]"* and now do a more refined search. Sign up to receive email updates when new listings matching your search criteria hit the market.

❗ **Super-Important Tips for Viewing Homes Online**

Never max out your available budget. **Always aim to be below your budget.** Even if you get approved for $800,000, that doesn't mean you should buy a home worth $800,000. You don't have to buy a detached home if you can tick all the boxes with a semi-detached home. That's why the property type is not part of your initial essential must-haves shortlist. We first want to know what we can afford and then fit our must-haves into the property type fitting into our budget.

Also, you might think you're buying a move-in-ready home. **But it's never 100% move-in ready.** There's always stuff you'll need to change, fix, move, take out, or adjust. And this costs. So, always leave some space in your budget for this type of work.

For your initial list of favourite homes you'd like to see, always include homes below your budget (even if they are significantly below the budget), but tick most boxes. You might realize you could get a fantastic property with a lower budget. However, you never realized that such a property could work for you before seeing it in real life.

When looking at the pictures online, **make sure that you can see the rooms from multiple angles and perspectives** and that you can determine the flow of the property. Despite your best effort, you can never be 100% certain of the property's appearance without looking at it in person.

Don't limit yourself to neighbourhoods and areas you know. Your real estate agent might have great suggestions for more affordable areas with hidden gems most people keep overlooking because they are unwilling to compromise on the property's location.

Think about the property as a long-term investment. Imagine how well-suited the property will be for you in the next 10-15 years. Looking at the property's potential is also important when creating a list of homes you'd like to see.

STEP 5: Find Your Real Estate Superhero: Tips for Choosing the Perfect Agent!

The good news is since you're a buyer, the agent's commission is not something you have to worry about. The seller always pays the commission.

You must be wise when choosing the right real estate agent. After all, the real estate agent is not only the person who opens the doors for you at the showing and gives you a tour of the properties you like. Your real estate agent will also write and submit offers for the properties you like. Hence, you need someone experienced who you can trust to do the job diligently.

Here are some guidelines:

Should you hire a real estate agent who is your friend/family?
Even though this may be convenient, and you will feel like you are helping, it can get tricky if you disagree in certain situations. You will also benefit more from someone unbiased and straightforward.

When interviewing agents, test how much they know about the local market
You need someone who knows what's happening in the local market and how to write competitive offers to get you the home you dream of. And not every agent can deliver this.

Is hiring a well-known and popular agent really the best option?
While it might seem like trusting your home sale process to someone famous and experienced is a good move, it may prove a mistake. How much time can that agent dedicate to finding your dream home if they are in demand?

When it comes to agents, honesty truly is the best policy!
Don't simply choose the agent who's promising you everything. Rather go with the realistic agent explaining the situation as it is, without any sugarcoating.

STEP 6: Yaaaaay, It's Time to Start Seeing Those Homes!

After choosing your real estate agent, it's time to start looking at homes in person. Here are some tips on what to look out for:

1. Most things within a property can be changed. However, location /the property view/ and lighting **CANNOT**.
2. **Focus on the bigger picture.** We often get stuck with details we like. However, we must remember the most important thing within the property - its functionality. Focus on that rather than how beautiful the kitchen island's marble looks.
3. Create **a grading system** for the properties you look at. You and everyone involved in the purchase give a grade from 1-5 for each must-have you defined. This is an efficient way of ranking the properties you see.
4. When looking at homes, **take a measuring tape** to see if your furniture fits within a space. Also, **always take pictures with your phone** as well. Write down your first impressions about the home right after you leave it. Your memory is fresh, and this will be the most accurate recollection of how the property felt like.
5. **Take a non-biased person** with yourself who will point out all the apparent flaws of the property for you.
6. If time allows, **look at the property at different times of the day** to get a feeling of how the light flows into the property at different times of the day.

❗ **IMPORTANT: Red Flags to Watch Out For When Seeing Homes**

An experienced agent with many showings and open houses under their belt should be pointing out these red flags for you. However, here are some of the most often occurring issues you should watch out for.

The first thing to watch out for is **mould and moisture**. Especially recently refurbished homes can cover these issues. Look **under the kitchen sink** and **in the back of the cupboards** for signs of water and mould.

The roof is also often problematic. Even if the outside is new and looks good, take a sneak peek at the inside and look for issues.

Don't forget to look up and down to notice potential **problems in the flooring** and **cracks in the ceilings.**

STEP 7: Offer Time!

When you have found a property that ticks most of your boxes, sit down with your real estate agent and devise a strategy for submitting the offer. This is why it's essential to have an experienced agent transacting regularly. Such an agent knows what kind of offer will be the winning offer - how much above the asking price properties usually sell for or how much below the asking price you can offer without offending the sellers or simply looking ridiculous.

The real estate agent can also help you decide on any conditions you want to ask for.

The most common conditions are:

- ***Financing:*** The offer will fall through if you cannot secure the funding necessary for the purchase.
- ***Inspection:*** If unsatisfied with the home inspection results, you can choose to walk away from the deal.
- ***Selling Of Buyer's Property (SBP)***: The home purchase goes forward only under the condition you sell your current home first. The seller can continue to offer their home for sale for approximately 30 more days. Should another buyer come forward with an offer the seller likes, you still have the first right to firm up your offer and keep the home.
- ***Status Certificate (Condo Purchases):*** A Status Certificate contains the current state of the condo unit, its financial status, and essential details about the building. If you aren't satisfied with what's stated in the Status Certificate, you can choose not to go through with the deal.

Your agent will then present the offer to the seller's agent. The seller will then either accept your offer or issue a counteroffer. You can then accept or continue to go back and forth until you either reach a deal or call it quits.

You'll frequently be required to deposit some money with your offer. The deposit amount be deducted from your down payment.

Once your offer is accepted, it's time to close the deal.

STEP 8: Ready, Set, Close!

After the seller accepts your offer, you must return to your lender to complete your financing.

Here's the documentation you usually need to provide to the lender:

- a signed offer,
- a legal description of the property and building specifications,
- a realtor.ca property listing (or photographs if no listing is available),
- the most recent property tax assessment,
- an appraisal, home inspection report and land survey,
- estimates for recent or planned renovations,
- heating and utility costs,
- condominium fees (if applicable).

Home Inspection & Appraisal

Home inspection and appraisal are two different things.

A home inspection assesses the property for quality, safety, and overall condition. A qualified home inspector assesses the property's heating and cooling systems, plumbing, electrical work, water, sewage, fire and safety issues. The home inspector also looks for insect, water, or fire damage. You can retract your offer if the home inspection reveals severe defects the seller did not disclose. The home inspection has to be paid for by the buyer and costs around $500.
An appraisal is an unbiased professional opinion of a home's value order by your mortgage lender. A qualified appraiser does an in-person inspection and combines the findings with current market trends and the home details (size, condition, floor plan, amenities) to estimate the value of your home. The transaction can proceed if the appraisal comes in at the value or above the purchase. However, the transaction can be stopped if the appraisal comes below the purchase price.

Clear Title

Your lender may require ***Title Insurance*** to cover any loss caused by property ownership problems.

A clear title establishes the legal property owner. A title check shows whether there are any outstanding financial responsibilities attached to the property. Only if the property has a clear title does the seller has the right to sell the property. Title companies check for claims or liens of any kind. The presence of liens invalidates or impairs the owner's title to the property. Title issues can arise in situations of separation, divorce, or heirs not being adequately documented.

Home Warranty & Insurance

A home warranty and home insurance differ.

Homeowners' insurance covers the loss of the home and its contents due to fire or certain other natural disasters. ***A home warranty*** covers the cost of maintaining household systems or appliances for a set period. Home warranty coverage can cost between $400 to $800 a year.

STEP 11: The Final Step: Signing on the Dotted Line

Closing day is when you take legal possession of your new home. The final signing is usually at your lawyer or notary's office.

At this point, your lender will transfer the mortgage money to your lawyer or notary. You will provide the lawyer with the down payment (minus the deposit) and money to cover the closing costs (legal fees, land transfer fees, etc.), **typically 1.5% to 4% of the purchase price.**

After that, your lawyer or notary will pay the seller, register the home in your name and give you the deed and keys to your new home.

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