
Things you should know about buying a home

Although home ownership is a goal of most Canadians, there are both pros and cons of being a homeowner. Here are three of the negative aspects:

- When you own a home, you are responsible for maintaining it, which can take up a large amount of time. When you rent, it's the landlord's problem. Of course, owning a condominium lets you enjoy the advantages of owning without the maintenance. But you do pay for the privilege.
- When you own a home you're not as mobile as you would be if you were renting. Depending on market conditions, selling a home can take a long time, so if you plan to move around a lot, renting may be better for you.
- When you own a home you have your money tied up in it. And although real estate has provided roughly the same growth as the stock market, it does not provide the same amount of flexibility. However, a homeowner can usually access required funds for investing through a line of credit.

On the other hand, there are powerful and compelling reasons to buy a home. Pride of ownership, opportunity for capital appreciation, freedom to do whatever you like with it and a feeling of security.

If you have decided to buy a home, here are a few things to consider:

- The first thing to do, even before you start looking for a home, should be to arrange for a pre-approved mortgage. That way you'll know what you can afford and you can negotiate your purchase in confidence.
- Make sure you've got enough to cover fees and closing costs. These may include the appraisal fee, loan fees, attorney's fees, inspection fees and the cost of a title search. They can easily add up to \$5,000 to \$7,000 -- and often run to 5 percent of the mortgage amount.
- Because of the high costs of buying and selling, unless you're planning to stay in your home for at least 4 to 5 years it may not be a wise decision. Of course there have been times when the real estate market has increased so quickly, it would have paid handsomely to buy and sell over one year.
- Be sure to research the area in which you're looking. Talk to neighbours. Visit schools. Check on future development. That beautiful wooded area across the street could be slated for a shopping mall. In a nutshell, you want to be aware of and consider all issues that could affect the resale price.
- Remember that most real estate agents have one goal - to make a sale. Just be aware of this when an agent gives you advice. Many agents may have your interests first in mind but many will not. You'd be wise to ask for referrals so you can have more faith in your agent.

Always use a home inspector before you make an offer. Again, ask for referrals. And always do a walk-through the day before the close to ensure that all is as it should be.

Financial help for first time home buyers

If you're a first time home buyer you can take advantage of government assistance to make it easier to purchase your home.

For one thing, under the Home Buyers' Plan, you can borrow up to \$20,000 out of your RRSP (\$40,000 for a couple). You must repay the money within 15 years.

Today, about 50% of first-time home buyers use their RRSP savings to help finance a down payment.

Even if you have already saved for your down payment, it may make good financial sense to take advantage of the Home Buyers' Plan. For example:

if you have contribution room in your RRSP and

if you could make that contribution at least 90 days before your closing date.

You could then borrow that money from your RRSP under the Home Buyers' Plan and still have the tax deduction.

While using your RRSP for a down payment may help you buy a home sooner, it can also mean missing out on some tax-sheltered growth. It may be better to borrow the required funds with a 2nd mortgage and leave the funds in your RSP.

You'll have to crunch some numbers to decide.

You can also take advantage of the CMHC first time buyers program. This allows you to put down as little as 5% down payment. The main disadvantage is that you will also be required to pay a 2.5% insurance fee to protect the lender.

Consider renovating instead of moving

If you already own a home and you're thinking about moving and buying another home, you may want to think about renovating your existing home. Of course, it all depends on why you want to move.

However, if you like the area in which you're living and the only reason you're thinking about moving is that your home doesn't meet your requirements, renovating may be a more practical and cost-effective solution.

Over the last several years, with stock market performance weak, many people have turned to their homes as a source of investment, putting money into renovations which they feel will add value to their homes. From their point of view, this is one investment with a sure pay-off, if not financially at least in the increased enjoyment of their home.

The following is a list of typical renovations that can have a positive impact on the value of your home. According to the findings of the Appraisal Institute of Canada in its national 1999 Renovations and Home Value Survey, some renovations will result in a higher average pay-back (or dollars returned) at the time of sale:

Interior painting and decor (73%)

Kitchen (72%)

Bathroom (68%)

Exterior painting (65%)

Flooring upgrades (62%)

Window/door replacement (57%)
Main floor family room addition (51%)
Fireplace addition (50%)
Basement renovation(49%)
New furnace or heating system (48%)

Real estate experts suggest you avoid renovations which increase the value of your home significantly beyond other homes in your area. If you do, you probably won't recover the full value of your expenditures.

This has covered only a few issues involved in buying a home. There are many more. If you'd like to get more information, click [here](#) to find the CPA financial planning professional closest to you.