

# BEST ADVICE AND BIGGEST MISTAKES IN A HOT HOUSING MARKET

BY: SYDNEY LONEY

**Real estate experts and homeowners weigh in on what you need to know when it comes to buying your first home, making your first sale and knowing when to take the downsizing plunge.**

You may have already noticed, but the Canadian housing market is hot these days. (It's actually sizzling in many cities across the country.) If you're a renter thinking about taking the leap and buying your first place, you're certainly not alone in the debate about whether this is the right time to make the single largest purchase of your life.

The Canadian Real Estate Association pegs the national average price of a home at more than \$470,000; depending on where you live, you could end up with a huge mortgage for a place to put down roots. If you're already a homeowner, you might feel ahead of the game, but knowing when to sell and downsize are equally major considerations.

Here's the good news: We found a first-time buyer, a first-time seller and a downsizer willing to share their experiences in the market. Read on to find out what they (and the experts) told us about finding a dream home, why timing (and finding a good agent) is crucial and how to avoid making all-too-common costly mistakes.

## **THE FIRST-TIME BUYER**

Two and a half years ago, Shannon Houston moved out of her ex's place and in with her parents. She had considered renting but decided she'd rather put her money toward a down payment on a place of her own. "I wanted to experience something that wasn't student housing, or living in someone else's house and not feeling like anything was mine."

Then 30, Shannon had a great job as an associate at the Calgary office of a national law firm, but when she went to the bank she'd been with since she was a kid, they refused to give her a mortgage because she still had a student line of credit. "I was really disappointed. I'd been working hard to pay down my debt and had a guaranteed income, but they still said no."

A trip to a mortgage broker yielded better results, and Shannon enlisted a real estate agent to help her find the perfect house. "I spent a long time deciding where I wanted to live—downtown near where I worked, or farther out where my parents and most of my friends are." It was a year before she put an offer on a home. She looked at 30 or 40 places, and there were certain criteria she refused to give up on, including a yard where her Cavalier King Charles spaniel–poodle cross, Bali, could run around, and a large dining room where she could host family gatherings. It helped that while she house hunted, she lived with her parents and was able to both pay off her line of credit and build up enough for a down payment.

After she lost the first house she made an offer on, she saw a listing for a recently renovated two-bedroom townhouse that was near her family and only a 20-minute drive into the city. She put an

offer in the same day. "I went in at the list price because it had everything I wanted," she says. She ended up getting the house. "It was a long wait, but I'm glad I took my time. When I walk in, I feel like this is me."

### **Money matters**

Even though Shannon was careful about **budgeting**, she was still surprised by the extra costs that come with buying a home, including hiring a home inspector, setting up utilities and buying insurance. Then there were the things she didn't anticipate. "I had to replace the upstairs toilet, which broke the night I moved in," she says.

Costs vary by province, not to mention the size and condition of your home, but Kyle Stone, a Realtor in Calgary, says \$3,000 is a safe budget in his city. (In Toronto or Vancouver, you'd likely want to budget a little more, while on the East Coast you can budget a little less.) He says a lot of people aren't aware of expenses such as closing costs, lawyers' fees and changing the locks. "And sometimes, mortgage companies make the purchaser pay for the appraisal on a new property," he says. That's the kind of thing you need to know before you sign any papers.

As for mortgages, Stone says it's best to ask for options. "Just because you're offered the lowest rate doesn't mean that mortgage is best." Instead, he recommends looking into an open-ended mortgage, which gives you the opportunity to make lump-sum payments over and above your monthly payments without incurring a fee. And don't let your bank or broker talk you into using their mortgage insurance—get it through your life-insurance provider instead, he suggests. "If you get a mortgage through a bank or broker and something catastrophic happens, the insurance money goes directly to paying off the mortgage. If you get it through your insurer, you get to decide where it goes."

### **Three mistakes first-time buyers make most:**

**1. Choosing the wrong agent.** "People call the person they see on the sign outside the home they want, and that's exactly who not to call," says Krista Rose, a real estate broker in Cape Breton, N.S. "They think the agent selling the house will know the most about the home, but if you don't go in with your own agent, there's no one in your corner." Instead, ask friends for referrals, check online reviews and shop around. "It's a long process and can become a big relationship—find someone you're comfortable with," she says. (Suffice it to say, not calling an agent at all is also a mistake!)

**2. Not knowing what you want.** Calgary Realtor Kyle Stone says real estate newbies often don't have a good idea of what they're looking for and can become overwhelmed, which is why he'll start by showing different types of properties—a bungalow, a two-storey, a duplex—in various locations. "They can find out what types of homes and areas they like and don't like, and we can taper the search from there."

**3. Forgetting to check finances first.** First-time buyers often think they can afford a home that is actually out of their financial league. "The number you go in with should be based on a plan," says Stone. "Draft a budget for the expenses in your new home, or do a trial run by setting aside the money you'd need if you were living there and see if it works." If it doesn't, lower your expectations. And don't forget to have money that's accessible for your down payment, adds Rose. "You usually need at least five percent of the overall purchase price for the down payment, then budget three

percent for closing costs, which means you should have at least eight percent of the purchase price on hand going in."

### **THE FIRST-TIME SELLER**

On a good day, it took Kisha and Paul Iachetta an hour to get from their jobs in Vancouver to their home in North Delta, B.C., where their two children also go to school. The couple's biggest worry was that one of the three bridges they had to cross on their commute would be out (it happens whenever there's a big accident, Paul says) and they wouldn't be able to pick up their kids on time. They considered selling the home they'd had for five years, but they'd put a lot of work into it, renovating the house and landscaping the yard.

Then, six years ago, a boat hit the Knight Street Bridge, putting it out of commission for a week. "Getting home was a nightmare. That was when we made up our minds to sell," says Paul, 40.

Once the house was listed, they started looking for their new home. "I wanted something that was close to the school in a nice neighbourhood and had at least three bedrooms and two bathrooms to fit our family," says Kisha.

Things got stressful when they hadn't received an offer on their current home after two weeks on the market. So they ended up dropping their asking price slightly, a strategy that worked—they got the offer they wanted. Shortly after, they found a home in Coquitlam. They left a week between the two closing dates to give themselves time to clean and move the clan in. To save money, they cleaned both homes themselves and enlisted friends to help with the move. Fortunately, the house didn't need any work and they could settle in right away. "I love our cozy new home," Kisha, 34, says. "I can look out the window and watch the kids go to the river." Best of all, they can both get home from work in less than 30 minutes—and they don't have to cross a single bridge!

### **Money matters**

Timing is everything when it comes to making the most on your home, and it all depends on the market, says Randy Mann, a Realtor in Fraser Valley, B.C. In a seller's market, it's better to buy before selling. "If you sell first, by the time you start looking for another house, there's a good chance your existing home will increase in value."

If prices are dropping, Mann recommends selling first and renting while you watch the market. Still, Mann says to be wary of Realtors who urge you to sell no matter what. "They don't have your best interests at heart. A good Realtor should explain the market trends and give you options."

It's also important to decide whether to keep your existing mortgage. Paul and Kisha decided to switch to a new mortgage to take advantage of a lower interest rate. "Many mortgages are portable, meaning you can apply your existing mortgage to the new home as long as your lender approves the new property," says Janet Gray, an Ottawa fee-for-service financial planner with Money Coaches Canada. "Check to see if interest rates for a new mortgage are lower, but also look at your repayment terms and the length of time remaining in your term before you make any decisions."

## **Two mistakes first-time sellers make most:**

**1. Giving buyers a reason to say "no."** "Many people rush a listing onto the market before it's ready to go live," says Calgary Realtor Kyle Stone. Fix the little things, like making sure all the lightbulbs work. One area that's often missed is the mechanical room. "If it's clean and organized, buyers will have a better feeling about the home." Fraser Valley, B.C., Realtor Randy Mann recommends getting a presale home inspection (about \$200 to \$400, depending on the home size and where you live) so you know what you need to do before you list, as well as sticking points for potential buyers.

**2. Not getting an appraisal.** It might cost \$300 to \$400, but having a certified appraiser evaluate your home is money well spent, says Mann. "It gives you a sense of what your home is worth before a Realtor tells you the market value, and it's handy to have that number in your back pocket."

## **THE DOWNSIZER**

Giving up the silver candlesticks, the artwork, the dining room set—that was easy. For Cathy Knight, 59, the hardest thing to part with was a rocking chair that had been a gift from her parents. Over the 37 years she and her husband, Darius, 62, have been married, they've accumulated a lot of stuff—so when they decided in 2014 to move from their 4,200-square-foot four-bedroom family home in Maple, Ont., to a townhouse half the size in Toronto, there was some major decluttering to be done.

The couple had moved before, but with three children, it had always been from one big home to another. Now, they wanted something smaller and closer to downtown.

Still, they talked about the move for two years before deciding the time was right. "By then, two of our children had moved to the west end of the city and we wanted to be closer to them," Cathy says. "And our youngest daughter could live with us while she finished school."

Once the decision was made, the purge began. "Getting rid of stuff took us months." Most townhouses don't have basements, so they knew they'd have limited storage. "Once you realize you can't take it with you, you start learning to live without it," Cathy says. Furniture that was too big to make it up the narrow stairs of the townhouse went to a secondhand store.

"It was tough, but we made the decision to really simplify our lives," says Darius. The couple sold their home, then took their time planning their next move, researching locations and individual developers. "We didn't want to make any mistakes," says Cathy. "If we hadn't found the perfect place, we would have rented for a while."

Their townhouse has four floors, and their youngest daughter has one to herself. The location is convenient—close to the subway, 12 minutes from the airport and within walking distance of a Starbucks. "It's exciting to live in the city where we don't always have to get in the car to drive somewhere," says Cathy.

## **Money matters**

The Knights plan to live in their townhouse for at least a decade, and they may downsize again when they retire. A lot of people downsize and use the equity to enjoy their retirement, say Said Warde and Al Daimee, Realtors in Toronto, who prefer the term "smart-sizing." A smaller property means there's less upkeep, you're taxed less and there's usually an overall reduction in costs, says Warde. "Many

people opt for condo living because there aren't the same big-ticket surprise costs, like a repairing the furnace or cleaning up after the basement floods, which is appealing for those on a fixed income," says Daimee.

**Three mistakes downsizers make most:**

**1. Thinking big.** The biggest challenge is being able to accept a smaller space, says Toronto Realtor Said Warde, who adds as that as long as you cut the clutter, it's easy to live comfortably in 800 square feet. "Ask yourself, 'What do I want out of my life now: Travel? Cultural experiences? Reliving my youth?' All these things can shape where you live."

**2. Packing too much.** Some people think they're **decluttering** just by putting things in boxes without actually getting rid of anything, Warde says. He recommends purging one room at a time to make it feel less emotionally overwhelming and, if you're having trouble deciding, enlisting the help of an objective friend. He also suggests asking yourself whether you really need, for example, three sets of china. "Keep your favourite set and get rid of the rest. People are surprised by how liberating it is. You have more time to enjoy life—it becomes about experiences, not possessions."

**3. Not having a financial plan.** When folks move to a smaller home, they often underestimate their new cost of living. "The downsized home might have less square footage, but maybe it comes with landscaping costs, condo fees or parking fees that you didn't have before," says Janet Gray, an Ottawa fee-for-service financial planner with Money Coaches Canada. You can live in a lovely new home, and not have enough income to pay your bills, let alone travel or do the things you'd hoped to. "A plan is crucial," she says. "You need to take a close look at what your retirement lifestyle wants and needs are, then balance them against your income."