

BUYER'S GUIDE

A Review of the Closing Costs for Buying Residential Property in Greater Vancouver

INTRODUCTION

Buying a home is, for most people, their largest single investment. This information brochure is intended to assist home buyers in understanding the legal costs, closing adjustments and taxes associated with buying real estate.

LEGAL COSTS

Legal costs for a purchase with mortgage usually range from \$900 - \$1100 regardless of whether the buyer retains the services of a Lawyer or Notary Public. It is important for the buyer to understand what is or is not included in a quote and what might be added as additional charges. Costs that are usually included in a quote are fees, land title search and registration fees. HST is additional. The legal fee for professional services will usually range from \$650 to \$800. Aside from the items listed below disbursements are usually \$250 to \$300.

Costs that are usually quoted separately from "legal costs" are third party charges that may vary from one transaction to another. For example, the lawyer or notary will need to obtain a Municipal tax certificate, the cost of which varies from \$25 to \$50 depending on municipality. Similarly the lawyer or notary will obtain an insurance binder showing loss payable to the lender, the cost of which varies but usually ranges from \$25 to \$35. Finally, for strata title property, the lawyer or notary will require a Form F stating there are no arrears in maintenance fees, the cost of which varies but usually ranges from \$25 to \$35. The Strata Corporation may also charge a "Move-In" fee which usually ranges from \$50 to \$200. The lender may require a survey certificate, Western Law Societies Conveyancing Protocol or Title Insurance. The costs and benefits of each of these products varies and should be reviewed with your lawyer or notary.

CLOSING ADJUSTMENTS

Closing adjustments cover a number of items including municipal taxes, municipal water and sewer fees, strata maintenance fees, rent and security fees.

Strata fees are charged and paid monthly on the first day of each month. The monthly strata fees will be pro rated between the buyer and the seller, with the buyer reimbursing the seller based on the number of days between the date of adjustments agreed to in the Contract of Purchase and Sale and the last day of the month.

Rent is adjusted on a similar basis with the buyer receiving a credit for a portion of the rent. In the case of a continuing tenancy, the buyer will receive a credit for the security deposit with accrued interest as the buyer will be responsible for reimbursing the correct amount when the tenant vacates at a later date.

Municipal property taxes will also be adjusted. Property taxes are based on a calendar year. Some municipalities such as Vancouver provide for an advance payment in February with the balance due and owing usually at the beginning of July. Other municipalities do not have an advance tax payment but the full years taxes are payable usually at the beginning of July.

The adjustment between buyer and seller will therefore vary depending on the time of year of closing of the transaction and the municipality in which the property is located. The tax adjustment is one of the more complicated adjustments to understand but it is based on the parties being responsible for any costs associated with the property only for the period of time in which they are in possession.

These adjustments are set out in a document normally referred to as the Statement of Adjustments. The Statement of Adjustments sets out the buyers' total costs and identifies the sources of funds to pay these costs. The sources of funds will include the initial down payments pursuant to the Contract of Purchase and Sale, the Mortgage proceeds, any credits in terms of rent, tax or other adjustments. The final line item on the Statement of Adjustments will identify the amount of money required to complete the transaction. The balance required to complete will need to be delivered by certified cheque or bank draft payable in trust to the lawyer or notary firm.

TAXES

Taxes can be a very large part of the costs associated with buying real estate, especially with newly built or substantially renovated homes. The two most significant taxes are Property Transfer Tax (“**PTT**”) and Harmonized Sales Tax (“**HST**”). The other tax is Municipal Property Tax which will be discussed under the Closing Adjustment section.

PTT is a provincial tax applied against purchases of real estate in the province at the rate of 1% on the first \$200,000 of the purchase price and 2% on the balance. The tax is submitted at the time of registration of the transfer in the land title office and the amount required must be provided to the lawyer or notary.

There is a full or partial exemption for “first time buyers”. There are number of criteria to qualify for the exemption and the purchase price determines whether or not it is a full or partial exemption. The main criteria are that buyers must be Canadian citizens or permanent residents of Canada; have resided in B.C. for a least 12 months or filed income tax returns as a resident of B.C. for 2 of the 6 taxation years immediately prior to registration of the transfer; and never previously owned a principal residence **anywhere** in the world. There is a full exemption available for properties with a purchase price of \$425,000 or less and a proportionate exemption is available for properties with a purchase price between \$425,000 and \$450,000. There is no exemption on properties with a purchase price greater than \$450,000.

HST is a combined Federal and Provincial tax and is payable on all new or substantially renovated homes by the first occupier of the property. HST is charged at the rate of 12% and may be included in the purchase price or added to it depending on the language of the contract of purchase and sale. Buyers should review the language carefully with their realtor and lawyer as HST is a significant cost. Rebates are available for up to 36% of the Federal portion of the HST if the buyer is going to use the property as a principal residence. The full 36% rebate of the Federal Portion of the HST is available for homes priced at \$350,000 or less. For homes that cost more than \$350,000, the rebate is phased out so that no rebate is available for homes valued at more than \$450,000. There is also a rebate of part of the Provincial portion of the HST, with a maximum rebate of \$26,250 once the purchase price reaches \$525,000.

CLOSING PROCESS

To help alleviate the stress of buying it is important to understand the closing process step by step:

- Step 1 - retain the services of a lawyer or notary. Ask your other professional advisors for a referral. You should contact your lawyer or notary as early as possible in the process.
- Step 2 – your lawyer or notary will need to gather information from you including how you wish to hold title to the property if you are buying with your spouse or partner. Most couples hold title as “joint tenants” which means that the couple jointly owns 100% as opposed to “tenants-in-common” which means each owner owns a fixed percent.
- Step 3 – your lawyer or notary conducts a title search and obtains tax information and any additional information necessary to prepare Statement of Adjustments. Statement of Adjustments is the balance sheet of the transaction showing total funds required to complete after accounting for the deposit and mortgage proceeds.
- Step 4 – your lawyer or notary prepares closing documents including title transfer, mortgage, property transfer tax forms and Statement of Adjustments. Your lawyer or notary will forward the seller’s closing documents to the seller’s lawyer or notary for execution.
- Step 5 – 1- 3 days before closing is when you usually meet with your lawyer or notary to sign documents and deliver the balance of the down payment or equity.
- Step 6 – your lawyer or notary will register the transfer and mortgage documents, arrange for the seller’s lawyer or notary to pick up funds and notify you that the purchase has completed.
- Step 7 – normally you receive the house keys directly from your realtor on the Possession Date as set out in the Contract of Purchase and Sale.
- Step 8 – move in and enjoy your new home.

FIRM PROFILE

Bell Alliance is a Vancouver, British Columbia based law firm that uses innovative computer and communication technologies to support a focus on personal client service. The firm provides legal services in the areas of real estate, wills and estates, corporate and commercial law.

Bell Alliance is recognized for the extensive involvement of the lawyers in every file and the close advisory relationship they maintain with their clients and their clients' other professional advisors. For more information please visit our website at www.bellalliance.ca or call us at **604 873 8723**. Bell Alliance is conveniently located at 201 – 1367 West Broadway, Vancouver, B.C. V6H 4A7.



Richard Bell: Richard was called to the Bar in 1982. He has practiced in the Lower Mainland in the areas of Real Estate and Mortgage Law for over 20 years with a brief hiatus of five years in Toronto where he worked with companies providing services to the financial services industry. Richard has been an active member of numerous community and professional groups and associations. He was founding Chairman of one of the largest mortgage broker companies in Canada.

Richard apparently plays a respectable game of squash and enjoys the occasional game of golf.



Ron Usher: Ron was called to the bar in 1980 and has practiced law in private practice in Vernon and Vancouver. In the mid-80's Ron provided management and technology consulting to a variety of law firms and law related organizations. Ron was the founder of a law firm that specialized in Wills and Estates. Prior to joining Bell Alliance Ron was with the Law Society of British Columbia for eight years as a staff lawyer in the policy department focusing on real estate and technology matters.

Ron is a bit of a musician and lends his guitar skills to a group of Ukulele players each month.



Khushhal Bains: Khushhal practices in the areas of Real Estate and Wills and Estates. Khushhal is from Toronto but moved to Vancouver due to a love of the mountains, ocean and his wife. He obtained his law degree from Osgoode Hall Law School, previously having completed a B.A. in Economics and Philosophy from the University of Toronto. Khushhal articulated with the Ministry of the Attorney General and most recently worked with Lerner LLP, one of Ontario's leading law firms.

In his spare time Khushhal enjoys volleyball, basketball and squash. He balances his competitive nature through yoga.