

## Costs Related to a Real Estate Transaction

The conveyance of real property results in the payment of certain expenses by the parties involved. Set forth below is brief summary of these expenses, that are incurred when transactions are handled properly and professionally, viewed both from the position of the Buyer and from the position of the Seller. Buyers should budget approximately 2-3% of the purchase price for closing costs.

### Land Transfer Tax

This is paid by the Buyer at the date of the final closing to the Treasurer of Ontario pursuant to the Land Transfer Tax Act. The tax is based on the purchase price and the current rates became effective on June 1<sup>st</sup>, 1989.

The rates are as follows for a single family residence:

\$0-\$55,000	0.5%
\$55,001-\$250,000	1% less \$275.00
\$250,001-\$400,000	1.5% less \$1525.00
\$400,001- and up	2.0% less \$3525.00

Example: To calculate the land transfer tax on a purchase price of \$275,000, multiply the purchase price by 1.5% and deduct \$1,525 ( $\$4,125 - \$1,525 = \$2,600$ )

### Disbursements – Purchase

In addition to the payment of Land Transfer Tax, Buyers are responsible to pay for certain disbursements incurred by their lawyer in respect of various certificates, searches and registrations. Examples of such approximate disbursements are as follows:

i)	Registration of Deed	\$70.70
ii)	Registration of Mortgage	\$70.70
iii)	Municipal and utility searches <b>OR</b> title insurance	\$270.00
iv)	Abstract of Title & Execution Certificate	\$150.00
v)	Transaction Levy	\$50.00
vi)	Couriers, photocopies, postage, closing agent	\$75.00

For a typical purchase (including one mortgage), a Buyer should budget about \$650.00 for disbursements. There will also be further costs for adjustments, land transfer tax and legal fees.

## Note Costs May Vary in Different Trading Areas

### Title Insurance

Title insurance insures against past problems that could affect your ownership in the future. A low, one-time premium covers you for loss or damage up to the policy amount and all legal costs you would have to pay to defend your title. Once the policy is issued, a covered title problem is not your concern. It's ours. First Canadian Title will assume the risk. No survey is required by your lending institution if you have title insurance.

Note: The cost of title insurance is not having to pay the majority of the above noted disbursements. It is highly recommended that all purchasers obtain title insurance!

### Disbursements – Sale

The Seller in a real estate transaction is not required to pay any Land Transfer Tax. However, the Seller's responsible to pay for certain disbursements incurred by their lawyer such as:

Registration of a Discharge of Mortgage	\$50.00
Transaction Levy	\$50.00
Couriers, photocopies, postage, closing agent	\$75.00

For a typical sale (one mortgage to discharge), a Seller should budget about \$175.00 for disbursements. There will also be further costs for adjustments and legal fees.

### Adjustments on Closing Between Seller and Buyer

On closing there will be adjustments to the sale price between the Seller and the Buyer which will appear on a Statement of Adjustments as credits in favor of the Seller or the Buyer. If the Seller is relying on receiving or if the Buyer is relying on paying a fixed amount on closing, it is unpleasant if these adjustments come as a total surprise to your client.

For example, if taxes for the calendar year are \$1,200.00, the deal closes June 30<sup>th</sup> and the Seller has paid the taxes for the entire calendar year, there will a credit on closing to the Seller of \$600.00. In other words, the Seller receives \$600.00 more and the Buyer pays \$600.00 more.

Also, if there is a fuel tank at the property, the Seller usually fills the tank on closing and sells a full tank to the Buyer. If the adjustment were approximately 31 cents per litre for 909 litres. The Seller would receive \$281.79 more and the Buyer pays \$281.79 more on closing.

## Survey

Most financial mortgage institutions now require a Buyer to produce a recent survey for the real property being purchased showing the boundaries of the lands and the location of the dwelling thereon. The term “recent” varies from lending institution to lending institution but as a loose rule a survey 10-15 years old will probably still be acceptable to a lender if accompanied by a Declaration of the Seller saying it is still accurate. If the Buyer requires a survey for the lender and the Seller does not have one, it is the responsibility and the expense of the Buyer **not** the Seller to have a new one prepared by an Ontario Land Surveyor.

**Title insurance** will take care of the problems incurred in the absence of a survey or an up to date survey! It is highly recommended that title insurance be obtained in the absence of a survey.

## Mortgage Insurance

In the event that the amount of your first Mortgage on your purchase transaction exceeds 75% of the purchase price, it will be necessary for you to purchase, for the protection of the Lender, mortgage loan insurance. This mortgage loan insurance premium that is paid is to protect the lender in the event that the mortgage is not paid. This is not to be confused with life, disability, or job loss insurance.

The mortgage insurance is normally purchased through CMHC (Canada Mortgage and Housing Corporation) or GEMI (GE Capital Mortgage Insurance Canada.) The cost of the insurance premium is paid by the Buyer. The amount of the mortgage insurance premium is calculated using a loan/value ratio, and may be added to the mortgage amount. The premiums are as follows:

a)	75% to 80%	1. %
b)	80% to 85%	1.75%
c)	85% to 90%	2.00%
d)	90% to 95%	3.25%
e)	95% to 100%	3.40%

Other high ratio financing costs include an application/appraisal of \$165 and there is 8% provincial sales tax on the mortgage insurance premium to be paid by the borrower as set forth above. While the mortgage insurance premium can be added into the amount of the Mortgage, the provincial sale tax on the premium is payable immediately at the time of the advance of the mortgage funds.

## **Building Inspection Fees on House Inspection Fees**

It is generally recommended that when purchasing a resale home or new construction that a building inspection be carried out on the structure, either prior to making an offer on the property or at the time you have entered into the Agreement of Purchase and Sale. The fee for a normal building inspection on (can range from \$250.00 to \$500.00)

## **Legal Fees – Employee Transfer**

It is the policy of most law firms to accept as reimbursement for their legal fees and disbursements on a residential real estate transaction the normal guidelines of the individual employer. Experience has shown that employers such as External Affairs, Bell Canada, various relocation services etc. have a set schedule of fees and disbursements to be allowed an employee who is being transferred. The client is not out of pocket any funds by virtue of any additional charge from most law firms.

## **Legal Fees – Department of National Defence**

The legal fees for some transactions are governed by tariffs established by government agencies such as the Department of National Defence. Lawyers are prepared to be bound by the tariffs established and to work with Royal LePage on any Canadian forces transfer.

## **Legal Fees – Normal**

Approximation of average legal fees on a residential real estate transaction is as follows:

Purchase	\$650 to \$750
Sale	\$550 to \$650

NOTE: Royal LePage does not take any responsibility for the accuracy of the costs listed above. The costs are to give you an idea of the approximate expense range. As a professional realtor, it is incumbent upon you to verify any costs that you will be using in your representation to buyers and sellers so as not to misrepresent. Also use an approximate range of value instead of one fixed amount. As mentioned previously, Buyers should budget 2-3% of the purchase price for closing costs.