How to Buy Your First Home in Canada

A Step-by-Step Guide for New Canadian Home Buyers

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Introduction

Buying your first home in Canada seems daunting: it's expensive, there are many steps involved, and it's an unfamiliar experience.

Despite these challenges, over 9.5 million Canadians have successfully purchased their first home. You could be next.

With careful planning, buying a first home is an attainable goal for any Canadian.

This guide explains the steps required to buy a home in Canada for the first time, including:

- Determining if you are ready
- Getting a mortgage and choosing a lender
- Finding your perfect home
- Choosing the right home inspector
- Closing the sale and moving in

After reading this guide, Canadians will understand the steps involved in buying their first home. Buying a home may seem intimidating; however, with careful research and planning, you'll find it is easier than you think.

Step 1) Determining If You Are Ready to Buy Your First Home

Most readers think they are ready to buy their first home. But are you *really* ready?

To answer that question, you need to consider your life, finances, and future.

a. First time home buyer checklist

You should meet the following requirements before buying your first home:

- Have a Down Payment: A typical down payment in Canada is 5 to 20 percent. Nationwide, the average Canadian home costs $410,000, which means an average down payment is $20,500 to $82,000.
- Have a Good Credit Score: You don't need a good credit score to buy your first home, although it helps. People with good credit scores have more borrowing options and qualify for better interest rates.
- Be Able to Make Mortgage Payments: An average mortgage payment in Canada is around $2,000 per month.
- Be Able to Cover Other Expenses: You may also need to pay property taxes, homeowners' association (HOA) fees, condo or strata fees, homeowner's insurance, and other regular fees on top of your mortgage.
- Have Steady Employment: Most lenders require borrowers to have two years of steady employment to qualify for a mortgage. Steady employment allows you to continue making mortgage payments.
- Have Extra Cash for Other Costs: Besides your down payment, you need cash for closing costs, realtor fees, maintenance issues, and other expenses.
- Be Ready to Settle Down: If your future is uncertain, or if you plan on moving to a new city, then renting may be a more flexible and affordable option.

b. To decide what you can afford

Mortgage lenders use front-end and back-end ratios to determine how much you can afford to spend on a home. The lender checks your income, checks your debt, then determines the size of a mortgage payment you can safely afford.

i. To determine the front-end ratio

Lenders in Canada typically use a front-end ratio of 28% and a back-end ratio of 36%**.** They apply this ratio to your gross monthly income.

However, borrowers with higher credit scores may have significantly higher ratios. Many borrowers use a back-end ratio of 45% for borrowers with good credit, for example.

To calculate your front-end ratio, divide your annual pre-tax income by 12, then multiply the amount by 0.28. If you make $75,000 per year, for example, then you earn approximately $6,250 per month, giving you a front-end ratio of $1,750.

ii. To calculate monthly debts

Your monthly debt impacts how much of a mortgage payment you can afford. How much do you spend per month on other debt? Lenders consider:

- Car payments
- Student loan payments
- Credit card payments
- Child support
- Other expected monthly payments

Lenders do not consider your current rent payment. Lenders assume you will stop paying rent after buying your first home.

For our example, let's say your monthly debt payments add up to $750.

iii. To determine the back-end ratio

Your back-end ratio is your debt-to-income ratio.

To calculate your back-end ratio, take your annual income, divide it by 12, multiply it by 0.36, then subtract your monthly debt. Someone with an annual salary of $75,000 and $750 of monthly debt payments has a back-end ratio of $1,500.

iv. Setting your budget

Lenders use your front-end and back-end ratios to calculate how much mortgage you can afford. They check your front-end ratio and back-end ratio, then take the lower number. This is the estimated mortgage payment you can safely afford each month.

In our example above, we calculated a back-end ratio of $1,500 and a front-end ratio of $1,750. Your lender would take the lower number, which means you would qualify for a maximum mortgage payment of $1,500 per month.

v. To check your credit

There are two national credit bureaus in Canada:

- Equifax Canada
- TransUnion Canada

You can contact either organization to receive a free copy of your credit report by mail. Alternatively, you can pay $15 to either organization to view your credit report online.

Or, most major banks in Canada track credit scores. Contact your bank or log in to your online bank account to view your credit score.

Figure 1: A sample credit report from RBC. Photo courtesy of RBC.com.

vi. To fix your credit (if required)

If your credit score is lower than 660, then you have a bad credit score. This could prevent you from accessing the best mortgage rates.

You can save thousands of dollars and qualify for a lower interest rate if you solve these issues before applying for a mortgage.

Some of the best ways to improve your credit score include:

- Pay your bills on time
- Pay off debt
- Maintain a low credit card balance
- Check your credit score for errors
- Apply for new credit or increase your current credit limit

Note: Increasing your credit limit may seem counterintuitive, but it increases your total amount of available credit, which raises your credit score.

c. To save for a down payment

The average down payment in Canada is between 5 and 20 percent of the home's total value. Based on average Canadian home prices, that means you need to save anywhere from $20,000 to $80,000.

Strategies used by Canadians to save for a down payment include:

- Withdrawing from Your Tax-Free Savings Account (TFSA): Many Canadians withdraw money from their TFSA for a down payment.

- Withdrawing from your Registered Retirement Savings Plan (RRSP): Canada's Home Buyers' Plan (HBP) allows first-time home buyers to withdraw up to $35,000 tax-free from their RRSP.
- Creating a Savings Plan: Set a budget that lets you save a certain amount of money per month to create your down payment. Save money by reducing expenses. Make additional money by working extra shifts or a second job.

Step 2) Shopping for a Mortgage

a. To organize documentation

b. To find a lender

c. To get pre-approved for a mortgage

Step 3) Finding a Real Estate Agent

Most home buyers hire a real estate agent. A real estate agent walks you through the buying process, then charges a commission.

Some home shoppers hire a real estate agent before talking to a lender, although most experts recommend talking to a lender first. Getting preapproved for a mortgage shows how much you can afford, which helps the realtor narrow housing options.

You do not need to hire a real estate agent. You can find property using alternative resources, then arrange a private sale.

a. Pros and cons of a real estate agent

There are advantages and disadvantages to hiring a real estate agent. Real estate agents simplify the sale, although they also add to the cost.

i. Pros

Advantages of hiring a real estate agent include:

- Convenience
- Time savings
- Negotiating experience
- Legal protection
- Market knowledge

ii. Cons

Disadvantages of hiring a real estate agent include:

- Added cost (4% to 7% commission on sale price)
- One more person involved
- Committing to a contract

b. What to look for in a real estate agent

A good real estate agent simplifies the buying process. However, finding a good real estate agent can be challenging.

Experts recommend interviewing at least three agents before deciding which one to hire.

Tips for finding a good real estate agent include:

- Hyperlocal Experience: Find a real estate agent with experience in your targeted neighborhood.
- Referrals: Ask friends and relatives for recommendations.
- Human Connection: You communicate with your real estate agent regularly, so a personal connection is important.
- Easy Communication: You want a real estate agent that returns calls quickly.
- Solid Plan: A good real estate agent has a plan for walking you through the buying process.

c. Alternative ways to buy real estate

You are not required to use a real estate agent. Instead, some buyers arrange a private sale, interacting directly with the seller.

The same steps apply with or without a real estate agent. You arrange financing, hire a home inspector, pay a fair price based on comparable properties, then finalize the transaction.

The same legalities also apply to private sales. It's best to hire a notary or lawyer to complete the paperwork.

Find homes for sale using any of the following resources:

- For Sale By Owner Canada (ForSaleByOwner.ca)
- Purple Bricks (PurpleBricks.ca)
- Property Guys (PropertyGuys.com)
- Grapevine (Grapevine.ca)
- DuProprio (DuProprio.com)
- Kijiji (Kijiji.ca)
- Newspapers

Selling a home without a real estate agent can be challenging. However, it can also save $10,000 to $40,000 in average real estate agent commissions.

Step 4) Finding a Home

There are multiple ways to search for homes in Canada.

To narrow down your search, start by creating a list of needs and wants. Then, use websites, newspapers, and local resources to find your perfect home.

a. To create a list of needs and wants

There are thousands of homes available for sale in any major Canadian city. Creating a list of needs and wants can narrow your options.

Create a list with three columns: needs, wants, and don’t care.

- Needs are something you need to have when purchasing a home. If the house doesn’t have this item, then you do not want the house.
- Wants are something you would like the home to have but could accept not having.
- The don’t care column contains things you are ambivalent about. These things don’t sell a property for you, but they also don’t make you dislike the property.

Some things that might appear on your list of needs and wants include:

- Number of bedrooms and bathrooms
- Type of home (apartment, condo, townhouse, single-family home, new construction)
- Location (commute times, traffic, noise, safety)
- Room-specific features (gas oven, double sink bathroom, hardwood floors)
- Aesthetics (paint colour, carpeting, fireplace, curb appeal)
- Amenities (pool, hot tub, deck, patio, fireplace, backyard)

b. To find a home

If you are working with a realtor, then the realtor may recommend certain properties.

Alternatively, the Government of Canada recommends using the following resources to find a home:

- Visit the Realtor.ca website
- Visit areas where new homes are being built
- Read the new homes section in a newspaper or magazine
- Ask friends, family, or colleagues about homes available for purchase
- Check local real estate websites
- Drive around a neighbourhood you like and look for a “For Sale” sign

Note: If you see a home you like, contact the selling agent or have your agent contact that person and arrange for a viewing. It is rude to knock on the door of a house for sale unless the home is listed as “for sale by owner” (FSBO).

c. To submit a bid

Once you have found a home, it’s time to make an offer. A real estate agent can help you make the offer.

Bidding strategies differ depending on market conditions:

- Seller's Market**:** Some Canadian cities have competitive real estate markets where buyers bid above the asking price. This is a seller's market. The seller could receive multiple offers to buy the home, and the seller can choose the highest offer.
- Buyer's Market**:** Other Canadian cities have depressed real estate markets where you can bid below the asking price. This is a buyer's market. The seller might receive just one or two offers to buy the home, and it may force the seller to accept an offer lower than the asking price.

If the seller accepts your offer, then you need to hire a lawyer or notary to transfer the home to your name. Your realtor may recommend a lawyer or notary. Or you can find one online.

Step 5) Requesting a Home Inspection

Performing a thorough home inspection is crucial. Some home buyers perform their own home inspection. However, most home buyers in Canada hire a professional home inspector. A home inspector can spot problems that were previously undetected, saving you time and money.

Note: In a hot real estate market, sellers may only accept non-contingent offers, which means the buyer agrees to buy without an inspection.

a. What to look for in a home inspector

Your realtor should recommend a home inspector. You can use this home inspector. Or you can hire your own inspector.

Things to look for in a home inspector:

- Licensing: Some provinces require licenses for home inspectors, while others do not. Alberta and British Columbia are the only two provinces that require home inspectors to have licenses. In provinces without licensing requirements, anyone can become a home inspector, so check for additional certification or experience.
- Certification: Many home inspectors belong to the Canadian Association of Home and Property Inspectors (CAHPI), a federal organization that sets standards of practice and codes of ethics for members.
- Background: Some experts recommend hiring home inspectors with a background in a building trade. Consider hiring a former plumber or electrician. Some home inspectors have limited practical experience outside of a classroom or online course.
- Testimonials: Check local review websites. Ask the home inspector for testimonials from previous clients.
- Experience: Experienced home inspectors know the strategies used by homeowners to hide problems. A good home inspector has decades of practical experience inspecting homes in your area.
- Avoid Conflicts of Interest: Some experts recommend hiring your own inspector instead of the one recommended by your realtor. Your realtor's inspector may have a conflict of interest. For example, the inspector wants to keep the realtor happy to continue receiving business.

b. Home inspection checklist

Home inspectors have the authority to inspect the interior and exterior of a home. However, home inspectors cannot damage the property during the inspection.

A good home inspection takes several hours.

Table 2: A checklist of things to look for during a home inspection.

Exterior	**Interior**	**Other**
Foundation	Electrical panel, light switches, and power outlets	Garage and garage door
Roof	Heating, ventilation, and air conditioning (HVAC) systems	Shed and other outbuildings
Attic	Plumbing fixtures and faucets	Smoke and carbon monoxide detectors
Rain gutters and downspouts	Water heater	Basement and crawl space
Exterior paint, siding, or stucco	Floors, walls, and ceilings	
Porch, deck, balcony, or patio	Countertops, sinks, and cupboards	
Walkways and driveways	Windows and doors	
	Appliances	

c. Components not covered during a home inspection

Home inspectors check a home's physical components. However, home inspectors will not check everything.

Items not covered during a typical home inspection:

- Trees, gardens, and landscaping
- Sewer line
- Lawn sprinklers
- Swimming pool equipment
- Fireplace and chimney
- Internet service
- Insect or rodent infestations
- Floors covered by carpeting
- Odors

The home inspector will discuss findings with you in-person or over the phone, then deliver a formal report. The report should include a list of major and minor problems. However, it will not include the estimated cost of fixing those problems.

Step 6) Preparing for Escrow, Closing, and Moving In

a. **To prepare for escrow**

b. **To close**

c. **To move in**

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