These Are the Most Costly Mistakes Homebuyers Are Making in a Sellers' Market

Description

With the Bank of Canada on the verge of hiking interest rates, homebuyers are feeling the pressure to rush through the home-buying process and sign the dotted line on their next home — before it disappears from the MLS.

But let's face it: rushing through the process will inevitably led to missteps, miscalculations, and costly errors.

While some costly errors you'll learn in practice (like how much it *really* costs to fix your HVAC), others you can sidestep now, like these:

1. Skipping the home inspection

To stand out from other homebuyers, many Canadians are eliminating the hope inspection. This favours sellers, as the fewer obstacles between listing and selling, the faster the seller can close the deal.

But even if forgoing the home inspection gives you more leverage over other homebuyers, it can come back to haunt you. Home inspections can cost anywhere from $300 to $1,000. But the cost of a roof replacement, a cracked foundation, or a damaged electrical system could you put back thousands of dollars. And let's not even get started on mould.

If homebuyers have to skip the home inspection to stay competitive, then there's something deeply wrong with the housing market. It's not my recommendation, but if you're going to do it, at least consider putting more money in your emergency fund (or taking out a cash-back mortgage).

2. Underestimating the true cost of homeownership

Don't be fooled: the price of a home isn't the asking price. It's not even the sale price. It's the sale price, plus closing costs, plus mortgage default insurance, plus a land transfer tax, plus home insurance, plus moving costs, plus whatever repairs you have to make, plus costs that fall into "other."

It can be easy to overlook the true cost of homeownership. It's why Bank of Canada's deputy governor Paul Beaudry warned Canadian homebuyers about too much indebtedness: if you take out too much mortgage to buy a house, you could stretch your household too thin. At that point, all it takes is one emergency expense — or an overlooked closing cost — to make you worry about money long after midnight.

So put your ducks in order. And if you absolutely need leverage, consider low interest credit cards or cash-back mortgages. Just be sure you have the income to pay back what you borrow.

3. Blind-bidding

It's a dirty practice. And it can cost you a tonne of money.

A blind auction is when you don't see the bids of other homebuyers (and they don't see yours). You and other homebuyers act on blind faith alone. Your initial bid might trump the others. It might not. You could bid an appropriate amount. Or, as some homebuyers have done, you could win the auction with a bid that's over $230,000 more than the listing price.

Talk about buyer's remorse, right?

If you have to engage in blind bidding, put in an offer that you're most comfortable with — not a dollar more. Emotions may tell you to bid higher ("We'll never have this opportunity again!"), but hear it from me: if it stretches your budget too thin, it's not worth it.

4. Believing that "home values will continue to rise…"

In his speech in Ontario last November, Deputy Governor Paul Beaudry warned homebuyers that certain regions of Canada could experience a market correction in the near future.

That's concerning in itself. But what's more concerning is the blindness of homebuyers: according to Beaudry, homebuyers have "extrapolative expectations," which could blind them to the overvaluation of homes.

"Extrapolative expectations" is a mental trick we do when we believe an asset's recent past is enough to predict its future performance. For homebuyers, that means one thing: using the last two years of real estate appreciation as proof that prices will continue to rise in 2022 and beyond.

As Beaudry pointed out, this leads homebuyers to fear they're "missing out." If they don't buy today, prices could go up indefinitely. By doing nothing, they could curse themselves for waiting.

There will, indeed, be cursing, but perhaps not from prospective homebuyers who decide to wait before they buy. If Beaudry is right, if a market correction is coming, the cursing will come from those who bought houses at outrageously high prices under the assumption that they'll capitalize on home equity later.

Of course, no one knows how the housing market will perform in the near future. But if the Bank of

Canada is telling you to think twice before you buy, it’s best to think three times (or maybe four).

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