

Real Estate Terminology

A Glossary

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Understanding Real Estate Terminology

If you're thinking of buying a home for the very first time, the process may seem a little confusing -- even intimidating. You'll find yourself immersed in what may seem like a whole new language as you hear terms like "encroachments," "blended mortgage payments," "buy-downs" and "debt service ratios."

To help you better understand the language of real estate, the Vancouver Island Real Estate Board has compiled a glossary of some of the most common real estate terms which you're likely to encounter. When reading it over, keep in mind that the list is by no means exhaustive. Still, it's a general list which will give you a basic understanding.

Adjustment Date: The day from which all calculations of interest, tax adjustments, utility bill adjustments (if applicable) are made to the credit of either the buyer or the sellers. This is usually (not always) the same as the possession date.

Amortization: The number of years it takes to repay the entire amount of the mortgage.

Appraised Value: An estimate of a property's market value, used by lenders in determining the amount of the mortgage.

Assessed Value: The value of a property, set by the BC Assessment Authority, for the purposes of calculating property tax.

Buy-down: When the seller reduces the interest rate on a mortgage by paying the difference between the reduced rate and market rate directly to the lender or to the buyer.

Closing: The real estate transaction's completion, when the parties involved agree that all legal and financial obligations have been met and the deed to the property is transferred from the seller to the buyer.

Condominium Common Property: The portions of a condominium development owned in common (shared) by the unit owners e.g.: pool, exercise room, lobby, etc. A strata fee is charged to every unit owner for the use of the common property.

Condominium Ownership: Shared ownership in a strata-titled property. Owners have title (ownership) to individual units and a proportionate share in the common property.

Conventional Mortgage: A first mortgage issued for up to 75 per cent of the property's appraised value or purchase price -- whichever is lower.

Conveyance: The term used to describe the process of transferring the seller's title to the buyer and indicates all the necessary steps to complete the transfer. A conveyancer is a lawyer or Notary Public responsible for the conveyance process.

Counter-offer: An offer made by the seller back to the buyer altering one or several terms and/or conditions of the offer as originally written.

Gross Debt Service (GDS) Ratio: This is the amount that a lender will permit a borrower to use from his/her gross income in order to qualify for a loan for housing costs, including mortgage payment and taxes (and condominium fees, when applicable). Total Debt Service (TDS) Ratio is the maximum percentage of a borrower's income that a lender will consider for all debt repayment (other loans and credit cards, etc.), including a mortgage.

Deed: A legal document that conveys (transfers) ownership of a property to a buyer.

Easement: A legal right to use or cross (right-of-way) another person's land for limited purposes. A common example is a utility company's right to run wires or lay pipe across a property.

Encroachment: An intrusion onto an adjoining property. Common examples are a neighbour's fence, storage shed or overhanging roof line that partially (or even fully) intrudes onto your property.

Equity: The difference between the price for which a property can be sold and the mortgage(s) on the property. Equity is the owner's stake in the property.

Foreclosure: A legal process by which the lender takes possession and ownership of a property when the borrower doesn't meet the mortgage obligations.

High-Ratio Mortgage: Is a mortgage that exceeds 75% of the loan-to-value ratio; must be insured by either the Canada Mortgage and Housing Corporation (CMHC) or a private insurer to protect the lender against default by the borrower who has less equity invested in the property.

Lien: Any legal claim against a property, filed to ensure payment of a debt.

Mortgage: A contract between a borrower and a lender. The borrower pledges a property as security to guarantee repayment of the mortgage debt.

Mortgage Insurance: Government-backed or private-backed insurance protecting the lender against the borrower's default on high-ratio (and other types of) mortgages.

Mortgage Life Insurance: Insurance that pays off the mortgage debt, should the insured borrower die.

Mortgage Penalty: Is a fee paid by the borrower to the lender in exchange for being permitted to break a contract (a mortgage agreement); usually three months' interest, but it can be higher or it can be the equivalent of the loss of interest to the lender.

Multiple Listing Service® (MLS®): A current and comprehensive listing system for relaying property information to VIREB's REALTORS. This service offers the widest exposure to properties listed for sale and includes total exposure on the Internet (mls.ca).

Principal: The mortgage amount initially borrowed or the portion still owing on the mortgage. Interest is calculated on the principal amount.

Property Condition Disclosure Statement: This form enables sellers to disclose known defects. If the seller decides not to complete the form and does not disclose known defects, he or she is still held liable. The form also serves as a checklist for buyers enabling them to address concerns about the property's condition on the spot. The form was developed by the British Columbia Real Estate Association.

Property Taxes: This levy is affected by location and is determined by local property tax assessment practice. Tax assessments are conducted by local governments. They are paid on an annual basis.

Property Transfer Tax: Payment to the provincial government for transferring property from the seller to the buyer. However, first-time buyers are exempt under certain circumstances.

REALTORS: Real estate professionals who are members of the Vancouver Island Real Estate Board and the British Columbia and Canadian Real Estate Associations. Only these professionals can call themselves REALTORS.

Rights of Way: Are indicated on title at the Land Title Office; often for use of utilities or city or municipality on order to make repairs to pipes, etc.; no permanent structure may be built on a right of way.

Statements of Adjustments: Closing statements in a real estate transaction which set out the sources of funds which make up the purchase price, adjustments to and from the purchase price, the final amount required from the buyer and the amount due to the seller. Lawyers will prepare a statement for the seller and the buyer.

State of Title Certificate: A copy of the title which lists charges against the property e.g.: liens, mortgages, rights of way, etc.

"Subject-To" Clause: A statement of a condition to be fulfilled before the contract will become firm and binding; must include a specific deadline for removal.

Title: The legal evidence of ownership in a property.

Title Search: A detailed examination of the ownership documents to ensure there are no liens or other encumbrances on the property, and no questions regarding the seller's ownership claim.

Utility Taxes: Examples may include water, sewer and garbage (may include recycling levies).

Variable Rate Mortgage: A mortgage for which payments are fixed, but whose interest rate changes in relationship to fluctuating market interest rates. If mortgage rates go up, a larger portion of the payment goes to interest. If rates go down, a larger portion of the payment is applied to the principal.

Seller Take-Back Mortgage: When sellers use their equity in a property to provide some or all of the mortgage financing in order to sell the property.