



THE COMPLETE GUIDE TO
BUYING A PRE-CONSTRUCTION
PROPERTY



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Pre-Amble

Creating this guide was not an easy endeavour. Figuring out where to start, and how to present this guide to consumers was a monumental undertaking. We wanted to make sure that the information was presented in a logical order, and that it would make sense to the general public. Whether or not we were able to succeed in this task, will be determined if you successfully purchase into a Pre-Con Project

The singular purpose of this guide is to help the average consumer figure out whether they want to purchase Pre-Con Real Estate. It simplifies the entire sales process down into 6 steps, focusing on getting you ready, leading up to the Pre-Con Sales Cycle. Once you have finished reading this guide, it is our hope that you will have a basic understanding of how the Pre-Con Sales Cycle works. This guide was not written for the experienced investor, who is looking for tips and tricks on how to get greater returns on their current investment. This guide is for the first time consumer, who has never worked with Pre-Con Real Estate at all

If you continued to read after the last line, don't worry, there are tons of tips and tricks that are included in this guide. Maybe this guide will even help you get ready for the next investment property that you want to purchase? At the end of the day, this is a simple guide that will get you ahead of the average consumer. We provide The Pre-Con sales Guide to our newly licensed Realtors as a reference tool for . This helps them get their clients ready for the intimidating Pre-Construction sales cycle. We hope that this guide will also help you get prepared, and make the correct decisions when the time is right.

The biggest debate was about Mortgage Financing, and where does that go in the Pre-Con Sales Cycle. I decided to have it mentioned in the guide in multiple places when it is relevant.

Thank you for your time, I appreciate it.

Gather Your Team

Once you have finished reading this guide, you should start thinking about who will represent you in the Pre-Con Sales Cycle. This is not a how to guide, or a Do-It-Yourself type of guide that will get you ready to head into the Pre-Con Sales Cycle Alone. Instead this guide was made prepare you for the hurdles in the Sales Cycle, and how to manage them.

1- The Realtor

The Realtor you have chosen to work with from The Brokerage, has been trained in all aspects of the Pre-Con Sales cycle. Their main objective, is to guide you to a Pre-Con project that you are excited to invest in, or live in upon completion. There are tons of realtors out there, (more than 75,000 in Ontario*) and finding the right Real Estate Professional is the most important aspect of building your team.

2- The Mortgage Broker

Working with a Mortgage Broker can be stressful. Mortgage financing is a very invasive process, where you are being evaluated for your credit worthiness. You will be asked to submit many documents, and at times you might feel uncomfortable with how much information is being given. Please understand that there are fantastic Mortgage Professionals that focus on creating a Judgement Free Environment when they are financing mortgages. They understand that your finances might be a sensitive subject matter, and will go above and beyond to guarantee a stress-free process

3- The Lawyer

The Lawyer or Solicitor is the last member of your team, but is just as important as the others. Similar to Mortgage Financing, reviewing the Agreement of Purchase and Sale, (referred to at time as The APS), can be a stressful process. It is important that the lawyer that you have chosen to work with, is dedicated to making sure that you are comfortable with the APS. The APS at times is 50+ pages of Legal Terms that can be confusing, even to us at The Brokerage.

Legal terminology is complex, and if you are not comfortable with reviewing the APS in English, you may want to review it in a language that you are more comfortable with. Having a legal professional that speaks a common language with you , reduces the risk of mis-communication. We want to ensure, that our clients are confident in the purchasing decision they made by working with the right team.

Step 1 – Access

You have made the decision that you want to purchase into a Pre-Construction project. You as a consumer, have not decided on what kind of purchase you are going to make, but you are going to get into the Pre-Con market. Are you looking for an investment property, or are you interested in a new home for yourself?

Whatever your end purpose is going to be with the property that you purchase, you need to figure out what is available for sale. We at the Brokerage pride ourselves on maintaining a database of all available, and upcoming Pre-Con Projects. We focus on projects and developers that are deemed to be reliable, honest, and trustworthy. This is a subjective statement, and we have to emphasize that there is always risk in Pre-Con. As a Real Estate Professional we have a duty to minimize the risk for our clients. You as a client can make the ultimate decision for yourself, but we ask that you listen to our guidance and our advice. We are not extreme risk takers at The Brokerage, and we are not here to advertise or promote those kinds of projects.

What is Access?

Our goal is to guide you through this hectic process, and make sure that the decision you have made, is the correct decision for you. When we speak of access, we mean exactly that, do we have access to the project.

- 1) Do we know when the project is launching, and who the developer is?
- 2) Are we aware of the Prices and Floor Plans for the project?
- 3) Do we know how to submit a worksheet?
- 4) What chance do we have on securing an Allocation?

If we answer yes to these questions, then we have Access to the project. It means that we can provide our clients with the necessary guidance on how to purchase into the project.

The Pre-Con Development industry in Toronto is highly competitive, and networking matters. In some instances, the best units or lots for sale, are sold directly to friends and family of the developer. At times, people who are closest to the developer, are given information before the general public.

There have been many complaints made to the Anti-Competition Bureau of Canada regarding these practices. However, we are not going to focus on the negative aspects of this industry, and we are going to focus on your goal of purchasing into a project. We want to make sure that we, as The Brokerage present viable options to our clients, and we want to manage your

expectations. We want to emphasize, that we will only advertise and work with projects that we are confident in.

We focus on developers that have a track record of completing projects on time, and on cost. We put in the effort necessary and we take the time to do our research. We are the professionals at The Brokerage, and we do the work so you don't have to. When it comes to evaluating developers, we always look for certain criteria that reduce the risk involved in any Real Estate Transaction.

This includes, but is not limited to :

- 1) Checking the credentials of the developer.
- 2) Looking at their development partners(particularly the lawyers)
- 3) Researching who will be holding your Deposit in Trust for the duration of the construction period.
- 4) Looking through past newspaper articles for anything that is related to the developer.

Once all this vetting is completed, we can start to database the project. This includes keeping track of the upcoming launch date, as well as any information that is provided by the developer. If we come across a project that is completed, or there is only inventory being sold off, we go through the same process. Just because the project has gotten off the ground, that does not mean that it may be a risk free purchase.

Competitive Market

We take the time to present you with projects that we have access to. With realistic expectations of whether or not we are able to secure a unit in this highly competitive market. We have to emphasize that there is a significant amount of competition in the Pre-Con sales market. The Greater Toronto Area, has been plagued with massive price increases in regards to the residential resale market. We have all heard that there have been price increases of 18% to 22% year over year from 2017 to 2021*. These price increases have been seen in the Pre-Con market as well, and this is due to demand.

Why are we talking about supply/demand when we are referring to access to a project? Because you as a client, might be interested in purchasing into a highly popular project that has more demand than available supply of units/lots. A Condominium project in Downtown Toronto, with 300 units for sale, might have as many as 10-20 worksheet submissions for the most

popular units. The units that are popular with Investors, are the ones that have the most amount of worksheet submissions.

Final Thoughts

Getting access to a Pre-Con project in the GTA takes time and effort. We at The Brokerage have databased all available projects for sale in Southern Ontario. We have put in the work, to quickly relay information to our clients about the potential investment projects available. If you follow us on Instagram @TheBrokerageRealEstate, you will see a complete catalogue of available projects that we have access to. In the next step, we will talk about what happens when you have decided on a Pre-Con Project.

Step 2- Worksheet

Now that we have discussed access, lets move on to worksheets. There are two ways that worksheets are defined when it comes to The Pre-Con Sales Cycle. The first way is a physical worksheet that is submitted to the developer in person or online. The second way is by accessing the developer portal that is given to The Brokerage, and uploading your documents for review.

Both of these actions, are considered to be a Worksheet submission. When thinking of worksheet submissions we have to think of the Worksheet as an offer on the project. In the Residential Resale market, most homes are presented to the market for a small period of time, and then offer are collected on an offer date. We at The Brokerage also like to think of the worksheet submission as an offer that you are placing on the project. There is a specific day that the developers request worksheets to be submitted. Please remember that this is a highly competitive sales cycle, and that worksheets need to be submitted on time. We are professionals and we are going to keep you up to date of the timelines involved.

When we look at the resale market, since 2014 most sellers receive multiple offers on their property and they choose to work with the best offer. At times this is the highest offer amount, and with the least amount of conditions. With the amount of competition that there is in the Pre-Con market, the developers also receive multiple offers on their properties available for sale. We have heard at times that some detached developments received 9112 offers on 268 lots. That's an astounding 34 offers per lot available for sale. How does the developer choose which offers to accept, and which offers to refuse?

We will talk more about optimizing your worksheet submission to get your offer accepted, but for now lets get back to the worksheet. In the next page, you will see a sample of a physical worksheet. It is very straightforward and easy to read. Besides your basic contact information, you will have to submit to the developer your offer on their project. When we spoke of access, we talked about making sure that we present you with projects that we are able to procure for our clients. Prior to submitting the worksheet, we will sit down with you, as your client, to review the floor plans that are available. If this is a Single Family Residence (detached home or townhouse etc) we will also make sure to review the lot and elevation you like match. (Insert definition for elevation on the sides like a little textbook thing).

Assuming we have done our due diligence correctly, you as a client will have time to research what is available from the developer. When it is time to submit

your worksheet, you will know the type of unit you would like, or the lot that you are submitting your offer on. On the worksheet you may be requested to submit more than 1 floor plan or lot selection. This is for the benefit of the developer, and allows them to maximize the sales for every launch. They use a complicated formula to see if they can present you with your 2nd or 3rd choice to increase the number of units they sell.

We do not want to get into the details of what the developer does on their back end, because we are not them. We cannot know for certain what system the developer uses, and if any realtors says they know exactly what the developer does, then they work for that developer. Once you have filled out the worksheet, you are usually asked to present with it a small deposit. Developers are passionate about what they do, but they are not doing it for free. At the end of the day this is a highly competitive sales cycle and Developers do not like to waste their time with people that are not serious in purchasing into a project.

On worksheet submission day, you must submit your worksheet on time

On worksheet submission day, you must submit all supporting documents

On worksheet submission day, you must present the builder with a deposit

Worksheet Submission Day

Leading up-to worksheet submission day, we will also discuss how competitive the sales cycle might be. If the developer is accepting worksheets in chronological order, first come first serve, then we must be timely with our submission. If the developer opens submission times at 10:00 A.M., we will be at our desks at 9:45 A.M. We as professionals want to give you the best opportunity to purchase into the project that you are interested in. We will prompt you when necessary, and prepare you so that you are not caught off guard when it is time to submit the Worksheet.

Once the worksheet has been filled out, we wait for the developer to review your offer. We have taken the time to develop Tips & Tricks that can help you optimize your offer. We will make all efforts to maximize your chance of receiving an allocation in a project. For your reference, here are the minimum requirements for a worksheet submission to a Developer:

- 1) 2 Pieces of government issued ID

- 2) The first deposit, (usually \$5000 or \$10000) in the form of a Certified Cheque or Bank Draft made out in the name of the Lawyer that will hold the funds in trust
- 3) Mortgage Pre-Approval Letter
- 4) Completed Worksheet Submission when they are due

Step 3 - Approval

The road to receiving an allocation from a developer can be stressful. But the Professionals at The Brokerage will strive to make this process as streamlined as possible. Once the worksheet has been submitted to the Developer, they may need time to review all of the worksheets that have been received. As mentioned in Part 2 : Worksheet, there are numerous processes that the developer goes through to determine whose worksheet they will accept.

Allocation

This process of maximizing sales during a launch, is referred to Allocation. For marketing purposes the developer will try to sell the building in a series of launches. This phased sales cycle is for the benefit of the builder, to maximize the number of sales per launch. My mixing and matching allocations with potential buyers, they reduce the number of unsold units for every launch. Whether this is for the benefit of securing financing, or for the Developers Marketing Purposes.

We spoke before about the amount of competition there is in the Pre-Con Sales Cycle, and that there is a huge amount of demand. The developer may sometimes request that you provide them with 3 choices for units or lots. The reason for this, is so that the developer may present you with a unit that you will purchase from them. If your first choice is not available, but your second choice is, they may present you with that option. If the second choice isn't available, than they may present you with a third option. If they see on your application that you are interested in homes that are 1800 Sq.Ft. , but they have been sold out, then they may present you with homes that are 1750 Sq.Ft.

Although we will not pressure you into purchasing a unit or lot that you are not completely satisfied with, we may advise to go with options that suit your needs. If you are an investor looking for a 1 Bedroom condo to rent out to a perspective tenant, does it matter that you didn't get the exact unit you wanted. If the lease prices for units are similar throughout the entire building, than as an investor you may want to purchase any unit that is presented to

you by the developer. If you are an end user, and the home model that has been presented to you is not something you enjoy, then we would advise to walk away from the purchase. We want to ensure that you are satisfied with your purchase, and that you are getting the type of product that suits your needs.

Lets assume that your worksheet has been approved. Congratulations! You have successfully followed the game plan that we have laid out at The Brokerage. Once you are notified by the Developer that you are approved, you are then give a copy of the Agreement of Purchase and Sale (commonly referred to as the APS). This APS should be given to your realtor, and to your lawyer for review. In most instances you are also provided with a 10 day period (Cooling Off Period) to review all of the documents with your lawyer. We mentioned before that it is important to work with a Lawyer that you are comfortable with. The APS is lengthy, more than 45 pages at times, and will include all the pertinent information about the project. This is the time when you can breathe and take a moment to analyze whether or not you are 100% firm on this project.

Step 4 – Cooling Off Period

If you have been feeling rushed in the Pre-Con Sales Cycle, we apologize for how hectic it may seem. We don't want to make excuses, but at the end of the day it's a very competitive market. We talked about the number of offers that a developer may receive on a property when it launches, and we were not exaggerating. We are not here to spin tales of how amazing of a feat it was that we were able to secure an allocation. No, it was hard work, it was effort, and it was determination.

You as a client have gone through all of the same hurdles that we have gone through, here at The Brokerage. We might seem un-phased by the entire sales cycle, because we are the professionals at The Brokerage and we are used to an intense sales cycle. As a client the cooling off period is available for your benefit for you to review the APS in full. The APS can be quite lengthy and has tons of legal definitions that are confusing. The APS will also have the Deposit Schedule on it, and the Tarion Warranty information.

Step 5 – The Deposit

The deposit schedule is the agreement that you have with the developer to provide them with a deposit prior to them providing you with ownership of the property. This deposit schedule is announced prior to launch, and there are usually 2 types of deposit schedules. For Canadian Residents, and anyone who is buying from within Canada, they are given the international buyers deposit schedule. For international buyers, or buyers that are located outside of Canada, there is a domestic buyers deposit schedule.

Depending on the type of project that is being presented, there is the possibility to ask for an extended deposit schedule. We can write an entire second guide, on how developers finance their properties, however that will not help you as the consumer during the Pre-Con Sales Cycle. We spoke before that the developer is required to sell a certain number of units prior to them securing funding from the Bank or Lender. This means that the developer may require 15%-20% of the total purchase price prior to closing. This 15%-20% is the amount that you are then required to provide to the developer during, "Step 5 : Deposit"

When you are supposed to provide the deposit, how much of a deposit is owed, and to whom is all written out in the APS. If the developer requires a 15% deposit prior to occupancy, and there is a deposit schedule that states you must make 3 equal payments of 5%. Then you are agreeing to make 3 equal

payments of 5%, otherwise you can walk away from this project. If the developer has an extended deposit schedule, and you have to make 24 equal monthly payments to reach 15%, then you are going to have to make 24 equal payments. There is little to no negotiating room with the developers when it comes to the deposit schedule. If there is an extended deposit schedule, that can be an indicator that the developer has already factored in the demand for an extended deposit schedule. We have to note that there is a possibility that an extended deposit schedule is available to potential consumers, but it is not being advertised to the general public. With our connections and the networking that we have done with some of the developers, we will try to get you the extended deposit schedule without being asked.

Don't Miss a Payment

Please, please, please do not miss a payment on the deposit schedule. If for some reason you are not able to make a payment on time, reach out to us, or your lawyer, or the developer themselves. It is super important to present yourself as a financially secure investor at all times. Having gone through the entire Pre-Con Sales cycle, and having secured financing with your worksheet submission, missing a payment can jeopardize the entire deal.

When reviewing the APS, please make sure that you understand when you are responsible for paying the deposit. Take a moment to review the process of making sure that your deposit is paid on time, what to do if you are late, and what legal remedies there are to protect you as the consumer during the purchase. We spoke in the pre-amble that having a lawyer that you are comfortable, will streamline this entire Pre-Con Sales cycle. Assuming that you have made every payment as needed, you are waiting patiently for the construction to complete on your Brand New Home. The Deposit period tends to be uneventful, assuming there are no major changes or delays in the project.

Assignment Sales

We have a separate guide that will deal with Assignment Sales. An assignment sale can be done at any point after the Deposit Schedule has begun, and prior to paying off closing costs that are associated with Pre-Con. We will assume that you are an end user and we will skip right to Step 6 : Occupancy/Closing

Step 6: Occupancy and Closing

Congratulations! Having successfully beat out hundreds of other worksheets, and having successfully completed the deposit schedule, you are on your way to Occupancy/Closing.

There are many things that occur prior to closing, and there are also fees that have to be paid. Whether those are development fees, closing fees, or other costs, you are going to be informed of those costs during the Cooling Off Period. Many developers try to cap certain costs, so that there is a maximum that might need to be paid to the City as final closing costs. Development charges, metering fees from utilities providers, and other charges will be laid out in the APS.

Assuming that you are looking at a detached, or freehold property, the occupancy/closing period is a little more straightforward. The developer will contact you 180 days and then again 90 days prior to closing to get you ready for this stage. If you are purchasing a freehold property, you will receive the ownership to your property on closing. If you require a mortgage, then the Mortgage Broker would arrange for the transfer of funds and title. This part of the closing is similar to the Residential Resale market, in regards to title transfer and possession. Once you have received ownership of the home, you follow the steps laid out to you by the developer. If this includes a final walk through prior to closing, or a Tarion Inspection walk through. Once the title has been transferred, and you have attached your mortgage to the property, you are the legal owner of this Real Estate

When you are dealing with a development that has a Condominium Corporation, or will be incorporated, then there are more hurdles to jump through prior to closing.

- 1) Because of the way that Condominium Corporations operate, prior to receiving the title to the unit, the unit needs to be registered.
- 2) To register the unit, you need to have a condominium corporation that is registered with a local office
- 3) To register the condominium corporation, about 75% to 80% of the residents of the building, need to be living in the building.
- 4) When a developer allows residents to begin moving into the building, they cannot allow all owners to move in at the same time. Some developments have 100-300 units per building, and they only allow 1 move in per day. At best that could take 3-6 months, to have about 80% of the residents move in to their units.

The period, when the builder allows residents to move into the building, prior to giving title to the individual owners is called the Occupancy Period. During this period you are allowed legally occupy the unit that you have purchased from the Developer. If the developer allows Rental During the occupancy period, you are able to put the unit on the market for rent.

In terms of Condominiums the time it takes for the Condominium Corporation to be formed is not easy to predict. This time can be financially straining for those of you who are investors, and want to rent the unit out during this period. We must also remember that there is going to be a large number of units available for lease at the same time. We expect some units to take up to 3 months to rent out, when a building is new build.

The most important thing that you can do, as an investor to prepare for closing is to organize all the associated fees and costs that you may encounter. This is something that you can do with your Realtor, once you have received confirmation from the Developer that you are headed to closing. At this time we can also discuss listing your property for lease, and trying to be the first one available to the general public. During this time, we will go above and beyond to make sure that you are not caught off guard.

The final step in the Pre-Con Sales Cycle is the most rewarding. It is a time when you can finally see the finished product. If you had a chance to select the finishes in the property you bought, you are stepping into your own brand new home.

Mortgage Financing

Congratulations. You have made the decision to purchase Real Estate. Whether you came to this decision on your own, or if you made this decision with the help of a Realtor, you have at least take the first step. You have a need or want to purchase a new residence, or you are thinking of using Pre-Con as an investment. I have to emphasize that, getting your finances in order prior to beginning down the path of Pre-Construction Sales is important in the long term.

When I was writing this guide, I was not sure whether or not I wanted to focus on Mortgage Financing. If you are purchasing into a Pre-Con Project at the VIP or Platinum level, you are routinely asked for proof of financing. This could come in the form of either a Mortgage Letter, or some sort of builder form that needs to be completed. Mortgage Financing, and proof of financing is important to the developer when they are evaluating the worksheets that are submitted for evaluation. They also focus on mortgage financing, as we head into the Occupancy and Closing Period. Essentially, I want to make sure that prior to diving headfirst into this process, that you have spoken to a Mortgage Professional. Get them to sit down with you, and explain to them that you interested in making a Pre-Con purpose, and have them ready to go with the necessary paperwork, when its necessary.

Whether that is an approval letter that is submitted with the worksheet, or if they are needed to provide the Lawyers with financing information. Having the conversation with your Mortgage Broker can reduce stress at the times when they are necessary to be present.

Glossary of Terms

Allocation

Agreement of Purchase and Sale

Schedule

Deposit Schedule

Initial Deposit

Pre-Construction Sales Cycle

Realtor

Broker

Lawyer

Occupancy Period

Closing Period

Development Fees

Condominium Corporation

Worksheet

Cooling Off Period

Deposit in Trust

Extended Deposit Schedule