A Home in the Country

Buying a Farm or Acreage

Photo: Robin Duncan Photography

How much pasture you will need depends on the number of horses, the quality and management of the pasture, and whether you intend to supplement your horses' diets with hay.

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Most horse owners dream of having their own farm or acreage on which to keep their horses. However, making that dream a reality can be a confusing or difficult process. This article seeks to provide an introductory guide for horse owners looking to buy a hobby farm or acreage. Potential buyers will require detailed advice from professionals, such as lawyers or realtors, not provided by this article.

The Advantages and Disadvantages of Buying a Farm or Acreage

It may be helpful to consider the advantages and disadvantages of buying a hobby farm or acreage prior to making this huge financial commitment. There are a number of advantages to owning a hobby farm or acreage. These include:

- **Financial security:** if housing prices rise, your property can provide you with some financial security due to capital appreciation.
- **Stability:** owning your own property saves you from having to find a decent place to board your horses plus, there's nothing like being able to look out your window and see your horses in your own field.
- **Flexibility:** if there are no existing outbuildings on the acreage you have purchased, you can design your barn and riding area to suit your needs and preferences.

However, there are also disadvantages to owning property. These include:

- **Financial stress:** coming up with the down payment, meeting regular mortgage payments and other ongoing costs will tie up a lot of your cash and can put considerable stress on your finances.
- **Higher costs:** you may pay more each month for housing than you did as a renter or owner of a home not on acreage.
- **Maintenance:** more time and money is generally required to maintain a farm or acreage.

Are you Financially Ready to Buy a Farm or Acreage?

The Canada Mortgage and Housing Corporation ("CMHC") (www.cmhc.ca) recommends that prior to purchasing a property, you should determine your net worth, your current monthly expenses and your current monthly debt payments. Your net worth is the amount left over once you've subtracted your total liabilities from your total assets. Calculating your net worth will also give you an idea as to your current financial situation and show you how much you can afford to pay as a down payment. As well, performing these calculations should assist in obtaining a mortgage and ensuring that you will be able to afford the dream property you've selected.

According to CMHC, lenders follow two simple affordability rules when determining how much a buyer can afford to pay for housing. These are:

- Your monthly housing costs (including monthly mortgage principal, interest, taxes and heating expenses) should not exceed 32 percent of your gross monthly household income. Lenders add up these costs to determine what percentage they are of your gross monthly income.
- Your entire monthly debt load should not exceed 40 percent of your gross monthly income. This includes housing costs and other debts such as car loans and credit card payments. Lenders add up these debts to determine what percentage they are of your gross household monthly income.

The maximum home price that you can afford depends on a number of factors, but the most important are your gross household income, your down payment and the mortgage interest rate. For those people unable to make the traditional 25 percent down payment, mortgage loan insurance may be available to allow buyers to pay as little as five percent down. Mortgage loan insurance protects the lender and is required by most Canadian lending institutions. In the event that the borrower defaults on the mortgage, mortgage loan insurance ensures that the lender is paid back by the insurer. This type of insurance can be paid for in a lump sum or can be added to your monthly mortgage payments.

Finding the Right Farm or Acreage

Prior to purchasing property, horse owners should carefully consider their specific needs, particularly the size of acreage required. It is a general rule of thumb that one horse requires one to one-and-a-half acres of pasture for grazing (provided that good pasture management is employed). This is generally considered a minimum acreage requirement for the average horse, however, there are a number of other factors that may affect the acreage required. For instance, there is a distinct difference between the acreage requirements for horses where the pasture is to provide total grazing for the horse and where it is only to provide supplementary grazing or turnout. A smaller acreage will suffice where you intend to supplement your horse's diet with hay. The amount of pasture required for a horse may also depend on the type of horse, the quality of the pasture and the management of the pasture. A larger acreage may be able to accommodate a greater number of horses. For example, five acres could support more than five horses provided the acreage is subdivided and effective pasture management is employed.

When considering the quality of the barns on a farm or acreage, it is helpful to keep in mind that stalls should be at least 12 feet by 12 feet for horses, and preferably 12 feet by 14 feet for larger horses. For ponies, the recommended minimum dimensions are 10 feet by 10 feet and 10 feet by 12 feet for larger ponies. The recommended ceiling height for a barn is between 9 feet and 11 feet. A barn should also have good ventilation and drainage. If the farm or acreage does not have a barn, there should be some form of shelter for the horses. The required size of the shelter will depend on the number of horses using it. A straight shelter should have a depth of 12 feet and a width of 10 feet to 12 feet, with an extra five feet in width for each additional horse.

When viewing a farm or acreage, consideration should be given to the quality of the fences — if in disrepair, it could be a huge cost to install new fencing. The fences should be strong and well-maintained to prevent horses from breaking through and to discourage horses from leaning through the fence to graze, which could lead to injury to the horse or damage the fence. It is generally recommended that fences are approximately four feet in height.

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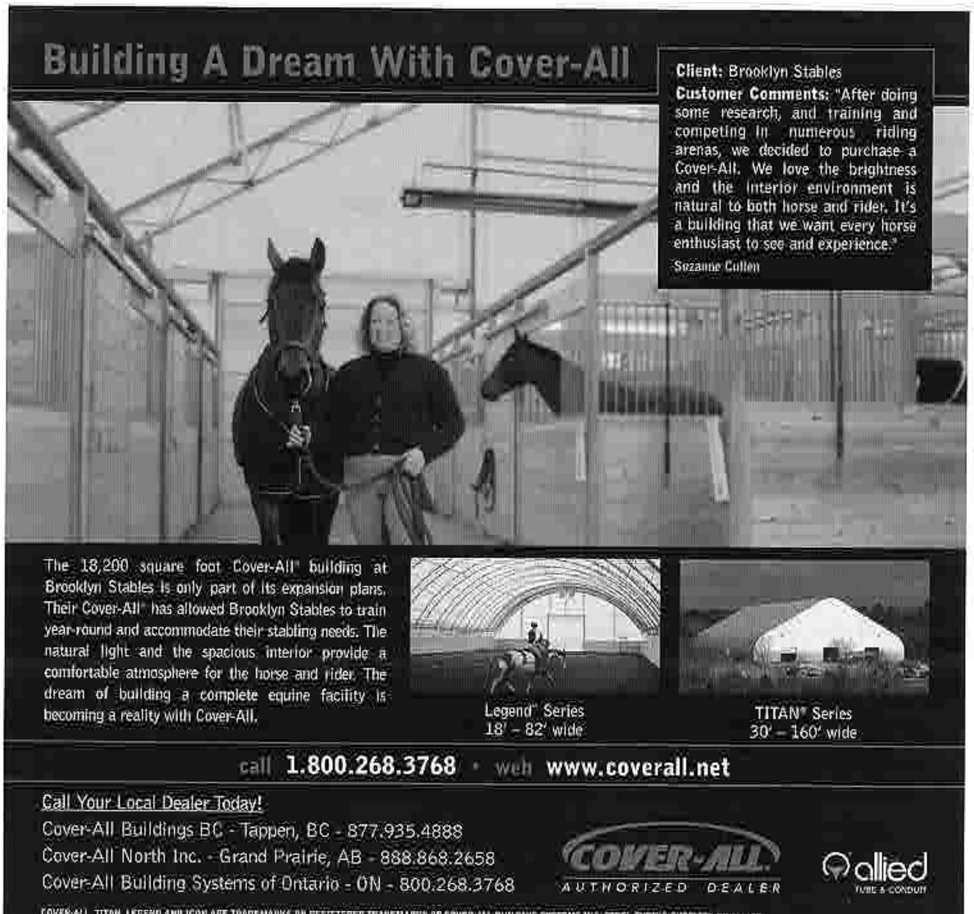

Maintenance of a farm or acreage will require your time and money. Avoid costly surprises by inspecting the buildings and property thoroughly, walking the fence lines and carefully evaluating all "big ticket" items including septic system and water wells.

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Disclosure With Respect to the Property

Sellers are not allowed to mislead prospective buyers about the condition of the property. Information, if provided, must be accurate. Buyers who feel they were misinformed by the seller or the seller's agent about the condition of the property can sue for negligent or fraudulent misrepresentation.

Obtaining a Mortgage

Most lenders recommend that you obtain pre-approval for a mortgage prior to shopping for a farm or acreage. Having a pre-approved mortgage will help you determine, and stick to, a realistic price range. Lenders generally require the following information when discussing a pre-approved mortgage:

- Your personal information, including identification.
- Details on your job, including confirmation of your salary in the form of a letter from your employer.
- Your sources of income.
- Information and details on your bank accounts, loans and other debts.
- Proof of financial assets.
- Source and amount of down payment.
- Proof of source of funds for the closing costs (usually between one-and-a-half percent and four percent of the purchase price).

If you have not obtained a pre-approved mortgage, you will need to find a lender to assist you in the purchasing process and during the life of your mortgage. Many different institutions lend money for mortgages, including banks, trust companies, pension funds, insurance companies and finance companies. It is a good idea to shop around and speak with more than one lender because terms and options will vary. You may wish to consult a mortgage broker. Mortgage brokers do not work for any specific lending institution. Rather, their role is to find the lender with the terms and rates that will best suit your situation. To find a lender or mortgage broker, you can:

- Get a referral from your realtor, family members, friends or other professionals, or
- Contact the Canadian Institute of Mortgage Brokers and Lenders at 1-888-442-4625 or www.cimbl.ca.

There are different types of mortgages, including a "conventional mortgage", a "high ratio mortgage", a "fixed, variable or adjustable interest rate mortgage", a "closed mortgage" and an "open mortgage". A conventional mortgage is a mortgage loan that does not exceed 75 percent of the lending value of the property. If you contribute less than 25 percent of the purchase price as a down payment, you will need a "high ratio mortgage." A fixed rate mortgage is one based on a locked in rate that will not increase for the term of the mortgage. A variable rate mortgage fluctuates based on prevailing interest rates while the mortgage payment usually remains unchanged. With an adjustable rate mortgage, both the interest rate and the mortgage payment vary depending upon the market conditions. A closed mortgage is not flexible and often imposes penalties or restrictive conditions for prepayments or additional lump sum payments. An open mortgage is flexible and can usually be prepaid by a lump sum or paid off at any time without penalty. It is a good choice if you are planning to sell your property in the near future or if you think you may want to refinance.

Costs Associated with Buying

There are a number of costs associated with purchasing a property in addition to the purchase price. These include:

- Mortgage loan insurance application fee and premium — if your down payment is less than 25 percent.
- Appraisal fee — some lenders require the property to be appraised, at an average expense of $250-$350.
- Deposit — this is part of the down payment and is usually five percent of the purchase price.
- Down payment — ranges between five

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percent and 25 percent of the purchase price.

- Home inspection fee.
- Land registration fees.
- Prepaid property taxes and/or utility bills — to reimburse the vendor for prepaid costs such as property taxes.
- Property insurance.
- Survey or certificate of location cost — the lender may require an up-to-date survey or certificate of location prior to finalizing the mortgage loan. This can range between $1,000 and $2,000.
- Water quality inspection — if the property has a well, you want to ensure that the water supply is adequate and the water is potable.
- Legal fees and disbursements.
- Title insurance — can be purchased to cover loss caused by defects of title to the property.

Offer to Purchase

Once you have decided to purchase a farm or acreage, the realtor, lawyer or notary will draw up an offer to purchase. This is a contract setting out the terms under which the buyer agrees to purchase the property. If accepted, the offer to purchase becomes a legally binding contract. Offers to purchase are generally subject to the following minimum conditions:

- A satisfactory home inspection report;
- A property appraisal; and
- Lender approval of mortgage financing.

If there are no existing buildings, you can design your dream facility from the inside out to perfectly suit your needs — depending on your budget of course!

Photo: Robin Duncan Photography

• Home Inspection

As noted, most offers to purchase, even for new homes, state that the purchase is subject to an independent home inspection by a qualified inspector. Because the builder or seller may not volunteer information about any potential problems, having a proper home inspection can be critical. A home inspection should include, at minimum, an evaluation of the following:

- Foundation
- Doors and windows
- Roof and exterior walls
- Attics
- Plumbing and electrical systems
- Heating and air conditioning systems
- Ceilings, walls and floors
- Insulation
- Ventilation
- Septic tanks, wells or sewer lines
- Any other buildings, including detached garages, barns, shelters
- The lot itself, including drainage away from buildings, slopes and natural vegetation
- Overall opinion as to the structural integrity of the buildings

It is recommended that you obtain a written report from the home inspector outlining the findings of the inspection. If the home inspector's report brings defects to light and you have made your offer subject to a satisfactory home inspection, you may then decline the purchase or renegotiate the purchase price with a reduction to reflect the deficiencies.

Closing

Once the sale has closed you will take legal possession of your new property. Your lender and lawyer will deal with the transfer of the mortgage funds. You will have to provide the balance of the purchase price to your lawyer, along with the closing costs.Your lawyer will pay the vendor, register the property in your name and provide you with the deed and the keys to your new home. ●

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