

# Hidden Costs in Real Estate Transactions

You've been pre-approved and you have now decided to buy a home.... Good! You've found a home that you love and can afford....Great! There is nothing stopping you now...right? Well...In all real estate transactions there are hidden fees. These fees are payable in addition to the purchase price of the property and are commonly referred to as "closing costs". Closing costs can catch many buyers, particularly first-time buyers, unexpectedly. When you understand the nature of closing costs, you are more prepared to purchase a home and less likely to be caught out by them.

## So, what are these mysterious closing costs?

### Lender's Arrangement Fee

This fee applies, if, like most people, you require a mortgage to finance the purchase of your home. The amount charged can vary between lenders. The normal charge is 1% of the total amount borrowed and this can change based on your financial history and circumstances. This means that on a mortgage of \$1,000,000.00 you will receive \$990,000.00 and the \$10,000.00 shortfall will have to be made up out of your own funds.

### Surveyor's/Appraisal fees

Before your lender will loan you money to buy your home, it will have to ensure that your home is good security for your mortgage. In order to do this, the lender requires an appraisal to be conducted on the property. The lenders generally appoint their own appraisers who will assess the market value of the property. This will be at a cost to you. You should ask your lender what the costs of the appraisal will be as this can vary.

If the property you are purchasing is old, or requires major repairs you may also consider a building survey as well as plumbing and electrical surveys to ensure you are making a sound investment.

### Search and Registration fees

a) **Planning Search fees** - this is a search sent to and carried out by the Department of Planning. It takes 28 days to complete and ensures that there are no illegal developments on the property.

b) **Registrar General and Supreme Court Registry searches** - these searches are completed at the relevant Government offices.

In addition to these searches, your attorney will liaise with the Land Tax Office to ensure that there are no arrears of land tax owing on the property.

### Stamp Duty

All real estate transactions are subject to some form of stamp duty. The amounts vary based on the transaction being completed. You will have to pay stamp duty on the sale and purchase agreement, the mortgage document and the transfer document. Your attorney will be able to advise you of the stamp duty payable on the necessary documents.

As of April 1<sup>st</sup> 2009, new legislation was enacted to assist first-time buyers. This legislation was amended as of July 2<sup>nd</sup> 2009, to include first-time Bermudians purchasing with non-Bermudian spouses. If you are a first-time buyer purchasing a home of \$750,000.00 or less, you may be exempt from paying stamp duty on your transfer documents. To qualify for this exemption you must:

- a) be a Bermudian purchaser or a Bermudian purchasing with a non-Bermudian spouse; and
- b) never have owned more than a 25% share or interest in a property in Bermuda; and
- c) live in the property for 3 years following the purchase; or
- d) if the property is a vacant lot of land, you

- must commence building works within 3 years from the date of purchase; and
- e) purchase the property for the fair market value.
  - f) If you are a first time buyer who meets the above criteria you must inform your attorney so that he or she can prepare the necessary documentation.

### Licence Fee

If purchasing a home with a non-Bermudian spouse, you will have to apply to the Department of Immigration to obtain a License so that the non-Bermudian can acquire an interest in the property. There is an application fee payable. This process should be completed before the property is purchased.

### Condominium Maintenance Fee

If purchasing a condominium there are monthly fees set by the Condominium Board which cover the collective costs of maintaining the shared grounds such as electricity, landscaping, water and even security.

### Insurance Costs

Although not generally a "closing cost" this is a fee that must be considered. If you are buying a freehold property you will need to obtain a home owner's insurance policy before your lender will provide you with funds to purchase a property. When you are choosing an insurance agent, shop around to ensure that you compare rates to get the most suitable policy.

### Legal Fees

There are your attorney's charges for drafting documents, negotiating contracts and completing the searches mentioned earlier. In Bermuda the Bermuda Bar Association sets the minimum fee amount payable in terms of real estate transactions with respect to purchases. This means that despite which attorney you use, you will be paying roughly the same amount in legal fees.

*The information given in this article is no substitute for actual legal advice. Before embarking on any property transaction, it is prudent that you consult your attorney. Information is accurate as of date of publication: 31st January, 2011*

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When choosing an attorney, friends and family are a great resource. They can often recommend experienced specialist attorneys as they will have consulted them before. A specialist attorney will be more experienced at dealing with any potential problems or delays in real estate transactions. At Trott and Duncan, our conveyance team has a combined total of over 90 years experience in real estate law.

**You will always be in good hands with Trott and Duncan.**

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