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A Consumer's Guide to Understanding the Residential Appraisal Process

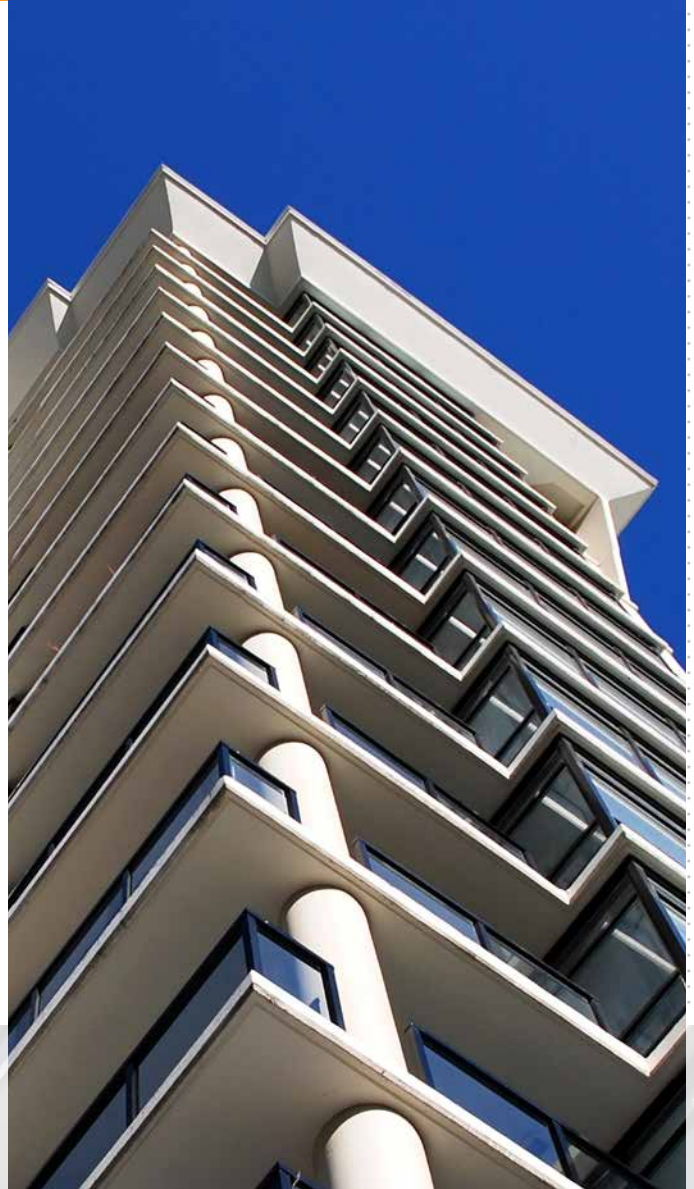


Appraisal Institute
of Canada

TO FIND AN APPRAISER IN YOUR AREA, VISIT AICANADA.CA

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About This Guide

The Appraisal Institute of Canada (AIC) has developed this guide to provide you – the consumer - with advice and guidance on how to effectively hire a professional appraiser to complete a market value assessment of your property. Property owners can save time, expenses and heartache by first consulting with a Designated Member (AACI™ or CRA™) to conduct a comprehensive valuation of their property. An AIC-designated appraiser can provide an independent and unbiased assessment of the value of a home prior to buying, renovating or refinancing. Visit the AIC website at www.AICanada.ca to find an appraiser in your area.

The **AIC** encourages consumers to engage real estate appraisers with a strong professional association such as the AIC to obtain an independent valuation of their property.



Understanding the Residential Appraisal Process

AIC Members are engaged by a wide range of clients to provide a professional opinion or consulting service on the quality, value, or utility of a specific property. Appraisals may be required for any type of property - single-family homes, small and large rental properties, condominiums (townhomes or apartments), office buildings, shopping centers, hotels, industrial sites, farms, to name a few - whenever real estate is sold, mortgaged, assessed, insured, or developed.

This Guide focuses on residential appraisals for mortgage lending purposes - one of the primary reasons an appraisal is requested. Appraisals are frequently required to confirm the market value of the property and the equity when:

- A new mortgage loan is needed to finance the purchase of a property;
- A mortgage is renewed at the end of a term; or
- A consumer applies for a line of credit or a renovation loan.

TIPS TO HIRING THE RIGHT APPRAISER

1. Ask an appraiser for their professional designation. Be sure it is from a strong professional association such as the Appraisal Institute of Canada. Go to AICanada.ca to "Find an appraiser"
2. Ask a professional appraiser if they have significant experience in the type of valuation services you need.
3. Don't be afraid to ask for references!





The Appraisal **Process**

One of the key methods in valuing a residential property involves comparing properties that have recently sold within the surrounding area and that have similar characteristics to the subject property being valued.

- **Comparing recently sold properties to the property being valued** - since the objective of the appraisal is to estimate the price that the subject property would most likely sell for if exposed to the market place, recent sales of similar properties are used for comparison and as benchmarks. Comparable sales represent what other informed buyers in the marketplace are willing to pay for similar features, location and amenities.
- **Adjusting the sale price based on key differences in the property** - since no two properties are exactly alike, the appraiser gathers information on the comparable sales, compares it to the information on the subject property, and applies adjustments to the actual sale price of the comparable sales to reflect the differences (better or worse: location, characteristics and amenities) between them and the subject property.

The adjusted sale price of each comparable sale then provides a reasonable range of value to guide the appraiser in estimating a market value for the subject property.

For mortgage-financing purposes a residential property can be a single-family dwelling, duplex (2 units), triplex (3 units), fourplex (4 units) or an undeveloped residential dwelling site.



Hiring an AIC-designated appraiser – key things to consider

By hiring an AIC-designated appraiser:

- You retain a qualified professional who has successfully completed the AIC's rigorous education, field experience and examination requirements that each AIC designation demands
- You engage a professional who adheres to the AIC's Code of Conduct and Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP)
- You will receive an independent and unbiased opinion of value supported by comprehensive market research and analyses.

The Terms of Reference of the appraisal assignment are normally set out in writing and agreed to by the client and the appraiser prior to the assignment. Some typical terms of reference are:

- **Purpose of the Appraisal Assignment:** This is usually stated "to establish a market value", it should include the relevant definition of value.
- **Intended Use of the Appraisal Report:** Identifies what the client intends to use the appraisal report for (i.e. mortgage financing, refinancing).
- **Intended User(s) of the Appraisal Report:** An intended user must be identified by name in an appraisal report. An AIC Member can provide a copy of the report to an intended user identified in the report.
- **Appraiser's Client:** The client must be identified by name in the report. If the client is a bank, it will be identified as "ABC Bank". Anyone wishing to obtain a copy of the appraisal report must contact the appraiser's client. The appraiser can provide a copy of the report to a homeowner or a third party only if the client provides their permission in writing.





Hiring an AIC-designated appraiser – key things to consider

- **Type of Appraisal Report:** The type of property being appraised and the complexity of the appraisal assignment will typically determine the type of report that will be required as well as the corresponding appraisal fee. Common types of appraisal reports are:
 - Form Reports are completed on a templated form and are often used for the valuation of residential and small rental (1-4 units) properties.
 - Narrative Reports are written in a narrative format and set out the research, conclusions and rationale supporting the opinion and conclusions and are used more often for more complex appraisal assignments.Regardless of format, an AIC appraiser's report must comply with CUSPAP.
- **Effective Date of the Appraisal Report:** This can be the date of inspection or any other date that may be reasonable given the intended use. The date can be current, past ("retrospective") or future ("prospective").
- **Assumptions Made in the Analysis and Limiting Conditions that may Impact the Value:** Assumptions and Limiting Conditions should be discussed in advance and confirmed in writing by the appraiser as being appropriate for the valuation.

- **Appraisal Fee:** An agreement on the fee charged for completing the appraisal assignment and identification of the party responsible for making the payment should be negotiated prior to starting the appraisal assignment. As mentioned above, the fee depends on the complexity of the appraisal assignment.
- **Conflict of Interest:** The appraiser must disclose any conflict prior to taking on an assignment or as soon as uncovered once the appraisal assignment has started. Depending on the nature of the conflict, the appraiser may need to decline an appraisal assignment.
- **Due Date:** This is the date that the final valuation report is expected to be delivered.
- **Appraiser's Certification:** An AIC Designated Member must sign a Certification at the end of an appraisal report to certify his or her acceptance of responsibility for the appraisal and the contents of the appraisal report.



What to expect during a Property Inspection

An inspection is just one of the many tasks performed by an appraiser. Appraisers must be familiar with the property inspection process, and observe the components and characteristics of the subject property that will influence value in the marketplace.¹ The appraiser's inspection takes into account a number of elements including:

- the physical characteristics of the dwelling and any outbuilding;
- interior/exterior finishes and systems (i.e. heating and cooling);
- the quality of the improvements; and
- any deficiencies or required repairs.

In addition to understanding the dynamics of the real estate market, designated appraisers also have construction skills and knowledge, which are fundamental to their training. Members also rely on the expertise of industry professionals where building characteristics are more complex.

BE AWARE! Consumers must be mindful that under the Personal Information Protection and Electronic Document Act (PIPEDA), the appraiser must obtain the homeowner's or occupant's consent (if different than homeowner) either in writing or verbally, prior to taking interior photographs.

During a typical site inspection, the appraiser will:

- set a convenient time for an inspection.
- plan for 20-40 minutes or more for the inspection depending on the size and characteristics of the property.
- collect as much information as possible during the inspection of the home on the interior and exterior of the property (i.e. room layout, improvements, dwelling measurements, information on any outbuildings or garage, site improvements, etc.).
- take photographs to provide a visual representation of the data described in the report. Exterior photographs are important to clearly identify the property and its characteristics. Sometimes, interior photographs are often required by the appraiser's client.
- ask you about important features of your property such as the original date of construction, dates of any major additions or renovations, and extra features, to name a few.
- gather information about recent marketing activity on your home. While public information is often available, the appraiser may inquire about any listings of the property (including private listings) or offers to purchase in the past twelve months, as well as any sales of the property for the previous three years.

Homeowners often ask for a verbal "ballpark" estimate of value before the appraiser leaves the property. It is important to note that most of the valuation process occurs after the inspection. Estimating the market value of any property requires the appraiser to complete a thorough analysis of the market conditions and factors that influence property values. Valuation is a complex process that involves collecting and analyzing anywhere between 3 - 10 (or more) comparable properties in order to form a reliable estimate of market value.

¹ The Appraisal of Real Estate, Third Canadian Edition, 2010, p. 11.2



Who is the **appraiser's client**?

Appraisers work on a confidential basis with their clients (known as client-appraiser relationship) and have a fiduciary duty to their client similar to that of other professionals such as lawyers and accountants.

Under the AIC's Canadian Uniform Standards of Professional Appraisal Practice, any discussions on or disclosure of information contained in an appraisal report must be done with the written consent of the appraiser's client.

Often when a report is completed for mortgage lending purposes, the homeowner is required to pay the appraisal fee but the **appraiser's client is the lending institution** making a lending decision for the property based on the report. The lender provides instructions to the AIC member regarding how the report is to be completed.

AIC members are required to comply with the AIC's standards of professional practice (CUSPAP). CUSPAP requires an AIC member to maintain the confidential nature of their relationship with their client. The AIC member will need **written authorization from the lender - their client** - to release the report to any third party - including the person who paid for the report. Only the AIC member's client and any intended user identified in the report are authorized to receive a copy of and rely on the report. Because the AIC member is the author of the report, consent to release must also be obtained from the AIC member.

The homeowner is the lender's client. You may wish to ask your lender what the lender's policies and practices are regarding whether or not you (the lender's client) will pay for the report to be performed, and/or get a copy of that report regardless of whether the loan is approved or denied. This is a business decision by your lender/mortgage broker. An AIC appraiser would not be aware of this information or of any arrangements made between your lender and you - their client.

IMPORTANT: Homeowners should ask their lending institution if an appraisal has or will be conducted and what the appraisal fee will be. Federally-regulated financial institutions must "provide key information in or with your mortgage agreement, including fees paid"⁴ (i.e. appraisal fee) as part of the mortgage loan process.

² Office of the Superintendent of Financial Institutions (OSFI): www.osfi-bsif.gc.ca/wwwapps/lists/eng.asp

³ Professional property inspectors are specialized contractors with expertise in uncovering defects in the structure and materials of various types of properties. Source: The Appraisal of Real Estate, Third Canadian Edition, 2010, p. 11.2

⁴ Financial Consumer Agency of Canada (FCAC):

<http://www.fcac-acfc.gc.ca/eng/consumers/rights/mortgage/applyingMortgage-eng.asp>

Who's involved in **Financing** or **Refinancing** your Property

Whether buying or refinancing a home, it is important for you - the homeowner - to understand where the appraisal report falls within the overall mortgage loan process. There are many parties involved and each plays a critical role within the transaction.

- The realtor or seller - if buying a home
- A lawyer - if buying or if refinancing involves registering an additional mortgage
- Institutions that are regulated by the federal government (i.e., Royal Bank of Canada, CIBC, Scotiabank, Bank of Montreal, TD Bank), trust companies, foreign banks, loan companies, insurance companies, to name a few)² - if buying or refinancing
- Lending institutions who are non-federally regulated (i.e. mortgage brokers, credit unions) - if buying or refinancing
- Appraisal Management Companies (AMCs) - if buying or refinancing
- Property inspector³ - if buying a home
- Appraiser - if buying or refinancing



Renovating your Home – Frequently Asked Questions

There are different reasons for wanting to renovate. It may be a lifestyle choice, a change in family circumstances and the need for more practical renovations, or quite simply the desire for a change. Regardless, planning a renovation is key to protecting your investment.

Q: What are some of the best ways to improve the value of your home?

A: Upgraded or renovated kitchens and bathrooms, as well as flooring upgrades, windows and doors can provide great appeal; however, it is important not to “under-improve” or “over-improve” a home. Homeowners must be mindful of the expectations of purchasers in their market.

Q: What are some of the small renovations most recommended to homeowners wanting to sell their home?

A: Painting goes a long way to adding freshness and redefining the style of a home. Trim, interior doors (including resurfaced kitchen cabinets), door handles, bathroom fixtures, lighting fixtures don’t necessarily require large investments but can easily modernize a home.

Q: How much money should people expect to receive on their renovation investment when they sell their home?

A: The return on investment depends on the contributory value, or value add, of the renovation and tends to vary from market to market. The contribution to value is determined by the actions of buyers and sellers which is something that must be analyzed and estimated in the local market. For example, investing \$30,000 renovating a kitchen may be an over-improvement for a home in a particular market, which means that the return on the renovation investment would likely be partially recognized by homebuyers.

As experts in real estate valuation, appraisers have the knowledge and the expertise to advise homeowners, buyers and sellers on the contributory value of proposed renovations.

Renovating your Home – Frequently Asked Questions

Q: What are homebuyers drawn to when considering a purchase?

A: First and foremost, location, location, location - location of the home in relation to the workplace, schools, relatives, friends, public transit; convenience and accessibility to shopping centres, restaurants, recreation centres; suitability to the homebuyers' lifestyle (i.e. rural, urban, waterfront); immediate and surrounding neighbourhoods.

Depending on how long a homebuyer is planning on owning the property, the anticipated resale value of the home can also be a great consideration.

Other key features include the physical characteristics of the home such as design, style, size, quality of the finishes and workmanship, potential for expansion, landscaping.

Nowadays, homebuyers are more and more aware of the financial and health benefits of an energy efficient home. Again, the contributory value of such improvement is influenced by local markets and more recently, as a result of federal and provincial financial incentives offered to homeowners.

Homeowners undertaking energy efficient assessments and improvements should ensure that the appraiser is aware of those upgrades so they can be properly considered in the valuation process.

Q: In what situation would a renovation be a detriment to a potential buyer down the road?

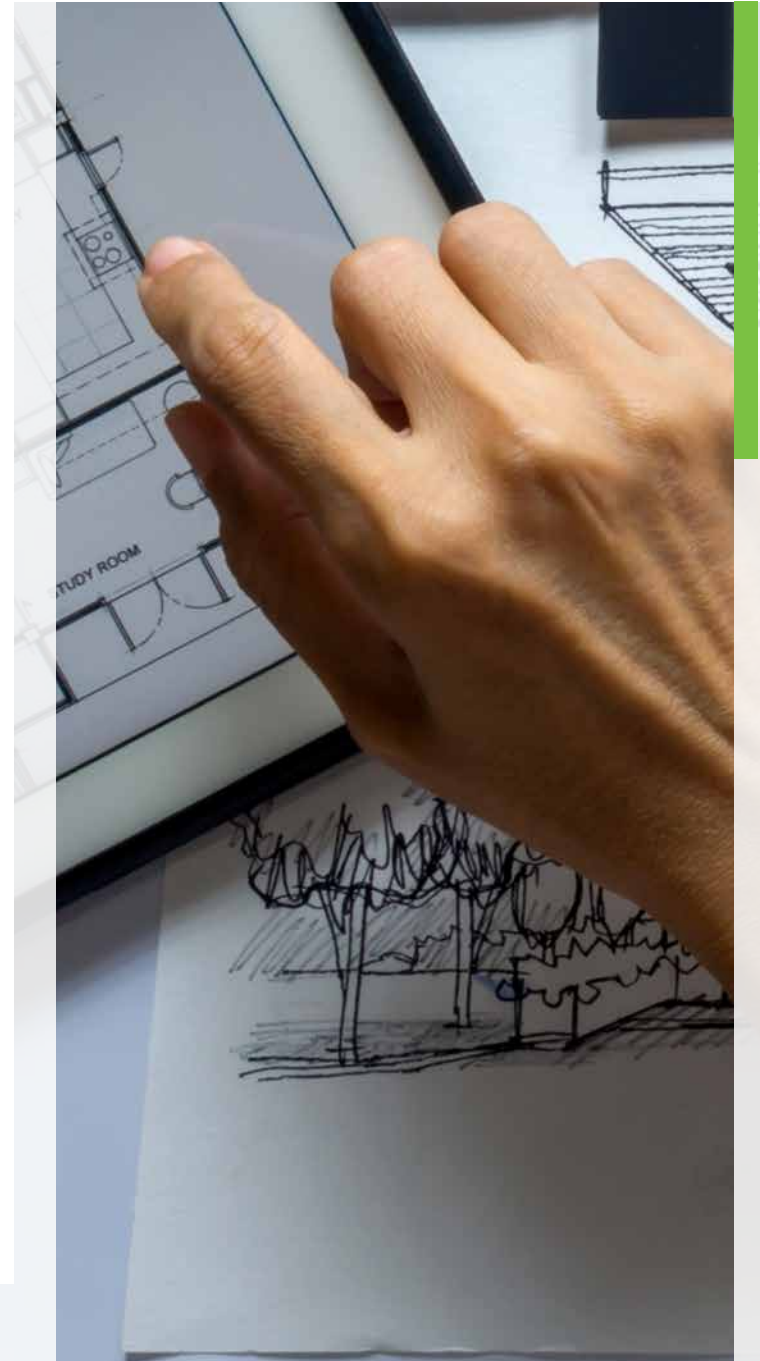
A: Unique designs or improvements that are uncommon for a particular market may impact the resalability of a home. This is where the expert advice of real property appraiser can provide an objective perspective on the marketability of the property.

Q: Do some homebuyers wish the previous owner didn't renovate a home?

A: A home is an expression of the homeowner's personality and lifestyle. What appeals to one homeowner may not necessarily appeal to another. A homebuyer's attraction to a property goes beyond the cosmetic appeal - it's about the location, the interior/exterior design of the home, the many features and finishes, and so much more.

THE VALUE IN ENERGY EFFICIENCY

In a cross-Canada survey by the AIC, our members rated energy efficiency improvements as one of the highest paybacks – relative to cost – that a homeowner might receive on home renovations.





About the Appraisal Institute of Canada

Founded in 1938, the Appraisal Institute of Canada (AIC) is the premier real property valuation association in Canada. The AIC is a self-regulating professional organization with over 5400 members across the country.

Education and Accreditation

AIC grants the distinguished Accredited Appraiser Canadian Institute - **AACI™** and Canadian Residential Appraiser - **CRA™** designations to individuals across Canada and around the world.

An **AACI™** Designated Member may undertake any real property assignment where they have demonstrated competence with the real property type and the geographic and market influences that impact value. Property types can include but are not limited to: residential, commercial, industrial, institutional, agricultural, land, special use.

A **CRA™** Designated Member may undertake a residential real property assignment where they have demonstrated competence with the residential property type and the geographic and market influences that impact value on residential dwellings containing not more than four self-contained family housing units or an individual undeveloped residential dwelling site.

These designations recognize highly qualified individuals who have completed the AIC's rigorous curriculum, experience and examination requirements.

Standards of Professional Appraisal Practice

The AIC has established ethics and standards commonly known as Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP) to help ensure Members fulfill their professional and ethical responsibility to provide an independent and unbiased opinion of the value a property to their clients, AIC Members are required to engage in Continuing Professional Development activities to ensure they maintain their skills. In addition to the requirement to comply to CUSPAP, in some provinces, AIC Members are also subject to provincial licensing requirements (i.e. Alberta, Nova Scotia and New Brunswick).

A designated appraiser must also abide by AIC's Code of Conduct in undertaking any appraisal assignment and be registered in AIC's mandatory Professional Liability Insurance Program.

Addressing Your Concerns

The AIC has a complaint resolution process (CRP) that is focused on maintaining the excellence of the appraisal profession and the services provided by its members to the public. The CRP does not arbitrate or determine the market value but rather focuses on adherence to the Appraisal and Ethic Standards set out in CUSPAP. A complaint must be initiated in writing by completing the Complaint Form included in the **Consumer's Guide to AIC Professional Practice**, located on our website [AICanada.ca] and emailed to **info@aicanada.ca**.

This Guide was originally authored by Allan Beatty (AACI, P.App) and Nathalie Roy-Patenaude (AACI, P.App) and was updated in January 2018.