

## FAQ's

### What is my property worth?

This is the most common question asked and the answer is best obtained by having an independent appraisal completed. An appraisal consists of a thorough property inspection, location analysis and an investigation of relevant market data, and equating that information into an indication of market value for the property. Your property's value is often the cornerstone of your financial well-being and consideration should be given to having its value established by an independent professional.

### We are considering renovating and would like to know what renovation projects will provide the best return upon sale?

Renovating is a complex area and every situation has to be looked at individually. The best return on resale is cosmetic items such as painting and decorating where there is limited capital outlay, according to the Renovation Payback Study completed by the Appraisal Institute of Canada.

Care should be taken not to overly personalize the renovations and adversely affect the property's function or market appeal. Be particularly careful when renovating if the property is in the upper range of value for the area and involves a large capital outlay. Remember, Location, Location, Location.

Appraisal Institute of Canada 's 2004 Home Renovation Survey Results of the AIC 2004 Renovations and Home Improvement Survey have been tabulated. Based on the informed opinion of Canada's professional fee appraisers, the three most frequent renovation improvements undertaken by homeowners, which provide the highest payback potential are:

#### The following renovation projects provide the highest payback potential for homeowners.

- Bathroom Renovation
- Kitchen Renovation
- Painting - Interior/Exterior

This information is also valuable for homeowners to measure what effect home improvement projects may have on the resale value of their homes. Consumers should be aware that home values and returns on renovation investments are dependent on many factors such as the location of the property, i.e. province, rural/urban, the neighbourhood. Notably important is the quality of workmanship and materials. Whether you're planning to sell your home soon or to stay put for a while, you'd probably rather have any improvements you make to your home add as much value as possible. Here are some projects for which the Appraisal Institute of Canada's members projected average payback value ranges. The twenty most frequent renovation projects were:

#### Top four greatest payback potentials

- Bathroom renovation (75-100%)
- Kitchen renovation (75-100%)
- Interior painting (50-100%)
- Exterior painting (50-100%)

#### Ten average pay back potentials

- Roof shingle replacement (50-80%)
- Furnace/heating system (50-80%)
- Basement renovation (50-75%)
- Recreation room addition (50-75%)
- Installing a fireplace (50-75%)
- Flooring (50-75%)
- Constructing a garage (50-75%)
- Window/door replacement (50-75%)
- Building a deck (50-75%)
- Central air conditioning (25-75%)

#### Six lowest payback potentials

- Landscaping (25-50%)
- Interlocking paving (25-50%)
- Building a fence (25-50%)
- Asphalt paving (20-50%)
- Adding a swimming pool (10-40%)
- Installing a skylight (0-25%)

In addition, AIC members rated the top home renovation trends in the marketplace.

#### In the opinion of Canada 's professional real property valuers, the top trends in home renovation in 2004 are:

- Home theatre room
- Hardwood flooring in kitchen
- Main floor laundry room
- Use of non-neutral interior paint colours
- Installing a jacuzzi or whirlpool bath
- Built-in kitchen appliances
- Ground floor office
- Addition of island in kitchen

For a comprehensive valuation of a home and/or renovation project, an accredited member of the Institute should be consulted. An AIC appraiser will provide an objective, unbiased, impartial home renovation cost-benefit valuation. They will identify the value of your home prior to the renovations being undertaken and provide a projected valuation based on your anticipated renovation plans. Homeowners could save themselves a lot of time, expense and heartache by calling an appraiser first, even before the designer, contractor and architect. Ask an appraiser what the market value of your home is now and what it would be when the renovation is completed. The answers may surprise you - in many cases, the payback will depend not only upon the renovation itself, but also upon the comparison between your house and others nearby. If your home's value is above the average market value in your neighborhood, you can expect a relatively low payback on renovations. But if your home's value is below the average market value, you can expect a much higher payback. *Although the payback potential is an important consideration, the long-term enjoyment of a renovation done well is of greater importance to most people considering the renovation option.*

### **Why is the cost to construct a building not always retained in the marketplace?**

The cost to build is not always retained in the market place because of depreciation, which comes in many forms.

Physical depreciation is the most common form of depreciation, with most property owners having a basic understanding of how this principle applies. For example, if your property is 10 years old and has a life expectancy of 50 years, then the physical depreciation applicable would be 20 percent. This form of depreciation pertains to the wear and tear a property receives over time. Depreciation may also exist in two other forms, namely functional and external.

Functional depreciation may be a poor or inappropriate floor plan. For example, an individual may choose to build a one-bedroom home. The majority of the buyers in today's market-place appear to demand a minimum of two bedrooms and there is generally an ample supply of these properties. Therefore the market will not pay the cost to build a home with a one-bedroom layout. In this instance, the difference between the cost and value could be attributed to functional depreciation.

External depreciation is a loss in value caused by external influence to the property. For example, a residential property located adjacent to a non-compatible use such as a gas station or night club may be negatively affected by its close proximity. External depreciation may also apply if the economy of a town has been negatively affected by the closure of a mine, fish plant or hospital.

### **Do we need an Appraisal if we have had a building inspection completed?**

An appraisal and a building inspection should not be confused as serving the same function. An appraisal is an opinion of a property's market value. While the physical condition of the property is critical, the appraiser also has to consider subjective issues such as location, design/function and supply and demand, which have a significant influence on marketability and value.

A building inspection is a thorough examination of the physical condition of the structure and its components.

Prudent purchasers generally make their offer to purchase subject to both an independent appraisal and building inspection.

### **When is the best time of the year to be in the real estate market and what are the most important issues involved in obtaining my best deal?**

The time of year depends on whether you're a buyer or a seller. Typically the best time of the year to sell is the summer, when the number of buyers is usually the greatest.

Conversely, from a buyer's standpoint, the best price can often be negotiated in the winter, when the least number of other buyers are in the market. You should also be aware, however, that property inventory is usually at its lowest in the winter and you may not be able to get a good look at the property's exterior, in particular, the landscaping.

One consideration is to sell in the summer, rent during the fall and buy in the winter, this approach would, however, involve appreciable costs and frustrations around two moves.

Aside from the time of the year, buyers and sellers have to educate themselves for one of the most important investments of their lives. Sellers should seek the most informed and unbiased opinions of the market value of their property through qualified appraisals. In addition an appraisal could be provided to the prospective buyer to assist in formulating an agreement and for financing purposes.

Buyers should always include on offers to purchase the phrase "subject to the appraised value being equal to or greater than the agreed purchase price". You should insist on obtaining the appraisal before closing and, if the lender doesn't need an appraisal, have one completed for your own security and peace of mind.

**We often hear it's best to buy the lower priced property in a particular area for future re-sale. Why is this so?**

Real estate value, like water, seeks its own level. For example, assume the range of value in your area is between \$100,000 and \$125,000, and your property has a value of 100,000. If the overall values in the area increase, your property will outperform by the greatest margin.

Likewise, if the overall market declines, your property will be the least affected; therefore, the lower-priced property investment value is impacted less.

**We have had our property expropriated. How do we ensure we obtain fair compensation for our loss?**

Under legislation, you are entitled to receive that amount which places you in a position where you are no worse off than before the expropriation. In the case of a principle residence if the home is to be taken or severely negatively affected, a house for a house is often the compensation. Most often, governments will try to resolve the amount of compensation to be paid before actually expropriating. It is important for you to ensure you are fairly compensated for all aspects, including partial property expropriation, the loss in value to your remaining property, your costs to obtain fair compensation also with other items must be considered. In addition to valuation advice, legal advice is strongly recommended in such matters.

**We recently have been approved for financing on a home we intend to buy. Does this mean there was an appraisal completed?**

Not necessarily. The lender has to be concerned about your credit worthiness and their exposure to loss. You were most likely required to pay for mortgage insurance to protect the lender in case of default and, in addition, an application fee which may not have included an appraisal of the property. One of the ways to protect your interest is to insist the clause "subject to the appraised value meeting or exceeding the agreed purchase price" be in the offer-to-purchase agreement, and go over that appraisal document with the appraiser well before the commitment to go forward with the transaction occurs. The purchase of a home is a very emotional time; therefore, it is important to obtain objective advice. Always remember, buyer beware.

**What is the difference between a real estate appraiser and a real estate agent?**

Real estate agents are professional salespersons. They typically will provide a market analysis when establishing a list price on a home for sale. Generally, no fee is charged for this service, but a commission is paid by the vendor when the home sells.

A professional real estate appraiser specializes in providing opinions of value of various types of property. They charge a fee based on the type of the property, complexity of the property and purpose of the appraisal assignment. This fee is not based upon a predetermined value estimate and therefore an appraiser can provide you with an objective, independent value of your property.

All members of the Appraisal Institute of Canada are required to conform to the Uniform Standards of Professional Appraisal Practice. They are objective real estate analysts and consultants. Ethically, no

appraisal assignment can be accepted contingent upon a certain pre-determined minimum or maximum value.

**We are considering selling our property and are wondering, can an appraiser help us price it to sell most effectively?**

Definitely. Although pricing your property is only one component in marketing when it comes to selling real estate, pricing is the most important element. Setting your price depends on your goals and objectives. How you wish to price your property may alter when or if you want to put your home on the market.

Pricing is an art, not a science and much intuition is involved. Having a qualified real estate appraiser/advisor to assist can be valuable as you make your pricing decision. A qualified independent real estate appraiser/consultant is best equipped to provide detailed information. Evidently the individual with the best information will be the best prepared to achieve maximum value. An appraiser/consultant can provide a written detailed appraisal of the property which includes: a neighborhood analysis (proximity to churches or schools for residential customers, proximity of competitors and other major attractions for the commercial clients); trends in real estate pricing in the neighborhood; a property description and analysis, market trends in general; a comparison of the subject to the most recent relevant sales transactions along with competitive listings, in the marketing area.

The appraiser/consultant can also recommend any basic repairs or cosmetic upgrades that maybe advisable before listing the property to ensure obtaining the maximum return. An appraiser/consultant may also advise whether or not it would be in your best interest to put your property on the market, at this time. Based on your objectives (a quick sale, maximum return, etc) it may not in your best interest to go to market at a given time. An appraiser/consultant will advise you when is the best time to sell your property.

Finally, and most importantly the appraiser/consultant can recommend the most effective list price to obtain the maximum value. A qualified independent real estate appraiser/consultant works for you. They are well versed in all aspects of real estate.

**We have been advised by a number of reliable sources to make all offers to purchase subject to an appraisal. Will the appraiser know what amount we have offered on the property?**

Not if you don't want the appraiser to know. The appraiser will provide an objective opinion of market value. Your motive is to obtain this qualified independent opinion to assist in determining if the agreement to purchase is at fair market value. The appraiser has an obligation to find out the marketing history of the property.

It is your right to instruct the appraiser and all that come in contact with the appraiser not to convey the current agreed amount. You could also wait until the appraisal is completed before making an offer on the property.

There is a 5% range to value in which appraisers opinions are accurate. Therefore if the appraisal is 2.5% below or above the agreed amount, there may not be a problem with the agreed purchase price. What you pay for the property is crucial for the viability of your investment. If you intend to do major renovation after purchasing, make sure you ask the appraiser to provide a valuation with the renovations complete. You should pay no more than market value, less the cost of completing the renovations.

Finally, obtaining an appraisal contributes to your decision-making. A lender may advise that you don't need it for the financing. This is because you probably paid a mortgage insurance premium to protect the lenders, so the lender is not at risk. The question is are you?

Always rely on those involved in the deal that have no vested interest in it closing, such as the land

surveyor, building inspector and appraiser. Remember, it's a buyer beware market place; are you protected?

### **My tax assessment has gone up since last year. How do I successfully appeal the valuation?**

*To be successful in appealing your assessed value, you have to prove your property is assessed higher than market value, as of the base date of valuation. The fact that your assessment has increased since the last assessment period is not sufficient grounds. If you believe you have a case you will be required to file a "Request for Reconsideration" with the Municipal Property Assessment Corporation (MPAC). The procedure for filing a Request for Reconsideration is outlined on the MPAC website. The deadline to submit your "Request for Reconsideration" is the end of March and any reconsideration will apply only to future years within the current 4 year valuation period.*

The appeals process can be complicated and intimidating. An independent real estate appraiser is best equipped to estimate the market value of your property and can help guide you through the appeals process. Our appraisers/advisors can even act as a proxy on your behalf to complete the "Request for Reconsideration" and the necessary market analysis required in support of the reconsideration of your property.

Like the old saying goes, "...two things are certain, death and taxes..." Maybe for once you can do something about the latter.