Appraisal Institute of Canada

Ontario

2020 Pre-Budget Submission

The Appraisal Institute of Canada

January 24th, 2020

Recommendation One

AIC-ON recommends the Government of Ontario ensure all land title and assessment databases be accessible and affordable to professional appraisers and other real estate professionals in an equitable way to ensure access to reliable, consistent and comprehensive data when determining the value of residential property.

Recommendation Two

AIC-ON recommends that prudent underwriting procedures, which would include the requirement for an appraisal, are applied to and followed by Mortgage Investment Corporations (MICs) operating in Ontario.

Who We Are

The Appraisal Institute of Canada (AIC) is the nation's leading real property valuation association with more than 5,440 members across Canada, including approximately 2,358 members in Ontario. AIC Ontario (AIC-ON) members provide unbiased and independent appraisal, review, consulting, reserve fund planning, machinery and equipment and mass appraisal valuation. In 2018, AIC-ON's members completed 518,520 third-party appraisals valued at approximately $572 billion worth of property.

AIC is a self-regulating professional organization that grants the distinguished Accredited Appraiser Canadian Institute (AACI) and Canadian Residential Appraiser (CRA) designations to individuals across Canada and around the world. AIC's mission is "to promote and support our members in providing high quality property advisory services for the benefit of clients, employers, and the public." Our members adhere to national standards – the Canadian Uniform Standards of Professional Appraisal Practice – and are respected worldwide for the rigorous designation program and ongoing professional development requirements.

AIC is pleased to provide the Standing Committee on Finance with our recommendations for the 2020 Provincial Budget.

Why Is Change Necessary?

The real estate market is a key building block of the Canadian and Ontario economies. It affects every segment of our society and has the potential to help financial systems, investors and everyday Canadians prosper. Real estate markets - when not appropriately regulated and managed - can contribute to the instability of a nation's lending institutions and its economy. One of the core elements of a healthy and balanced real estate market is a systematic approach and commitment to reliable property valuations. Unbiased and independent real estate appraisals play a vital role in assisting individuals, businesses and governments make informed decisions during real property transactions.

On-site appraisals, conducted by qualified professionals are the most effective way to mitigate lending and property investment risk. They help to:

- ensure that properties are not overvalued;
- detect and prevent mortgage fraud or crimes involving real property;
- validate the characteristics of the property and take into consideration the surrounding market conditions.

Members of the AIC-ON help to sustain healthy valuation fundamentals in Ontario. With the support of the Finance Committee, we can continue to expand a network of small business across Ontario to protect all property owners.

Recommendation One

One of the essential aspects of a quality appraisal is access to reliable data. Small and medium appraisal businesses across Ontario rely on accurate market data to ensure that properties aren't overvalued.

Fair and equitable access to data is important for all stakeholders involved in real estate transactions as it helps to ensure the stability of the real estate market, protects Ontario property owners, and provides more effective reporting based on objective and evidence-based research.

A lack of reliable information can potentially put our financial system and Ontario residents at risk. AIC-ON members need to have equitable and affordable access to public records of land registry, sales data, and other key data points to effectively authenticate properties, assess scope of work and complete appraisal assignments.

While access to data is very important to our members, we also understand the need to respect private information and follow privacy legislation in Canada such as the Personal Information Protection and Electronic Documents Act (PIPEDA). AIC-ON would be pleased to work with the Government of Ontario on ensuring the right balance of requiring access to data, all while protecting the privacy of Ontarians.

<u>Our recommendation would be to ensure that data is available, transparent, reliable, consistent and affordable for small and medium businesses across the province, including for designated appraisers and other real estate professionals.</u> Specifically, we urge the Government of Ontario to ensure that land title and assessment databases be accessible and affordable. This can be accomplished by working with all real estate boards and land title agencies in Ontario.

Accessing quality, affordable, comprehensive, and reliable data is an essential requirement for AIC members. The potential impact of limited access to data is:

- The Canadian lending system and consumer will be exposed to higher levels of financial risk;
- AIC members' ability to safeguard their client against mortgage fraud during the mortgage underwriting process; and,
- Higher costs to consumers as Provincial governments turn to third-party organizations (private or crown corporations) to automate and administer their property and title registries. The move towards non-governmental ownership has proven to sharply increase the cost of data for members.

Recommendation 2

A Mortgage Investment Corporation (MIC) is a company that is entitled to special tax treatment under Section 130.1 of the Income Tax Act (Canada) (the "Tax Act") that allows investors to pool their funds to be loaned out as mortgages. The rules under Section 130.1 of the Tax Act were introduced to attract more money to the Canadian mortgage market for residential financing, which is a multi-billion-dollar industry in Canada. The Tax Act requires that 100% of the MIC's net income be distributed to its shareholders by way of a dividend, which is taxed as interest income.

Changes to federal and provincial housing policy over the last few years have placed more scrutiny on potential borrowers; as a result, an increasing number of Ontarians have sought financing through lenders that are not obligated to apply prudent underwriting procedures, MICs for example. A report released by CIBC in April 2018[1] which focused on condo investors in the Greater Toronto Area stated the following with regards to new condo mortgages by lender: "The 'Big 5' banks provided three quarters of credit to investors, while smaller banks, trust companies and credit unions accounted for close to 20%. Private and individual lenders accounted for 5% in terms of dollar amount, but close to 10% in terms of the number of transactions." This indicates that up to 25% of lenders may not be properly regulated.

As it currently stands, MICs are not required to undertake a specific set of underwriting procedures, which we believe, exposes investors, consumers and the housing market to undue risks. Sound mortgage underwriting requires a balanced approach that entails due diligence on the creditworthiness and credit history of the borrower as well as the appropriate valuation of the collateral used to secure the loan. On-site appraisals carried out by qualified professionals are the most effective way to confirm the value of an individual property and represents the best method of mitigating lending and property investment risk. Therefore, AIC-ON recommends that the Government of Ontario work with the Ontario Securities Commission to implement prudent underwriting procedures that must be followed by MICs.

[1] Urbanation and Canadian Imperial Bank of Commerce, A Window Into the World of Condo Investors, April 6, 2018, Page 2

Conclusion

AIC-ON will continue to work with the Government of Ontario to advance the concerns of the appraisal industry. We believe the Standing Committee on Finance, during the 2020 prebudget submissions, can introduce responsible and equitable policy for the benefit of Ontario's real estate stakeholders. The AIC-ON supports new legislation that provides equitable access to data for designated appraisers and other real estate professionals, and legislation that introduces prudent underwriting for all lenders across Ontario. For further information or answers to questions, please contact Vikki Leslie at vleslie@aicontario.ca or by phone at 416-695-9333 ext. 223.