



Written Submission for the Pre-Budget Consultation in Advance of the 2023 Federal Budget

September 2022



Appraisal Institute
of Canada



Overview of Recommendations

1. Continue to apply prudent underwriting guidelines
2. Complete improvement of flood maps and compile them in one central portal and be made publicly available
3. Implement and launch the Housing Accelerator Fund



About

The Appraisal Institute of Canada (AIC) is Canada's leading real property valuation association with over 5,600 members across the country and around the world. Since 1938, AIC has worked collaboratively with its 10 affiliated provincial associations to grant the distinguished Accredited Appraiser Canadian Institute (AACI™) and Canadian Residential Appraiser (CRA™) designations. As a self-regulatory body, we have a strong focus on consumer protection.

As an integral part of the real estate market in Canada, appraisers are hired by mortgage lenders, mortgage insurers, mortgage brokers, real estate representatives, and the public to provide independent, real-time opinions of the value of real property to help them make informed decisions. Appraisers have no vested interest in the outcome of a transaction or in the value of a subject property. Each year, AIC Professional Appraisers conduct over one million appraisals valuing over one trillion dollars.

Introduction

Over the past few years, our lifestyles and our entire economy have been upended. During the pandemic, Canadians experienced an extremely active housing market with dramatic increases in demand and in prices; Canadians now face a slowing market with lower demand and downwards pressure on prices. As inflation continues to rise or, at best, level off, Canadians are seeing the cost-of-living rise and life becoming more and more unaffordable. The impact of inflation, coupled with rising interest rates, have reduced purchasing power for many that have still not entered the housing market or are contemplating a move up. For those who have purchased a home at the peak of the housing boom, their equity may already have been reduced, and many are seeing their monthly payments rise.

When buying a home, Canadians need to rely on strong market fundamentals to inform their decisions – especially in volatile markets such as the one we are currently experiencing. During these periods of volatility, a well-functioning and stable credit market is essential. AIC Professional Appraisers provide high-quality, valuation services to support a healthy financial system that best serves the needs of all Canadians.

As a self-regulatory body, appraisers have a strong focus on consumer protection. They uphold independent valuation fundamentals that help mitigate risks by ensuring lenders, insurers, and consumers make informed decisions. Appraisers, working alongside home builders, realtors, mortgage brokers, and home buyers, are an essential part of Canada's real estate industry.



In order to continue supporting Canadians, it is important to make policy decisions that help home buyers and homeowners while ensuring the health of the financial system and the real estate market.

AIC believes that the following three recommendations will help mitigate risk in the market as well as make housing more affordable to those aspiring to purchase a home.

Continue to Apply Prudent Underwriting Guidelines

A core element of a healthy and balanced real estate market is the timely availability of reliable property valuations. AIC Professional Appraisers play an essential role in providing independent opinions of value to help stabilize and secure the market, as well as protect Canadians. Strong valuation fundamentals helped Canada's economy remain steady during the 2008-2009 global financial crisis. AIC Professional Appraisers supported the real estate market by contributing their real estate expertise and knowledge to the lending industry and providing sound valuation advice to clients and key stakeholders.

The Residential Mortgage Underwriting Practices and Procedures (B-20 Guidelines), under the authority of the Office of the Superintendent of Financial Institutions (OSFI), include provisions for Federally Regulated Financial Institutions (FRFIs) to obtain appropriate numbers of on-site inspections and independent appraisals to verify the value of collateral used during the mortgage underwriting process. Knowing and understanding the value of the collateral is as important as ever to mitigate risk when there is a high loan-to-value ratio, when markets are in flux, such as in the current case, or when the creditworthiness of the borrower may be in doubt.

During Canada's current economic state, continued application of prudent underwriting guidelines, which include strong valuation fundamentals, is equally, if not more important than ever. At a time when Canadians' finances are being impacted and the real estate market is volatile, independent and professional appraisals help protect Canadians and the housing market.

Professionally prepared appraisal reports rely on analysis of real-time, current data – what is happening in the market right now - and on the experienced eye of an appraiser walking through a property. As we saw during and since the COVID-19 pandemic, individual markets can shift very quickly, and only a real-time evaluation can truly capture these fluctuations.



While many participants in the market are looking to expedite transactions, ultimately, the proper due diligence offered by an independent professional appraiser ensures that decision-makers have a reliable appraisal report providing a well-supported opinion of value.

Requiring FRFIs to apply proper due diligence by requiring valuation reports based on on-site, in-person inspections performed by qualified appraisers is a sound practice. It enables lenders to confirm the current valuation of the collateral when processing a mortgage loan application and that they are doing so with the assurance that the valuation was carried out in an impartial, fair, and objective manner. In summary, we recommend that the Government of Canada continue to mandate strong valuation fundamentals within FRFIs.

Complete Updated Flood Mapping

Over the last several years, more and more communities across Canada have been impacted by climate related natural disasters. There have been major floods in almost every province in Canada, affecting hundreds of thousands of Canadians across the country. Reports suggest that climate change is one of the factors that is contributing to recurring flooding. In fact, the Insurance Bureau of Canada estimates that over one million homes across Canada are at high risk of flooding, and a portion of those are at very high risk of flooding.¹ Public Safety Canada calls overland flooding Canada's costliest natural hazard.²

AIC applauds the government of Canada's initiative in working with stakeholders to develop the Flood Hazard Identification and Mapping program (FHIMP). In order to protect Canadians, the government should continue to work with stakeholders, such as AIC Professional Appraisers, to ensure adequate and complete flood mapping is developed and released as soon as possible.

Homes and buildings that are situated in flood zones are often less valuable than properties outside of flood zones,³ and, as the current climate changes, floods will occur more frequently and in areas that were not affected in the past. This affects not only existing homes and buildings but also new developments.

¹ <http://assets.ibc.ca/Documents/Disaster/IBC-National-Flood-Action-Plan-recommendations.pdf>

² <https://www.publicsafety.gc.ca/cnt/mrgnc-mngmnt/dsstr-prvntn-mtgtn/ndmp/fldpln-mppng-en.aspx>

³ https://www.intactcentreclimateadaptation.ca/wp-content/uploads/2022/04/UoW_ICCA_2022_02-Treading-Water_Flooding-and-Housing-Market.pdf



Prospective homeowners and the mortgage lending industry rely, in part, on information gathered by appraisers to make their buying and lending decisions. Updated flood maps will enable AIC Professional Appraisers to assess whether the subject property is on a flood plain or in a high-risk flood area, something that they would then note in the appraisal report and make any necessary adjustments to the independent opinion of value. Therefore, updated flood maps and other climate-related risks being made available to the real estate industry would assist appraisers in helping Canadians make the most informed decisions possible.

AIC recommends that the Government of Canada complete improvement of flood maps and house them in one central portal that is publicly accessible. Floods are just one example of climate risk – others such as drought, severe storms, and wildfires can all affect the value of a property. Going forward, governments will also need to take a leading role in ensuring information on these risks is widely and consistently made available.

Implement and Launch the Housing Accelerator Fund

To address Canada's housing crisis, the federal government must work with provincial and municipal governments to implement policies that help to increase the supply of housing. While there is no perfect policy to address the housing crisis, we do believe supply is one of the solutions to a more balanced marketplace.

Supply and demand factors have historically shown themselves to be one of the major drivers of housing prices. When supply is curtailed, appraisers will see prices go up, sometimes dramatically. Current levels of housing supply are seeing middle-income Canadians being priced out, facing increased pressures to find and afford the home they need. While the housing market has seen prices fall in recent months due to rising interest rates, the shortage of housing supply remains and will intensify as immigration numbers continue to climb coming out of the COVID-19 pandemic. According to the Canada Housing and Mortgage Corporation, Canada will need an additional 3.5 million units above current projections by 2030.⁴

While some might suggest that the current slowdown in markets has reduced the need for an increase in supply – and by extension the need for the fund to be launched – we would argue that the market factors that contributed to high demand will return at some point. Household formation and immigration levels are just two of those factors and the housing market will be in a far better place if increased supply is available as demand increases.

⁴ <https://www.cmhc-schl.gc.ca/en/blog/2022/canadas-housing-supply-shortage-restoring-affordability-2030>



Canadians are experiencing severe volatility in the real estate market – from the highs of the pandemic to declining activity due to interest rate increases. The Housing Accelerator Fund announced in Budget 2022 identifies broad objectives to help increase housing supply and is a move in the right direction, but it has yet to be implemented. Specifically, the Fund should focus on affordability and expedited approvals for development and address the key challenges to new supply, which by all accounts, are related to local municipal restrictions or hurdles like zoning restrictions, density limits, and NIMBYism. Supporting municipalities in addressing those challenges, whether it be financially or, in some cases, more importantly, politically, will go a long way in getting new supply to the market.

As price fluctuations continue to impact the real estate market, it is vital that the right expertise and experience are applied throughout the decision-making process. The government has made historic investments in housing, and appraisers are willing and well-positioned to assist in policy development.

AIC applauds the federal government's bold commitments in Budget 2022 to help address the shortage of housing supply, but more has to be done sooner to incentivize new housing starts – one way to do this is to implement and launch the Housing Accelerator Fund as soon as possible.