

November 20, 2019

The Honourable Scott Fielding
Minister of Finance
Government of Manitoba
103 Legislative Building
450 Broadway
Winnipeg, MB R3C 0V8

Dear Minister Fielding,

On behalf of over 225 members of the Appraisal Institute of Canada – Manitoba (AIC-MB), I am pleased to have the opportunity to make a submission in the context of the 2020 Budget consultation process.

The Appraisal Institute of Canada (AIC) is the premier real property valuation association in Canada. Founded in 1938, the AIC has over 5,400 members and 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. Our members adhere to national and international recognized standards – the Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP) – and are respected worldwide for the rigorous designation program and ongoing professional development requirements.

In 2018, AIC-MB members conducted over 32,000 third-party appraisals with an overall value of approximately \$29 billion within the Province. This represented \$9 billion in residential property and \$20 billion of non-residential property, including commercial, industrial and many other types of real estate. Furthermore, we have many members who provide in-house expertise for private and public interests including governments, rural municipalities, crown corporations / agencies, corporations and mortgage insurers.

AIC-MB members are very committed to working with legislators, government and stakeholders within the real estate industry to ensure all parties involved in a transaction are protected and well informed when making a decision. We believe our unbiased opinions and strong valuation fundamentals result in a sustainable and healthy marketplace that enables all Manitobans to prosper. With that in mind, our attached brief addresses the following:

- Asset Management
- Mortgage Underwriting
- Mitigating Risks

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We thank you for considering our submission and remain available for any questions.

Respectfully,



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President-Elect – Appraisal Institute of Canada, Manitoba

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i. Asset Management

Appraisers can assist governments in carefully assessing real property needs. Whether it is to build, replace, or repair existing infrastructure; or ensure special projects are initiated effectively and efficiently, governments must undertake these complicated (and sometimes difficult) decisions to ensure prosperity for their citizens. Due to the importance of these decisions, it is vital that the right expertise and experience is engaged in the decision-making process.

Through provincial department initiatives, appraisers are called upon to ensure that real estate projects succeed at both the residential and commercial level by promoting responsiveness, accountability, and transparency. Whether it's urban planners, lawyers, engineers, senior managers, or other provincial staff, appraisers are used to assist governments in making decisions that affect where the residents live, work, play, learn, and shop. Below are examples of different areas of government services in which appraisers can offer their expertise.

Acquisitions and expropriations

Provincial acquisition and legal departments are constantly engaging valuation services from internal non-fee staff, as well as external fee-based appraisers, with regard to purchasing various real estate interests that are required for provincial purposes. These interests can involve portions of land or entire properties, vacant parcels, and improved sites. Examples include:

- estimating the value of above-grade and subterranean/underground lands to ensure transportation safety;
- providing market value for the partial acquisition of an apartment complex that is adjacent to a community centre; and
- conducting a study on the impact of road closures, how this will affect a certain property's access and assigning a value to this impact.

Property taxes and assessment

Fee appraisers are often contracted by governments to do studies on capitalization rates and market trends. The results of these studies are considered when completing mass appraisal valuations for updating assessment rolls.

Property management and leasing

A province can be either a landlord or a tenant. Whether a province leases out its own residential and commercial properties, or a government department requires space in a privately-owned commercial building, it needs to ensure that rental rates are within market levels. As a result, appraisers can be retained to complete a market study of leases and rents that can assist the province in its negotiations. Further, appraisers can also provide opinions of market rent on vacant lands (or portions thereof) that private business owners or citizens want to lease for their own use.

Feasibility studies

These valuation projects tend to be a collaboration involving various departments pertaining to a parcel of land or project. For example, when a province has various leases for multiple office spaces expiring, it may consider the possible efficiencies and sustainability of relocating everyone into a single building. Appraisers may be asked to conduct a feasibility analysis from a financial perspective on whether it is better to construct a new building, lease a different building, or lease an existing space.

Forecasting

An appraiser may be tasked with anticipating the lease rates for various spaces that will arise within a given area. This information can then be used for special tax purpose consideration. Whenever there is a proposed change in lease rates, vacancies, or some other factor in the analysis, appraisers can be asked to verify or comment on whether the proposed change is reasonable based on their expertise and market conditions/trends.

Other studies

An appraiser can be asked to estimate the market value of a property based on different development regulations within different hypothetical scenarios. What if it's this zoning versus that zoning? What if the building density is increased? What is the effect on value and what is the best-case scenario for the province?

An appraiser's role within provincial government is to guide administration to make virtuous real estate decisions that add to the quality of life within a community at a price that is fair for all taxpayers. It is important that governments continue to rely on the expertise that appraisers provide. With governments placing a focus on promoting accountability and transparency throughout their operations, allowing appraisers to provide expert advice regarding real estate ensures that an unbiased and unfettered decision can be made. In the end, proper valuation is the cornerstone to enabling the province to make sound and prosperous real estate decisions to serve its citizens.

Recommendation: That real estate decisions should always be based on comprehensive research and analysis to ensure that government revenues are maximized and that expenditures are within reason. This aptitude is found in designated appraisers, either on provincial staff, or outsourced from a reputable firm.

ii. Apply Appropriate Guidelines to All Lenders Providing Mortgage Financing

Over the last 24 months, federal mortgage lending rules have placed more scrutiny on potential borrowers from federally regulated lending institutions; as a result, Manitobans have been forced to seek financing through the non-federally regulated channel.

On the surface, we do not have an issue with this shift in consumer behaviour. However, our concern is that some of these mortgage lenders may not apply prudent underwriting guidelines that takes into consideration both the borrower's capacity to repay a loan and the value of the collateral. These lenders typically charge higher interest rates to compensate for a higher risk borrower and/or transaction. Due to this relative lack of oversight, lenders that fall outside of federal oversight, and, in some cases, provincial oversight, bring people into the market that may not otherwise qualify for the same level of mortgage, exerting upward pressure on demand and therefore prices. It also adds to the level of indebtedness of Manitobans, thereby increasing vulnerability in the lending market and the economy as a whole.

It wasn't long ago where less than favourable lending practices led to a significant recession in the United States, Ireland and other countries; in fact, it can be argued that a lack of prudent mortgage underwriting (in some countries) was a significant contributor to the global financial crisis.

We believe that it is time to ensure some consistency across the country and across all lender types. We believe that the Government of Manitoba should set mortgage lending parameters or guidelines that are similar to the Residential Mortgage Underwriting Practices and Procedures (B-20 Guidelines) under the authority of the Office of the Superintendent of Financial Institutions. These guidelines include provisions for federally regulated financial institutions to obtain appropriate numbers of on-site inspections and third-party appraisals to verify the value of collateral used during the mortgage underwriting process. It also requires consideration of a borrower's capacity to repay a loan. This policy is particularly important to mitigate risk when there is a higher loan-to-value ratio, when markets are in flux, or when the credit-worthiness of the borrower is questionable.

Recommendation: That the Government of Manitoba set mortgage lending parameters or guidelines that are similar to the Residential Mortgage Underwriting Practices and Procedures (B-20 Guidelines) under the authority of the Office of the Superintendent of Financial Institutions.

iii. Mitigating Risks

The real estate market is an important aspect of the economy. It affects every segment of our society and has the potential to help financial systems, investors and everyday Manitobans to prosper.

One of the core elements of a healthy and balanced real estate market is a systemic approach and commitment to reliable property valuations. Unbiased and independent real estate appraisals play a vital role in assisting individuals, businesses and governments to make informed decisions during real property transactions.

On-site appraisals carried out by qualified professionals are the most effective way to mitigate lending and property investment risk. Appraisals help to ensure that properties are not overvalued and also help to detect and prevent mortgage fraud or other issues involving real property. When conducted by a qualified and experienced professional - drawing on a sophisticated methodology - an appraisal will validate the characteristics of the property, analyze the current market conditions and take into consideration the surrounding neighbourhood.

Strong valuation fundamentals helped Canada's economy remain strong during the global financial crisis at a time when many of the world's leading economies faltered. Members of AIC-MB helped to maintain those fundamentals by contributing their real estate expertise and knowledge to the lending industry and providing sound valuation advice to clients and key stakeholders.

AIC-MB actively supports efforts to ensure that consumers are well educated about the appraisal process and particularly its role within the mortgage financing process. This education will assist in maintaining the quality of the valuation fundamentals needed to protect the public and the financial system. Further, AIC-MB members also play an important role in the mortgage sale process in ensuring that all parties are protected.

AIC-MB members are uniquely qualified in the role of protecting condominium owners by assisting condominium corporations meet the requirements of The Condominium Act. These services include providing a third-party, unbiased and professional opinion regarding the amount of replacement cost insurance to be carried by condominium corporations as well as in performing periodic reserve fund studies to ensure the condominium corporation has sufficient funds in place to repair and replace the common elements of such properties.

Recommendation: The Government of Manitoba use every tool at its disposal, including qualified appraisers, to ensure that appropriate risk mitigating measures are employed to protect consumers and the economy. Furthermore, it is important that consumers are educated about the various steps in homeownership and how to protect what is often the most important investment of their lifetime.