AGM VALUATIONS GROUP LTD **REAL ESTATE VALUATION SERVICES**
- Commercial - Industrial - Residential –

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.

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

A: First and foremost the 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 (e.g. rural, urban, waterfront); and the 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 and landscaping.

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

HOW TO VALUE YOUR RENOVATIONS

Payback on Renovations is measured three ways

1 The value of increasing the selling price of your property

2 The value of enjoying the renovated space

3 The value of maintaining the worth of your property

Top 5 Renovations with the Highest Return on Investment

Kitchen - renovation or update with quality of materials and workmanship consistent with the area
Bathroom - renovation or addition with quality of materials and workmanship consistent with the home and the area

Repainting Interior / Exterior - completed in tones with wide-ranging market appeal

Updating Décor - lighting and plumbing fixtures, counter tops, replacing worn flooring (vinyl or carpets) or refinishing hardwood floors

Decluttering - removing all excess items to showcase the features of your home

Top 5 Renovations with the Highest Enjoyment Value

Basement finishing

Garages

Sun rooms / Additions

Decks / Fences

Landscaping

Top 5 Renovations to Maintain Worth

Replacing the roofing

Updating the heating / cooling system

Replacing windows & doors

Updating electrical (panel, wiring, sockets, fixtures)

Repairing structural defects

Replacing the roof cover, updating heating/cooling systems and replacing windows/doors as they near the end of their life expectancy is essential.

Tips to Make Your Renovations a Success

1 Understand the reasons why you are renovating – Do you want to increase the value of your home or enjoy the renovations for years to come? Or both?

2 Think about your personal needs and wants – How much do you want to spend? How long do you plan to own the home after your renovation project? Will you be doing work yourself? Will you work with a general contractor or hire your own tradespeople? How much you spend on improvements should depend, in part, on how long you plan to live in your home. If you are thinking shorter-term, smaller and less-expensive improvements may be your best bet to recover your investment. Think: fresh coat of paint, updating lighting, improving the curb appeal, decluttering, etc. These items can give your home an updated feel with a limited budget. For the highest return on your investment, ensure the workmanship is of good quality and the materials are consistent with other homes in the area. It's important to keep in mind the present condition of the item you are renovating. For example, if you are replacing the builder quality maple cabinets in your 10 year old home with custom designed cabinets with an antique finish (because that is your personal style), the changes may not increase the value of your home at all. To appeal to a wider number of prospective purchasers, ensure the renovation blends in with the overall style and design of your home.

3 Hire Trusted Professionals with References – An interior designer, architect and/or contractor should be consulted before you start your renovation project. They can draw up a plan and assist with renovation advice or construction. Don't forget to build these costs into your project budget! This investment can go a long way to prevent cost over-runs and change-fees later on.

4 Engage a professional appraiser to increase your awareness of over-improvement and unique features

Unique features - Unique designs or improvements that are uncommon for a particular market may impact the re-saleability of a home. For example, a custom designed climate controlled wine room can cost many thousands of dollars. If you are a wine collector extraordinaire and cost is not a concern, then creating a wine room can be personally gratifying. However, if you wish to recover even a portion of your investment, a potential purchaser would need to share your passion. Before renovating, consider the value the improvement may add to the overall value of your property. This is where the expert advice of a Real Estate Appraiser can provide an objective perspective. Renovations take time, patience and planning, but can be appreciated for many years. Work with an expert! Find a qualified Professional Real Estate Appraiser in your area through the Appraisal Institute of Canada's online search tool.

Over-improvement - Consider your neighbourhood and the expectations of buyers in the area when planning your renovation project. Depending on the particular market and/or neighbourhood in which you reside, expensive projects that over-improve your home may only be partially recognized by prospective purchasers. For example, in a particular market, renovating the basement of your home at a cost of $65,000 in an area where homes generally do not exceed $200,000, may not provide the best financial return on your investment.

Once you have carefully thought out your renovation, a Professional Real Estate Appraiser can assist you in understanding how your renovation project contributes to the overall value of the property.

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 a qualified appraiser in your area.

UNDERSTANDING THE RESIDENTIAL APPRAISAL PROCESS

AIC members are engaged by a wide range of clients to provide a professional opinion or consulting services 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 centre, 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.

THE APPRAISAL PROCESS

One of the key methods in valuing a residential property involves comparing properties that have recently sold within the neighbouring area and that offer similar characteristics to the property being valued. 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. • 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 marketplace, 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 and applies adjustments to the actual sale price of these sales to reflect their differences (location, characteristics and amenities) vis-à-vis 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.

The Terms of Reference of the appraisal assignment should be in writing and agreed to by the parties prior to the assignment to avoid any misunderstanding or additional work to amend the valuation report. The typical terms and conditions that should be taken into consideration when hiring a designated appraiser include the following:

• Purpose of the Appraisal Assignment: Outlines that the purpose of the appraisal is to establish a market value, and therefore should include the relevant definition of value.

• Intended Use of the Appraisal Report: Identifies what you intend to use the valuation report for (e.g. mortgage financing, refinancing). This allows the designated appraiser to confirm the work that will be required and provide any specialized advice necessary to support your intended use.

• Intended User(s) of the Appraisal Report: Defines to whom the designated member can expect to provide a copy of the report.

• Appraiser’s Client: The Client is not necessarily the one who pays for the report but rather the one ordering the appraisal report. 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 provided that the appraiser obtains his or her client’s permission in writing.

• 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.

o Form reports are typical in residential valuations. o Short narrative reports set out the key salient facts and conclusions. o Full narrative reports set out in greater detail the research and conclusions.

• Effective Date of the Appraisal Report: This can be the date of inspection or any other reasonable date in the circumstances. 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: This is the designated member's customary and usual certification at the end of an appraisal report which is the appraiser's 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 (e.g. 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. Whether it is the consumer or the lending institution that engages an appraiser to value your home, 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 (e.g. 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 requested 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;

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.

• 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.

Consumers often want a preliminary estimate of value before the appraiser leaves the property. It is important for consumers to be aware that most of the valuation process occurs after the inspection. The inspection allows the appraiser to gather sufficient information to properly describe the property.

Estimating the market value requires the appraiser to complete a thorough analysis of market conditions and market activity. It is often a complex process that involves collecting and analyzing between 3 and 10 (or more) comparable properties in order to form a reliable estimate of market value.

As a consumer, this is what you are paying for: an independent and unbiased opinion of value by a qualified appraisal professional.

WHO'S INVOLVED IN FINANCING OR REFINANCING YOUR PROPERTY

Whether buying or refinancing a home, it is important for you – the consumer – 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.

• Realtor or seller – if buying a home

• Lawyer – if buying or if refinancing involves registering an additional mortgage

• Institutions that are regulated by the federal government (e.g. 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 (e.g. 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 Traditionally, the appraisers had a direct relationship with lenders, brokers and mortgage insurers. Since the mid-1990s, the lending industry has placed an increased reliance on computer-generated mortgage approval processes. Under certain conditions, obtaining an on-site appraisal of the property process is by-passed altogether and a mortgage application may not necessarily involve an actual appraisal of or an on-site visit to the property by a qualified and designated appraiser. 2 Office of the Superintendent of Financial Institutions (OSFI): www.osfibsif.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): www.fcac-acfc.gc.ca/eng/consumers/rights/mortgage/applyingMortgage-eng.asp

IMPORTANT:

Consumers should ask their lending institution if an actual 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 (e.g. appraisal fee) as part of the mortgage loan process.

WHO IS THE APPRAISER'S CLIENT

Appraisers work on a confidential basis with their clients (known as client-appraiser relationship), in the same fashion as other professionals such as lawyers and accountants. When a mortgage broker or lender requests an appraisal, they are the appraiser's client, regardless of who pays the appraisal fee. Under the AIC's 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.

When a lending institution requires an appraisal report on a property, more commonly, they will engage an Appraisal Management Company (AMC) to act as an intermediary to facilitate the appraisal process on their behalf. AMCs offer their clients a single point of contact for the management of the appraisal function and have a contractual relationship with both their lender clients and the local appraisal practitioner.

While there are a number of layers to the appraisal process, appraisers, AMCs and lending institutions are focused on making the process as seamless as possible to the consumer.