

COMMITTEE OF THE WHOLE, APRIL 10, 2001

REAL ESTATE APPRAISER (BUDGET SUB-COMMITTEE MEETING OF MARCH 27, 2001)

Recommendation

The Budget Sub-Committee recommends:

That the recommendation contained in the following report of the Director of Legal Services and Manager of Real Estate, dated March 27, 2001, be approved.

Report of the Director of Legal Services and Manager of Real Estate

The Director of Legal Services and Manager of Real Estate recommend that the complement position of Real Estate Appraiser be approved.

Background

On February 26, 2001, Council resolved that the hiring of a Real Estate Appraiser, Legal Services Department, be deferred pending a report to a future Budget Sub-Committee meeting detailing the nature and scope of the type of appraiser required by the organization.

Further to a request for additional information on the nature and scope of the above position, Staff are providing the following comments.

1. Overview

The overall functions of the real estate unit include negotiation and completion of acquisitions, sales, and leasing files, calculations for the cash-in-lieu of parkland estimates, comments on applications to both Committee of Adjustment and Planning Department and responding to resident's inquiries.

The acquisition file process requires a history of the property, valuation estimates, offer preparation, negotiating an amicable settlement and/or expropriation process and reports to Council. Negotiations may involve numerous meetings and investigation of data to satisfy the owner's concerns.

Sales files require a circulation process, analysis of comments received, discussions with abutting owners, offers, valuation, and a public report to Council.

Due to the increase in development, more time is also being spend on comments (average 25 per month) for proposed development applications, and researching the history of the site to determine previous payments of cash-in-lieu so as to ensure compliance with the Planning Act and City policies. Numerous requests are also received from owners in reference to verifying sale policies and cash-in-lieu policies.

The review/audit of appraisal reports is a component of the above functions.

2. Appraisal Review/Audit

The existing procedures are as follows:

- a) For cash-in-lieu estimates, the applicant submits a report which is reviewed/audited by the Manager of Real Estate to ensure compliance with cash-in-lieu policies. We have often negotiated a higher amount using a range of values as guidelines at no cost to the

City. Where there is a discrepancy, we will obtain a second opinion which is charged to the applicant. This process encourages the applicant to settle and also provides a fair mechanism for settling discrepancies.

- a) We obtain independent appraisals for sales and leasing files, and the cost is charged back to the purchaser.
- b) Acquisition costs are City costs. However the independent external appraisal report promotes the public perception of an unbiased opinion, which is of utmost importance in amicable negotiations.
- c) Where it is deemed to be cost or time effective, we can complete simple appraisals for some rear-yard sales or easements provided there is a charge-back to the applicant.
- d) For simple residential severance applications only, the City has accepted "form" reports. The Manager of Real Estate, because of her considerable experience and knowledge of Vaughan, reviews severance appraisals in-house and efficiently.

In summary, the City pays for independent appraisals only on acquisitions. Due to the sensitivity of acquisitions and the potential for expropriation, it is most beneficial to project to the public an unbiased opinion of price. Should expropriation proceedings be undertaken, then the precise guidelines in the Expropriation Act must be followed in the appraisal report. This would be a very time-consuming task for Staff. In fact acquisition appraisals require detailed work such as sale verification in the Registry Office, confirmation with purchasers and vendors, pictures of each sale, etc. Most appraisal firms have junior Staff assigned to complete these time consuming tasks.

In general the new Staff position requires someone having a solid background in appraisal knowledge and/or experience in order to audit/review incoming appraisals. This review includes ensuring correct data and appropriate methodology and that the terms of reference used in the report are within the context of both the Planning Act and the City's policies as they relate to both sales and/or cash-in-lieu estimates. In an audit, Staff can accept the factual data as stated and the highest use analysis and focus on the adjustments applied to the sale data. Adjustments are usually subjective leading to a range of value from which is determined a final estimate. If this estimate is in the lower end of the range then Staff can negotiate a figure closer to the higher end.

Should Staff complete a full appraisal then all data used in the report i.e. sales data, highest and best use analysis, site description, time adjustments etc. must be verified. This process is time-consuming, and may require data bases not currently available to the City, for example, Toronto Real Estate Board membership, Marsh reports etc.

2. Cost Efficiencies

In the past year, the appraisal costs for acquisitions were under \$20,000.00. Most of the appraisal fees are related to the sale function and the majority are charged back to the purchaser. Presently the Manager has about 35 outstanding sale files and about 12 open acquisition files, plus cash-in-lieu estimates to complete.

In total, Staff audited about 130 submitted reports/valuations and hired appraisers for about 35 reports. If the unit was to assume responsibility for all appraisals then it is impossible for one Staff member to complete 165 appraisal/year (or average 3.5 reports per week) in accordance with regulations and considering the various complexities. We would need, in addition to the Manager, two additional Staff; one junior person to perform research and one senior person to write appraisal reports (average 10-20 pages).

Appraisals are performed according to specific approaches and standard professional guidelines. Even if we did the appraisals in-house, we would have to use the same approaches, which would not mean higher valuations. It is more efficient and much more cost effective to audit the reports, than to complete them.

Currently, most government agencies hire out the majority of appraisal work to ensure that the public perception is that the value represents an unbiased opinion by someone who has no vested interest in the property. Often owners assume that an internal report will be at a lower value to benefit government. Therefore most government bodies tend to hire out appraisal work and hire appraiser/negotiator agents to audit reports, negotiate prices and complete the internal administrative file processes. Appraisal firms are structured so as to provide a focused expertise and not a variety of functions. In addition, these firms carry insurance for protection against potential lawsuits related to value.

Some Government agencies complete in-house appraisals for acquisitions for linear facilities or road widenings where there are numerous abutting properties with similar land rates. In this type of situation there may be savings however any expropriations are valued by an outside fee appraiser. In the City's case most acquisitions are individual sites, and not linear strips.

To provide all appraisal services in-house would require additional expenditures of about \$10,000/annum for access to the most current data banks and verification of all sales in the registry office. Further to undertake acquisition appraisals, an accredited appraiser would be required at a minimum salary of \$65,000. plus yearly. Also, all appraisal reports would need to be completed in compliance with the Uniform Standards of Professional Appraisal Practice as set out by the Appraisal Institute or other professional body.

Summary

The justification for requesting another experienced Staff person is the increase in complex workload due to development occurring in the City. This position replaces a previous junior position. Based on the above comments Staff are requesting an appraiser/property agent capable of reviewing appraisals and skilled in negotiations to assist in the volume of the various functions. Increasing the number of sales and the audit of reports can provide additional revenues and offset the salary costs, plus provide faster turnaround time on sales and other requests. Focusing on only the production of appraisals would not be the most cost-effective procedure due to volume of reports, salary expectations and data-bases required, especially in consideration of the workload of other functions performed in the unit.

Respectfully submitted,

Councillor Rosati
Chair
Budget Sub-Committee