

NEWSLETTER

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BYLAW COVERAGE PITFALLS



A homeowner who recently purchased the property thought that they were doing all the right things. It was on a large lot with a spacious 2,200 square foot home that was constructed about 47 years ago and was in good shape. Although some of the finishes and features were original, it was in good shape and well maintained over the years which would place its updated age at 30 years. The cost to rebuild the home would be \$ 208,857 which a recent Reproduction Building Appraisal indicated. Using this appraisal this would place the Actual Cash Value (ACV) at \$ 133,668.



A fire occurred which resulted in approximately \$ 50,000 worth of damage according to the restoration contractor who was repairing the home. All was going well until the homeowner received a notice in the

mail from the municipality requiring certain procedures be taken. These were standard procedures and requirements that any municipality would require, or so he thought. The condition that was the kicker was condition number 4 which read "Submit sealed Fire Sprinkler drawing and Hydraulic calculations. Alternations to a Single Family dwelling which has a construction value of more than 75% of the greater of the assessed value or appraised value of the building prior to the alternation, fire sprinkler shall be installed. Refer to Building and Plumbing Bylaw No. 3425 Section 22". The municipality is now claiming the whole house has to be upgraded because the damage is over 75 %.

Where are they getting this figure from? Very simple, they pull a current Assessment Role Report which states the 2006 value of the improvements to the property is \$ 41,400 and the \$ 50,000 repair bill is much over the 75 % of the \$ 41,400 value.



So we got a copy of this report and found that the improvement value in 2005 was \$ 72,200 and in 2004 it was \$ 66,300 which is an increase of roughly 9 % per year so in 2006 it should have been in the neighbourhood of \$ 78,700. This still would put the \$ 50,000 repair bill over the 75 % mark. But you really have to ask the question "What does the Assessment Value have to do with a construction value?" The assessment value is to determine a mill rate for taxes – it has nothing to do with construction or reconstruction costs.

We got a copy of the Building and Plumbing Bylaw No. 3425 Section 22 and reviewed this section which reads "Section 22 Fire Limit Areas and Sprinkler Regulations Sub Section 22.4 Subsection 22.2 does not apply to: 22.4.1 additions or alterations to one and two family dwellings which have a construction value of less than 75% of the greater of the assessed value or appraised value of the building prior to the addition or alteration:"



This is what the plan checker who sent the notification letter was referring to. In his letter he refers to alternation which means fluctuation; vacillation; swinging; undulation; or wavering, whereas the act states alteration which means change; modification; adjustment; shift; variation; amendment; revision; or adaptation. Are we getting picky?

What the plan checker did not refer to was the definition of Appraised Value which states under Section 2 Definitions "Appraised Value means the value of a building determined by a person designated Accredited Appraiser Canadian Institute (AACI) by the Appraisal Institute of Canada" and "Assessed Value means the most recent assessed value of a building as determined by the Assessment Authority of British Columbia"

In reviewing the Assessed Value of \$ 41,400 one has to ask why it decreased instead of increasing. The neighbourhood it is in is increasing in value. Without any further investigation one would have to assume

that the previous owner had appealed his assessment notice for some reason which usually takes a few years to be processed.

We know that the assessed value will not help the situation, so an appraisal is necessary and given the information by the plan checker, an appraisal was completed which resulted in the reproduction cost as mentioned. No thought was given as to whom could give the appraisal other than only an accredited appraiser which was done. The municipality has now come back and said that they want an appraiser used that has their AACI and is a member of the Appraisal Institute of Canada. We have to ask why?

Who are they? In their own words they state "The Appraisal Institute of Canada, founded in 1938, is the premier real estate appraisal association in Canada" "The Appraisal Institute of Canada grants professional designations in real estate appraisal. The Appraisal Institute of Canada is a self-regulating body and, maintains the highest standards, practices and professional conduct in real estate appraisal to protect the public interest." We are not buying a house here; the act refers to construction or reconstruction. We do not need a real estate or market value appraisal; we need a reproduction appraisal for construction costs.

They go on to say there are approximately 1,000 members in the BC chapter, and have two designates CRA (Canadian Residential Appraiser) and AACI, (Accredited Appraiser Canadian Institute). According to the act we can only use one of these designates, so what is the split in membership between the two. We could not find a split nor could we access a membership list, but we did access the executives in each of the 9 chapters. Coincidentally, out of the 38 executives that have their AACI, half of them are with the BC Assessment Authority or another government body. Is there a pattern here?

The recent appraisal shows that Bylaws Coverage should be \$ 40,442. Although the homeowner had bylaws coverage, it was limited to \$ 10,000 and has been used up through normal code upgrade.

In summary, the act along with the enforcers of this act are not swayed by what is right or wrong but merely continue to march to the beat of their own drum. Any accredited appraisal should be recognized and let common sense prevail. The saving grace of this fiasco is that not all municipalities in the Lower Mainland conduct their business this way. Most try to accommodate their populace by helping eliminate the unnecessary red tape when hardship falls upon an individual resident.

Brokers, Underwriters, and Building Owners, beware of these pitfalls and review your bylaws coverage carefully.



ALL BUILDING APPRAISALS SHOULD BE UPDATED!

Yes you read that right and we will repeat it. **ALL BUILDING APPRAISALS SHOULD BE UPDATED!** In British Columbia during 2007 and 2008 there have been several major building code changes that will impact the cost to reproduce a building of like kind and quality on the same site using the same footprint. And we will see more major changes of this type in the years to come.

Traditionally, building design qualities have been referred to as low, fair, average, good, very good, and excellent and building classes have been referred to as economy, average, custom, and luxury, well that has all changed.

Effectively low and fair no longer exists and these two groups will need some major adjustments made to bylaw limits for quality of construction. The economy class has virtually been eliminated as well.

With these and future changes there is no real percentage formula to use to update limits because most municipalities are changing or adding new bylaws at an equal pace to coincide with building code improvements.

Having new appraisals completed from scratch can be costly and there might be no need to go to that extreme. If you have an existing appraisal on file that includes sufficient information and photos, this may be all you need.

Integral Consultants have a desk update reproduction appraisal report package available for only \$ 125.00 plus GST and that appraisal you already have does not have to be one of theirs. It can be from any other appraisal firm.

All they need is a copy of the existing appraisal and provided that there has not been any significant structural change or additions to the building.

Even if there is, it still might be economically favourable to have them do their site update reproduction appraisal report package. To find out, give their office a call at (778) 239 – 6308 or email them at integral@shaw.ca



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If your BUILDING has suffered a LOSS or has DETERIORATED due to AGE, WEAR & TEAR or OCCUPANCY USE and are considering a RESTORATION, RENOVATION or REMODELING Project, then please contact our office. For more information regarding our firm, please visit our website at www.integralconsultants.ca or contact Ron @ integral@shaw.ca or (778) 239 – 6308.





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