MUNICIPAL POLICY AND PROGRAM OPTIONS FOR AFFORDABLE HOME OWNERSHIP:

A City of Toronto Case Study

by

HEATHER JANE URQUHART

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Department of School of Community + Regional Planning

The University of British Columbia
Vancouver, Canada

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Abstract

As the level of government closest to people, municipalities are left face-to-face with the failures of the housing market and the lack or failure of senior-level government housing programs. The federal government has practically withdrawn from social housing since the mid-1980s, and most of its home ownership programs do not address home ownership affordability. The Ontario government is the only provincial government to step into the gap, and it is now under increasingly serious financial pressure. Municipalities, therefore, are often looking for ways in which they can help ameliorate their local housing problems, though they have a much more limited tax base upon which to draw. The question this paper attempts to answer is, "What kinds of home ownership assistance programs could municipalities undertake to meet their housing policy objectives?" The question in these tight fiscal times also encompasses, "How can municipalities undertake such a program at minimum cost?"

This paper reviews, categorizes, and assesses a variety of home ownership assistance program mechanisms from Canada, Britain, the United States, and Australia. It identifies a set of options and means to implement them that are most likely to effectively meet the needs of municipalities. It presents, through the City of Toronto case study, a process by which municipalities can characterize their housing market for their low-to-moderate income citizens. The "affordability gap" -- the gap between housing prices affordable to those households and local costs to produce adequate housing for them -- is one useful measure of the depth of the problem, of the potential cost of addressing it, and a rule against which to measure the effectiveness of various possible assistance measures. One implication of this paper is that a quite detailed analysis of the local housing market demand and supply is needed to identify the most effective and lowest-cost home ownership assistance measures.

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This paper began life as a research project of the housing policy analyst who preceded me in the City of Toronto Housing Department Policy and Research Section. It was an initiative spawned by the Toronto house price boom of the late 1980s, the City of Toronto Official Plan review process (Cityplan '91), and by Ataratiri, a large scale redevelopment project which was supposed to generate 7000 new housing units, many of them affordable housing, on an old industrial site. When I took over this research project in 1991, many examples of home ownership assistance programs had already been collected, but the project had begun to slide as a priority. The housing and development market had peaked and fallen off, and as I picked up the task, the boom-driven affordable housing exactions proposed in Cityplan '91 were dismissed as anti-development by the municipal councillors and private developers, and Ataratiri, may it rest in peace, died an unhappy death. Unlike the politicians, however, my supervisors were far-sighted enough to realize that the City of Toronto would probably once again have need of advice on how it might help make home ownership in the city an attainable goal for many more moderate and lower-income tenants.

I am grateful to many colleagues in the Policy and Research section and the Development Group for their interest, comments, and encouragement as I developed this material, and especially to my supervisors, Lesley Watson and Rob Cressman, for giving me the freedom and authority to pursue many lines of enquiry.

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Chapter One

Introduction: Context

The problem of access to affordable housing, especially affordable home ownership, is significant for, but not limited to the City of Toronto. Since the start of the federal government's withdrawal from housing supply programs in the mid-1980s, the problem of affordable housing has been pushed down to the provincial and municipal levels of government. Outside Ontario, most municipalities do not have unilateral provincial housing supply programs to help develop affordable housing.

As the review of Canadian home ownership assistance initiatives in Chapter Two indicates, the federal government has not addressed affordability in its programs. While it has improved access for some, its policies have not addressed the distribution of access across the income spectrum. This issue may have significant implications for municipalities.

The purpose of this paper is to assess possible municipally-initiated policy and program options for creating affordable home ownership opportunities in Canada, using the City of Toronto as a case study to examine what could be done and who would benefit. This paper focuses on municipal government options which directly address the problems of becoming a home owner.

Specifically, the paper seeks to answer the following questions:

- What policy objectives might drive home ownership assistance programs?
- What kinds of home ownership assistance programs have been used and what objectives have they met; who have they served?

- What are the housing policy objectives in the City of Toronto context, in terms of the political arena, and in terms of the author's assessment of the housing situation?
- What is the status of home ownership "affordability" in the City of Toronto; who can access home ownership in Toronto?
- Which kinds of municipally-initiated home ownership assistance programs might meet policy objectives in the City of Toronto context, and more generally in Canada?
- How can a municipality get "the biggest bang for the public buck" in such programs?
- How effective would such programs be, i.e., how much would it cost, and who would benefit?

1.1 Overview of the Paper

This chapter provides an initial policy context. It addresses the question of why governments in general and municipalities in particular might be concerned about assuring access to home ownership, and defines the concept of "the affordability gap." The affordability gap is a measure of the magnitude of the home ownership affordability problem, and of the cost barriers to be overcome to solve it.

Chapter Two briefly reviews the history in Canada of home ownership and assistance programs, and comments on how these programs have affected home ownership affordability. It also reviews home ownership assistance in Britain, the United States, and Australia, and comments on how appropriate these approaches are in a municipal context.

Chapter Three examines a variety of vehicles for home ownership assistance. It categorizes home ownership assistance program options according to the role of the proponent, how the assistance is directed to the beneficiary, and what the expected program outcome is.

Chapter Four deals in more depth with the expected program outcome. A starting premise of this paper is that one common expected program outcome, that households are given a no-strings-attached "hand up" into the home ownership market, is not by itself an effective or responsible use of tax money. Chapter Four, therefore, focuses on programs which require some repayment of the assistance, and programs which restrict equity appreciation. These types of programs permit the benefits to apply not only to the first, but also to subsequent home owners. The chapter examines the issue of the legal strength in Ontario and possibly elsewhere in Canada of some of the fiscal and legal mechanisms for resale controls which have been used in other jurisdictions.

Chapter Five is a case study of the City of Toronto and the policy options which address its housing objectives and housing market conditions. The discussion presents options in terms of the City's policy goals, and in terms of the costs to the City relative to the public benefits which may be obtained.

Chapter Six presents conclusions about municipal affordable home ownership policy and program options, their costs and benefits, and their feasibility and desirability.

1.2 The Policy Context

Why might governments in general and municipalities in particular be concerned about creating policies and programs aimed at improving access to home ownership?

1.2.1 Practical Benefits. Home ownership is a cherished goal for Canadian households. There are good practical reasons for this attachment. Ownership provides more control than renting over the quality of one's living environment and over housing expenses. Owners can control costs by choosing whether or not to do (or when to do) certain kinds of maintenance, by their behaviour (e.g., energy-saving behaviour), and/or by using their own labour. Home

ownership provides greater security of tenure than renting. In some places, most housing, particularly housing for families with children, may only be sufficiently available through home ownership.

Home ownership usually also has significant financial benefits over renting. Mortgage payments represent a kind of forced savings plan that provides protection during unemployment and retirement when the home is finally mortgage-free. Wealth accumulation through both earned equity and home value appreciation is the single greatest source of wealth in Canada. Variations across the provinces in the net worth of households correspond closely to variations in home ownership rates and house values (Steele, in Carter, 1990:15).

If rents and/or inflation are particularly low, some people question whether or not a home owner is better off than a renter who invests the housing cost savings. However, a recent study by Clayton Research Associates Ltd. (1992) found that with one exception, home owners in eleven Canadian urban centres, buying in the last thirty years, (initial purchase years were fixed at 1961, 1971, 1981, and 1983), were financially better off in 1991 than renters who invested the down payment and housing cost savings in GIC's or the stock market. The exception was for households that bought in 1981, when mortgage interest rates were about 18%. In the future, Clayton found that all these households will still be significantly better off than renters, even in a low-inflation environment, and even if house prices remain stable. The Clayton study may not be the definitive answer to the question of whether a household is financially better off owning or renting and investing, but for a household not accustomed to investing, ownership clearly meets many needs, as well as being an investment vehicle.

Marion Steele points out (in Carter, 1990:12) that low income renter households are particularly disadvantaged in many areas in which home ownership is most beneficial:

1. They are more likely to be poor and in need of financial assistance when older;
2. They have little control over many more aspects of their lives;
3. They are much more subject to forced moves than other households; and
4. They bear higher search costs in scarce rental housing markets.

She argues that home ownership assistance programs are therefore appropriate for low-income households, though most Canadian federal government home ownership programs have been aimed at higher income households.

Richard Harris, in *The Family Home in Working Class Life* (1989) supports that argument. He hypothesizes that the opportunity to obtain income through work in the home, (e.g., daycare, piecework), and to invest labour - "sweat equity" - in the home, has improved workers' economic position, and "has probably helped to reduce the inequalities of the class structure" (p.i).

1.2.2 Perceived Benefits of Home Ownership. There are other, more intangible reasons why home ownership is such an important goal for many Canadians. In Chapter Four of Doucet and Weaver's book *Housing the North American City,* (1991), titled "Launching the Will to Possess," the authors explore especially the *perceived* benefits, socially and individually, of home ownership. They try to answer the question of why home ownership is so much more important in Canada, and the United States, than in Europe.

Doucet and Weaver found that the answer has its roots in the legacy of feudalism and social reform. A lot of the migration to North America occurred in a period of, and because of, protests against the concentration of land ownership in Europe and attacks on tenancy and

existing social power structures. Land and home ownership became associated with concepts of freedom that were advanced in the 1800s. The emerging middle class "had come to see the freehold plot as part of the North American promise of bounty and liberty" (p. 172). The right to vote was tied to land ownership.

Doucet and Weaver found that there was a strong association in the 1800s between reform, the labour movement, and the goal of home ownership. Partly, home ownership for the common people resulted in a wider distribution of the right to vote, and therefore a greater democratization of society. It also seemed to have to do with the opportunity in home ownership to return in some measure to "craft-based independence." While increasingly mechanized work places took away workers' sense of individual accomplishment, the chance to use their own skills to improve their home returned it.

Land ownership also bestowed social stature. Social psychologists Robert and Helen Lynd (1956), cited by Doucet and Weaver (1991:181), found that "home ownership is a mark of independence, of respectability, of belonging." Another (Constance Perin, n.d.) was more specific; she described housing tenure as one of the social signs used in categorizing and evaluating people, and home ownership as "a step on the ladder of life" (Doucet and Weaver, 1991:182). Steele referred to arguments that widespread home ownership is "the foundation for a stable democracy," based on the "belief that the ownership and care of property increases the responsibility and independence of the citizenry, and increases the stake of citizens in their community" (in Carter, 1990:25).

These associations mean that tenants are viewed as less-involved citizens, even second-class citizens. This is evident in the practice of most municipalities, until recently, of informing property owners, but not tenants, of zoning change applications which affect their homes.

Municipalities also give property owners greater power by allowing them to vote wherever they have property, regardless of where they live.

When housing policy makers dismiss the idea of home ownership for lower-income households, regardless of their reasons, they also effectively dismiss the ability of these households to attain the social belonging and stature which is associated in our society with home ownership. With minor exceptions, it has been federal government policy for many years to subsidize only rental or co-op housing for lower-income households. If it costs no more to subsidize home ownership, these households' tenure choices are circumscribed not necessarily by their income or by government resources, but by public policy and attitudes.

1.2.3 Why do governments concern themselves with home ownership assistance? Whether or not home ownership is "the foundation for a stable democracy," Canadian (and United States') governments at all levels have concerned themselves with in some way assisting ownership housing. The history and form of this response is briefly described in Chapter Two. An early and pragmatic reason for governments to support home ownership is its contribution to the economy: new residential construction has consistently accounted for an average of 50-65% of construction activity in Canada (Doucet and Weaver, 1991:201). The construction industry is also a particularly important segment of the economy because it has a large multiplier effect on the local economy. The construction industry has been a strong lobbyist in the past for government subsidies to ownership housing. New rental housing produces the same economic benefit, however, and it has not received nearly the same support relative to the demand for it.

The strength and depth of the attachment in Canada and the U.S. to the goal of home ownership leads one to suspect that governments are responding strongly to the social

expectation of ownership housing. Home ownership assistance programs are always popular, if not expected. Canadians seem to expect as a right that capital gains on the sale of principal residences, and the imputed rent benefits of home ownership, will not be taxed, though such investment gains would be taxed in any other context. In the United States, the tax deductibility of mortgage interest costs is an entrenched benefit now, though policy makers have discovered to their rue that it costs billions of dollars in foregone tax revenue.

Though there are good reasons for an individual to prefer home ownership over renting, there appears to be no strong proof of over-arching social benefits justifying government assistance for home ownership rather than for rental housing. Thus, government support for home ownership may be seen as at least partially arising from strong political self-interest. Home ownership supports generally are considered vote-getters, and governments may lose votes if they do nothing when home ownership becomes less accessible, such as during periods of high interest rates. Self-interest may also be evident in the fact that home ownership assistance has been targeted mostly to the middle class, even though, as discussed above, lower income households are particularly disadvantaged as tenants and would benefit much more in tangible and intangible ways from ownership assistance. It is commonly thought that a smaller percentage of tenants vote than do home owners.

1.2.4 Why should municipalities get involved? There may be other, less self-interested reasons why a *municipal* politician in particular should become concerned when there is a large social and economic gap between renters and owners, such that renters are generally unable to move into home ownership. Nevertheless, these reasons have much to do with the social expectation that home ownership should be accessible to most people.

Firstly, if the renters having home ownership accessibility problems are people who have grown up with the expectation that they will be able to own their own home one day,

(usually educated, middle-income households), these people may seek jobs and homes in other centres where home ownership is feasible. Industry may follow these valuable workers. The urban centre thus risks losing people, and eventually jobs and tax base to nearby communities with lower-cost housing. The municipality may have to bear many of the financial and environmental costs of the extensive transportation systems required for commuters. The increased property tax burden on the commercial/industrial sectors would only hasten the exodus to communities with lower-cost housing.

Secondly, if rental housing becomes a ghetto for low-income households, the private sector will be less and less inclined to create new rental housing. On average, the existing rental housing stock will grow older and cheaper, making new rental housing even less competitive. In this process, some types of the existing rental stock will become more attractive for gentrification. The remaining rental stock will become depleted, consequently more expensive, and often inadequate for the needs of those left in it. The disadvantages experienced by renters will be greatly exacerbated. If there are options elsewhere, the municipality risks losing its lower-income workers as well.

Housing preferences and life-cycles of course play a role in the movement of families out of the centre to the suburbs. It is often asserted, for instance, that it is preferable to raise children in the suburbs. This can be a self-fulfilling prophecy, however. If planners and developers alike assume this preference, they are unlikely to create opportunities for, or develop, new affordable ownership homes and neighbourhood facilities for families in the urban centre. The resultant segregation of families from other types of households would mean that neither the suburbs nor the urban centres would be well-designed for people who wish to complete their life-cycles in the same general community. An element of community commitment and community-building would be lost in the process.

It is not socially or ecologically affordable to allow unlimited suburban expansion to accommodate a preference for raising families in the suburbs. Low density suburbs make people car-dependent and thus contribute greatly to traffic congestion and air pollution. Huge amounts of land are devoted in roads and parking lots to servicing the needs of a car-dependent population. Good farm land and wilderness habitat disappear under new housing developments and shopping centres. It is also likely to be more expensive to provide municipal services to a low-density population. An exodus of middle- and low-income families to the suburbs also would tend to polarize the urban centre population to concentrations of rich and poor, which would set up social conflicts over issues such as service provision, conflicts the poor rarely win.

It seems that, without a smooth continuum of affordable, adequate housing options that meet the needs and expectations of a variety of workers, the urban centre could become the hole in a regional doughnut, with accompanying social, economic and ecological penalties. The severity of the penalties would depend on many factors, including population demographic cycles caused by events such as the baby boom and immigration patterns, and economic cycles.

Theoretically, declining inner cities should be ripe for redevelopment and a reversal of the population and job exodus when land prices fall far enough. Before that comes to pass, however, a huge amount of capital (buildings, infrastructure) may have been wasted, and the social impacts may be extremely costly. The interval before redevelopment could be several generations. Such neighbourhoods develop a bad reputation, then social stigma compounds the original problem. It appears that lack of housing options has been a factor in the decline of some American urban centres.

In Canada, the situation of the City of Toronto is a good case to examine. The City of Toronto is the urban centre of Metro Toronto. City of Toronto demographics show some of the characteristics of the beginning of urban core decline: a decreasing residential population while the population elsewhere in the region expands; and a predominance of single person and lower-income households while suburban family-oriented development expands, indicating that middle-class family households are not inclined to live in the centre. The City of Toronto actively encourages increased housing in the downtown, and that has begun to reverse the earlier decline in the city's population. The 1991 census, however, showed another increase in the proportion of tenant households in Toronto, which does not indicate an improved mix of housing types and income groups.

Approximately sixty-three percent of City of Toronto residents are renters (Statistics Canada, 1992), and average tenant household income in the Toronto Census Metropolitan Area (CMA) is just over half of that of home owners (City of Toronto Planning and Development Department, 1990). In the first half of 1990, only 7.2% of Metro Toronto tenants could afford to purchase a starter home in the Metro area, according to Canada Mortgage and Housing Corporation's (CMHC) "home ownership affordability index.[1]" By the last half of 1992, this had improved considerably due to lower interest rates and home prices, but still only 27% of renters could afford a starter home (CMHC, various dates). Of the 26 cities CMHC surveys for this indicator, Metro Toronto remains among the three or four with the lowest percentage of tenants who can afford to own a home.

There are many municipalities within commuting distance of the City of Toronto in which the cost of ownership housing, both in average price and in terms of the dollar cost per

[1]*The CMHC affordability index is an estimate of how many tenant households with earned income could afford to buy their own home in a given market, given tenant incomes, current interest rates and a 10% down payment, and the average price of a "starter home" in that market.*

square foot, is significantly lower. The commute from lower-cost centres to the City is becoming longer, and the city is plagued by a high level of car-induced pollution. The proportion of family households is much lower in the City of Toronto than in these surrounding areas, signifying a potential loss of young professionals and middle managers to jobs closer to home.

This paper focuses on what *municipalities* can do to assist affordable home ownership because:

1. The federal government recently has withdrawn money and programs, at the same time that provincial governments are most strapped by high costs and debt.
2. Many of the possible consequences of a lack of affordable home ownership opportunities would strongly affect local quality of life and the ability of the municipality to fulfil its responsibilities.
3. Though housing market demand may be regional, in some cases even global in nature, housing market supply conditions, e.g., land costs, labour and materials costs, development fees, tend to be quite local in many aspects. Population demographics and income distribution patterns may also vary quite locally. The appropriate level for analysis and program development is therefore local.
4. Part of the object of the exercise is to counter the pattern of households moving ever-outward in search of lower-cost family housing, creating urban sprawl. Therefore again, the level of analysis of supply and income conditions should be local.

Municipalities have a strong *social and economic* self-interest in ensuring that a range of adequate, affordable housing choices are available locally.

1.3 The Affordability Gap

In 1990, CMHC introduced an index to measure home ownership affordability for first time home buyers in Census Metropolitan Areas, noting that home ownership affordability had become a major issue in Canada (CMHC Market Analysis Centre, August 1990). Ironically, CMHC notes that it is periods of economic expansion, with rising prices and interest rates, that adversely affect home ownership opportunities. This happens because demand for housing increases rapidly, but the supply of housing cannot adjust as quickly, so house prices are bid up. Household income does not grow as fast as house prices, and interest rate increases compound the problem.

An examination of this index for twenty-six metropolitan areas across Canada, (Table 1.1), shows that this indicator varies greatly from city to city, though no particular pattern is immediately obvious. Over the period for which it has been available, 1989-1992, the indicator shows significant improvement in almost all surveyed cities in the number of renters who can afford to buy a home. For some cities, this number is very low.

The CMHC indicator is useful for market analysts who wish to examine the state of this potential market segment, to help answer questions like, "how significant is the first time home buyers' market in this city?" It also allows comparison of the situation across Canadian cities. However, it does not indicate the extent of a problem - it is not measurable against some established norm or condition, e.g., the proportion of renters who ought to be able to afford to buy a home. In fact, it assumes only certain households ought to be considered potential home buyers: it only includes income-earning tenant households. It also does not indicate "how far away" are renters from being able to afford to buy a home.

This latter question, "how far away," is an important one for an agency contemplating an affordable home ownership program, because the answer will indicate which approaches are

likely to be effective, and how much they are likely to cost. The analysis done for the City of Toronto case study includes an attempt to identify the gap in dollars between what renters can afford to spend on ownership housing, and what it would cost to deliver modest housing to them, in the Toronto market.

This paper refers to this gap as "the affordability gap." The affordability gap is calculated by subtracting from estimated development costs per unit the price considered affordable for a given household income level, for a given set of assumptions regarding mortgage interest rate, down payment, amortization period, property taxes, and maintenance fees (where applicable). This might be called a cost-based approach. Other analyses might have been used.

Another approach was used in a study completed for the City of Toronto (Malone Given Parsons Ltd., 1991). It examined the impact on private development economics of requiring developers to build and reserve a certain portion of their residential units for sale at affordable prices to first-time, moderate income households. For a given proportion of "inclusionary units" (which would have to be priced below-market) in an otherwise market-oriented project, the consultant calculated the decrease in the profit as a percent of equity for the overall development project. This approach would be useful for programs in which a market-oriented component is involved, as in inclusionary zoning, or in market - below-market cross-subsidized development projects. This approach also is more appropriate to analysis of individual development projects, rather than to a general analysis of affordability.

Table 1.1

Per Cent of Renters Who Can Afford to Buy a Home

Census Metropolitan Areas	Jan–Dec. 1989	Jan–June 1990	July–Dec 1990	Jan–June 1991	July–Dec 1991	Jan–June 1992	July–Dec 1992
Victoria	12.2	7.8	8.6	9.0	11.0	9.2	7.5
Vancouver	13.3	9.0	12.4	17.9	22.0	20.7	20.5
Edmonton	36.0	26.1	28.4	35.8	39.6	39.3	40.1
Calgary	27.9	20.1	24.7	30.2	34.3	33.8	34.4
Saskatoon	36.1	32.8	34.9	42.9	48.5	48.5	49.3
Regina	39.4	37.0	41.2	44.1	46.4	45.5	43.7
Winnipeg	37.2	33.0	34.8	41.4	43.6	45.3	44.2
Thunder Bay	38.5	35.2	40.4	44.0	49.8	49.5	49.8
Sudbury	26.9	23.4	26.0	27.5	34.1	35.1	36.3
Windsor	45.4	33.9	37.0	47.0	50.1	49.7	49.3
London	**19.7**	**14.4**	**15.3**	**26.5**	**30.7**	**36.7**	**38.6**
Kitchener	**13.4**	**7.0**	**9.7**	**20.3**	**25.8**	**33.5**	**33.7**
St. Catharines–Niagara	**27.1**	**16.4**	**18.2**	**28.4**	**33.7**	**36.1**	**35.8**
Hamilton	**15.4**	**9.8**	**12.3**	**19.6**	**27.4**	**28.9**	**29.2**
Toronto	**6.7**	**7.2**	**10.7**	**17.7**	**24.4**	**27.0**	**28.0**
Oshawa	**10.5**	**6.8**	**10.3**	**24.1**	**31.2**	**34.6**	**33.9**
Ottawa	25.2	10.6	12.0	27.8	31.5	33.1	32.2
Hull	31.6	43.8	45.5	38.8	41.0	41.0	40.5
Montreal	22.1	20.8	22.1	31.7	33.6	35.4	34.5
Trois–Rivieres	31.0	29.3	29.9	36.5	39.0	41.2	39.0
Sherbrooke	31.4	23.6	28.0	33.0	33.2	36.4	34.8
Quebec City	29.3	29.2	29.5	42.3	43.6	43.9	40.8
Chicoutimi–Jonquiere	39.7	36.9	40.8	48.0	50.5	50.7	49.9
Saint John	32.7	30.3	32.5	41.6	44.3	42.7	44.1
Halifax	35.7	26.2	29.8	37.0	42.9	44.6	41.1
St. John's	45.5	41.9	40.4	44.4	56.4	53.4	52.2
Charlottetown	n/a	41.4	41.8	41.5	39.7	39.9	40.0

Source: CMHC Home Ownership Affordability Indicator, in
Canadian Housing Markets
Ottawa: various dates

This paper focuses on the cost of home ownership, accepting as given the existing income levels for tenant households. An alternative approach could have been to focus on the distribution of income and wealth, and to propose solutions to the distribution gap between home owners and tenants. The distribution of income and wealth has significant effects upon the housing market, and some possible options for ensuring that ownership housing is accessible to most or all households could involve radical restructuring of both the income distribution and the housing market. For instance, a wage and salary structure which tends to keep income at the top end of the scale to only three or four times that at the bottom end of the scale would reduce the ability of the wealthy to severely outbid lower income households for land and other capital. This kind of option is beyond the capacity of municipalities to implement. Some of the options I will present here also are difficult for municipalities to implement, but they likely are more palatable to Canadian politicians and so are more achievable.

The cost-based approach (the affordability gap measure) is used here because it indicates the public investment which may be required to bridge the gap between an affordable price and cost to produce housing. It focuses attention on costs, and consequently on ways in which costs might be reduced. This approach has advantages and disadvantages.

Most housing development costs vary greatly across Canada. Property taxes, for instance, will vary by municipality, as will development charges for new construction. Development costs will also depend on local market land and labour costs, as well as the building form, and targeted market for the project. The assumptions regarding what is "affordable" also will vary by locality and other factors. For instance, the City of Toronto assumes that housing costs should not exceed thirty percent of household income. In other areas, however, lower incomes may indicate that a lower Gross Debt Service (GDS) ratio is

appropriate. Alternatively, if the costs of other household essentials like food and transportation are very low, a higher GDS ratio might be considered acceptable.

Given that the "affordability gap" incorporates so many non-standard variables, and is measured in dollars, this approach does not provide a comparable measure of home ownership affordability across Canada. It does, however, provide a model for analysing home ownership affordability in other markets.

Home ownership assistance programs have been promoted for many different reasons. Suggested objectives or benefits are scattered throughout the literature and mainstream press. They are not mutually exclusive, but they fall into the following main categories:

1. to help individual households become home owners because ownership is considered a better form of housing tenure for society and the individual;
2. to help households move out of the rental market thereby freeing up rental units for other households;
3. to stimulate economic activity in an important sector of the economy;
4. to give people more choice in housing;
5. to provide a form of housing which gives people security of tenure and more control over their home environment;
6. to give more people the opportunity to build equity in, rather than simply spend income on, their housing.

In recent years, planners and environmentalists have begun to add the arguments outlined earlier: that municipalities must contain a wide range of housing types and prices, or they will suffer ecological and economic consequences.

The affordability gap measurement focuses attention during the development of an assistance program not just on costs, but also on who is going to be served by the program.

The measurement requires definition of the income level and housing needs of the households the programmers expect to involve. It provides a model for analysing the interaction of cost and income factors in the local situation. As an aside that will not be addressed in this paper, it also raises questions like "Why are the costs associated with a basic necessity of life in Canada out of the reach of so many people in Canada?"

Chapter Two

Home Ownership, Affordability, and Assistance: A Brief Review of the Canadian Context and Other Jurisdictions

This Chapter provides a short overview of the history of home ownership access and affordability in Canada. It reviews the major home ownership assistance goals, programs, and policies, and their effects on affordability. This history reveals a strong emphasis in public policy on market housing production in Canada, and little attention to the effects of market forces on distribution.

This paper cannot compare Canadian home ownership policies and programs to policies in its closest comparator markets, the United States, Britain, and Australia, without an in-depth analysis of those markets. This paper does, however, take a brief look at some of the recent major home ownership assistance initiatives in these three markets. They inspire some broader thinking about how to provide housing assistance, though not all examples are useful in the municipal or Canadian context.

2.1 Home Ownership Access and Affordability in Canada

The majority of Canadian households have always owned their homes, with home ownership reaching a high of 66% in the early 1920s and 1960s (Hulchanski, 1988:7). Today, 62.8% of households across the country are home owners (Statistics Canada, 1992). As well, the average proportion of income paid by households for their housing has remained relatively constant since the 1940s. It was approximately 20% for all households (marginally higher for renters, lower for owners) in a 1938-9 and a 1941 survey. In 1982, home owners with

mortgages spent 24% of their income on housing, those with no mortgage spent 17%, and renters spent 23% (Streich, in Miron, n.d.:23).

The ability of renters to become home owners, however, has changed significantly since the 1970s. Patricia Streich says that "Until the 1970s, the major constraint on entry to home ownership was perceived to be family savings for the initial down payment for the first house purchase" (Streich, in Miron, n.d.:21). In the 1970s, however, changes in government regulation of the mortgage market, (described below, under programs and policies), and instability in the world economy drove up inflation, interest rates, and house prices. As a result, whereas over half of renters in prime home-buying-years could afford to buy an average-priced house in 1971, only 7% could afford to do so in 1981 (Streich, in Miron, n.d.:23). That year was particularly bad for new home owners due to 18% interest rates. The situation has generally improved since, but to nowhere near the earlier levels.

2.2 Major Home Ownership Programs and Policies

The two most significant types of home ownership programs and policies in Canada are:

1. initiatives to make the housing supply market, including construction but most especially financing, more efficient and accessible;
2. the exemption of home ownership from investment taxes introduced in 1972.

Direct subsidies to home owners have been used on an occasional, temporary basis, largely as a means of boosting the construction industry and the economy generally. Programs have focused on issues of housing supply, not housing distribution. Some minor exceptions to that rule are found in some of the provincial government programs.

The federal government initially entered the housing scene to provide returning soldiers of World War I with homes to return to, by providing low-cost direct loans. It has continued to offer or manage a very few direct loans for particular purposes ever since, but soon

shifted most of its focus to regulating and insuring the residential mortgage market. As insurer since 1954, the government has been able to reduce the risk to financial institutions of lending to households, and has thereby increased the availability of mortgage funds. As insurer, the government has established the terms by which lenders can lend, including:

- who may lend (chartered banks were permitted in 1954);
- the interest rates at which they can lend (these were fixed until 1969);
- the minimum amortization period (the shift from a minimum of 25 years to 5 years shifted the inflation risk from the lender to the borrower);
- the proportion of purchase price on which the lender could loan (the most recent innovation was to permit 95% loans with National Housing Act (NHA) insurance);
- the Gross Debt Service ratio at which NHA insurance will insure, and how much of the household income can be considered in that calculation (in the 1950s the GDS was 25%, and the wife's income could not be considered; now it is 32%, including both spouses' incomes).

A lot of these changes, and some others, were made incrementally over the years, though the policy remained strongly fixed on the notion of improving the functioning of the market. By making mortgage lending a more competitive investment, the NHA increased the flow of funds to mortgage lending. The price of access to mortgage funds, however, was higher and much less stable interest rates, beginning in the 1970s. From that point, it was increasingly the case that not only were both spouses' incomes considered, but they also were *required* to carry the mortgage.

The federal government has also attempted to improve the efficiency of the housing supply market through research into better building techniques and standards. One of the largest housing problems after World War II was the dilapidated state of much of the housing stock. CMHC's research and building code development has vastly improved this situation, though

at the price of increased housing costs. Again, the supply-oriented approach, in the absence of consideration of affordability or distributive issues, has made housing less affordable.

The largest public dollar benefit provided to home owners, however, may be the exemption of the sale of a home from capital gains taxes. Capital gains taxes on a variety of capital assets were introduced in 1972; principal residences were specifically exempted. In 1979, the benefit was estimated to be worth 3 billion, or about 46% of total federal expenditures on housing. When the non-taxation of imputed rent is added, these two tax expenditures amounted to 78% of total 1979 federal expenditures on housing (Dowler, 1983:58).

However the value of these is calculated, or even whether or not they are considered tax expenditures (both points are disputed: Dowler, 1983:56-59), they clearly provide a strong incentive to invest in home ownership rather than to rent or invest in some other capital assets. The tax bias tends to increase the demand for home ownership and the down payment "move-up" buyers can afford, and therefore will drive up the price in a market where the supply of housing is constrained (for instance by lack of developable land). This federal government policy thus makes home ownership less affordable for those wishing to enter an under-supplied market like that of Toronto.

The Registered Home Ownership Savings Program (RHOSP) was another significant federal effort to assist home ownership. This was another tax expenditure program: a tax break rather than a direct outlay of funds. It operated between 1974 and 1985, and allowed prospective home owners to save for a down payment in a tax-free savings plan (described

in more detail in Appendix A, #2[2]). It cost the federal government about $100 million per year in foregone revenues (Dowler, 1983:56-75).

Dowler points out that this program was aimed at "young, first time homeowners with modest incomes" and was intended to increase the supply of housing and to defer purchases until inflationary pressures on the market had eased. In fact, high inflation rates at the time reduced savings' value and encouraged people to buy sooner. As well, loopholes in the program made it a good retirement savings plan for older, well-off households, until these were closed in 1977-78. Low income households were unable to use the program because they had no income left to save after living expenses. Middle income households were the principal users, as intended, but the program was not as useful as expected due to inflation. It seems doubtful the program contributed much if anything to making home ownership more affordable.

In 1973, CMHC introduced the Assisted Home Ownership Plan (AHOP), which lowered interest rates to 8% for the first five years of a mortgage. This was the first program to reach households below the middle income range. One half of AHOP borrowers were in the lower third income group in 1975 (Steele, in Carter, 1990:20). The program counted on rising income which would enable purchasers to bear an increasing payment schedule, but high inflation rates, especially in the cost of energy for home heating, defeated that expectation.

A grant was introduced in 1975 to ensure that purchasers under the program were paying no more than 30% of their income on housing. Despite the grant, there were high default

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[2] *Appendix A is a description of a sample of home ownership assistance programs, mostly in Canada and the United States. The programs are listed by geographical area, and within that by oldest first. The appendix is intended to be a sampler, not a comprehensive compendium.*

rates on AHOP homes, and the program was terminated in 1978. There were high default rates generally at the time, due to the volatile economy, and the problem was greatest in Ontario, but the federal government has never since seen fit to introduce a home ownership assistance program for lower-income households.

During the 1970s and early 80s, the federal government did introduce a smattering of grant programs to assist with down payments, renovations, and energy conservation measures, whose purpose was to kick-start the construction industry in economic down-turns or help existing home owners keep their homes in tough times. None, however, made home ownership more accessible: home ownership rates dropped from 66% in the early 1960s to 60% in the early 1970s, and have remained between 60 and 63% since (Hulchanski, 1988:7).

Some of the provinces, however, have had home ownership assistance programs aimed at lower-income households, especially in rural areas. They have been direct lenders of last resort, provided property tax rebates geared to income, and provided direct grants and subsidies for down payments (Canadian Council on Social Development, 1980). For example, Ontario's Home Ownership Savings Plan offers a special concession to single parents. New Brunswick offers a 5% down payment and mortgage assistance program which recognizes sweat equity, and is limited to households with an income between $15,000 and $30,000. In its Home Ownership Made Easy (HOME) program (1967-78), Ontario offered at-cost land leases on government-owned land for affordable privately-developed homes, later selling the land at below-market value, for households below a specified income level. These and other programs are described in Appendix A (#7 - #17). Some of these examples illustrate elements possible in a municipal home ownership program. These elements will be discussed later in the paper.

2.3 Major Initiatives in Other Jurisdictions

2.3.1 ***Britain.*** Britain has sold off over 1.5 million units of public housing at discounted prices to sitting tenants under the 1980 Thatcher "Right to Buy" legislation. The only limitation on resale of the units was that some of the discount had to be repaid if the unit was resold before (initially) five years, later three years. Research on 200 tenants who have since resold their units indicates that they made significant gains on the sale, and that they traded up in the housing market. The rental housing that sold tended to be the best of the public housing stock (Williams and Twine, 1993). The consequences of this transfer of public capital to private hands are still being felt and debated in Britain. The literature on housing reflects this event: I found four or five new books on the shelves in a brief search, all focused on home ownership, considering and reconsidering its merits, and those of the Conservative government sell-off (e.g., Doling and Stafford, 1989; Karn, Kemeny and Williams, 1986; Drabble, 1990).

This home ownership initiative is not an appropriate example for the Canadian or Toronto context, however. The relationship between the public rental sector and the ownership sector and the characteristics of the people served by these sectors are much different in the two countries. Whereas Britain had a very large public rental stock that served a wide spectrum of income groups, Canada has a very small public rental sector, and it is increasingly targeted to the lowest income groups. What to do with the existing stock is not an issue here, as it was in Britain. The issue here is how to provide more choice, security of tenure, at least cost, primarily with new stock.

2.3.2 ***United States.*** Massachusetts researcher David Angel (in *Housing Studies,* 1992:243-254) describes housing affordability problems in the United States, especially in the North East and West, that are very similar to those in many major centres in Canada. Ownership and rental households had become more polarized in the 1970s, with lower-income households becoming more concentrated in rental housing. In the Boston area during the

1980s, average or median house price and rent increases outstripped increases in average income, and the imbalance remained even after the housing boom stabilized. Low-cost rental stock was lost to demolition and conversion, and federal government funds for subsidized housing were cut to a quarter of their levels the decade before.

Angel notes that housing affordability problems reached beyond poverty households and "touched moderate income groups and the business community (high housing costs made it more difficult to recruit workers from low cost locations elsewhere)" (in Housing Studies, 1992:246). This provided broad local support for increased intervention by State and local governments. Angel describes the response of the Massachusetts legislature: increased housing expenditures that built on an existing commitment to affordable housing programs, through a wide variety of mechanisms. Massachusetts was aided in the 1980s by the availability of increased tax revenues generated by strong economic growth.

Local governments across the country were forced to respond to the serious problems caused by the federal government spending cuts. They responded through a wide variety of mechanisms, though many were more financially constrained than in Massachusetts. Some examples are described in Allison Millward's paper (1991), " Affordable Downtown Housing: Innovative U.S. Municipal Initiatives and a Case Study of Seattle." Hulchanski (1989) refers to U.S. initiatives as examples for Vancouver to consider in "Low Rent Housing in Vancouver's Central Area: Policy and Program Options." Some of the initiatives include:

- special bond issues for housing development funds, including for rehabilitation of aged low-rent stock;
- subsidized interest rates for developers making a portion of their projects low rent or affordable to certain income groups, or for various forms of community-based non-profit housing development;

- subsidized interest rates for low and middle income home buyers;
- inclusionary zoning and other development rights-related exactions.

Individual examples of some of these initiatives are described in Appendix A.

Just as in the U.S., Canadian provincial and municipal governments are being forced to examine their own resources and policies to determine how they can replace the federal government presence in housing. In Toronto it is clear that even the Ontario government's relatively large scale social housing program cannot meet the city's, or the region's, need for affordable housing. Municipalities experiencing housing affordability problems should look at U.S. examples.

As Millward (1991) notes about the U.S. initiatives, however, "financing of low-income projects is usually achieved with customized and creative financial packages that are difficult to replicate..." (p.i). Canadian municipalities will not find a model they can transplant, but rather a smorgasbord of ideas that they will be able to select from after a careful analysis of the local situation. The Toronto case study presented in Chapter Five is intended to model just such an analysis.

2.3.3 Australia. The Australian housing market also has some similarities to that in Canada. Home ownership rates are high (about 68%, 1981 census), and public rental housing constitutes only a small portion of the stock (about 5%). Tenure is class-divided: private rental housing (about 20%) is strongly dominated by lower income households. Home ownership is highly valued (Paris, 1987:86-91).

Home ownership assistance programs in Australia have included many of the same mechanisms as in Canada: home savings grants and tax deductions, occasional interest rate relief, and non-taxation of imputed rent and capital gains. Private rental housing received

comparatively little attention, and as in Canada, tax provisions favourable to rental housing were reduced or eliminated in the 1970s.

One of Australia's states uses a home ownership assistance program that deserves careful consideration in Canada. A program based on the same model is also used in New Zealand. The model is based on the principles that:

1. home ownership assistance should be available to low as well as middle income groups by allowing households to purchase only a portion of the equity in their homes;
2. it should be repaid to the extent to which the household can afford it: and
3. it should reduce the borrowing costs in the early years when incomes are lower, and increase it in later years when it is less of a burden.

The mechanism is a kind of individual Index-Linked Mortgage: the interest rate charged is the real (net of inflation/inflation expectations) interest rate, and both the principal and the payments are adjusted each year to reflect actual inflation. Initially at least, payments are set at a percentage of household income, usually 25%. The model is discussed in more detail in Chapter Three, and is listed in Appendix A (#19, #21).

The Australian/New Zealand model probably requires subsidized financing at a greater scale and depth than Canadian municipalities have the resources to handle. Municipalities could nevertheless propose the model for consideration by the higher levels of government.

There are clearly a wide variety of possible approaches to home ownership assistance. Only some of these may be feasible options for municipalities to undertake. Some municipalities may have the tax base to undertake larger scale, more deeply subsidized programs than

others. Among the 27 program examples listed in Appendix A, only 6 of them were undertaken by municipalities.

Chapter Three

Vehicles for Home Ownership Assistance

This chapter examines specific vehicles for home ownership assistance, their mechanisms and common applications, and comments on how well they contribute to the goal of affordable housing. It categorizes the wide range of home ownership assistance program options according to:

1. the role of the proponent, which reflects the commitment of the proponent to making the housing more affordable to lower income households;
2. whether the assistance goes directly to the beneficiary or to the housing unit, which reflects the proponent's interest in creating new housing stock; and
3. the expected program outcome, which reflects the proponent's interest in securing a stock of permanently affordable housing.

Almost any home ownership assistance program may promote some or all of the objectives described in Chapter One. Home ownership assistance programs, however, take many different forms. The financial resources of the government or other agency involved account for some of this variability. Another important factor is the approach the assisting agency deems appropriate, due to their philosophy on providing assistance. There are a number of ways to categorize these approaches.

The first way to categorize home ownership assistance programs is in terms of the role taken by the assisting agency, or proponent. The proponent may play the role of a **grantor**, providing a direct cash subsidy to the beneficiary. The proponent may also play the role of **lender**, and provide beneficial loan terms to the prospective owner. The proponent as

insurer or guarantor helps beneficiaries obtain market financing where they otherwise would be considered too high-risk for conventional loans. The proponent as **trustee** makes available public or common resources, often land, on conditions which ensure benefits to the targeted households. Governments also act as **regulators**, and in that capacity can affect the price of new housing. The proponent's role tends to dictate the breadth and depth of the assistance provided, and the type of outcome produced by the program.

A second way to categorize programs is in terms of where the assistance is directed: to the purchaser, as with home owner grants or loans; or to the units, to reduce the cost of the units, as with development fee exemptions or below-market land sales or leases. The former type of program is appropriate if the proponent is indifferent to whether the program helps add to the affordable housing stock or simply provides access to existing stock. The latter type usually adds to the stock or helps retain existing stock through rehabilitation.

A third way to categorize programs is by their different outcomes:

1. Targeted households are given a "hand up" into the home ownership market, with no (repayment) strings attached;
2. The household gets a "hand up" into the market, but repays the assistance when it is able to do so, enabling subsequent households to benefit from the same funds;
3. The household gets a limited form of access to home ownership, which may be all it can ever afford, or which may eventually give it the means to enter the open market. Assistance is provided on the condition that the equity the owners can realize when they sell the home is controlled, so that the unit itself remains affordable for another low to moderate income household.

Program Options. The programs described in the literature reviewed for this paper reflect various permutations and combinations of the program categories described above. The

following section presents a generalized set of options based on those programs. Specific information on each program reviewed is provided in Appendix A. Note that references for the descriptions are provided in the Appendix rather than here, because program characteristics have been generalized in these descriptions and in some instances combined across similar programs.

3.1 **Proponent as Grantor** (Appendix A, #1, #2, #3, #6, #9, #16, #18)

Home ownership grants are directed to the purchaser, with no repayment strings attached. It commonly provides a grant to reduce the prospective home owner's down payment, and is usually restricted to first-time home buyers. It may or may not limit eligible households by their income, and/or limit the price of the home eligible for purchase. It may also be restricted to use for the purchase of newly-built homes, as was the 1982-83 Canadian Home Ownership Stimulation Plan. (Any household purchasing a newly built home was eligible; first time home buyers purchasing a resale home were also eligible.) The objective of this kind of program frequently is to stimulate the housing industry, as much as to provide assistance to the prospective home owner. This is generally a shallow form of assistance that allows people to enter the market sooner than they might have otherwise.

Other mechanisms to provide no-strings-attached grants directly to home owners include tax deductible savings plans, and refunds on land transaction-related taxes. Grants may also be used to subsidize mortgage interest payments.

3.2 **Proponent as Lender** (Appendix A, #1, #5, #8, #10, #14, #15, #19, #20, #21, #23)

Home ownership assistance loan programs are directed to the purchaser, and repayment may or may not be required. These programs commonly involve the use of a second mortgage, which helps the purchaser reduce or eliminate the necessity for a down payment. The government proponent generally takes a deferred payment mortgage from the

purchaser, often at reduced interest rates. Sometimes the mortgage is forgivable after the owner has occupied the home for a certain period, in which case the object of the mortgage is to provide a grant to reduce the cost of the home and to prevent the beneficiary from quickly reselling the home to turn a windfall profit. Sometimes the loan is supplemented by a grant program which ensures that loan payments do not exceed a certain portion of the household income.

Lending programs are flexible to new or resale housing. They can provide deep subsidies, depending on local demand and supply conditions in the market, and the resources of the proponent, because interest rates and mortgage terms are significant housing cost factors.

3.2A One variation on this type of program is a kind of rent-to-own scheme, in which a tenant pays all costs on the unit, and has an option to buy at any time, exercisable by producing a reasonable down payment. Part of the tenant's equity may include the appreciation in the value of the property since it was first purchased for the program. Other programs have allowed purchasers to contribute "sweat equity" in the home as part of their down payment, for example, by making improvements to the property.

3.2B Another variation, a shared equity/appreciation mortgage, is offered commercially in some places. Investors provide a portion of the purchase price of the home (e.g., 10%), in exchange for a second mortgage for which there are no regular payments. Instead, the investors get the same percentage (i.e., 10%) of the appreciated price of the home after five years or on the resale of the home. If the home is not sold before five years, the shared equity/appreciation mortgage may be paid out by refinancing with a conventional mortgage. The owner may alternatively have saved enough to pay it out in cash.

Shared equity/appreciation mortgages may also be used to control speculation in discount priced homes produced under a government program, and are discussed in more detail in the chapter on keeping affordable homes affordable.

3.2C Other lending programs have offered households a non-conventional mortgage structure, similar to the Index Linked Mortgages (ILM) which were offered to Canadian co-operative housing projects. An ILM provides for a mortgage with a fixed real interest rate for the term of the mortgage. To this is added an interest premium for inflation which is adjusted annually. Payments are adjusted accordingly, and the amortization period remains the same.

A variation of this is a mortgage in which a fixed real interest rate is established for the term of the mortgage. Payments are set at a fixed percentage of household income. Each year, the remaining principal and the payments are increased by the Consumer Price Index. The amortization period of the loan is adjusted accordingly. In some cases, household income is so low and the amortization period consequently so long that the loan will effectively never be repaid. The government as lender therefore retains a share of the equity in the home which may be realized when the home is sold.

This is the program referred to earlier, used in the State of Victoria, Australia, and in New Zealand. An analysis of their programs (Kendig and Paris, 1987) resulted in observations that these arrangements appear to appeal to two different groups of people:

1. first time home owners with limited incomes for whom the fixed percentage of income and larger loan are attractive; and
2. households in a mid-life change (e.g., divorce, death, long-term unemployment) which necessitates re-housing and loan arrangements adjusted to the new household income.

The down payment, at 10%, does not appear to be the difficulty for these groups, only high conventional mortgage payments are a problem.

This kind of non-conventional loan is an improvement over programs in which loans simply are offered at a reduced rate of interest. The total subsidy is not as high, and there will be increased returns to the lender, though initial cash flow is lower than for a conventional mortgage. Such programs assume that house prices and incomes are likely to increase at about the same rate as inflation. However, this is not always the case, and can lead to difficulties. Calculations for the Victoria scheme show that under certain conditions, if property prices increase by less than 70% of the general inflation rate, real debt becomes more than 100% of the property value (Kendig and Paris, 1987).

The calculations also show that equity build-up may be quite slow under some conditions. The implication is that this scheme will be unattractive to middle and upper income groups who expect considerable capital gains from their properties. It will be more attractive to those who have little alternative and who are satisfied with a guaranteed constant housing cost and secure occupancy.

As Kendig and Paris (1987) point out, this kind of program provides help at the point where it is most useful, and allows eligibility criteria to be a little looser. A single program can flex to address a broader range of needs, as those who cannot pay back the whole loan need not; those who can, do; those who need more may get it, if the likelihood of being able to pay back is good. Government resources are not going into assisting in the accumulation of wealth, just in helping at a crucial point. Home owners who run into financial difficulty would also be well served by this type of mortgage arrangement.

Kendig and Paris (1987) point to another clear benefit of the non-conventional mortgage: it redistributes costs over the household's life cycle, to shift the greater costs to the point where they are better afforded. It also shares the risks and returns of owning between individuals and a public partner, and maximizes tenure choice. The repayments to the public partner can be recycled into future housing assistance. Units for which the loans will never be repaid remain part of the stock of public housing which the government can offer to needy households.

3.3 **Proponent as Insurer or Guarantor** (Appendix A, #4)

Mortgage insurance provides a guarantee to the lender that the mortgage will be repaid in full if the borrower defaults. It is generally paid for by the borrower. There are two reasons why the availability of home mortgage insurance is a benefit to home buyers. Some home purchasers may not be able to get conventional financing because they or the property are considered high risk. In Canada, mortgage legislation restricts home mortgages to 75% of the purchase price, unless the mortgage is insured, in which case the mortgage can cover 90% of the purchase price (95% under a time-limited program approved in 1992 by the federal government). The government provides indirect assistance to prospective home owners by making mortgage insurance available to all who qualify, and by structuring the insurance premium so that it is added to the mortgage principal, instead of paid as a lump sum up front. Mortgage insurance therefore helps home buyers purchase a home with a smaller down payment than would normally be required. In terms of making home ownership more affordable, this is a very shallow assistance program.

3.4 **Proponent as Regulator** (Appendix A, #13)

Municipalities may use their regulatory role in residential development in a wide variety of ways to reduce unit costs. They may:

1. reduce minimum lot size;

2. provide exemptions from required building or site amenities;
3. permit building in higher density forms such as attached-house forms and medium- or high-rise buildings;
4. reduce the time for or type of development review required, (referred to as streamlining or fast-tracking).

These forms of assistance have little or no direct cost for the municipality, and help to make the units intrinsically more affordable. Such an intrinsically affordable home is more likely to remain at the low end of the price range because it is built to a lesser standard, with fewer amenities.

These forms of assistance are much more difficult, however, to target to specific types of households. By themselves they do not ensure that the cost reductions get passed through to the purchasers, nor keep the units affordable to the targeted households when the units are resold. No home produced at lower costs will necessarily remain affordable to the income group to which it was targeted, especially if the market is under inflationary pressure from increased demand, short supply, or other factors. Regulatory reform to assist home ownership must have conditions attached if the assistance is to benefit households in a particular income group.

In addition, some people are concerned about limiting public participation in the approval process. Others fear that a shorter approval process may compromise the quality of the buildings (because of a lack of proper inspections) or the quality of the local environment because a proper environmental assessment of the new development may not be carried out.

Another non-specific regulatory assist to home ownership is to permit as-of-right secondary suites. The right to include revenue-producing uses of the property, even commercial or

professional uses, could make a home intrinsically more affordable. It will usually increase the market value of the property and therefore initial acquisition costs. However, these allowances should reduce carrying costs to the owner, by virtue of the owner's being able to share them.

3.5 Proponent as Trustee - I (Appendix A, #7, #11)

Government agencies may play the role of trustee for publicly-held land or public benefits and use them to reduce the cost of homes for targeted households. Non-profit agencies may also hold land which they consider a trust to be used to help house needy households. The assistance provided is directed to the housing unit, and may or may not involve repayment or resale controls.

Governments at all levels in Canada have introduced programs in which such assistance was provided with minimal repayment or resale controls. In such cases, the government provides land to developers at below-market prices or leases, or makes regulatory concessions for the developer, in exchange for their building modest units which will be sold at below-market prices. Governments have, but rarely, built the units directly. Targeted households have included first-time buyers, renters, households resident or working in the municipality, and moderate income households.

The beneficiaries have generally been required to occupy the home for a certain time, often five years, and resale of the home may be controlled for up to five years. The tool used to enforce such requirements is usually a second mortgage which only becomes due if the owner tries to resell the property before five years have passed. The second mortgage is initially taken from the buyer by the developer, for the price differential between the market price and the below-market selling price, and then assigned by the developer to the government. This mortgage is often forgivable after the five years, or often, may be

purchased at less than face value. Such programs have also used an option-to-purchase agreement to control resale for a limited time. The option agreement is a condition of the sale, and gives the government the first option to buy at a pre-determined price, should the home owner wish to put the home on the market within a given period of time.

The objectives of this type of program seem to be to provide a wider choice of modest new housing in the municipality, and to assist first-time buyers with the approximate equivalent of a down payment. The eventual boon to the beneficiary may be quite significant, but the breadth of the subsidy is limited by the fact that the subsidy is rarely repaid and the unit is eventually released to the open market.

3.6 Proponent as Trustee - II (Appendix A, #12, #17, #22, #24, #25, #26, #27)

Non-profit agencies will more often use the land or other resources they hold in trust in such a manner as to ensure that the housing created remains affordable to their intended beneficiaries through successive owner-occupants. Governments have used this approach more often for rental housing than for ownership housing.

This type of program is a kind of land trust. There are many possible arrangements, but in an international survey, reviewers found that land trusts had several basic characteristics, or principles:

1. Land, once acquired, is rarely resold, only leased. Therefore any subsidies invested in this property are retained and recycled for the benefit of future generations.
2. The land is held for the common good, not for capital gain, to remove it from the speculative market and hold it relatively immune from inflationary pressures.
3. Land trusts try to acquire the land at the lowest possible cost, including donations, but most will buy in the normal market if necessary. Some municipalities may extract

land or housing units for land trusts from private developers as a condition of development.

4. With the exception of the British housing trusts, which operate more paternally, land trusts invest members/users with at least local decision-making powers.
5. Land trusts generally give direct land use rights, including gain from the product of the land, to the user/lessee, and retain the right to rent, control, and transfer the property. Sometimes these latter rights are split between an owner and a trustee. Sometimes direct use rights can be transferred to heirs, or mortgaged.

In essence, a land trust is a land-holding agency, private or public, with a mandate entrenched in its constitution or letters of incorporation to hold land and other property in perpetuity for a benevolent purpose, in this case, for housing low to moderate income households. The directors of the land trust will usually come from the geographic community they serve, from its member residents, and from representatives of important interest groups in that community. In the case of government land trusts, some members of the board of directors may be local politicians. In the case of equity co-ops, which are trusts funded by the members, mostly members (which may be residents and members waiting to become residents) will form the Board of Directors.

There are many different ways of structuring the arrangements between the land trust and the residents of the housing. Most of the arrangements entail a long term land lease with conditions attached to control who occupies the units, increases in the land and/or unit rent, and the price at which the unit and land lease can be resold. The land trust may participate in any capital gain realized upon resale, and use the gains to reinvest in more housing. Alternatively, the total payment for the land lease may be comprised of a flexible combination of monthly payments and a share of capital gains realized on resale. The trust may recognize "sweat equity" when determining the resale value returned to the resident.

The land trust may also have as a part of the agreement a first option to buy the land lease and unit at a predetermined price when the owner wants to sell. Resale may also be restricted to a waiting list of qualified purchasers.

This model may apply to both new and existing housing, and its subsidy may be quite deep. Because of the many possible variations within this model, it is quite flexible to different situations. In Canada, this model is weakened by the fact that land trusts are not recognized by federal and provincial tax laws as charities. It would be very useful to secure a change in these laws (Institute for Community Economics, 1991).

Common resale control mechanisms used by land trusts are described in more detail in Chapter Four, "Mechanisms to Maintain Affordability."

When policy-makers decide to undertake a home ownership assistance program, they should carefully consider their desired outcomes and conditions in the local market for the households they are trying to target. Though this would seem to be stating the obvious, it is particularly true if one of the goals is to make home ownership more affordable to households further down the income spectrum. Not all assistance programs are effective at furthering this goal.

Chapter Four

Mechanisms to Maintain Affordability

Many past programs initiated by federal and provincial governments in Canada helped a limited number of households attain home ownership and stimulated the residential construction sector of the economy, but did not create any permanently affordable ownership housing.

This chapter deals in greater depth with the expected program outcome. It is assumed here that given the depth of subsidy required for a genuine affordable home ownership program, it is not an effective or responsible use of tax money to provide a no-strings-attached "hand up" into the home ownership market. This chapter focuses on programs which help assure a more permanent supply of affordable housing.

Programs which restrict equity appreciation meet this goal best, if the aim is to maintain a stock of homes which remain affordable. This approach provides most of the benefits of home ownership, except the ability to realize appreciation in the value of the property not attributable to the home owner's improvements.

Programs which involve repayment of the benefits may also contribute to this goal. If the program assistance is paid back, it can be used again to help other households. Unless properly structured though, the repayment may not be adequate to assist the same number or type of households, due to inflation of housing costs, including interest rates. Repaid funds may also be easily diverted away if political will is not firmly behind the program.

The legal and fiscal mechanisms which may be used are not always effective or legally feasible in some jurisdictions. The mechanisms which best protect program goals in the existing legal environment will dictate many program features. Municipalities may need to seek powers they do not currently have from their provincial legislatures. Therefore the rest of this section deals with mechanisms to implement these approaches to home ownership assistance[3].

4.1 Repayment Mechanisms

Two mortgage mechanisms are used to ensure that a home ownership assistance subsidy is repaid: second mortgages, and a variation, the shared equity/appreciation mortgage.

4.1.1 ***Second Mortgages.*** A second mortgage may be used to recapture a program subsidy in the following way. A home with a market value of $200,000 is sold for only $150,000: the market price less the subsidy, usually on the land. This $50,000 subsidy is registered on title as a second mortgage against the property which becomes due (with or without interest) upon resale.

In a stable market, purchasers cannot quickly resell the property to collect the difference between the market value and the subsidized purchase price, as the second mortgage becomes due on resale. However, in a market with rapid home price appreciation, the home owner may be able to sell the property, pay off the second mortgage, and still profit. In this case, the revenue from the second mortgage will not be enough to subsidize another household.

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[3]*The legal matters raised in the following discussion are based on the assessment of some of these mechanisms by Bruce Lewis, of Lewis and Collyer, (in N. Barry Lyon, 1993) and on legal views provided to the Ministry of Housing, and given to the City of Toronto Housing Department for information.*

In short, second mortgages can provide a reusable benefit only as long as the subsidized homes appreciate by less than the subsidy plus any interest charged. Despite this significant weakness, second mortgages were used in the 1967-78 Ontario Home Ownership Made Easy (HOME) program, and more recently in the Newmarket Affordable Housing Program.

4.1.2 Shared Equity/Appreciation Mortgages. A commercial shared equity/appreciation mortgage has been marketed which provides, (say) 10% of the purchase price of the home, in return for the same percentage of the appreciated value of the home. In government-assisted home ownership programs, shared equity/appreciation mortgages may be used to mitigate the effect of inflation and rapid home price appreciation, and to ensure that the subsidy which is repaid is adequate to assist a second and subsequent first time buyers.

To accomplish this, the mortgage terms require the borrower to pay the holder of the mortgage all or most of the appreciation above a certain inflation factor, upon resale or after a certain period of time. The reason for attaching these terms to the home ownership assistance is that incomes often increase less than home prices. The government's share of the appreciation on the home of the initial buyer when they resell should cover the cost to subsidize the next household in a similar home. The program will then be able to subsidize another household in the same income category in which the initial buyer was when they purchased. Ideally therefore, the share of the appreciation must be equal to the share of the home price represented by the original subsidy, plus the gap between the increase in incomes and the increase in house prices, since the first purchase. For example, if the original subsidy amounted to 25% of the market price of the home, and home prices have increased 30% while incomes have increased only 15%, the shared equity/appreciation mortgage should return to the program 25% of the resale value (adjusted for inflation), plus a premium to help the next beneficiary make up the difference between the increase in incomes and the increase in home prices.

This may not be considered so ideal by the initial purchaser, who on resale is able to leave with their initial equity, but may not be able to compete against other households who have been able to obtain the full home appreciation on resale. The program could respond to this by reducing the lender's share of the appreciation, the longer the purchaser holds the property.

Shared equity/appreciation mortgages are not well understood in Ontario, and their use is complicated by numerous legal issues (outlined below) which have not been tested directly in court in this context.

1) Legal assessments provided to the Ministry of Housing and the City of Toronto indicate that principles in mortgage law may apply which prohibit "clogging the equity of redemption" and "clogging the right to redeem." The "equity of redemption" comes into play if/when the creditor (mortgagee) takes action to claim full payment of the mortgage, for example through foreclosure or selling the property, due to a default on the terms of the mortgage. It is the right of the debtor (mortgagor), if they produce payment in full of the principal still owing and the interest to date, to get the property title clear of the mortgage. A shared equity/appreciation mortgage may contravene this principle if the only way to pay out the mortgage is to sell the property. This could occur if the combined mortgages on the property amounted to more than the mortgageable value of the property, so that the owner could not get financing to buy out the shared equity/appreciation mortgage.

2) The shared equity/appreciation mortgage in the Ontario context may also be subject to the legislation regarding deferred payment mortgages, i.e., a mortgage where no payments of principal or interest are required for a period of time. The legislation requires that the creditor in such a mortgage must permit the debtor to pay off the

mortgage after the end of five years if they wish. This would not affect the City's financial ability to reuse the subsidies, but it may result in higher administrative costs if the mortgages are turning over every five years. A rising market would encourage home owners in the program to pay out the second mortgage by refinancing, and therefore may induce them to put themselves in a high risk financial situation.

3) A mortgagee (creditor) cannot charge an illegal rate of interest, which in the Criminal Code is 60% or more per annum. Interest is deemed to include any charges and expenses attached to the payment of the mortgage principal and interest. The Ontario *Unconscionable Transactions Relief Act* also condemns high interest rates in a more general way. To avoid this issue, the mortgage may include an appropriate cap on the return to the City. There also may be other ways of avoiding these issues.

4) To be enforceable, a mortgage must clearly define the amount which will be owed when the mortgage becomes due and payable. The legal assessments suggest there should be a mechanism to determine fair market value, if that is part of the calculation, and to ensure an arms-length sale.

5) The legal assessments suggest that in the mortgage agreement, the creditor (the City) should avoid any appearance that through the shared equity/appreciation agreement, it is entering into a partnership with the home owner. Otherwise, the creditor may find itself liable for a home owner's financial obligations for the unit, and find itself at the bottom of the priority list of creditors in the event of the home owner's bankruptcy.

4.2 Controlled Equity Appreciation Mechanisms (Freehold and Strata Title Stock)

4.2.1 Option to Purchase Agreements. This mechanism requires only that if the owner wishes to re-sell the unit, the owner must first offer it to, in this context, the City and/or another designated agency, at a defined price. The option must have a specific term, i.e., once the property is offered, the City or other designated agencies must exercise the option within a reasonable length of time (90 days is a typical length), or the option lapses. It must set out a formula for calculating the resale price. The option is registered on title and remains dormant until required. The option can be drafted to include all resales (not just the first) within a given period.

Legal considerations regarding this mechanism include the Ontario *Perpetuities Act*, and the policy prohibiting registering a "restraint on alienation" on title, described in more detail under the next section. The *Perpetuities Act* may restrict the option agreement to a term of 21 years. If the understanding outlined below of the "restraint on alienation" policy is correct, this prohibition should not be a consideration. The legal assessments provided to the Ministry of Housing and the City of Toronto, however, suggested this issue is not clear.

There are also pragmatic issues to consider regarding the implementation of public policy. The option-holders (here meaning the municipality or its designated agencies) have no contractual obligation to exercise the option, and experience indicates two primary reasons they frequently will choose not to. Firstly, the option holder must have on hand a fund and administrative resources with which to exercise available options, and to hold and resell the unit to qualifying households. Secondly, if political approval is required to exercise an option, there may not be sufficient time to acquire this and conduct the transaction within the option period.

In the City of Toronto's St. Lawrence Neighbourhood and Frankel-Lambert housing projects, townhouses were offered for sale at below-market prices, with an option-to-purchase

agreement to control resale for the first five years. Because the City did not set up a fund to buy back the units, the City did not exercise its options when they were offered, so that the units were sold into the market even before the five-year controls expired. Initial purchasers gained a significant windfall profit on these units.

The Option to Purchase Agreement is a Common Law agreement. There are others which serve similar purposes, and have similar weaknesses, such as right of first refusals, simple contracts, and restrictive covenants. Bruce Lewis discusses them in more detail in his Appendix in the N. Barry Lyon report (1993). He strongly recommends against relying on such instruments for a municipal program, due to the uncertainty involved in the legal issues mentioned here.

4.2.2 Affordable Housing Agreements. The New Jersey Council On Affordable Housing (COAH, 1989) has provided municipalities in the State with a mandatory model to control re-sale of affordable units produced through municipal inclusionary zoning exactions. It is one of few models found in the literature reviewed which appear to provide for full ownership of the property involved, and long term price controls. The model involves an "affordable housing agreement" (AHA) between the municipality and the subsidized home purchaser, which is registered on the property title to inform any prospective purchaser of the terms. As long as the agreement is a legally binding contract, the home cannot be resold except on the controlled terms of the agreement. It binds initial and subsequent purchasers.

In the New Jersey model, the terms of the agreement include provisions to re-sell the unit at a defined affordable price only to the municipality or other designated housing agency, or to households on an approved, qualified list. After holding the property for 20 years, the home owner has the option of selling the unit at market value, and repaying to the municipality 95% of the difference between the controlled price and the sale price.

The New Jersey COAH suggests the resale price should be calculated as the original price inflated by the percent increase in the median income for the housing region, but leaves municipalities some discretion in this matter.

In the event the home owner goes bankrupt, the re-sale controls are void, but the municipality or designated agencies have first options to buy the unit at the defined affordable price. Failing that, the seller is required to pay to the municipality any revenue in excess of the defined affordable price. The affordable housing agreement prohibits the owner from encumbering the property with debt in excess of the defined affordable price.

There are several legal issues to consider or clarify regarding the "affordable housing agreement" mechanism.

1) The agreement is a contract, and as such, it must involve the exchange of a "consideration." This means only that the municipality must give some value in exchange for the promise it exacts from the purchaser. The agreement probably should therefore include a description of the value it is offering (provision for homes offered at below-market prices to those who could not otherwise afford them) in exchange for the purchaser's agreement to abide by the resale controls.

2) The New Jersey model requires the agreement to run for 20 years, and to permit the municipality the option of renewing the agreement for another 20 years, such that the agreement may apply in perpetuity. In Ontario, the *Perpetuities Act* may prevent such arrangements. This Act allows an option holder a maximum of 21 years to exercise an option to acquire an interest in land.

3) The Ontario *Land Titles Act* permits the Registrar to refuse to register an agreement on title if the Registrar considers it a "restraint on alienation." A restraint on alienation is a contract which prevents someone from selling their property at all, or which places a restriction which is "morally reprehensible" on the group of people to whom the owner can sell. An example of the latter is a contract which prevents an owner from selling to Jews, or Blacks, or some other discriminated-against group. It is unlikely that a limitation on sale to the types of purchasers envisioned for an affordable housing program would be considered discriminatory in the same way.

4.3 Controlled Equity Appreciation Mechanisms (Land Leasehold Stock)

The mechanisms described above may be valid means to control resale prices of affordable units which are wholly owned (whether freehold or by strata title) by the purchaser. Other means to control resale prices of affordable units may be available when they are attached to units for which only partial ownership rights have been sold.

Property ownership rights can be categorized into several distinct sets of rights, or interests, in property. These rights may be subdivided and combined in a huge variety of arrangements.

1) Direct use rights: to occupy the property, to build on it, to have access to or across it, to raise crops or animals on it, to harvest wild food on it, to mine minerals under ground, to use water crossing or in the property, and almost any other imaginable use. Several people or parties may have rights to different uses of the same property.
2) Rights to indirect economic gain, such as to rent, royalty, or tolls for any of the above uses.
3) Rights to control or place conditions or restraints on the use of the property.
4) Rights to transfer specific rights or all rights in the property to another person or party, such as through a lease, mortgage, sale, gift, or will.

5) Residual rights such as the disposition of a property when the property owner has died without descendants or heirs, rights to seize to enforce a social norm or law, and the right held by governments to expropriate when in overriding need.

The resale control options discussed below are those which make use of arrangements limiting the property rights transferred to the purchaser in an affordable home ownership program. For the purpose of providing opportunities for affordable home ownership, one very useful division of property rights lies between the sets of applicable or available rights regarding the land and those regarding the "improvements," e.g., buildings, house, etc., attached to it.

4.3.1 Individual Lease Agreements. Long term leases for the land and sometimes the house or building may include conditions on the use, rent, and resale of the leased property or even on the part of the property which is owned outright by the household leasing the rest of the property.

A land lease may contain terms and conditions regarding whether or not, and to whom the housing unit(s) on it can be rented, and at what rent, and regarding who the unit(s) can be sold to, and at what price. For instance, the Vancouver Land Corporation leases land from the City of Vancouver under an agreement which dictates that rental units must be built on the land, that they must be non-luxury apartments, that they must rent at the low end of the market, that rent increases must not exceed the rate of inflation and finally, that the building ownership will revert to the City at the end of the 80 year lease.

In another example, the University of California at Irvine holds land leases on homes they sell to staff and faculty. The leases limit resale to University staff and faculty, or failing that to the University itself. They restrict owners' rights to assign the property in a will to their

children. As part of the land rent, the lease limits the resale price of the house to the original price plus a building construction cost inflator, and in addition, claims a portion of those gains when realized on resale.

The City of Toronto leases land to many social housing providers with many terms and conditions attached to ensure the land is used primarily for the provision of non-profit housing to low and moderate income households. Existing agreements extend for at least 35 years.

A municipality could use this tool where it owns the land involved in the affordable ownership housing development. There are many ways in which a lease could be structured to accomplish a municipality's goals. A land lease arrangement in Ontario, however, cannot be used where the units involved are part of a condominium project, as condominium legislation in Ontario does not permit condominium development on leased land. The Province has been considering changes to the legislation to permit condominium development on leased land (Vykki Silzer, various discussions, 1992).

4.3.2 Controlled Equity Co-operatives. Controlled equity co-ops may be known as shared equity, guaranteed equity, equity co-ops and resident-funded co-ops. They all share the common feature of each resident purchasing an equal share in the project, which share gives them a say in the management of the project, its land trust, and its common areas, and gives them occupancy rights in a particular unit. In addition, they retain some advantages of ownership because they are able to sell the share and recoup their accumulated equity in the project.

The equity purchase agreement in an affordable ownership program, however, may include restrictions on who may occupy the unit, on who may buy the share and at what price, and

may claim for the program a portion of the capital gains realized on resale of the share in return for making the share available at below-market prices. Controlled equity agreements thus may secure revenues to a housing fund, or may secure a stock of units at affordable prices.

The Metro Guaranteed Equity Housing (Malvern) Corporation project uses this model to maintain a stock of affordable units, in part by combining it with a lease for the land between the equity corporation and the Metro Toronto Housing Corporation Ltd.

4.4 Assessment

The available mechanisms to keep affordable ownership housing affordable are, in short:

Repayment:
- Second Mortgage
- Shared Equity/Appreciation

Controlled Equity - Freehold and Strata Title
- Option to Purchase
- Affordable Housing Agreements

Controlled Equity - Land Leasehold
- Individual Lease
- Controlled Equity Co-ops.

Lewis (in N. Barry Lyon, 1993) assesses the available resale controls in terms of:

1. mortgageability;

2. enforceability, especially:
   - legal enforceability and degree of uncertainty about it;
   - practical enforceability;
   - enforceability of maintenance and use controls.

He observes that the major weakness of the controlled equity co-op option is that it is difficult if not impossible to get mortgages from most financial institutions for individual units in an equity co-op. Most equity co-ops are financed through bulk mortgages (the concept

pre-dates, and for most people was outmoded by condominiums). Bulk mortgages leave the members vulnerable to members who renege on their portion of mortgage obligations, because the remaining members must cover it. Lewis suggests that municipalities may try to discuss with some institutions individual mortgages with municipal guarantees.

Lewis warns strongly against use of Common Law mechanisms such as the Option to Purchase to control equity appreciation. Though it is possible they would be successful, there are too many conflicting decisions and untested legal principles involved to risk using them in a municipal program. Shared equity/appreciation mortgages are also a Common Law mechanism, and though Lewis does not comment in detail on them, it is clear they too are a weak mechanism. However, a program using a shared equity/appreciation mortgage would have lower expectations concerning maintaining affordability, so the weakness is less important.

Leases and statutory AHAs are probably equally reliable, according to Lewis, both practically and legally. Two important factors affect their practical enforceability. The first is that resales should take place through an intermediary agency, so that the buyer and seller do not have an opportunity to meet and agree to "under the table" terms of sale. The second factor is the clarity of the contracts themselves. The Court will protect consumers where it believes that the contractual conditions they agreed to were so poorly communicated the consumer may not have fully understood them. An affordable home ownership program must set forth the conditions controlling use and resale, etc., in plain language, and be sure that the buyer has had proper legal advice.

Maintenance controls may be difficult to implement for controlled equity arrangements. Without the incentive of having to sell the unit in the market, there is a risk that owners could let their units deteriorate. Arms-length inspections at the time of resale, or at regular

intervals, and depreciation estimates are possible mechanisms which could be written into the agreements.

Use controls may also be difficult. Lewis suggests that the municipality may want to be involved in day-to-day management of a property to have access to information which would indicate that someone using their unit as a rental property investment, so the available remedies could be taken. Self-managing equity co-operatives may also exercise a similar control.

Overall, AHAs and lease-based controlled equity co-ops are clearly the best program options for maintaining a permanent stock of affordable ownership homes.

Chapter Five

City of Toronto Case Study

This chapter provides a review of the policy context for this enquiry into possible affordable home ownership initiatives by the City of Toronto. It identifies three basic home ownership assistance options, and a variety of tools or means which could make it feasible to implement these options. It assesses those options in terms of their costs and who could benefit from them, and makes recommendations specific to the City of Toronto.

Background. The City of Toronto, with a population of about 635,000, is the urban core of Metropolitan Toronto, population 2.3 million, and of the Greater Toronto Area (GTA), population 4.2 million. The City of Toronto's expected share of the GTA population increase projected for the next twenty years is about 100,000 people. While this is no more than the former population peak in Toronto, households are considerably smaller than in the past, so more housing is needed to accommodate this population level.

The GTA is the commuter shed of Metro Toronto, and includes Metro and four surrounding regional municipalities. Though the City of Toronto has only 15% of the GTA population, it has almost 30% of the jobs in the GTA, and 44% of the jobs in Metro (statistics from Metropolitan Toronto Planning Department, 1992b). This situation generates a large rate of long distance home-and-work commuting. To reduce commuting, and to accommodate the expected population growth, the City needs to increase the amount of housing in the urban centre.

There is virtually no undeveloped land in the City and additional housing demand must be met through industrial land and other infill redevelopment. This is also true for Metropolitan Toronto (Municipality of Metropolitan Toronto, 1992a:4). Therefore the price of housing in the City is high, (especially new housing), though average household income is lower than in the rest of the region (City of Toronto Planning and Development Department, 1990). The lower income levels are due at least in part to the relatively high percentage of single person and single parent households in the City, who are attracted by the availability of jobs and the accessibility of services.

Given the cost of land in Toronto, it is not surprising that those who can afford home ownership are generally well-off, and renters experience the majority of housing problems. As mentioned earlier, renters have just over half the average income of home owner households in Toronto, and constitute 63% of the City's households.

The City of Toronto has been actively involved in housing development for low to moderate income households since it began building Regent Park North in 1948. The City's non-profit housing corporation, Cityhome, was established in 1974, with the mandate to serve not necessarily the neediest, but rather the working poor, to thereby keep them in the City. For this reason, it is Cityhome's policy to accept applicants on a first-come-first-served basis. This policy has been modified somewhat lately to meet Provincial housing program requirements, but the goal of serving the working poor remains largely the same. The rationale for a first-come-first-served policy now also serves another purpose: Cityhome fills a gap left by other agencies which select tenants on a need-based system. The working poor are usually last on those agencies' lists.

Cityhome manages a portfolio of about 7,000 units, all rental, consisting of apartments in high and mid-rise buildings, converted single family dwellings, and rooming houses. The City

has also facilitated the development of many more units of social housing through various initiatives. The City's land bank for social housing, acquired through developer exactions and direct purchase, has been made available to other non-profit organizations, sometimes at a reduced price so that the units could be built within the limits of the provincial social housing Maximum Unit Price.

The City also is, and has been involved in large scale redevelopment projects on industrial land, as in the St. Lawrence Neighbourhood and Frankel-Lambert Neighbourhood. Though the massive Ataratiri development east of St. Lawrence Neighbourhood has been aborted, the City is still involved in the redevelopment of the Railway Lands east of Union Station, the Massey Lands west of the downtown financial district, and the Sears Warehouse lands and several nearby parcels in the east downtown. The City's role in these projects ranges from development manager to direct developer to developer partner to development controller (i.e., negotiating densities, land use, public facilities, and the allocation of land for social housing, with the private developer).

The City has rarely been involved in home ownership assistance, except through small rehabilitation subsidies to low-income home owners. Two of the City's major redevelopment projects, St. Lawrence and Frankel-Lambert, did produce some ownership (townhouse) units developed and sold by the City at below-market prices. The units were popular, and their owners made a large capital gain on them. Though some controls were placed on resale for a period of five years to avoid windfall profits, these controls were ineffective, and were broken in less than the five years (second mortgages: see discussion in Chapter Four on the weaknesses of this mechanism).

5.1 The Policy Context

This review of affordable home ownership program options for the City takes place in the context of many recent general policy proposals, statements, and directives regarding the provision of affordable housing. The dramatic increase in Toronto house prices in the late 1980s brought the issue of affordable home ownership onto the City's policy agenda. The first major report expressing concern over the lack of opportunities for potential first-time home buyers in Toronto was *The Endangered Dream: Report of the First Time Home Buyers Task Force,* a joint report issued in February 1989 by the City of Toronto in co-operation with the Toronto Real Estate Board and the Ontario Ministry of Housing. In July, 1989, the Ontario government established its *Policy Statement on Land Use Planning for Housing.* The City established its definition of affordable housing in response to the provincial policy statement in July 1990. In July 1991, the City released its draft official plan, the *Cityplan '91 Proposals Report,* outlining its housing goals for the following ten years.

The focus of the *Report of the First Time Home Buyers Task Force* (RFTHBTF) was to lower the cost of housing itself (rather than providing direct subsidies to home buyers). The major recommendations included suggestions that:

* affordable home ownership be an explicit policy goal of the provincial government and of municipalities

* the provincial government require municipalities to establish official plans and by-laws which would make affordable housing more feasible

* appropriate surplus government lands of all levels of government be made available for housing

* housing targeted for first time home buyers be available only to those buyers and occupied by them for a minimum period of three years.

Policy initiatives such as those mentioned above, taken by the Province and the City since the release of the RFTHBTF, have begun to address some of these points.

The Ontario *Policy Statement on Land Use Planning for Housing* (1989) provides a directive to municipalities to facilitate the provision of affordable housing in proportion to the demonstrated need in the municipality. It does not clearly require municipalities to ensure that the affordable housing is produced and is provided to those for whom it is deemed affordable. It appears only to direct municipalities to ensure the opportunity to produce affordable housing. It provides a definition of affordable housing: rental or ownership housing which does not cost more than 30% of gross income, for households whose income is in the lowest 60% of the distribution for all household incomes in the housing region. The definition also encompasses social housing produced under various non-profit and co-op housing programs of the federal and provincial governments.

For many municipalities, compliance with this directive could perhaps adequately address the need for affordable housing. Because there is a large gap in the Toronto CMA between the incomes of tenant households and average household incomes, and between the average incomes of singles and of families, the upper limit of what is affordable according to the Provincial definition is above the affordability limit of almost 80% of tenant households. In the City of Toronto, therefore, it seems unlikely that the City could provide the opportunity to build affordable housing, and be reasonably certain it would be taken up by those in need, without the City intervening directly.

The City therefore has developed its own definition of affordable housing, and is examining ways to ensure that such housing gets produced and provided to those for whom it is intended. The City's definition of affordable housing is housing which does not cost more than 25% of gross income for rental housing, or 30% of gross income for ownership housing, for households whose income is in the lowest 60% of the distribution for *tenant* households of different sizes and types in the housing region (Toronto CMA). The Provincial definition

uses the distribution for *all* households combined. To meet the City's definition, this housing also must be provided primarily for occupancy by such households.

The City's new Official Plan (to be adopted summer 1993) incorporates this definition of affordable housing. It also sets an affordable housing goal: that half of the new dwelling units built by 2001 should be affordable housing. In major new residential development projects, the City will require that at least 25% of the new housing is affordable housing. In addition, it requires that at least one-quarter of new housing on land re-designated for housing should be suitable for families with young children. That is, it should have at least two bedrooms, and services and facilities appropriate to children's needs should be near at hand.

As in the provincial definition, affordable housing includes social housing produced under various non-profit and co-op housing federal and provincial programs. However, it is clear from the financial pressure on all governments, and from the recent history of social housing unit allocations in Toronto, that social housing development will not enable the City to meet its affordable housing goals. (Rob Cressman estimates allocations for 1993-1996 will total about 1000 per year to all providers in the City of Toronto - Housing Department discussion, fall 1992.) Therefore the City must look at other means of meeting its goals.

To meet its affordable housings goals, the City Planning and Development Department contemplated establishing an "inclusionary zoning" exaction which would require private developers to include a minimum percentage of affordable units in new buildings, or pay cash or land in lieu of the units to the City. Because private developers are producing few if any rental buildings, the exaction would produce only ownership units in private projects. The City has the option of using cash and land in lieu for ownership or social rental housing.

(This proposal has been "shelved" for the present because of its possible deterrent effect on new development during the recession.)

The research summarized in this paper was begun in the City Housing and Planning and Development Departments in an effort to help the City decide how to meet its affordable housing goals. The City also commissioned several studies by consultants. One study (Malone Given Parsons, 1991) examined inclusionary zoning and its potential impacts on residential developers. Another study (N. Barry Lyon Consultants Limited, with Lewis and Collyer, Barristers and Solicitors, 1993) assessed the legal feasibility of various approaches to limiting resale prices/unit price appreciation, and researched the market reaction to units with such controls among potential purchasers. Yet another (CB Commercial, 1993) assessed the financial feasibility of a limited equity home ownership project for an available Cityhome site. One important finding of all three studies is that a significant gap exists between what potential, targeted purchasers can afford, and the cost of building new units in Toronto.

5.2 The Affordability Gap

Since 1985, the cost of home ownership, relative to household income, has increased dramatically in Metropolitan Toronto. Average household income increased only 6% per year between 1985 and 1990 (Vykki Silzer, City of Toronto Planning and Development Department estimates, 1991), while house prices increased an average of 27% per year in the same period (Vykki Silzer, from Toronto Real Estate Board Multiple Listing Service data, 1991). This situation could have two effects: home owners could be having trouble supporting their debt load, as happened in the 1970s and early '80s when interest rates at mortgage renewal escalated sharply; and prices could be preventing potential new home owners from purchasing.

5.2.1 Who Needs Help? Average income figures in Toronto are pulled down by the fact that tenant households comprise 63% of the households, and that average tenant household income is only 56% of average home owner household income. Therefore the gap between average income and that required to support home ownership is largely suffered by tenant households.

This conclusion is supported by data indicating that existing home owners generally can afford their housing costs. Census data show that in 1981, 81% of home owner households in the City of Toronto, and in 1986, 83% of home owner households, paid less than 30% of their income on housing. Some home owners can freely choose to pay more than 30% of their income on housing without seriously affecting their lifestyle, so the home owners with affordability problems are probably fewer than indicated by the above figures. The rapid house price increases of the past five years, therefore, have specifically limited non-home owning households from entering the home ownership market.

CMHC's home ownership affordability indicator calculates how many tenants have the income required to carry a 90% mortgage, taxes and heating costs on an average-price starter home, assuming a maximum gross debt service ratio of 32%. In Toronto, that income level was about $58,000 in 1992. In nearby cities, to which Toronto risks losing its middle class, that income level was approximately: in Hamilton, $46,600; in Oshawa, $48,000; in St. Catherines-Niagara, $37,800; in Kitchener, $44,500; and in London, $40,000.

The high cost of home ownership also contributes to the tight rental market and high rents in Toronto which prevailed until the recent condo apartment glut. According to CMHC's home ownership affordability index, 28% of tenants in the Toronto CMA are able to afford home ownership (July-Dec, 1992; see Table 1.1). That is a significant improvement from

the 1989 figure of 6.7%. However, Toronto still does not compare well with other Canadian cities. Only Victoria and Vancouver are in a worse position; Hamilton's is similar.

5.2.2 How big is the gap? Table 5.1 indicates the incomes of different types of tenant households at the Toronto CMA 30th, 50th, and 60th income percentiles for all households, and the corresponding affordable home price for those income percentiles (given the assumptions indicated). Table 5.2 shows mean and median sales prices for condo and freehold homes, 1989 through 1992, in the City of Toronto. Affordable prices

Table 5.1

Affordable Unit Prices
Tenant Households, City of Toronto

Income Decile	Income (est. 1992)	Affordable Unit Price*
80th	$53,702	$142,816
70th	$43,357	$109,010
60th	$35,865	$84,526
50th	$29,519	$63,789
40th	$23,751	$44,938
30th	$17,966	$26,033

Couple, with or without children		
50th	$44,953	$114,225
60th	$51,083	$134,258

Single Person, or Single Parent		
50th	$23,595	$44,428
60th	$28,834	$61,549

*Assumptions: 8.5% interest over 25 years with a 10% down payment
$150/mo. property tax, and $100/mo. maintenance fees.

Source: Income data from City of Toronto Planning and Dev't. Dept. estimated from 1986 StatsCan census data, adjusted by Toronto CMA all item CPI, December, 1992 (130.5% on 1986 base).

Table 5.2

Residential Sales In the City of Toronto
Showing Mean and Median Sale Price, 1989 – 1992

	N	MEAN	MEDIAN
1989			
Condo Apartment	571	$309,886	$270,000
Condo Row House	128	$274,374	$227,000
Home	5,917	$335,648	$267,400
1990			
Condo Apartment	655	$256,996	$200,000
Condo Row House	97	$224,840	$175,000
Home	4,593	$293,615	$238,000
1991			
Condo Apartment	1,078	$213,036	$174,000
Condo Row House	208	$206,031	$155,000
Home	6,994	$260,808	$216,000
1992			
Condo Apartment	1,171	$185,231	$155,000
Condo Row House	150	$202,082	$155,000
Home	6,441	$257,406	$208,000
1989–1992			
Condo Apartment	3,475	$227,866	$181,000
Condo Row House	583	$223,150	$170,000
Home	23,945	$284,679	$230,000

Source: City of Toronto Planning and Dev't. Dept.
Teela Sales Files

for various types of tenant households are in most cases much lower than prices in the last four years. Only households of couples at the 60th percentile, and households generally at the 80th percentile, might be able to afford even the greatly reduced 1992 prices.

The three consultants' studies of inclusionary zoning and affordable ownership housing that the City commissioned produced three estimates of development costs for modest condo-style units. The consultants' assumptions vary, and they estimated the costs at different times, under different market conditions, but the message remains the same: the vast majority of tenant households probably cannot afford even at-cost new housing in Toronto. Table 5.3 shows the dollar value gap between the three consultants' cost estimates and the affordable price at the 60th percentile of the income distribution for various tenant households in 1992.

Note that the Malone Given Parsons study estimated costs in 1990, and assumed the units would be included in a market condo development, which condition would restrict the ability of the developer to reduce costs through design modifications. Costs indicated do not include developer's profit.

The N. Barry Lyon study estimated costs using 1991 prices, and assumed the whole development would be a modest affordable home ownership project. The CB Commercial study used estimated costs for a Cityhome development in 1992 on an actual available site.

Table 5.3

Development Costs
900 Square Foot, 2 Bedroom Apartment

Malone Given Parsons		N. Barry Lyon		CB Commercial	
dev't cost	land cost	dev't cost	land cost	dev't cost	land cost
$198,151	$60,000	$154,000	$20,000	$161,571	$31,786

Affordable Price
At 60th Percentile

Price	Gap	Gap	Gap
All Tenants			
$84,526	$113,625	$69,474	$77,045
Couples			
$134,258	$63,893	$19,742	$27,313
Singles/Single Parents			
$61,549	$136,602	$92,451	$100,022

"Couples" category includes couples with and without children
Sources: Malone given Parsons, 1991
N. Barry Lyon, 1993
CB Commercial, 1993
Table 5.1, Heather Urquhart, 1993

5.3 Options for the City of Toronto

This section reviews program options and means of implementing them which respect the City's policy that affordable housing should serve the lowest 60% of tenants, and should involve resale price controls to ensure that the housing remains affordable. It also presents a slightly broader range of options which do not quite meet the City's policy goals: options involving repayment mechanisms, and/or homes priced at the low end of the market. This section will review the potential program costs to the City, and who the housing could serve, and compare these with social housing costs for similar income groups.

The options presented here are limited to those the City could reasonably pursue under existing conditions and policies, or with provincial policy changes currently under discussion. Longer term solutions will be discussed in the "Conclusions" chapter.

5.3.1 The City's Role. Chapter Three outlined five possible roles proponents have played in home ownership assistance programs. This section comments on their applicability for the City of Toronto.

The role of grantor is unlikely for the City due to budget constraints, given the size of the gap to be bridged, unless the grant involved is the waiving of smaller amounts, such as development charges.

The role of lender appears unlikely as any more than an ancillary aspect of a project, again due to the gap involved, and to the additional risk of even greater expense if/when interest rates increase. The Australia/New Zealand, Index Linked Mortgage-like model (Appendix A, #5, #19, #21) does have the potential to bridge the gap, but the scale is more appropriate to the resources of a provincial or federal government program. The rent-to-own type of program, like that in Montreal (Appendix A, #15), only assists with the down

payment. As will be shown later, this is insufficient to bridge the gap in Toronto, but may be sufficient in another municipality.

The federal government has already done much as a mortgage insurer to facilitate home ownership by allowing 95% mortgages. The City could only add guarantees for an unconventional mortgage arrangement ancillary to its own project.

As development regulator, the City's usual role, the City could somewhat reduce but not eliminate the gap between what is affordable and its cost.

As trustee of public resources and benefits, the City has the best opportunity to implement an effective home ownership assistance program for the tenant households targeted by its affordable housing definition. The City's potential public resources are its development agency (Cityhome) and the existing social housing land bank, with the ability to add to it through:

- rezoning exactions for redevelopment of industrial land,
- exactions in return for extra density (density bonusing),
- residential to commercial density conversion exactions, and
- the potential to implement an inclusionary zoning exaction on new single-site residential developments.

Most of the exactions however, are not effective tools at this time because both the commercial and residential markets are very weak. City Council has also recently adopted a resolution not to allow most density bonuses, so as to maintain limits on "built form."

In the short term, then, the City has its existing land bank, and whatever lands for affordable housing it can negotiate for in the Railway Lands, and one or two other large industrial sites whose owners expect to redevelop soon.

Within the role of trustee, the examples in Appendix A provide three basic options, and a variety of tools or means to implement them. The three basic options are:

1. a controlled equity project,
2. a shared equity/appreciation project, and
3. an at-cost, low-end-of-market project with resale controls.

The tools or means to implement these options are discussed in detail below, under the option to which they apply best.

5.3.2 ***Option One: Controlled Equity.*** A controlled equity project targeted to low and middle income tenant households is the preferred option for the City. The controlled equity option was modelled in the CB Commercial study that examined the feasibility of an affordable home ownership project on a Cityhome site. The spreadsheet model allowed the consultant to try various approaches to reduce the purchase price at the least cost to the City, including through a below-market land lease, reduced construction costs, mortgages from the City at reduced rates, and a combination of these approaches. The initial affordability gap, plus the long-term costs and risks to the City of controlled resales to the targeted income group were compared for these variations. Other variations on this spreadsheet provided further data used in the assessment of Option One below.

5.3.2.1 *Consultant's results.* No approach the CB Commercial consultant tested was significantly better, in the long run, than simply selling the units at a reduced price. No single variable realistically could be reduced sufficiently to eliminate the gap. If the City

obtained land for nothing, there was still a gap between the affordable price and the remaining cost. Reduced construction costs in themselves could not eliminate the affordability gap - "hard" costs would have to be $21.45 per square foot, compared to an estimated $78.15 for the project in question. Offering an interest rate subsidy was more expensive in the long run than simply selling at a reduced price, due to the effects of interest rate differentials over time.

In fact, a major cost factor in the model is the requirement that the units be bought back at a guaranteed appreciation rate (the model used 2/3 of the Consumer Price Index) and resold to households at the 60th percentile. Given that the starting point for the project is during a low point in the cycle of inflation and interest rates, the model assumed increasing rates in the coming ten years. Interest rates generally outpace increases in income, so that the price affordable to households in the next ten years is likely to be lower, due to interest rate increases, than the guaranteed buy-back price. This loss is a significant contributor to the long-term cost to the City of an affordable home ownership project.

5.3.2.2 *Further analysis.* The CB Commercial study did not examine all possibilities, however. When the consultant produced such discouraging results, City Housing Department staff suggested relaxing some of the variables previously held fixed, such as the Gross Debt Service (GDS) ratio and the down payment, to see what effect they had.

This section comprises that further analysis. The analysis involved varying several factors, some in combination, and using the resulting affordability gap and net present value (NPV) of the net cash flow over ten years to compare the results. Tables 5.4, 5.5, 5.6, 5.7, and 5.8 present the results. Note that the affordability gap measures the initial differential in year one between affordable price and estimated cost (the analysis does not indicate how the cost

is reduced). The net present value figure is a measure of the City's potential long term costs, including risks associated with inflation and interest rate changes.

5.3.2.3 *GDS ratio.* The analysis shows that if the City expected buyers to assume a higher Gross Debt Service (GDS) ratio than 30 percent, the gap and the NPV of the project could be reduced significantly. The impact of that debt burden on the purchasers, however, is not clear, and could be very onerous. The effects of the various GDS ratios on estimated household disposable income are shown in Table 5.9. The tax calculations used do not include any tax deductions or credits, such as for children, so the table shows a smaller disposable income than might actually be available.

One assessment of the impact of higher GDS ratios is possible by comparing after-shelter monthly disposable income as calculated in Table 5.9 with monthly non-shelter expenses calculated for the minimum-income budget guide prepared by the Toronto Social Planning Council (SPC). The budget guide shown in Table 5.10 is possibly out-of-date, as it

Table 5.4

Changes in the Affordability Gap and NPV of Project Cash Flow Relative to the Gross Debt Service Ratio

	Ratio	Max. Afford. Mort. Pymt.	Down Payment	Max. Afford. Price	Afford. Gap per unit	Cash Flow NPV per unit
	25%	$63,691	$7,077	$70,767	$90,804	($102,066)
*	30%	$82,638	$9,182	$91,820	$69,751	($85,907)
	32%	$90,217	$10,024	$100,241	$61,330	($79,443)
	33%	$94,007	$10,445	$104,452	$57,120	($76,211)
	36%	$105,375	$11,708	$117,084	$44,488	($66,516)
	40%	$120,533	$13,393	$133,926	$27,646	($53,588)
	50%	$158,428	$17,603	$176,032	($14,460)	($21,270)

Table 5.5

Changes in the Affordability Gap and NPV of Project Cash Flow Relative to the Down Payment

	Down Payment				
*	10%	$9,182	$91,820	$69,751	($85,907)
	15%	$14,583	$97,221	$64,350	($85,456)
	20%	$20,660	$103,298	$58,274	($84,992)
	25%	$27,546	$110,638	$51,387	($84,512)

Table 5.6

Changes in the Affordability Gap and NPV of Project Cash Flow Relative to Maintenance Fees per Month (including sweat contrbutions)

	Maintenance Fees					
*	$100	$82,638	$9,182	$91,820	$69,751	($85,907)
	$75	$85,742	$9,527	$95,270	$66,302	($83,144)
	$50	$88,848	$9,872	$98,720	$62,852	($80,556)

Table 5.7

Changes in the Affordability Gap and NPV of Project Cash Flow Relative to Sundry City Costs

Land Transfer Tax = 0	($84,837)
Administration = 0	($80,414)
Contingency Reserve = 0	($82,245)
All of the Above = 0	($75,682)

* Base case, assuming income of approximately $36,600.

Source: CB Commercial, 1993, and Heather Urquhart, 1993

Table 5.8

Changes in the Affordability Gap and NPV of Project Cash Flow Relative to: Land and Construction Costs

Construction Costs per square foot		Land Costs per unit $0	$10,000	$15,000	$20,000	$25,000	$31,786
Gap	$30	($21,271)	($11,271)	($6,271)	($1,271)	$3,729	$10,515
NPV		($2,651)	($11,742)	($16,288)	($20,833)	($25,379)	($31,548)
Gap	$40	($8,969)	$1,031	$6,031	$11,031	$16,031	$22,817
NPV		($13,940)	($23,032)	($27,577)	($32,123)	($36,668)	($42,837)
Gap	$50	$3,333	$13,333	$18,333	$23,333	$28,333	$35,119
NPV		($25,230)	($34,321)	($38,867)	($43,412)	($47,957)	($54,126)
Gap	$60	$15,636	$25,635	$30,635	$35,635	$40,635	$47,421
NPV		($36,519)	($45,610)	($50,156)	($54,701)	($59,247)	($65,416)
Gap	$70	$27,938	$37,938	$42,938	$47,938	$52,938	$59,723
NPV		($47,808)	($56,900)	($61,445)	($65,991)	($70,536)	($76,705)
Gap	$78.15	$37,966					* 69751
NPV		($57,011)					($85,907)

Assuming income of $36,600 and affordable price of $95,270

* Base Case

Source: CB Commercial, 1993, and Heather Urquhart, 1993

Table 5.9

City of Toronto Tenant Household Disposable Income

Income Decile	Income (1992 est.)	Housing Costs (30%)	Remaining Monthly Income*	Housing Costs (32%)	Remaining Monthly Income*	Housing Costs (33%)	Remaining Monthly Income*	Housing Costs (36%)	Remaining Monthly Income*	Housing Costs (40%)	Remaining Monthly Income*	Housing Costs (50%)	Remaining Monthly Income*
All Tenants													
80th	$53,702	$1,343	$1,781	$1,432	$1,691	$1,477	$1,647	$1,611	$1,512	$1,790	$1,333	$2,238	$886
70th	$43,357	$1,084	$1,534	$1,156	$1,462	$1,192	$1,425	$1,301	$1,317	$1,445	$1,173	$1,807	$811
60th	$35,865	$897	$1,355	$956	$1,295	$986	$1,265	$1,076	$1,176	$1,196	$1,056	$1,494	$757
50th	$29,519	$738	$1,203	$787	$1,154	$812	$1,130	$886	$1,056	$984	$957	$1,230	$711
40th	$23,751	$594	$996	$633	$956	$653	$937	$713	$877	$792	$798	$990	$600
30th	$17,966	$449	$789	$479	$759	$494	$744	$539	$699	$599	$639	$749	$489
Couple, with or without children													
50th	$44,953	$1,124	$1,572	$1,199	$1,497	$1,236	$1,460	$1,349	$1,347	$1,498	$1,197	$1,873	$823
60th	$51,083	$1,277	$1,718	$1,362	$1,633	$1,405	$1,591	$1,532	$1,463	$1,703	$1,293	$2,128	$867
Single Person, or Single Parent													
50th	$23,595	$590	$990	$629	$951	$649	$931	$708	$872	$787	$794	$983	$597
60th	$28,834	$721	$1,178	$769	$1,130	$793	$1,106	$865	$1,034	$961	$938	$1,201	$697

Source: Income data from City of Toronto Planning and Development Department estimated from 1986 StatsCan data, adjusted by Toronto CMA all items CPI, December 1992 (130.5% over 1986)

* Remaining Monthly Income refers to after-tax, after-housing-costs income. Basic income taxes only are calculated, with no deductions or credits. This may therefore understate remaining monthly income, especially for families with children.

Table 5.10

Toronto Social Planning Council Selected Budget Guides (1992 Prices)

Expenditure Item	Type of Household: Single	Single parent Two children	Couple Two children
Rent	$426	$599	$712
Food	$221	$404	$674
Clothing	$67	$122	$211
Personal Care	$20	$46	$68
Household Maintenance	$11	$26	$31
Household Furnishings	$58	$91	$101
Social Outings/Movies*	$25	$42	$57
Sports/Recreation/Toys*	$11	$20	$35
Alcohol and Tobacco*	$28	$28	$57
Telephone	$19	$19	$19
Public Transportation	$58	$79	$103
Newspapers/Magazines	$17	$21	$21
Occasional Babysitting	$0	$101	$0
Vacation	$0	$22	$22
Special School Needs	$0	$7	$17
Insurance	$0	$7	$7
Contingencies	$28	$31	$31
Monthly Total	$989	$1,666	$2,165
Annual Total	$11,872	$19,992	$25,983
Monthly Total net of rent	$563	$1,067	$1,454
Rent as a % of Total Expenditures	43%	36%	33%

* The amounts for these items have been reduced by the Social Planning Council to 50% of the actual budget guide figures in recognition of their discretionary nature.

Source: Adaptation by David P. Ross of the Toronto Social Planning Council's budget guide "Living on the Margin," 1986, as he used it in "Benefit Adequacy in Ontario," 1987.

Costs have been updated to December 1992 using the C P I and the rent review guideline.

represents a 1986 budget inflated by CPI to 1992 prices. As a ball-park indicator, however, it shows that:

- For a single person at the 50th or 60th percentile ($23,600 - $28,800), a GDS ratio as high as 50% still should leave a disposable income sufficient to cover the minimum non-shelter budget suggested by the Toronto SPC.
- For a couple with children at the 50th or 50th percentile, ($45,000 - $51,000; child tax credits not considered), a GDS ratio of 33% should leave income sufficient for the SPC monthly non-shelter budget of $1,454.
- A single parent, however, would have to be at the 60th percentile, ($28,800) and have a maximum GDS ratio of 30%, to ensure that there was sufficient income to cover the SPC monthly non-shelter budget for the parent and two children ($1,067).
- At the 30th and 40th percentiles for all tenant households, ($18,000 - $25,000), however, only single person households are likely to be able to afford even a 30% GDS. (They could actually afford a higher ratio.) All other households at that income range probably would have insufficient income left over for other basic needs.

As a basis for deciding what GDS ratio is affordable, this comparison is flawed. It does not consider, for instance, the long term stress on the household of living that "close to the line." It does not consider whether or not people at the given income levels are willing to pay the price of living near poverty level to own their home. One reason people prefer home ownership is that its costs usually go down relative to income, given income increases and fixed mortgage term interest rates. Do households at these low income levels experience the income increases that most present home owners count on? The above comparison does not address these questions.

There is little if any literature which examines the issue of what shelter cost to income ratios are actually affordable at given income levels, and by what criterion (Steele, telephone conversation, March 1993). The accepted ratio has increased over the years, and the income

considered has expanded as well to include both spouses' income. The accepted ratios, now 30% - 32%, are those established by lending institutions. Many are now experimenting with ratios of 33% - 36% (Lesley Watson, pers. comm. January 1993). Given the lack of research into this issue, it seems advisable to proceed with caution, if at all, with any program which assumes a GDS ratio higher than 30%, especially for families with children.

5.3.2.4 *Down payment, maintenance fees.* If the City expects buyers to have a larger down payment than 10 percent, the affordability gap would come down significantly, but the NPV for the City would hardly be affected at all (Table 5.5). The reverse is true if maintenance fees could be reduced by expecting residents to do most of the maintenance work on common areas (Table 5.6). (A "sweat contribution" to maintenance not only reduces maintenance costs, but also means the purchaser can afford a larger loan.)

5.3.2.5 *City administration and other costs.* There are costs to the City of administering such a project that are unrelated to the development costs and prices of the units, such as the Provincial Land Transfer Tax, general administration, and a "plug" cost for the unexpected, the "contingency reserve." If any of these costs were zero, they individually would not greatly reduce the project's negative NPV. Taken collectively, however, the negative NPV could be reduced by $10,000 per unit (Table 5.7).

5.3.2.6 *Land and construction costs.* The most significant reductions in the affordability gap and NPV for the modelled project, however, are found in reducing land and construction costs - the largest "up front" costs of the project. Table 5.8 shows how various combinations of land and construction costs affect the gap and NPV, for a given income level of $36,000 (about the 60th percentile level for all tenant households). Some cost values on this table are clearly wishful thinking, in practical terms. The next section will discuss means by which the affordability gap might feasibly be bridged.

5.3.2.7 *Potential means for feasible savings.* The sections just above described the effects of changing certain variables in a supply-demand spreadsheet for an affordable home ownership project. The sections immediately following describe how some of those changes might be made feasible in actual practice. There is no guarantee that any of these approaches will make an affordable home ownership program possible; they are simply ideas which are potentially most effective.

5.3.2.8 *Land costs.* Land costs attributable to a City home ownership program or project may be reduced in the following two ways. Firstly, the City occasionally does acquire "free" land through development bonuses, and may have some in the land bank. Secondly, in the present development environment, the City should consider examining the land costs it would expect to have returned by the project in terms of the opportunity cost of the project, rather than in terms of the purchase price and carrying costs. The best price the City is likely to get for any land in its land bank is the expected land component of the Provincial MUP, or $25,000 per unit. This is probably the maximum opportunity cost of a home ownership project. This may even exaggerate the opportunity cost, if social housing allocations are unlikely to be available soon for the land.

5.3.2.9 *Construction costs.* The cost estimates used by CB Commercial for the feasibility study are based on concrete construction, and design and standards compatible with an adjacent development. The consultant suggested that if the City had an opportunity to build a wood-frame low-rise project, actual construction costs could be significantly reduced. This possibility depends, however, on the availability of free or low-cost land, as otherwise the land costs per unit for a low-rise building would be too high.

Cityhome is used to developing social housing to its own and the Ministry of Housing standards, standards intended to minimize the long term maintenance, repair, and

replacement costs for which it is responsible. Ownership housing for households just entering the market could reasonably be built to lesser standards in some areas, such as finishes. First time home buyers do not expect to get the best, and as home owners rather than renters, have the opportunity to up-grade features of the unit as they wish and are able to over time. Cityhome should consult with a variety of outside sources such as other non-profit developers and private developers, on possible cost reductions through appropriate lower standards for both new-built units and conversions/renovations.

5.3.2.10 *Maintenance and other operating costs.* An equity co-op ownership structure can carry out most of its own administration, thereby reducing administration costs for the City. An equity co-op structure will also facilitate members' sweat contribution to maintenance of common areas, thereby reducing maintenance costs. The Province could also be persuaded to waive the Land Transfer Tax for the resale of the unit back *to* the City, while the next purchaser absorbs, as usual, the transfer tax for the resale *by* the City. The City therefore could avoid most administration costs, or at least marginal costs may be reduced to zero -- meaning no additional staff are needed. The negative NPV can thereby be reduced by about $10,000.

5.3.2.11 *Controlled equity co-ops versus individual affordable housing agreements.* Note that, as discussed earlier, controlled equity home ownership can be controlled using two different mechanisms, a statutory "affordable housing agreement," and a land lease agreement. City staff have discussed with Ministry of Housing staff the possibility of getting the necessary authority to enter into affordable housing agreements. This mechanism is very effective for a condominium ownership structure. A condominium ownership structure, however, does not lend itself to facilitating sweat equity contributions to common area maintenance and to self-administration. These advantages are limited to the equity co-op structure.

5.3.2.12 *Cross-subsidized development projects.* One means to offset initial land and construction costs is to cross-subsidize affordable home ownership units with the profits on market ownership units developed by Cityhome. This approach was used for a mixed ownership and rental project built by Montgomery County Maryland (Appendix A, #27). This option would require a considerable change in direction by Cityhome, and would make Cityhome compete in the private sector ownership housing market, with all the attendant risks. This option is not currently viable, because the market for new ownership housing is depressed; new market units likely would be hard to sell, and the prices obtained would be insufficient to subsidize below-market units. This could change, though, within the next few years.

5.3.2.13 *Rental-building conversions/acquisition-rehabilitation.* Another way to reduce construction costs is to convert an existing rental building to a controlled equity co-op. Renovation costs are almost invariably lower than construction costs for new buildings. Given the recession, the age of some of the apartment stock in Toronto, and the dissatisfaction of many landlords with the Ontario rent control legislation, it seems likely there would be rental buildings available, should the City make an offer.

There is a lot of apartment stock in Toronto reaching an age at which it requires considerable capital investment to bring it up to and maintain it at present standards. The *City of Toronto High-rise Apartment Conservation Study,* (Hemson, 1992) found that it is likely that some of these buildings will not be able to generate sufficient revenue under the Rent Control Act to offset the expected costs of conserving the buildings in habitable shape for the foreseeable future. The Rental Housing Protection Act (RHPA) makes it very difficult, if not impossible, to convert or demolish such buildings for any other use. These factors also make it likely that landlords with older buildings and low rents would be very interested in an opportunity to sell.

Cityhome would, of course, face the same requirements as a private landlord in an application under the RHPA to convert a building to a non-rental use. The proposal could permit any sitting tenant to buy, and could keep the units affordable to tenants in the same income group. Under those conditions, City Council, which has the authority under the RHPA to allow or disallow applications, might deem that the project provides the necessary tenant protection, and/or does not represent a loss to the affordable rental stock in the City. The City's conversion policy is under reconsideration now, due to the current relatively high rental vacancy rate, (Vykki Silzer, various discussions, 1992 and 1993) and this too could create more favourable conditions for a conversion-driven home ownership program.

This approach could generate some political flak for the City, because the City has quite stringently applied the RHPA to control private landlords' converting their buildings, and the City has been a vocal proponent of the Rent Control laws which landlords consider are preventing them from up-grading their buildings for a reasonable return on their investment. The City could be perceived as changing the rules for its own benefit. One way to avoid this conflict might be to permit private landlords or developers to convert buildings to controlled equity co-ops targeted to tenant households at or below the 60th percentile, with the City holding an affordable housing agreement with the individual purchasers as a condition of allowing the conversion. If private landlords could find a way to make a profit doing this, the change in policy could be considered fair to them.

5.3.2.14 *An alternative controlled equity program.* Consultant Peter Zimmerman has recently developed for consideration another controlled equity ownership model for the Toronto non-profit housing group, Homes First Society. This model also assumes that an equity co-operative corporation leases the land and manages the housing, and that residents contribute their own labour to the maintenance of the common property. However, it

organizes the financial relationship between the landholder, the co-op, and the residents differently. Table 5.11 presents a summary spreadsheet for this model.

Table 5.11

Zimmerman Model for Homes First Society

INPUTS, VARIABLES / ASSUMPTIONS: on a Per Unit Basis		
Land Value	10,000	
Ground Rent	4.00%	of Land Value
Building Cost (Net of Sweat)	88,992	
Amortisation	35	years
Gross Household Income	1,537	per month (30 percentile)
Gross Household Income	2,032	per month (40 percentile)
Gross Household Income	2,526	per month (50 percentile)
Consumer Price Index		
Non- Housing Index	4.00%	
Housing Index	6.00%	
Composite	5.00%	
Property Taxes	$200	per month
Property Taxes – Annual Incre	8.00%	
Utilities	$80	per month
Utilities – Annual Increase	CPI	
Maintenance (Net of Sweat)	$80	per month
Maintenance – Annual Increse	CPI	
Interest Rate	9.50%	

ANNUAL CASH FLOW

	Year 1	2	3	4	5	6	7	8	9	10	25	Total	NPV
REVENUE													
Housing charges @ 30% of Ir	9,093	9,457	9,835	10,229	10,638	11,063	11,506	11,966	12,445	12,943	23,309	378,699	109,886
OPERATING EXPENSES													
Taxes	2,400	2,592	2,799	3,023	3,265	3,526	3,808	4,113	4,442	4,798	15,219	175,454	42,683
Utilities	960	1,008	1,058	1,111	1,167	1,225	1,286	1,351	1,418	1,489	3,096	45,818	12,709
Maintenance	960	1,008	1,058	1,111	1,167	1,225	1,286	1,351	1,418	1,489	3,096	45,818	12,709
TOTAL EXPENSES	4,320	4,608	4,916	5,246	5,599	5,977	6,381	6,815	7,279	7,776	21,411	267,090	68,101
NET OPERATING EXPENSES	4,773	4,849	4,919	4,983	5,039	5,087	5,124	5,151	5,166	5,166	1,898	111,608	41,785
Ground Rent	536	536	536	536	536	536	536	536	536	536	536	13,394	4,656
Bldg Mortgage P & I	8,822	8,822	8,822	8,822	8,822	8,822	8,822	8,822	8,822	8,822	8,822	220,561	76,666
NET CASH FLOW	(4,585)	(4,509)	(4,439)	(4,375)	(4,319)	(4,272)	(4,234)	(4,207)	(4,192)	(4,192)	(7,460)	(122,347)	(39,536)

Source: Peter Zimmerman, Toronto, 1993

Zimmerman's model assumes:

- a below-market land lease rate (4%);
- a possible sweat equity contribution to the project development, instead of a cash down payment, worth about $5000 per unit;
- blanket payments by the co-op of mortgage payments, utilities, common area maintenance expenses (net of residents' labour), and property taxes;
- an all-inclusive housing charge that is geared to residents' incomes.

The model is very like the non-profit co-op housing model, except that the residents accumulate a (limited) amount of liquefiable equity from their housing charges. Zimmerman proposes that the amount of equity they acquire should be directly related to the proportion of the per-unit housing cost their housing charges cover.

This model is aimed at households with incomes in about the 40th percentile of the tenant household income distribution, generally within the income range served by rent-geared-to-income social housing. It does not aim to break even financially. It is tentatively proposed as an alternative to the existing model that the Provincial government could support because the long term costs are lower. Part of the reason the costs are lower is that the model proposes that residents pay more than the 25% of gross household income that social housing requires, possibly as much as 33% of household income.

This model does require a significant policy change by the provincial government, and so is really a longer-term option. However, the Ministry of Housing is already aware of this proposal, and has indicated some interest. It is possible that a pilot project proposal could be approved quite quickly, once the case has been made that it is a lower-cost and affordable approach.

Many of the possible means of implementing Option One that have been described above also apply to Options Two and Three. They are not raised again in the discussion of these options which follows.

5.3.3 ***Option Two: A Shared Equity/Appreciation Program.*** As noted in Chapter Four, shared equity/appreciation mortgages allow the sale of the housing into the open market and require that the City receive its share of the market appreciation. They do not keep the units affordable over the long term and so do not exactly meet the City's definition of affordable housing. Since they do return funds to the City which would allow it to develop new affordable housing, a shared equity/appreciation affordable home ownership program may nevertheless be worth considering, especially in a program which recognizes a sweat equity contribution.

5.3.3.1 *Sweat equity and the shared equity/appreciation mortgage.* The opportunity for the buyer to contribute sweat equity reduces the up-front construction costs and the cash down payment required on the unit. Under a shared equity/appreciation mortgage, the sweat equity contribution must be quality controlled, so that the property is not actually devalued by poor work. As well, to calculate the City's share of the appreciation, the sweat equity contribution has to be accurately valued. These conditions could make a sweat equity program awkward to incorporate into any kind of resale price-controlled arrangement.

These problems could be alleviated by working with a group which has experience with sweat equity home-building projects, such as "Habitat for Humanity," or "Frontier Foundation." Cityhome should seek advice from these groups and possibly from other developers about projects using sweat equity or involving unfinished units.

The sweat equity approach is limited, however, by the fact that only the first buyer can benefit by being able to make a sweat equity contribution. Subsequent buyers could increase the value of the property, but they could never again reduce the base cost of the unit through sweat equity. Therefore, subsequent buyers would have to be able to produce a larger down payment and/or carry a larger mortgage than was expected of the initial buyer, making the unit less affordable to them. Habitat for Humanity gets around this by having subsequent buyers contribute sweat equity to another project. For Cityhome this solution would require an on-going commitment it cannot now make to sweat equity projects.

Under Option One above, (controlled equity, resale through the City) it could be impossible to resell the unit to someone within the targeted income group without an additional large subsidy by the City, equivalent to the appreciated sweat equity contribution of the first buyer. A shared equity/appreciation program avoids this problem entirely by selling into the market.

5.3.3.2 *Shared equity/appreciation programs.* There are various ways to structure a shared equity/appreciation program, including some with land leases. One interesting and very flexible approach is that designed by the University of California at Irvine, described in Appendix A, #25. They provided for a sliding proportional sharing of the resale appreciation, depending on what land lease rate the household had paid while it owned the unit. The land lease rate purchasers paid was allowed to range between zero and four percent. The University also limited the maximum resale price of the unit by a construction cost factor, making this a hybrid shared equity/appreciation - controlled equity project. The University was aiming to keep the housing affordable to a much higher income group than the City is targeting, (university faculty and staff), and so had more leeway in how high prices could be allowed to go. However, this as well as other ways to structure shared equity/appreciation would have to be modelled carefully if the shared equity/appreciation option, with or without sweat equity, was chosen.

5.3.4 Option Three: At-Cost, Low-end-of-market Ownership Housing. The City may also wish to consider the model already developed by Metro Toronto Housing Development Corporation: the at-cost controlled equity co-operative. The project developed by Metro at Malvern Road in Scarborough (described in Appendix A, #12) offers units at a price which involves no subsidy. Metro controls the resale of the units through the land lease to the equity housing corporation, and expects that due to the price controls, the units will eventually become affordable to households with lower and lower incomes.

The Malvern project is targeted to house-rich, cash-poor seniors who can use the equity in their present homes to buy the units with no mortgage. Therefore, for these buyers, changes in interest rates do not affect the affordability of the units. A City-developed project targeted to first-time buyers, however, would be affected by interest rate increases. If interest rates rise as expected over the next five to ten years, price controls may not be sufficient to make the units successively more affordable. This option has a limited opportunity to meet the City's goals.

5.4 Summary and Recommendations

It is important to recognize that an affordable home ownership initiative greatly differs from the City's current activities in housing, and has significantly different financial implications. The City's involvement in social housing is almost entirely recompensed by the operating subsidies provided by the Province's social housing program. There is no such compensation available yet for ownership projects. Given the City's affordable housing definition, and the likely cost of producing ownership units, it is clear the housing would have to be sold below cost; how much below depends on which income groups the City/Cityhome wish to target with this form of housing. There is also added financial risk in this form of housing, because the City is fronting all the development costs, and because ownership housing is more subject to market risks than social rental housing.

The assumption here is that the City would only undertake a home ownership initiative at the lowest possible cost to the City. Therefore the options are limited in the extent to which they can subsidize lower income households. The discussion below reviews, for the three options, the costs to the City according to the spreadsheet model developed by CB Commercial, and who is likely to benefit by each kind of initiative. There are then some final comments about the feasibility of an affordable ownership initiative in the 1993 market.

5.4.1 Option One: Costs and Beneficiaries. *5.4.1.1. Costs.* Controlled equity project costs and beneficiaries are displayed in Table 5.12, given the two possible land

Table 5.12

Option One: Controlled Equity -- Costs and Beneficiaries

Equity Co-op with associated reduced costs:	Per unit Price*	Income (approximate)	Affordable Price	Affordability Gap**	Net Present Value of Cash Flows
a. Land prices at opportunity cost (max. $25,000), and construction costs at @ $60 per square foot	$132,500	$45,000 – $50,000	$124,200 – $141,400	$8,300 – ($8,900)	($27,198) – ($13,683)
b. Land "free", and construction costs at @ $60 per square foot	$107,500	$36,600	$95,300	$12,200	($27,129)

* based on spreadsheet prepared by CB Commercial – assumes 2-bedroom apartment of approximately 900 – 1000 square feet

** Per unit price – affordable price

Source: Heather Urquhart, 1993

cost scenarios (opportunity costs only, or free), assuming construction costs can be reduced by whatever means to $60 per square foot or less, and assuming the administration and maintenance costs can be reduced as discussed through an equity co-op structure.

For a household with an income of $45,000, the unit would cost about $8,300 more than the household could afford; for a household with an income of $50,000, the unit would cost about $8,900 *less* than the household could afford. If sales could be managed in this manner, sales at the respective affordable prices to a mix of households in this range could result in a zero net affordability gap. The NPV of the net cash flow for the City would still be negative in both cases.

The NPV of the property taxes that will be paid over the years by an affordable home ownership development are not included in the NPV of the net cash flow for the project modelled in the CB Commercial spreadsheet and indicated in Table 5.12. The NPV of these taxes is $13,452 to the positive for the City. (This figure is the same for a project under any option, of course.) These taxes pay for on-going costs of municipal government, and so cannot be entirely netted off affordable home ownership initiative costs, but they represent revenues the City otherwise may not have had from this land.

5.4.1.2 *Who would be served?* It is interesting to compare the income levels indicated in Table 5.12 to the maximum income levels of households already being served by Cityhome and social housing generally, shown in Table 5.13. The Table 5.12 figures definitely fall within one or more categories of households Cityhome has a mandate to serve, depending on household size and type.

Table 5.13

Households Now Being Served By Cityhome
Maximum Income Levels

Household Size (# of bedrooms)	Core Need (1) Income Threshold	Shallow Non–Core (2) Subsidized Households	Households at Market Rent (3)
1	$26,000	$33,600	$42,000
2	$32,000	$40,800	$51,000
3	$38,500	$48,000	$60,000
4	$47,000	$52,800	$66,000

Sources:

(1) Ontario Ministry of Housing Newsletter, August 19, 1992

(2) Households not in core need but for whom market rent is still more than 25% of income.
Assumes market rents of:

$700 for 1–bedroom
$850 for 2–bedroom
$1000 for 3–bedroom
$1100 for 4–bedroom

(3) Cityhome policy is: Market rent households in Cityhome should ordinarily not pay less than 20% of income as rent.
Assumes rents as above.

5.4.1.2.1 *The low-cost land scenario.* The income range $45,000 to $50,000 represents approximately the 50th to 60th income percentile for couples with or without children (tenant households- see Table 5.1). A household without children in this income range is likely to be well-served by the private rental market, and, as indicated by Table 5.13, may be eligible for market units in social housing as well. A household with children may find it difficult to obtain an adequate apartment in the private rental sector for a price they can afford, due to both budget constraints and bias against children in the private rental sector. They would definitely be eligible for market units in social housing, and might even be eligible for shallow subsidy, depending on the size and configuration of the family. This is precisely the type of household, however, that conventional wisdom says will begin looking for home ownership opportunities outside the urban centre if they cannot find them in it. This group also may simply prefer housing outside the urban centre, regardless of its availability downtown. More specific market research within this group is needed to explore these issues of preference and availability.

An income of $50,000 is a little less than the combined income of two single person or single parent households at the 50th to 60th income percentiles (see Table 5.1). These households are considered in core need by CMHC's definition (1992 figures). Shared housing is considered a temporary measure, but has become a more common approach to home ownership in recent years. Whether one household rents from the other, or both share ownership, the income effect is nearly the same: they collectively can afford to support a larger mortgage than singly. Unit design likely would have to be different to make this option attractive, e.g., one-and-a-half or two bathrooms, possibly larger bedrooms and smaller common space, and possibly three-, even four-bedroom units. It may not be possible to produce such units within the total per unit price constraint of $132,000, but this option seems worth investigating because it reaches much lower income households.

5.4.1.2.2 The "free land" scenario. An income of $36,600 is approximately the 60th percentile for all tenant households considered together (see Table 5.1). For a household with children, requiring a two or three bedroom apartment, this income falls within or near the CMHC core need threshold. Again, the challenge for an affordable home ownership initiative is to produce two or three-bedroom units at or near the affordable price for households at this income level with children. A single person with this income, requiring a one bedroom unit, might qualify for shallow non-core subsidy in some of Cityhome's housing. A "free land" scenario should make it more feasible to produce one-bedroom unit at or near the affordable price for singles at this income level.

5.4.2 Option Two: Costs and Beneficiaries. *5.4.2.1 Costs.* Shared equity/appreciation scenarios are exactly the same as for the controlled equity co-op approach, but the NPV of the net cash flow to the City could be zero, positive, or possibly even negative, if housing prices go down, because resale of the units is subject to the open market. The affordability gap for the initial purchaser remains the same. This option has long term costs for the City only if housing prices go down, but it also has much fewer long term benefits for the City - it does not create an enduring stock of affordable housing. As mentioned earlier, however, it is a useful approach where sweat equity contributions are involved, because of the difficulty in attaining the same cost savings for subsequent buyers as initial buyers provided for themselves.

5.4.2.2 Beneficiaries. The shared equity/appreciation option may serve exactly the same households as those identified in option one. It may be politic to consider a shared equity/appreciation arrangement for the higher income households identified. Where the purchasing household is relatively well-served in the market, in the sense that it can afford adequate market housing, though not market home ownership, there may be strong pressure to avoid devoting resources to this household in favour of devoting resources to lower

income, needier households. Politicians and the public may view a subsidy to a household in the $50,000 income range, for instance, as inappropriate. A shared equity/appreciation arrangement allows the City to assist this household into home ownership, which it might otherwise never be able to attain in Toronto, without making a permanent, non-liquefiable capital investment.

Chapter One described why some municipalities should concern themselves with ensuring there are affordable home ownership opportunities for middle income households within or near the urban centre. Municipalities with high home ownership costs risk losing an important segment of their work force and tax base because middle income households, especially those with children, expect to be able to own a home and will often go elsewhere to do so. Therefore there are sound reasons why a municipality might direct resources to home ownership for middle income households. However, this argument may be hard to sell without further study of family housing preferences and City of Toronto demographic trends.

5.4.3 Option Three: Costs and Beneficiaries. Low-end-of-market, at-cost ownership housing developments generally can meet the Province of Ontario's goals as stated in the *Policy Statement on Land Use Planning for Housing.* They are unlikely to address the needs of most first-time home-buyers - tenant households - in the City of Toronto. Though this is the lowest-cost affordable home ownership initiative option for the City, it would serve only households in the upper 40% of the income distribution, a low-priority constituency.

5.4.4 Timing and Marketing of a Controlled Equity Home Ownership Project. "Habitat for Humanity" sells its homes in Canada and the United States at cost, and requires that at resale, they be resold back to Habitat for the same, with no inflation factor, no appreciation (Bob Simpson, telephone conversation, March 1993). Homes First Society has opened

discussions with several community groups about a controlled equity home ownership scheme, and has received a very enthusiastic response (Kevin Barrett, group discussion, March 1993). The N. Barry Lyon (1993) market study of affordable ownership housing with resale and equity controls attached showed us that tenant households in Toronto with incomes between about $30,000 - $45,000 are interested in this form of ownership housing, if it is genuinely affordable, and if it is priced below the private market. It appears that there is at least a niche demand market for this general form of housing tenure.

Before initiating a project of this nature, however, a municipality must examine the supply of lower-priced homes on the market. In the City of Toronto in 1992, the median price for condominium apartments and row houses was $155,000, meaning half the units sold for less than $155,000. The number of such units sold was 1321, half of which is 660 units (see Table 5.2).

The affordable price for households with an income of $50,000 is $141,000. It seems likely this household could find a unit on the open market at that price. What is not known from the Teela Sales File data is whether this unit would be a bachelor, one-bedroom, or two or more bedroom unit. It seems likely the units priced below $155,000 are smaller units. If it is a bachelor or one-bedroom unit, it will not serve the needs of a household with a child. Nor will it serve the needs of two households sharing. The N. Barry Lyon market study (1993) also found that the households surveyed were primarily interested in two or more bedroom units.

Finally, then, Cityhome has to calculate what size of unit it can offer for the prices indicated in the recommended options above, what kinds of households will be interested in those units, and whether or not those households can get that kind of unit on the open market at or near their affordable price. It is entirely possible that *in the present market*, with its "fire-

sale" prices and decreasing interest rates, Cityhome cannot offer anything in demand at substantially below market price.

Chapter Six

Conclusions

As the level of government closest to people, municipalities are left face-to-face with the failures of the housing market and the lack or failure of senior-level government housing programs. Those failures take the form of homeless people on the streets, more demand on municipal social services and on food banks, and of people leaving the municipality who cannot get the housing they want. The federal government has practically withdrawn from social housing since the mid-1980s, and most of its home ownership programs do not address home ownership affordability. The Ontario government is the only provincial government to step into the gap, and it is now under serious financial pressure. Municipalities, therefore, are often looking for ways in which they can help ameliorate their local housing problems, though they have a much more limited tax base upon which to draw.

The real estate market boom of the late 1980s, combined with high interest rates, made home ownership inaccessible to most potential first time buyers in many urban centres. As some municipalities began to contemplate the possible costs of high home prices, attention turned to ways they could make home ownership more affordable in the urban centre. The City of Toronto was one of the cities most affected in this way by the boom. As well, the City needed alternatives to the Provincial social housing program to help meet its needs generally for affordable housing.

The question this paper attempts to answer then, is "what kinds of home ownership assistance programs could municipalities undertake to meet their housing policy objectives?"

The question in these tight fiscal times also encompasses, "How can municipalities undertake such a program at minimum cost, or get 'the biggest bang for their buck'?"

6.1 Options

The Toronto case study (Chapter Five) focused mostly on the controlled equity option, because that option most closely meets the City's affordable housing objectives. The other two options are second-best or worse, because they do not contribute to a permanent stock of affordable housing. The Toronto case study also focused on relatively short-term options, as a starting point for the more detailed analysis which will be needed to proceed with a project in the near term. There are related, longer term options.

6.1.1 Inclusionary Zoning/Bonusing. The City of Toronto, and other municipalities, should seek authority if necessary to implement exactions such as inclusionary zoning, density bonusing, and bonusing for redesignating industrial land. These are not always appropriate or effective measures, such as in the Toronto market conditions of 1990-93. Once the authority has been obtained from the provincial government, however, the option is available to use these tools as and when the municipality sees fit.

6.1.2 Independent Land Trust. Another long term option is not a specifically municipal initiative. Municipalities may be involved only in a facilitative capacity. A land trust preferably including a savings and loan institution for affordable housing development would address the fact that some people are not, and likely never will be able to compete in the open market for land and money to meet their largest, essential, capital need.

A land trust should be a charitable institution, so that it could seek and accept donations of land and money for land. Any non-profit housing corporation is a kind of land trust, including Cityhome, but a land trust with charitable status could not have the close

relationship with its municipality that Cityhome does. As mentioned earlier, such a land trust would require changes in federal and provincial tax laws to make it most effective in Canada.

There are several models for savings and loan institutions for affordable housing development. The Swedish and other Scandinavian housing co-operatives have developed such institutions on a large scale, as described in Appendix A, #22. The Muslim community in Canada has established an interest-free system of assisting people into home ownership that nevertheless accrues a return on their money for those who save for home ownership with the institution (Kashmeri, in NOW, September 17-23, 1992). This system is not targeted especially to lower-income households (its purpose is to provide a means for members of the faith to comply with their doctrine against usury), however, it provides an alternative model worth examining. Habitat for Humanity maintains a revolving interest-free loan fund for purchasers of the housing it develops, sustained in part by donations.

There may be other ways to generate low-cost or no-cost loan funds through the private sector or with relatively small concessions required of the government bodies which regulate financial institutions. A useful next step could be to convene a meeting of experts in this field and ask them to brainstorm some suggestions.

The potential municipal affordable home ownership initiatives reviewed in this paper have been winnowed down to and listed below as three basic options, along with many tools to help implement them, which could make ownership housing more affordable to lower income households. These are most particularly suitable for municipalities where there is a large gap between what most tenant households can afford, and what the market can offer in adequate ownership housing. Other, less demanding models are found in the appendix

and discussed in Chapter Three. Some of these may serve in municipalities where the gap is not so large.

	Legal Mechanisms - land lease with equity co-op - affordable housing agreement with individual owner - land trust and savings institution
Controlled Equity **Shared Equity/Appreciation** **At-Cost Development**	**Land Cost Reduction Tools** - exactions for redesignating industrial land - bonuses for extra density or for converting density from residential to commercial - inclusionary zoning on new residential developments - land donations - land loss write-downs - land in lieu of taxes due
	Construction or Total Cost Reduction Tools - wood frame construction (low-rise) - conversion/acquisition-rehabilitation - cross-subsidy by market unit developments - sweat equity - alternative model for provincial subsidy

6.2 Who Would Benefit?

The options outlined for the City of Toronto were shown as serving individual tenant households with incomes between approximately $36,000 and $50,000, and shared tenant households at about $25,000 per household. Shared households are a risky target group; they are usually unstable -- the households tend to end up splitting (Maureen Fair, group discussion March 1993). They likely are not a feasible target group unless the households are already established as shared or there is some other reason to be fairly sure a particular shared household will be successful. Therefore the majority of households the City might

target under these scenarios are in the mid-to-upper range of tenant households below the 60th percentile of the income distribution.

As mentioned earlier, it is now possible to buy housing for "fire-sale" prices affordable to households in the $36,000 - $50,000 range in Toronto. It may not be possible, however, to buy a unit at an affordable price of adequate size for a couple or family with children. Affordable ownership housing targeted to families with children may specifically help address the problem of young families leaving the city for new suburban developments.

On the other hand, if such households can obtain family housing with more space and private amenities for a price they can afford in the suburbs, they may still be unwilling to trade this off for less space closer to work and services in the urban centre, assuming the municipality could offer family-oriented affordable housing. None of the available research appears to address this question. This is an area requiring further market research. Municipalities may also have to actively encourage such households to locate closer to the centre, by ensuring the family-oriented services and facilities are there, and by promoting its benefits and pointing out the problems associated with urban sprawl.

For other municipalities, however, the situation may be different. The combination of housing costs and income levels for those who want to enter the home ownership market may create larger or smaller affordability gaps. Municipalities may have the resources relative to the affordability gap in their local market to reach households with lower incomes.

As presented in this paper, none of the options is designed to target specific income groups, only to reduce costs as far as possible while keeping municipal goals in mind. Unlike social housing programs, there is no replicable program model here suitable to meeting the housing targets of any region. There are only tools and processes of analysis to work with.

6.3 Planning Implications

The only replicable model this paper can offer other municipalities is the case study analysis provided here for the City of Toronto of the demand and supply sides of the housing market for middle-to-low income households. The draft Official Plans recently produced by both the City of Toronto and the Municipality of Metropolitan Toronto ("Cityplan '91," and "The Liveable Metropolis") based their housing policies on gross estimates of population and housing need. The case study entailed a much more detailed analysis of the (estimated) existing population and housing need and supply. This planning process is outlined below.

6.3.1 Step one: Demand side analysis. The analysis used in the case study identifies households of different sizes and types by income group. It answers the following questions (though the available data may permit only approximate answers):

- Home owners: is there an affordability problem for existing home owners? (This paper does not address this issue, because it focuses on people who wish to enter the market, but this could be a problem area for rural and elderly home owners, especially when interest rates are rising.)
- Tenants: what are incomes at key levels (25th, 50th, 30th, 60th percentiles) in the distribution for
    - all tenant households
    - single person households
    - single parents
    - couples with and without children,

  and for households of different sizes, requiring 1 bedroom, 2 bedrooms, 3 or more bedrooms.

  The income figures used in the Toronto case study are estimates which involved considerable manipulation of the basic 1986 data available from Statistics Canada.

A special run of census data to get tenant income figures for various sizes and types of households is needed to be accurate. Reasonable estimates are useful, however, because the analysis and conclusions are not dependent on exact data.

- Housing costs and the non-housing budget: How much disposable income does a household at a particular income level have left over if housing costs 25%, 30%, or more of monthly income? How does this compare to the realistic cost of living in the municipality, for different types and sizes of households?

The City of Toronto also commissioned a market survey to find out if there is any interest in a controlled equity form of housing among middle income tenants. A market survey is a useful element of demand analysis. This survey identified not only interest, but also what people expected in home ownership, and how much they thought they could pay for it, including how much of a down payment they thought they could produce. Another survey, completed for Peel Region near Toronto, asked people what elements of the home they would trade off to be able to afford to own (Region of Peel Housing Department, 1992). The Regional Municipality of Ottawa-Carleton (Brethour Research Associates Limited, 1992) commissioned a market study of potential housing projects using development standards for cheaper but smaller homes.

6.3.2 Step two: Supply-side analysis. The supply-side analysis consists of a series of quantitative and qualitative questions about the part of the housing market which serves middle-to-low income households.

- How well-served by the housing market are tenant (or more generally, potential first time home buyer) households of different sizes, types, and incomes? Do they have a choice of affordable, adequate, and secure forms of housing? What are the long term prospects for the market serving them?

A variety of factors and pieces of information contribute to this analysis: CMHC data on the number of units of rental housing by size and price; CMHC and local real estate board data on numbers of units for sale by type and price, on vacancy rates and on months of inventory for sale. Security of tenure may be assessed by such factors as the degree of protection under landlord and tenant laws, controls on demolition and conversion of the stock, age and condition of the stock, other pressures on the stock, and by the dominant type of stock. Secondary units in single family dwellings and rented condo units are less secure than permanent rental stock.

- Is there a large gap between the median income levels of home owners and tenants? Is there a large jump in average housing costs for tenants to move from renting to owning? Do tenants have difficulty saving a down payment because rents are high relative to incomes? There are many different barriers to entering the home ownership market, and one solution will not address them all.

- Which of the main contributors to housing costs (land, construction costs, and interest rates) can the municipality affect at least cost to itself? Here the municipality has to be careful to examine the long term costs, not just the immediate costs. If it only needs to subsidize the interest rate by a percentage point now, to bridge the gap between cost and affordable housing, later in the program when interest rates rise, one percentage point will not suffice. A tax or development charge break to affordable housing could cost dearly if the municipality ends up shouldering the servicing costs of the project.

A computer model/spreadsheet like that developed by CB Commercial for a Cityhome site is needed to do this analysis. It should incorporate the demand side of the equation. Because it includes a calculation of the net present value of cash

flows, the spreadsheet allows the analyst to compare the long term costs of various approaches to making the housing more affordable. It helps identify where it is most effective for the producer to concentrate efforts to make the housing more affordable.

Of course, the computer model does not show whether or not it is feasible to reduce costs in a particular area. This requires consultation with developers experienced in producing low-cost housing. Developers in different segments of the housing market experience different costs because of the expectations associated with various types of housing. It is therefore advisable to consult as widely as possible.

This process of analysing the demand and supply sides of the housing market for middle-to-low income households is based on three main principles:

- a home ownership program should address the needs of households not well-served by the market;
- it should involve a long term return of the program benefits to the municipality, or preferably a turn-over of benefits to new households;
- it should be accomplished at minimum cost for a given set of goals.

One aspect of this analysis requires much further research and consideration: the issue of what housing costs are actually affordable for various household sizes and types at each income level. Low-income tenant households in Toronto sometimes pay 50% - 75% of their income in rent. What often happens, however, is that this level of expense is not sustainable in the long term, and when the pressure becomes too much, the household moves out and leaves a large debt in unpaid rent with the landlord (Bill Bosworth, formerly of Homes First Society, group discussion March 1993). Banks have been using 25% - 32% as a standard sustainable housing debt load, and a total debt load of about 40% - 45%. The important

factor appears to be how much income is left over after housing expenses, rather than the percent of income paid for housing. How much that disposable income need be, to sustain the long-term commitment of home ownership, however, is an unanswered question.

6.4 General Observations: the Municipal Role

Judging from the sample of home ownership assistance schemes described in Appendix A, programs offering small, short term grants or other forms of assistance bridge only a small gap, and therefore usually only help people who will become home owners anyway. Such programs just help them do it earlier. This approach could serve an economic goal, but does nothing for an affordable housing goal.

Permanent, significant subsidy programs, on the other hand, are probably beyond most municipalities' resources. According to Table 5.12, for instance, if the City of Toronto produced just 100 units per year targeted to households with an income of about $36,000, it would cost the City $1,200,000 per 100 units to bridge the initial gap, and $2,700,000 per 100 units in the long run, assuming a controlled equity co-op structure. This estimate already assumes the land used is acquired at no cost to the City.

Such programs at the municipal level also would draw on property taxes, a regressive tax base, therefore not an appropriate basis for redistributing wealth. The proper "home" for housing subsidy programs for lower-income households is a senior level of government drawing on a progressive and extensive tax base. Municipalities probably only have the financial resources to facilitate lower-cost housing through municipal development control powers, and to pilot new approaches to the provision of affordable housing through demonstration projects.

The municipal level may not be able to fund the necessary programs, but it is the best one at which to analyze the housing situation and to develop cost-effective and appropriate programs to address local needs and goals. The local level is best firstly because one object of the exercise, as discussed in Chapter One, is to address intra-regional imbalances between resident populations and jobs and community services. This of course implies that a regional analysis and strategy is also required. The analysis needs to be disaggregated to the local level, however, to obtain a profile of the population that needs to be served so as to address the imbalances. In addition, as the case study demonstrated, the affordability gap and consequently subsidy program costs are most sensitive to local land and development costs, as well as to the income levels and household types the program should target.

While the case study analysis may appear to be very Toronto-oriented, the process used should be able to address situations different from that in Toronto. For instance, the imbalance in the community may be found in having a preponderance of seniors' households, or of young, well-off family households, such that the tax base is weakened, or the community facilities needs of other types of households carry little weight because of their minority position, or there are few workers for the service industry jobs in the community. The need may be for rental rather than ownership housing. With some adaptation of the questions to ask, the level and process of analysis should remain applicable.

This paper has raised three reasons to examine affordable ownership housing program options:

1. to address intra-regional imbalances that contribute to urban sprawl and its concomitant problems;
2. to address the unmet need for affordable housing in the absence of adequate senior government programs;

3. to extend the tangible and intangible benefits of home ownership to people in a lower income range than previous home ownership assistance programs have served.

The first reason is most clearly a municipal concern, the latter two are municipal concerns in that they are an acknowledgement that the failures of senior governments have local impacts. Yet the municipal government role is hampered by financial limitations even more than senior governments. Municipalities should take the initiative to examine and develop affordable home ownership programs, but should not be expected to carry the full burden of their costs. Ideally, they should pilot and prove out cost effective local approaches to producing affordable housing to meet local needs, but senior levels of government should contribute most of the subsidy cost.

At senior government levels, however, the current financial pressures are strongly against the level of investment in social rental and ownership housing required to meet the need. The City of Toronto, for instance, had an existing "backlog" of some 68,600 households in housing need in 1986, according to one estimate (Intelligence Network International, 1990). Community initiatives based on the land trust model, including financing institutions, may be able to draw on additional community resources available through charity.

Community land trusts are also very creative and effective vehicles for community development. Most importantly, they provide non-market institutions through which people can obtain access to the resources needed to meet their need for housing, for those who cannot get that access in the open market. Municipalities should help create and work hand-in-hand with these institutions to help meet their housing goals.

In the past, the major forms of home ownership assistance have been in improvements to the market, e.g., mortgage markets, mortgage insurance, etc., shallow subsidies to help

purchasers over relatively minor barriers, and boosts to the construction industry. The type of home ownership assistance I am recommending here, however, is non-market, some might even say anti-market: it seeks to remove some land and housing from the open market and to introduce financial instruments which are not market-driven. There are very large gains to be made in the land and money markets from non-housing forms of investment. This new focus for home ownership assistance acknowledges that some people will not be served by making the home ownership market more efficient; they simply cannot compete in that market at all for land and money. Therefore communitarian, non-market supplies and mechanisms are required to meet their needs and aspirations.

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Appendix A
A Sample of Assisted Home Ownership Programs

Canada

#1 The Assisted Home Ownership Plan (AHOP) - Canada

From 1973 to 1978 the federal government's Assisted Home Ownership Plan (AHOP) lowered the mortgage rates for qualified first time home buyers to an effective rate of eight per cent. This was done by providing interest-free loans to AHOP-eligible households. The house purchase price could not exceed a CMHC stipulated maximum. From 1973-75, AHOP was targeted to moderate income buyers, and therefore had income eligibility ceilings. From 1975-78 the program was opened up to all income groups. A large number of purchasers under this program defaulted on their mortgages, and caused large losses in the mortgage insurance program. To reduce this problem in the second incarnation of the program, further grants were available to purchasers to ensure that they were paying no more than 30 per cent of their income on shelter. AHOP assisted 95,000 households across Canada.

#2 The Registered Home Ownership Savings Plan (federal and provincial)

Under the federal government's Registered Home Ownership Savings Plan (RHOSP), from 1975 to 1985 any adult taxpayer could shelter up to $1,000 per year from income taxation through a contribution to an RHOSP fund. The fund could contain up to $10,000 and be kept open for up to twenty years.

If the fund was used to purchase a home by a first time home buyer then the funds remained tax exempt. If the fund was used for any other purpose then the money was taxable when it was withdrawn. There were no limitations on the income levels of persons with RHOSP funds, nor were there any limitations on the price of the house which could be purchased.

Since 1988, Ontario has offered similar support through the Ontario Home Ownership Savings Plan. Though anyone can open an OHOSP if they have never owned a home anywhere, individuals with incomes up to $40,000, and couples with incomes up to $80,000 receive tax credits on their contributions for the first five years. There is a variable ceiling on the contributions eligible for tax credits. Single parents get the tax credit for individuals, but they halve their actual income to find out how much tax credit they qualify for, thereby getting a larger tax credit. Interest received on the Plan remains taxable. The program is time-limited; the Plan must be purchased by the end of 1993 and the funds used by the end of 1999.

#3 The Canadian Home Ownership Stimulation Plan

In 1982-83 the federal government's Canadian Home Ownership Stimulation Plan (CHOSP) gave a $3,000 grant to every household purchasing a newly built home. The grant was also available to any first time home buyer purchasing a resale home. There were no limitations on the income of the persons receiving assistance nor were there any limitations on the price of the house being purchased.

#4 The CMHC Mortgage Loan Insurance Program

The federal government, through CMHC, offers insurance which increases the mortgageable portion of the value of the home to 90 per cent of the purchase price. This high ratio loan reduces the down payment the purchaser needs.

The home buyer is charged a mortgage insurance premium for this service, as follows. For a CMHC insured mortgage of up to 65 per cent of the home's value, a premium equivalent to 0.5 per cent of the mortgage money advanced is charged. This increases on a sliding scale, so that a mortgage worth up to 90 per cent of the value of the home requires a premium payment equal to 2.5 per cent of the mortgage money advanced. The insurance premium itself can be added to the mortgage.

The effectiveness of CMHC's high ratio mortgage insurance program is tempered by Toronto's high (above $200,000) average home prices. CMHC will only allow the 90

per cent mortgage on the first $180,000 of the purchase price of the property. Any amount above $180,000 will only qualify for a CMHC mortgage covering 80 per cent of the value. A proposal is under consideration to provide insurance for a 95% mortgage, presumably with similar limitations.

#5 Index Linked Mortgages

Non-profit housing co-ops in Canada are already using Index Linked Mortgages, a mortgage pioneered by CMHC, and there are suggestions that this arrangement could be used by individuals. This form of mortgage establishes a fixed real rate of interest, and adds an interest premium for inflation which is adjusted annually. Payments are adjusted accordingly. It has the effect of keeping initial payments low and gradually increasing, usually as household income increases.

#6 The Canadian Real Estate Association's (CREA) proposal for an RRSP-assisted down payment program

CREA is still developing this proposal to expand the permitted use of retirement funds so as to help young first-time buyers save both for retirement and for the down payment on a home. Though details still have to be worked out, the basic idea is that the prospective purchaser's Registered Retirement Savings Plan funds are used to make an equity investment of, say, 10% in the home. A parallel is a self-directed RRSP, for which the owner invests in various interest-bearing bonds, etc. In this case, the RRSP funds are invested in a home which will generally appreciate and produce a return to the RRSP's 10% investment. The Plan is repaid for its investment if/when the home is sold, or the owner refinances to pay back the Plan. Upon retirement, the RRSP is supposed to begin paying out anyway. The CREA proposal suggests that a reverse mortgage mechanism would be used then to settle accounts.

This plan does not reduce the cost of the home, but it does make maximum use of the prospective purchaser's ability to save a down payment. It does not create a tax

expenditure like a Registered Home Ownership Savings Plan; it uses money already saved or savable under an existing deferred tax savings plan.

Ontario

#7 Ontario's Home Ownership Made Easy Program

The provincial government's Home Ownership Made Easy (HOME) program ran from 1967 to 1978 and involved leasing and then selling government owned land to home buyers at below market value. The government provided the land serviced and leased it at cost. Private sector builders built and sold the homes. The program went through two major changes of policy.

The government controlled the original price of the home, and eventually also limited the income of families eligible to purchase. Resale prices were also at first controlled for five years, though the controls were later dropped. The family could purchase the land after five years, initially at its original servicing cost, later at current market rates, and finally with an agreement combining these two prices.

#8 Interest Free Second Mortgages - Ontario

In 1982, the Ontario government offered an interest free second mortgage for 15 years to tenants who had not owned property in the preceding 12 months. The mortgage was for 10% of the purchase price of a home, to a maximum of $5000. No repayments were required for the first ten years of the mortgage; the mortgage was to be paid off in the last 5 years of the mortgage term. The mortgage became due and payable on resale or lease of the property. A maximum price for the home was established, and only certain types of homes were eligible. The stated objects of the program were to encourage employment in the construction industry and to free up rental accommodation.

#9 The Ontario Land Transfer Tax Rebate

In 1989 the province of Ontario began to refund the entire amount of Land Transfer tax owing on a home costing $150,000 or less to home buyers who participate in the Ontario Home Ownership Savings Program. The refund is gradually reduced as the price increases, until it is entirely eliminated for homes at $200,000 and over.

Only non-family households earning $40,000 a year or less and family households earning $80,000 a year or less are eligible for this tax benefit.

#10 Shared Appreciation Mortgages

The shared appreciation mortgage is a less benevolent form of down payment assistance which has been used in the USA with some success. In this situation a third party investor pays all or a portion of the down payment for a house in return for a percentage of the capital gain realized when the house is resold.

A development company in the Region of Halton, The Glasco Group Development Corporation, developed a shared appreciation mortgage called Home Ownership Participation Equity (HOPE) in 1991. In this arrangement a second mortgage of 10 per cent of the purchase price of the property is provided by the developer. This would allow purchasers to move in with no down payment, if they can get CMHC insurance for a mortgage on 90% of the purchase price. The developer then earns 10 per cent of the appreciation in the value of the property over the next five years.

#11 Newmarket Affordable Housing Program

Three hundred townhouse units were provided in 1990 by developers in new housing subdivisions at prices well below market for those units. The Town of Newmarket negotiated the units and prices with developers, using incentives involving density increases, housing form, and tenure. Land use amendments negotiated with the developers were processed quickly, and the commitment was incorporated in the Subdivision agreement. The municipality did not have any legislative means to force developers to provide the units, as the program predated the Provincial Housing

Policy Statement. The Town says it has also used this approach to developers to help establish 3 rental co-ops and several new high-rise rental apartment buildings.

The Town retains control over who qualifies to purchase, and over windfall on resale. Resale controls involve a forgivable second mortgage given to the developer and assigned to the Town. The purchaser signs a purchase agreement for the full market price of the unit. The second mortgage is for the difference between that price and the negotiated below-market price. The Town agrees to forgive the mortgage over five years, as long as the unit is not sold or leased. The mortgage is open for prepayment at any time.

#12 Metro Guaranteed Equity Housing (Malvern) Corporation

Metro Toronto Housing Development Corp's (MTHDC) project at Malvern Centre (at Sheppard Ave. and Markham Road) is aimed at a specific market: home owning seniors on fixed incomes. It provides them with the option to sell their homes, and use part of the proceeds to invest in the housing project, where they get a "right to occupy." The rest of the proceeds may be invested in an annuity to provide them with an additional source of income. The project goals are to provide a more secure lifestyle and some community support services to seniors, and to free up modest homes for younger households. Since the only increases in unit prices are related to the CPI, rather than to housing market inflation, the units are expected to become more affordable over time, so that even lower income seniors should be able to participate in the future.

The project is built on Metro-owned lands leased to a trust corporation - the Metro Guaranteed Equity Housing (Malvern) Corporation, which effectively "owns" the project, and holds these interests on behalf of the purchasers or unit holders. It acts as the vendor. Purchasers pay a fixed land rent as part of their agreement. The land lease is for a "fairly nominal" amount, and MTHDC is doing the development contracting on a non-profit basis. The guaranteed equity corporation expects to use an ILM or GPM to finance the project. There is no government cash subsidy, only opportunity cost. Residents pay maintenance fees, taxes and utilities. Project

amenities include a recreation room, outdoor sitting area, and storage lockers, but no pool, sauna, or tennis courts, which are expensive to operate.

Metro controls the occupancy and resale of the project units through income testing applicants, and through the purchase agreement. Owners can lease their units under limited conditions and rents. Borrowing on the security of the occupancy rights is permitted. Owners can retrieve their equity by selling the occupancy rights at their original investment plus interest, at six months' notice. They are guaranteed the original price plus 2/3 three-year rolling average of CPI, after 3 years. They can only sell their rights back to the MTHDC. Metro Council guarantees the buy-back provisions.

#13 Initiatives in Building Standards and Practices, Streamlining and Fast-Tracking

In Australia and the United States, "joint ventures" of federal and state governments and the private housing industry have initiated demonstration projects to identify innovations in planning and development standards and in building practices and design which reduce the cost of housing.

The Government of Ontario Land Use Planning for Housing Policy Statement includes an injunction to municipalities to streamline the approval process for residential development applications, to limit the carrying costs of developers. Implementation of this policy only assists home ownership if the reduction in costs is passed on to the purchaser. There is no guarantee suggested in the policy to ensure this.

There has been support for zoning reforms in some municipalities in Ontario which reduce the price of the average newly built house by reducing its size. This is accomplished through reducing the size of a lot required for a single family house and by changing zoning to allow higher density housing such as semi-detached homes, townhouses and high-rise condominiums.

The City of Toronto "Mainstreets" program contemplates reducing the cost of residential redevelopment over main-street stores by creating block-by-block zoning

which would define as-of-right design and land-use standards. This kind of zoning would permit redevelopment to occur with a minimum of development process costs. Though the development being contemplated is rental housing, the same principle should be applicable to ownership housing.

Other Provinces

#14 New Brunswick Down Payment Assistance Program

This program is restricted to households with a total income between $15,000 and $30,000 who would be first time home owners or who are living in a substandard dwelling. The applicant must be able to qualify for a regular mortgage and be able to provide a 5% down payment or the equivalent in land or labour. The program provides a loan for the balance of the cost of the house. The purchaser does not have to make payments on this loan for the first five years. The mortgage interest rate will be that available in the market when the purchaser begins repayment. If when the purchaser is supposed to begin payments on the government loan, the combined regular mortgage payments and government mortgage payments total more than 30% of their income, further government assistance is available. A maximum house cost is specified which is different for people of different income levels and for urban areas. An additional loan is available to modify a house for a disabled person.

#15 City of Montreal Ownership Option Pilot Project

Another approach to down payment assistance is the City of Montreal's Ownership Option Pilot Project. This program links up middle income tenants with a non-profit housing organization. The non-profit group purchases a home for the tenants to live in and the tenants pay all costs (mortgage, taxes, utilities, and maintenance) associated with the home. The tenants can exercise the option to purchase the home within three years if they achieve a 15 per cent equity position through a combination of cash down payment and equity appreciation in the value of the property since the time of purchase.

This program reduces the down payment required by crediting the tenants with the appreciation of the home over the three years allowed for them to accumulate the down payment. It allows them to live in a home they can call their own while they accumulate the equity, and the opportunity to add to the appreciation in the property value by contributing sweat equity and materials for renovations.

#16 Saskatchewan Home Owners' Protection Plan/Mortgage Protection Plan

Saskatchewan has offered a program to reduce the interest rate on the first $50,000 of a mortgage since 1982, first as the Home Owners' Protection Plan, and then as the Mortgage Protection Plan. It offers a direct subsidy to all home owners which effectively reduces their interest rate, and therefore the income level required to buy a house of a given cost. In 1989 the subsidy amounted to approximately $100 per month for all home owner mortgages over $50,000.

#17 VLC Properties Limited, City of Vancouver, 1989

While this is a rental property project, some of the arrangements in this enterprise may well be transferable to home ownership projects.

VLC Properties Limited is a for-profit development firm, 8% owned by the City through its firm Vancouver Civic Development Corporation, and was largely capitalized through union pension funds (74%), to create new affordable rental housing, and to earn a reasonable long term rate of return for the shareholders.

The company will build on City-owned land, with an 80 year lease agreement. The company agrees to keep the units rental for the term of the lease, and to limit annual rent increases to the CPI, or the CPI plus 2% when the unit is vacated. Tenant applicants having first priority are those who have been evicted due to demolition or condominium conversion of their apartment. VLC projects will be given the same priority in the development approval process as is given social housing projects.

The City land lease agreements provide for payments to the City only in years in which VLC Properties has a positive cash flow. In the short term, the City will forego payments, but it is expected that in the long term, due to inflation-linked rent increases, the lease payments will result in a reasonable rate of return to the City. VLC Properties also qualifies for a mortgage subsidy under the BC government's Rental Supply Program, which reduces the mortgage interest rate to approximately 8% for 5 years. VLC also expects to receive some rent supplement unit allocations.

Other Countries:

#18 Australia First Home Owners Scheme (FHOS):

This program provided a grant of max. $7000, available to families with income less than $20,000 per year (Australian, 1983). Option of using the grant as an interest subsidy over the first 5 years, or taking a maximum lump sum $2500 at first, and the rest as an interest subsidy over five years. A program analysis found that take-up by middle class (4th-7th deciles) was greater than that by low-income groups (1st-3rd deciles), and that the middle class would be likely to become home owners anyway.

#19 State of Victoria, Australia - Capital Index Loan

This comprehensive home ownership financing scheme is a variation of the Index-Linked Mortgage: a real interest rate is established for the full loan term (3% in 1988), and the outstanding principal is adjusted by the Consumer Price Index at the end of each year. The difference is that the monthly mortgage payments are set at 25% of gross household income, and escalate by the CPI at the end of each year. The amortization period for the loan is therefore adjusted each year to reflect the increased principal and payments. The lender is the State of Victoria Ministry of Housing; other states have initiated similar schemes.

#20 New Zealand's Homestart Program

New Zealand introduced "Homestart" in 1986. This program makes available 5 year loans of $6000-$10,000 at 3% interest to first-time buyers. No repayment is required for the first 5 years. At the end of 5 years, the 3% interest is added to the principle, and the loan becomes payable or is converted into a regular market loan. The maximum loan is available to applicants with incomes up to $28,000; reduced loans are available to those with incomes from $28,000 to $36,000. Purchasers must be able to contribute a minimum 5% down payment.

#21 New Zealand "Equity Sharing Loans"

This scheme is very similar to that in Victoria. It is operated through the government housing corporation, and offers the same loan terms. A minimum down payment of 10% is required, part of which can be raised through the Homestart scheme (described above). Purchasers are guaranteed their original percentage of equity in the home when it is resold.

#22 HSB (a housing co-operative association), Sweden

This organization generally does not deal with home ownership, but it does use an interesting financing method. Member investment forms a part of their financing, and the national organization includes a savings fund through which resident members, and those on the waiting list, can save for their down payments. Members must make a down payment of at least 2% of the cost of the co-op unit, plus any remaining need after other financing is raised. Members are required to save (for anything, not just housing) a certain amount each year in the fund, and must also buy a share in the organization. Members get extra interest on their savings when they use it for a co-op down payment or to buy a co-op cottage.

#23 Graduated Payment Mortgages

This form of mortgage has a similar effect to that of the ILM: initial payments are low, even below the monthly interest, and rise gradually as household income rises.

The unpaid interest is added to the principal. As payments rise, they begin to pay off the principal and compensate for the earlier shortfall. This mortgage is currently used in the United States.

#24 Community Land Co-operative of Cincinnati, Ohio:

This co-op provides "near" home ownership by leasing land and/or housing to tenants for indefinite terms. Leases may be passed on to the tenant's heirs, as long as they pay the rent and abide by the terms of the lease. The co-op started up with donations from charities and a loan from a community development revolving loan fund. It acquires land and housing from the private sector, but tries wherever possible to avoid competing on the open market by looking for donations.

#25 University Hills, Irvine California (1987)

This project of 1000 units was designed by the University of California to meet the need for affordable homes for ownership by faculty and staff, so that the University could attract and keep high-quality people.

The University formed a non-profit housing development corporation to undertake the development and management of the project. The University enjoys a couple of advantages in keeping the cost of the units low: the land was purchased in 1965; and because it is university land, it is not subject to local zoning or building code regulations.

The lower priced units were sold for 40% less than market because they were aimed at lower-paid staff and faculty who would have the most difficulty in the area market. Premium units were sold at 20% below market, as these were aimed at high-salaried employees who could better afford the market. The land was not included in the unit price because the owners pay a land rent to the University. The land rent is variable and is part of the resale controls arrangement.

The University established resale and occupancy controls to maintain the housing at affordable levels and to ensure it continued to meet university needs. The maximum resale price is the initial cost paid by the home owner, inflated by a construction cost index. Capital improvements costs are added, though uninflated. The home owner and the University share the profit in the resale. The split is a function of how much of the land rent the home owner has paid during occupancy. The home owner can pay nothing, 2%, or 4% of the value of the lot (which value is recalculated every five years to reflect the consumer price index and University salaries), annually. The University gets a larger portion of the house resale profit if the home owner has paid a smaller portion of the land rent.

The University developed a priority system of categories of staff and faculty to determine who got to purchase the housing. Within categories, priority is given to new employees over existing ones, to meet the goal of recruiting faculty, and to current employees who do not own homes or who are underhoused. The University has first and fifth option to buy, and three categories of employees at the university have 2nd, 3rd and 4th option to buy. Only after the University has refused the fifth option can the house be offered to the general public. Retired faculty may stay, and widows or widowers of University faculty are never forced to sell, but other heirs must sell, and faculty who leave the university must sell.

#26 Montgomery County, Maryland

Montgomery County has had an inclusionary zoning ordinance for 15 years. The ordinance requires developers of 50 or more units to provide 15% of the units at moderate prices. A land transfer option is available. Developers are permitted a density bonus of 22% in exchange, to avoid court challenges that the regulation is a contravention of constitutional property rights. The exaction has produced 8000 low and moderate income units. The developments are in townhouses and houses that maintain the appearance of a single family unit.

Resale price controls are attached to the moderate-priced units for 10 years. After 10 years, any appreciation in value on resale is divided between the owner and the county.

Only 60% of the units are sold straight to eligible income families. The remaining 40% are sold to the county's housing authority. The housing authority turns over 6% of the units to selected non-profit organizations, and keeps the remainder to overlay with other subsidies to rent to low income families.

#27 Timberlawn Crescent, Montgomery County, Maryland

This is a mixed income rental project of the county's Housing Opportunities Commission. It is relevant to this home ownership program review because it is an example of a cross-subsidized project created through an inclusionary zoning by-law. The market units subsidize the non-market units. The inclusionary zoning bylaw would have created 85 government assisted units within a larger development, but the developer went bankrupt, and the land-in-lieu alternative was exercised instead.

The land that was transferred to the county now holds a community centre and 83 units, 50% at full market rents, 50% for low to moderate income households with incomes up to 75% of the county median. A minimum income level was established for the market units, to ensure the households could afford full rents. It would appear that the county ended up with only half as many assisted units under this arrangement as it would have if the developer had been able to follow through on its commitments. On the other hand, the assisted units do not receive any government assistance, but are subsidized internally.