Canadian URBAN Institute

Report

Assessment of Options for Homes and the 'Options' Model for the production of Low – Income Ownership Housing

Submitted to:

Toronto Community Housing Corporation &
City of Toronto's Let's Build Program

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Prepared by:

Jeff Evenson, Executive Vice President
David Millar, David Millar Associates

Canadian Urban Institute
100 Lombard St., Suite 400
Toronto, ON M5C 1M3 Canada
416-365-0816
416-365-0650/0647
cui@canurb.com
www.canurb.com

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1. Introduction

The focus of this study is the model used by Options for Homes Non-Profit Corporation (Options for Homes or OFH) and Home Ownership Alternatives Non-profit Corporation (Home Ownership Alternatives or HOA) to market and build housing units that people of low and moderate income can afford to buy.

For more than 30 years in Canada, there has been a continuing interest in providing home ownership to low - and moderate-income households. Interest in this idea has been rekindled lately both in public policy circles and in the media., As well, Options for Homes received an award from the Canada Mortgage and Housing Corporation in 2002 and has been the subject of numerous profiles in the daily newspapers and trade journals.

1.1. Background

The Toronto Community Housing Company (TCHC) and the City of Toronto's Let's Build Program, after consultation with Options for Homes, retained the Canadian Urban Institute in association with David Millar and Associates to undertake a study of a model used by Options for Homes at the Shermount project at 650 Lawrence Avenue West The model was used by the OFH to produce ownership housing targeted to individuals and families of moderate and lower incomes.

As part of an agreement under Section 37 of the Planning Act, Options for Homes and Home Ownership Alternatives agreed to:

- ensure full disclosure and information about this new model, to potential buyers to make them knowledgeable purchasers; and to
- provide information and participate fully in a study of the model to be commissioned by TCHC to more fully understand it's potential for providing housing for low-income households.

1.2. Purpose of the Study

This study examines and evaluates the Options for Homes model ('Options' model) in terms of what it offers to individual purchasers and what housing needs and markets it addresses in the context of programs used to provide affordable housing.

The study specifically includes:

1. A detailed description and examination of the 'Options' model. This includes a review and analysis of the OFH organizational structures, legal and financial arrangements, development and construction costs, sale prices, carrying costs and comparisons to similar products in the private market. It further includes an

analysis of buyer characteristics, income groups being served, risk analysis of the model and how subsidization would impact on the model.

2. A discussion of the long-term affordability or "enduring value" of the units created under the 'Options' model, and more specifically the extent to which any amount of government assistance or subsidy would remain with the unit in some fashion and therefore would be retained for the benefit of future purchasers or occupants

3. A description of the corporate governance models and mechanisms of accountability for OFH and HOA.

4. Description of the conditions under which the 'Options' model might be appropriately used by the City of Toronto and/or the Toronto Community Housing Company or other entities to provide housing for individuals and families on Toronto's social housing waiting list.

2. The Options for Homes "model"

In the course of the study, it became clear that there is a general misunderstanding, or at least only a partial understanding, of the overall Options for Homes ('Options') model, its various components and how they work together to bring units to the market. One source of this confusion is that Options for Homes is on the one hand a private, non-profit company which acts as a contracted development consultant and on the other hand a "brand name" for a specific concept of condominium development that contains a unique 2nd mortgage arrangement for the initial purchasers held by a separate entity called Home Ownership Alternatives. HOA also provides the start up funds for the condominium development on a shared risk (50/50) basis with the construction consortium that works with Options for Homes and the building co-operative (legally a co-operative development corporation) that it is assisting.

3. Overview of Options for Homes and the 'Options' Model

The "brand name" refers to the 'Options' model, developed by the OFH. This is a model in which a co-operative builds housing for sale to its members "at cost", and where the difference between the sale price, which is based on appraised value, is financed by individual second mortgages assigned to Home Ownership Alternatives . This mortgage is then repayable when the **first** purchaser sells the unit.

In order to understand how affordable home ownership units are brought to the market, it is useful to review the three components that together become the 'Options' model. These are:

- **organizational component** that consists of three separate legal entities: 1) Options for Homes, as a non-profit development consulting company, that provides development assistance services to building co-operatives on a project-specific basis, 2) a co-operative development corporation that is the "developer" whose members are the unit purchasers, and 3) Home Ownership Alternatives, a separate non-profit entity, that holds the 2nd mortgages on units in projects developed under the 'Options' model and provides measures to stimulate the production of more affordable home ownership units
- **development and construction component** that consists of the development consultant (Options for Homes), the building co-operative as the developer and a builder, under contract to the building co-operative, who together manage the process beginning from the acquisition of land to the construction and sale of condominium ownership units to individual purchasers.
- **financial component** that consists of the pricing and financing model that uses a shared appreciation 2nd mortgage as a principal means of increasing the affordability of units to the initial purchasers and providing the source of start up funds for new projects.

While none of the individual elements of the three components that form the model is new or unique, they have been combined in a way that is unique in the housing market today.

For example, the Options for Homes development and construction model is virtually identical to the way that co-operative rental housing projects were developed by various resource groups across Canada and Ontario under various social housing programs from the mid-1970s to the mid-1990s. Similarly, shared appreciation mortgages (SAMs) have existed in the financial markets for decades, each with their own specific provisions. And finally, making home ownership more accessible to lower income purchasers through various measures to increase affordability has been the objective of numerous federal and provincial programs that have came and went over most of the 20th century. Among these were the Assisted Home Ownership Program (AHOP) introduced in 1971, and the Home Ownership Made Easy (HOME) grants program.

3.1. The Organizational Component

As a brand, the Options model refers to two separate but integral organizations: Options for Homes and Home Ownership Alternatives.

Options for Homes Non-Profit Corporation (OFH) is a corporation without share capital incorporated in September 1992 under the *Corporations Act of Ontario*.

OFH's primary business is as a development consultant for housing projects. In any specific development, it has a purely contractual relationship as a development advisor with the "developer," which is a separate building co-operative established for the sole purpose of undertaking the development project (see details in the next section). For its services as a development consultant, OFH is paid a standard fee of 2% of the overall capital cost by the building co-operative. Options for Homes assumes no risk for the development. All legal and contractual obligations reside with the building co-operative.

As of March 2003, OFH had a board of directors of consisting of three persons – Michel Labbe, Roz Labbe and Paul Connelly. Both Michel Labbe and Roz Labbe are also employees of OFH.. The governance structure is described further on in this report.. Our review of the financial statements, staffing, costs and fees of Options for Homes as the development consultant company reveals a lean operation with modest costs, compensation arrangements and lower fees than would be found in private development companies.

Home Ownership Alternatives Non-Profit Corporation (HOA) is a separate corporation without share capital incorporated under the *Corporations Act of Ontario.*

HOA's principal function is to hold all the 2nd mortgages of the individual purchasers of units in projects built under the 'Options' model until they are discharged. Its long-term goal is to use the proceeds of the 2nd mortgages as they are discharged to invest in the development of future affordable housing projects. Most typically these uses would be loans for cash-flow purposes to new projects in the development and construction phase.

A description and assessment of the governance structure of HOA is provided further on in the study.

We are not aware if either OFH or HOA has ever applied to amend their articles of incorporation so they presumably still apply and are binding on the boards and officers of the respective corporations.

3.2. The Development and Construction Component

The Development Process

The process followed in the development of any OFH project is almost identical to the way in which co-operative rental housing projects were developed under various federal and provincial social housing programs over the past quarter century. The only difference is that the project ultimately becomes a registered condominium corporation instead of rental housing. The specific steps in this process are:

- OFH (the development consultant) identifies a potential site and makes an assessment of the initial feasibility for development.
- OFH enlists the voluntary participation of individuals who have been purchasers in a previous project. These individuals (usually five) form and incorporate a new co-operative housing development corporation (the building co-operative), and act as the initial board of directors.
- The new co-operative development corporation (CDC), incorporated under the *Co-operative Corporations Act*, becomes the legal entity that is the developer.
- The CDC directly enters into all associated legal agreements, including contracts with the general contractor, consultants, architects, engineers and other technical consultants.
- The CDC enters into a development consulting agreement with Options for Homes (the development consultant) to act as an overall project advisor and co-ordinator of marketing.
- While OFH may often act as the "agent" for the CDC in various activities (such as negotiation of contracts, securing CMHC insurance, securing planning approvals, negotiation of land acquisition and arrangement of construction financing), the CDC must execute all legal agreements and assumes all liabilities for the development.
- It has been normal practice for CMHC to require corporate guarantees both from Options for Homes and Home Ownership Alternatives for each project;
- OFH acts as the overall project co-ordinator ("agent") for the CDC from the point of land acquisition through construction completion.
- Potential purchasers automatically become members of the co-operative development corporation by paying the $100 fee for the Information Package and remain members unless they decide not to proceed with the purchase of their unit in which case half of the fee is returned.
- Following construction completion, the project proceeds to condominium registration – just like any other condominium development. This process includes the establishment of a condominium corporation and election of a board of directors from among its purchasers/owners. The originating CDC no longer plays any role in the governance of the project and is dissolved after all of its contractual obligations have been completed and it no longer has any assets. This normally occurs about three years following project completion.
- Final "closing" of the unit sales includes discharge of the construction loan, mortgage registrations by the individual purchasers, and registration and assignment of the 2^{nd} mortgages (placed on all units) to Home Ownership Alternative (HOA).

At the point of condominium registration, there is absolutely no legal difference between an Options for Homes project and any other condominium project.

The Construction Process

The approach that OFH uses in the planning, design and construction process is to work with a complete "package" of contracted consultants that includes architects, engineering consultants and general contractor services for each project. Deltera Ltd., a Tridel company, works with OFH on all projects Options undertakes with HOA. Deltera Ltd. acts as the general contractor and construction manager and assembles and manages all of the consultants and delivers the product on a fixed price contract basis (design/build model).

It would appear that OFH has developed a long-term business relationship with Deltera Ltd. and its contracted consultants, and as a result has been able to deliver the benefits of quality of product and cost control to its client CDCs. In addition, Deltera Ltd. has been willing to defer a portion of costs to final closing, thus saving construction financing costs. While there is a new CDC established for each project, Options for Homes has been able to use the same companies for each project. As previously noted, all legal agreements are between the CDC, Deltera Ltd. and its consultants.

Construction financing is secured by the CDC from a financial institution on similar terms as would apply to a private developer. With the exception of its first three projects, OFH projects have been CMHC-insured. Likewise, the discharging of the blanket mortgage for construction and the final closings process occurs in the same way as it would with a condominium project of a private developer. All units are also covered under the Ontario New Home Warranty Plan Act administered by Tarion Warranty Corporation.

It should be further noted that property management is also part of "the package." This component provides on-going property management services to the new condominium corporation. These services are provided by Del Property Management, also a Tridel company. Following the first year of operation, the board of the condominium corporation is free to continue this arrangement or select another company of its choosing.

The Financial Component

In broad terms, the financial component and related legal arrangements of the overall Options for Homes concept are the same as those which would apply in a condominium project undertaken by a private developer. There are, however, some key differences.

Similarities include:

- construction financing and CMHC insurance with the CDC securing a blanket mortgage for the construction phase with all legal documentation executed by the CDC.
- reaching a pre-sales target (75% for Options projects) before construction financing commences.

- registering with the Tarion Warranty Corporation and complying with its requirements.
- offering purchasers the option to include or exclude certain extras in their purchase price, such as unit upgrades, parking, lockers and appliances.
- normal processing of construction draws each of which is certified by a Quantity Surveyor acting independently on behalf of the lender.
- standard "closings" process that occurs in a private condominium relating to occupancy and then unit ownership on condominium registration.
- discharging of blanket mortgage for construction financing by payment to developer of the balance of the purchase price. This is achieved by purchasers securing individual mortgages with a financial institution.

There are three real differences between the 'Options' model and conventional condominium developments. These are:

- the determination of the purchase price of a unit,
- the unique 2nd mortgage (called the "Alternative A mortgage") **that is required of all initial purchasers**, and
- the long-term use of proceeds from the eventual discharge of these 2nd mortgages.

These are examined in greater detail below.

Purchase Price of A Unit

- The CDC determines the **basic purchase price** of a unit, prior to the completion of construction. This is established by an independent appraisal of the unit's "expected market value" and is based on market prices and comparables. <u>There is no negotiation by the purchaser of the unit's basic purchase price.</u>
- The **basic cost price** is the CDC's estimated cost of construction as pro-rated to each unit, exclusive of extras that are the option of each purchaser.
- **Basic Purchase Price less Basic Cost Price equals the amount of the Alternative A (2nd mortgage). All initial purchasers are required to encumber their unit with this 2nd mortgage. This is a fixed percentage above the basic cost price, typically around 15%.**
- Basic cost price plus the Alternative A mortgage plus extras equals **total purchase price.**
- The minimum deposit is 5% of the total purchase price.
- The costs of any charges above the basic purchase and cost price, such as pre-purchasing of parking, lockers, appliances or unit upgrades are additional charges that are equally added to both the final purchase and cost price and hence do not affect the Alternative A mortgage amount.
- Likewise, the amount of the purchaser deposit does not affect the amount of the 2nd mortgage, only the amount that a purchaser will have to finance through a first mortgage.

- Upon closing, all Alternative A mortgages are assigned to Home Ownership Alternatives, which then becomes the mortgagee.
- At the point of resale of the unit **by the initial purchaser,** the principal and interest on the Alternative A must be fully paid and discharged. Home Ownership Alternatives receives this money.
- The Alternative A mortgage is also due and payable by the initial purchaser if the unit is rented for a period in excess of two years from the Closing of the Mortgagor's Purchase.
- It should be noted that "cost price" is not strictly the total cost of construction pro-rated to the proportion of the specific unit's size. Certain more subjective adjustments are made to cost price of specific units to reflect either premiums or discounts that might normally be found in the "market". These adjustments often include premiums for higher floors, corner units or penthouses. The amounts of these premiums or discounts do not lead to substantially different prices for units of similar size.
- It is important to note that all of the above procedures and legal agreements **only apply to the initial purchasers**. For a subsequent purchaser, all aspects of a purchase and sale agreement, including purchase price, are freely negotiated between the buyer and seller. There is no Alternative A mortgage required or available to a subsequent purchaser.

The Alternative A Mortgage

As noted above, the amount of the Alternative A mortgage is the difference between the basic purchase price (which is the appraised market value) and cost of producing the unit, again exclusive of the costs of extras. In most instances it is a 2nd mortgage although the legal agreements indicate it is actually subordinate to all arm's-length mortgages.

Following are the key features of the Alternative A mortgage:

- Registered on title, with HOA being the mortgagee
- No payments of either principal or interest are required as long as the owner/mortgagor continues to own and occupy the unit
- Owner/mortgagor has the right to repay the mortgage and have it discharged at any time
- The Alternative A mortgage is due and payable to HOA upon sale of the unit by the original purchaser
- The "interest" due on this mortgage is defined as the **lesser of:**

  -8% compounded annually and which accrues until full repayment and discharge, or
  -the proportion of the increase, if any, from the date of acquisition by the owner/mortgagor to the date of discharge that the principal amount of the Alternative A mortgage is of the original purchase price (**i.e. shared appreciation mortgage)**

By way of illustration, the legal documents give the example of a unit originally purchased for $115,000, an Alternatives A mortgage of $15,000 and a selling price of $150,000. In this instance, the "interest" under the shared appreciation provision is:

$$\frac{(\$150{,}000 - \$115{,}000)}{\$115{,}000} \times \$15{,}000 = \$4{,}565$$

This example represents an appreciation in the value of the unit of approximately 30%. In this instance, the total amount due (principal + interest) by the mortgagor to discharge the mortgage is $19,465. Under the compounded interest formula, the interest due would have been $11,435 after 5 years, which is approximately 2.5 times the amount under the shared appreciation formula. At an interest rate of 8% compounded annually, this option for determining interest owing would be a lesser amount than the shared appreciation formula only if the appreciation of the value of the unit exceeds 12% per annum.

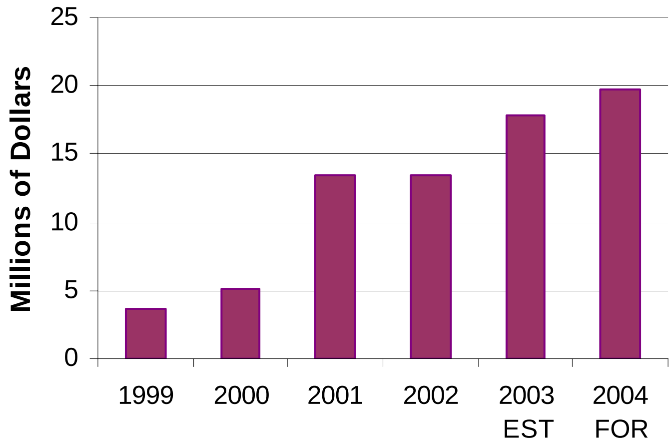
As noted above, the mortgagor has the right to discharge the mortgage using either of the two approaches that produces the lesser amount of interest owing and to voluntarily do so at any time. If the owner chooses to pay off the Alternative A mortgage prior to an actual sale and chooses to use the shared appreciation formula, comparison to other recent sales or an independent appraisal are the methods used to determine the appreciated value of the unit.

3.3. Use of mortgage proceeds by Home Ownership Alternatives

As previously noted, the purpose of Home Ownership Alternatives (HOA) is to receive funds that can be used to assist building co-operatives for affordable housing. HOA holds all Alternative A mortgages of each unit purchaser of Options for Homes projects. It holds these mortgages until they are discharged. Full repayment of the mortgage must occur at the point of resale of a unit but may occur prior to that point on the initiative of the owner.

In the case of OFH's Parliament Square project, 25% of the Alternative A mortgages were discharged at closing, and in the case of its Mill Street project, between 25% and 30% of mortgages were paid at closing. Similarly about 20% of the Shermount project's Alternative A mortgages were discharged when the initial purchaser closed. No interest is due on the Alternative A mortgage at closing. Thus it would appear that the Alternative A mortgage has been discharged more by voluntarily repayment than by way of resale of the unit. Home Ownership Alternatives has received more cash, more quickly than was originally anticipated by the 'Options' model.

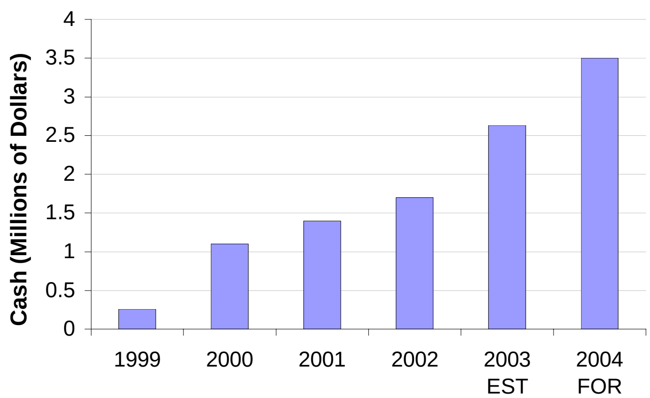
Figure 3-1 HOA's Mortgage Growth 1999-2004



Source: Options for Homes and HOA Financial Statements (Cowperthwaite Mehta Chartered Accountants), 2000-2002

Figure 3-1 shows the growth in HOA mortgages since 1999.

Figure 3-2 HOA's Cash Position 1999-2004



Source: Options for Homes and HOA Financial Statements (Cowperthwaite Mehta Chartered Accountants), 2000-2002

Figure 3-2 indicates the growth of cash on hand to HOA.

The proceeds from the repayment of principal and interest on these mortgages is used by HOA as a source of funds. Based on the audited financial statements for the fiscal year ending September 30, 2002, HOA had cash and short-term investments of $1,687,653 and mortgages receivable of $12,441,632 (including Shermount). It further had loans receivable from two Options for Homes projects totaling $825,000.

As mortgages are repaid and HOA converts mortgages receivable to cash, it can provide financial assistance for new affordable housing projects. Normally, this assistance would be in the form of loans to new projects to fund pre-development costs, acquire land or meet other project cash-flow requirements until construction financing commences or the project is complete.

The Notes in the HOA financial statements refer to pledging the assignment of cash proceeds from these mortgages receivable as collateral for the advancement of loans.

While most of the Alternative A mortgages have only originated over the past few years, significant cash has already been realized through mortgage discharges. It is through these activities of HOA that the larger vision of stimulating increased production of affordable home ownership opportunities is to be realized.

4. The Options For Model Affordable Ownership

4.1. Overview

Without government assistance or subsidy, the 'Options' model purports to increase the affordability of home ownership through three principal means.

The first contention is that it produces condominium units at a lower cost than the private, for-profit sector. The OFH literature notes that this lower cost is achieved mainly through significantly lower marketing costs, more modest suite finishes and fewer common amenities.

The second way in which greater affordability is achieved is through the use of the Alternative A mortgage. Since no payments are required on this mortgage until the point of resale, monthly carrying costs are lower for an Options for Homes unit than for a "market" condominium where the full purchase price needs to be financed by a combination of debt and cash down payment.

Given the method of determining the amount of the Alternative A mortgage (i.e. market value less cost of production), this mortgage essentially represents part of the profit a private condominium developer receives on the sale of units. In the Options' model, this "profit" is indeed captured in the sale, but the actual cash proceeds of this profit are deferred. Receipt of these deferred profits accrue to Home Ownership Alternatives at the point the Alternative A mortgage is repaid.

As previously noted, the Alternative A mortgage is only available to the initial purchaser. At the point of resale, this method of increasing affordability no longer applies and an OFH unit would be no more or less affordable than any other comparable condominium unit on the market.

The third means of enhancing affordability is the purportedly lower condominium fees charged in an OFH project as compared with those in a private condominium. These lower fees are generally due to fewer common amenities space and facilities to maintain.

4.2. Effect of Cost of Production

To ascertain the extent to which a typical OFH condominium unit is produced at a lower cost than a comparable unit produced by a private condominium developer, the OFH project at 650 Lawrence Avenue West (Shermount) was selected for a detailed comparative analysis with a reasonably comparable private condominium project.

The two projects shared the following characteristics:

- highrise construction with two levels of underground parking, both involving demolition of existing structures

- provision of very modest amenity space and both aimed at modest income buyers
- constructed within the City of Toronto and completed within the past year
- all contractual relationships between the developer and its consultants and general contractor were arm's length and involved no business arrangements (i.e. profit-sharing, that affected the costs of development and construction)

The major source of data for this comparison was the independent quantity surveyor reports prepared for these two projects. Both projects used the same quantity surveyor. The cost categories used in the following tables are typical of those used by the quantity surveyors.

Since the Shermount project involved the construction of 51 townhouses, which normally have a lower construction cost per square foot than the 381 apartment units, the cost comparison that follows contains a small adjustment to the construction cost per square foot to reflect this difference. Because of a different configuration of units in these two projects (i.e. unit sizes and number of bedrooms), the data is presented on a square footage basis for easier and more reasonable comparison.

The first table compares the per square foot costs of Shermount to those of the roughly comparable private condominium based on gross floor area construction cost.

Table 4-1 Comparison of Development and Construction Costs

Shermount (OFH) versus a Private Condominium Project
(Adjusted for OFH townhouse component)
Construction Gross Floor Area

	Shermount	**Private condominium**
Cost Categories	**Cost/s.f. of Constr. GFA**	**Cost/s.f. of Constr. GFA**
Land	16	16
Construction	106	127
Design	2	5
Legal and Admin.	5	9
Marketing/Sales/Leasing	2	10
Finance	13	10
GST on sales (excluded)	0	0
Gross Project Costs	144	177
Offsetting Revenues	-2	-6
Net Costs	142	171

The second table makes the same comparison but on the basis of "net saleable area." This term is commonly used in comparing condominium costs and sale prices. Net saleable area is typically about 85% of construction gross floor area.

Table 4-2 Comparison of Development and Construction Costs

Shermount (OFH) versus a Private Condominium Project
(Adjusted for OFH townhouse component)
Net Saleable Area

	Shermount	**Private condominium**
Cost Categories	**Cost/s.f. of Net Saleable Area**	**Cost/s.f. of Net Saleable Area**
Land	19	19
Construction	130	154
Design	3	6
Legal and Admin.	6	11
Marketing/Sales/Leasing	3	12
Finance	15	13
GST on sales (excluded)	0	0
Gross Project Costs	176	216
Offsetting Revenues	-3	-7
Net Costs	173	209

Both projects managed to structure their business and financing arrangements so as to have a deferral of certain costs and fees to final closing. Such deferrals have the effect of reducing the cost of financing over the course of the development and construction period. The magnitude of these fee and cost deferrals was $20 and $4 per square foot respectively. For Shermount, the most significant deferrals were a portion of the total costs for:

- Land acquisition
- Parkland dedication fee
- Development charges
- Construction costs/fees
- Building permit fees
- Legal fees
- Development fees
- Sales commissions
- GST of revenue

These deferrals totaled $11,358,000 which represents 18% of net project costs.

While these two projects are not entirely comparable, they are both geared to a similar market: The modest income buyer. The lower development and construction costs for the Shermount project can be primarily attributed to:

- less extensive and more modestly finished indoor amenity space
- less expensive and more modest suite finishes
- lower design and construction costs that arise from the long-term business relationship with the general contractor/developer

- lower legal and administration costs largely attributable to the lower development fees charged by OFH as the development consultant
- significantly lower marketing costs because of its unique and less expensive approach to marketing and sales
- somewhat higher construction financing costs that would have been even marginally higher without the significant cost and fee deferrals

The sum of these lower development and construction costs resulted in a similar product at Shermount for a total cost of approximately 17% ($29 per square foot) less than the roughly comparable private condominium on a construction gross floor area basis. The reasons for this lower development and construction cost are consistent with the promotional material for this model.

Detailed reviews of other OFH projects were not undertaken to confirm whether the Shermount is consistent with these other projects.

As evidence of the modest nature of both projects, units sold at about 85% of the average sale price of condominium units in their respective geographic areas.

4.3. Profiles of Unit and Unit Prices at Shermount

As previously noted, Shermount consists of an apartment building with 381 units and 51 townhouses. The breakdown by unit type is:

Table 4-3 Apartment and Townhouse Unit Types at Shermount

Type	Number
Apartment units	
Bachelor/studio	50
One bedroom	153
One bedroom plus den	75
Two bedroom	71
Two bedroom plus den	30
Other	2
Totals	381
Townhouse units	
Three bedroom	33
Four bedroom	18
Totals	51

As previously explained, "cost price" is not purely the total cost divided by the specific size of the unit, and hence, its proportion to total cost. The table below gives a range of cost prices by increasing size of units, and uses the median actual cost price for the same size unit.

Table 4-4 Range of Typical Prices of Shermount Apartment Units by Size

Sq. Ft.	Typical Cost Price	Price/sq. ft.	Alternative A Mortgage	Total Purchase Price	Minimum Downpayment
402	$77,531	$193	$11,630	$89,161	$4,458
506	$96,032	$190	$14,405	$110,437	$5,522
625	$109,481	$175	$14,405	$125,903	$6,295
715	$124,289	$174	$18,643	$142,932	$7,647
802	$135,736	$169	$20,360	$156,096	$7,805
965	$170,602	$177	$25,590	$196,192	$9,810
1097	$182,395	$166	$27,359	$209,759	$10,488
				Average Downpayment	$31,471

Table 4-5 Range of Typical Prices of Shermount Townhouse Units by Size

Sq. Ft.	Typical Cost Price	Price/sq. ft.	Alternative A Mortgage	Total Purchase Price	Minimum Downpayment
1,164	$189,811	$163	$28,472	$218,283	$10,914
1,234	$214,800	$174	$32,220	$247,020	$12,351
1,345	$211,994	$158	$31,799	$243,793	$12,190
				Average Downpayment	$63,110

The above figures exclude the costs of appliances, parking and lockers and unit upgrades that are all at the option of the purchaser and are additions to the total purchase price. The extent to which purchasers select these options varies widely but the average additional costs per buyer were:

Table 4-6 Average costs of Extras Included in Unit Purchases at Shermount

Extras (optional)	Apartment Purchasers	Townhouse Purchasers
Appliances	$1,786	$1,651
Parking and lockers	$6,851	$3,232
Unit upgrades	$2,951	$5,086

Returning to a comparison with a private condominium, the table below lists the ***basic cost price*** of a number of typical units at Shermount and typical purchase prices of similar sized units in a private condominium. This comparison of the Shermount basic cost price to the purchase price of a private condominium unit is being made since these are the respective amounts, less deposits, upon which first mortgages will be based. In both instances, the additional costs of appliances, upgrades, parking and lockers have been excluded.

Table 4-7 Comparison of Amounts upon which debt financing will be based

Shermount			Private condominium		
Square feet	Cost Price	Price/s.f.	Square feet	Purchase Price	Price/s.f.
402	$77,531	$193	440	$96,900	$220
506	$96,032	$190	516	$127,900	$248
625	$109,481	$175	637	$129,900	$204
715	$124,289	$174	722	$173,900	$241
965	$170,602	$177	921	$209,900	$231

4.4. Effect of the Alternative A mortgage

The effect of the Alternative A mortgage on affordability is to lower the monthly carrying cost of the unit purchased. In the case of Shermount, the Alternative A mortgages are all established at 15% above the basic cost price of the unit (i.e. exclusive of the cost of extras such as parking, lockers, upgrades and appliances). This has the effect of lowering the monthly carrying cost by 13% over what would be the case if the full purchase price, including the 2nd mortgage, had to be fully financed. The monthly carrying cost savings range from approximately $70 for the smallest unit to approximately $200 for the largest units. Likewise, it lowers the required annual income of the initial purchaser by the same amount, thus making the respective units more affordable.

4.5. Effect of Operating Costs

The notion of affordability takes into account operating costs in addition to the monthly carrying costs of debt financing. The primary monthly costs of a condominium buyer are property taxes, condominium fees and utilities (if not included in the condominium fees).

The monthly fees are intended to cover the condominium's operating costs which typically include utilities, repairs and maintenance, building supplies, costs of all contracted services (such as elevator maintenance), property management fees, insurance, security and annual contributions to a capital reserve fund. The condominium documents establish the percent contribution to common expenses that are apportioned to each unit and are largely a function of the relative size of each unit.

Marketing materials for new condominium projects usually express the estimated monthly condominium fees on the basis of cents per square foot of the unit's size. Condominium fees for the apartment units at Shermount are approximately $0.25 per square foot and include all utilities of apartment unit owners. Only hydro is included for the townhouse unit owners and their condominium fees are less. Monthly fees in private condominiums typically range anywhere from $0.28 to $0.40 per square foot and are significantly affected by amount and quality of common facilities and amenities. Shermount is on the low end of the condominium fee spectrum.

4.6. Conclusions regarding the OFH Model's Impact on Affordability

Our review, particularly the detailed examination of the Shermount project, supports the position that this model increases the affordability of condominium ownership, at least to its initial buyers. The specific ways in which it achieves this objective are also generally consistent with OFH promotional materials.

Highlights of our conclusions are:

- The Options for Homes model does produce a roughly equivalent unit for approximately 15-17% less cost than a private developer, and this is passed onto the initial buyer in the "basic cost price"
- This difference in cost price and purchase price is captured in the sale through the Alternative A mortgage (the amount equaling 15% over the basic cost price)
- For all intents and purposes, the Alternative A mortgage is the part of the profit that a private developer would receive on closing. In the Options for Homes model, this profit is deferred with HOA receiving the benefit at the point of resale and/or repayment of the mortgage
- Since no payments are required on the Alternative A mortgage until resale, monthly carrying costs are significantly reduced and the annual income required of a potential purchaser to afford the monthly carrying costs is similarly reduced
- Monthly condominium fees appear to be 10 - 20% lower than modest units in the private market which reflect the even more modest amenities in OFH projects

Notwithstanding the importance of these contributions to affordability, it is important to recognize that the majority of these benefits **only accrue directly to the initial buyer.**

A subsequent buyer will be required to pay and/or finance the full purchase price as determined by the market without the benefit of the Alternative A mortgage. Therefore, the extent to which an OFH unit is more or less affordable than any other condominium unit on the market will be a function of fewer amenities and possibly lower monthly condominium fees reflecting these fewer amenities. At the point of resale, the initial buyer is the beneficiary in any appreciation in the value of the unit and HOA is the beneficiary of the originally deferred "profits" plus interest from the repaid Alternative A mortgage.

Shermount and other OFH developments have benefited from deferring some costs and fees until closing. Some of these deferrals have been external such as the deferred payment of development fees and permit fees to the City. Others have been internal to the project such as deferred development fees, legal fees, construction fees from Deltera Ltd. and sales commissions. <u>These deferrals are not essential to the viability of the model since they only relate to cash flow, and hence interest charges, over the course of development.</u> Nonetheless, they do contribute to increased affordability.

It should be understood as well that some of these deferrals have been important for OFH projects since there was no alternative source of initial equity or cash for predevelopment expenses including land acquisition. As HOA accumulates more cash from the repayment of Alternative A mortgages, these funds will be available for such uses.

5. Income Groups Being Served

5.1. Relevant Census Data

Various income data for Toronto from the 2001 Census has just been released by Statistics Canada. As evident from the following table, there are wide differences between the income characteristics of tenant and owner households. The most notable extremes are that approximately 40% of tenant households are on the lower end of the income spectrum whereas 40% of owner households are on the higher end of the income spectrum.

Table 5-1 Tenant and Owner Household Income Characteristics

Income Categories	Tenant Households	Owner Households
Under $19,999	26.35%	6.66%
$20,000 - $29,999	13.66%	6.30%
$30,000 - $39,999	13.93%	7.01%
$40,000 - $49,999	11.49%	7.91%
$50,000 - $69,999	16.01%	17.05%
$70,000 - $89,999	8.79%	16.05%
$90,000 +	9.77%	39.02%
Totals	100.00%	100.00%
# of households	595,325	1,030,665
% of total households	36.6%	64.4%
Average income	$45,728	$94,706
Median income	$36,802	$75,600
Average gross rent	$870	NA

Source: Data from 2001 Census for Toronto

Based on the tenant household income data from the above table, one might classify those tenant households with income of less than $19,999 (being the lowest quartile) as lower income, and those from $20,000 - $49,999 (being the next quartile) as low to moderate income. Also, since the median income of tenant households in Toronto is $36,802 (half of all tenant households making less than this amount), any home ownership opportunities made possible for these individuals and families below this level should be deemed to be meeting "affordability" objectives.

The income situation of TCHC Rent-Geared to Income (RGI) tenants is even more severe. Eighty per cent of TCHC's 52,316 RGI households have annual incomes of $18,632 or less, compared to around 26% of tenants in Toronto generally. It is worth noting that the poverty line for a single person in Ontario is $18,240. Ninety per cent of TCHC's RGI households have incomes of $24,387 or less.

5.2. Profiles of Purchasers at Shermount

Since the profiles or characteristics of the purchasers are quite different between the apartment and townhouse components, available data is differentiated between these two elements in the table below. The information contained in the following tables was extracted from OFH data collected from purchasers of units at Shermount. However, since some of this information was not essential to the purchase, it was not provided by all 432 purchasers.

Table 5-2 Profile of Purchasers of Shermount Units

Purchaser Profiles	Apartment Purchasers	Townhouse Purchasers
Single person	180 (68.70%)	3 (6.12%)
Single person & children	5 (1.91%)	4 (8.16%)
Adults	60 (22.90%)	20 (40.82%
Adults and children	17 (6.49%)	22 (44.90%)
Totals	262 (100.0%)	49 (100.0%)
Unknown	119	2
First time buyers		
Yes	182	32
No	5	0
Unknown	194	19
Totals	381	51

The majority of purchasers of apartment units are single-person households (almost 70%) buying bachelor or one-bedroom units. For townhouses, the vast majority of buyers are evenly split between households of solely adults or adults with children. Virtually all buyers are first-time buyers. Only 5 purchasers of the 219 for whom this information is available indicated they were not first-time buyers.

Table 5-3 Distribution of Purchasers of Shermount Units by Household Income

Income level	Apt. Buyers	Percent	Townhouse	Percent
Under $19,999	9	3.78	1	2.28
$20,000-$39,999	101	42.44	0	0.00
$40,000-$59,999	90	37.82	16	36.36
$60,000-$79,999	27	11.34	19	43.18
$80,000 +	11	4.62	8	18.18
Totals	238	100.00	44	100.00
Unknown	143		7	

Of the 282 purchasers whose household income was available, only 3.5% were low-income. Lower income purchasers (under $19,999) are predominately buying smaller units in the apartment building. Likewise, purchasers in the low - to moderate-income category ($20,000 - $39,999) are also all apartment unit purchasers. One hundred and fifty purchasers did not voluntarily provide household income information. This is noted in the table above.

Table 5-4 Household Composition of Shermount Purchasers by Household Income

Household type	Under $19,999	$20,000 - $39,999	Totals
Single	7	82	89
Single parent	2	2	4
Adults	1	14	15
Adults & children	0	3	3
Totals	10	101	111

Single-person households are the most common household type in both the low- and low- to moderate-income categories of purchasers of all units. The extent to which purchasers with household incomes below $39,999 were part of the 150 purchasers not providing household income data is unknown.

5.3. Measure of Affordability

This income information can then be compared to the total monthly carrying costs of typical units at Shermount. The typical units noted in the following table are arranged in increasing size (square feet). The basic cost price is as sold to a purchaser.

For the purposes of consistency in estimating the annual income required by a purchaser, certain assumptions are made. It is assumed that only the minimum down payment of 5% of total purchase price is made since actual down payment amounts vary widely. The monthly cost of 1st mortgage debt is assumed to be amortized over 25 years at 6.0%, to which is then added property taxes and condominium fees. While mortgage financing can currently be obtained for less than 6.0%, existing rates are at long time lows and may not continue into the future. For the purposes of estimating the amount of annual income required to carry this total monthly cost, the calculation is based on monthly carrying cost not exceeding 35% of total annual household income.

Additional mechanisms, outside the control of OFH, appear necessary to increase the affordability of home ownership opportunities for truly low-income households. The existing 'Options' model has served a number of singles at Shermount. The major challenge is creating affordability for families where units of two bedrooms or more are required. At a minimum, this requires a household income of approximately $40,000 for a two-bedroom unit at Shermount.

Table 5-5 Typical Monthly Carrying Costs of Selected Units at Shermount

Sq. Feet	Basic Cost Price	Monthly Cost	Annual income req. @35%
Apartment			
402	$77,531	$661	$22,660
506	$96,032	$821	$28,136
625	$109,481	$948	$32,489
715	$124,289	$1,074	$36,820
802	$135,736	$1,182	$40,512
965	$170,602	$1,474	$50,550
1000	$182,395	$1,593	$54,604
Townhouse			
1164	$178,643	$1,485	$51,429
1234	$204,867	$1,692	$57,886
1365	$207,003	$1,723	$57,608

Returning to the census data, only bachelor units in the apartment building are approaching, but not reaching, a monthly carrying cost that could be afforded by lower income tenants in Toronto. At the median tenant income of $36,802 in Toronto, only units of less than 715 square feet (small two bedroom units) or less are affordable to moderate income buyers. Units in the apartment building of 715 square feet or more and all the townhouses are only affordable to tenants having median tenant incomes or above.

For 90% of TCHC's RGI households, even bachelor units are beyond their carrying cost means. For the vast majority of the remaining 10%, it is likely that only bachelor and one-bedroom units might be within their means. However, in all instances, RGI tenants would unlikely be able to make even the minimum down payment of 5%.

Notwithstanding that the OFH model is not creating affordable home ownership opportunities for a significant number of lower income households (with the exception of single-person households), it is providing many first-time buyers with opportunities they would not otherwise have. The table below shows the annual household income required of a purchaser of a unit at Shermount compared to the income that would be required if the same unit were purchased in a private condominium. The difference in the latter, assuming the same minimum down payment, is the sum of all factors of higher construction costs, the additional financing costs since no Alternative A mortgage is available, "open market" sale prices and higher condominium fees.

Table 5-6 Comparison of Annual Incomes Required to Carry Similar Units

Shermount		Private Condominium	
Square Feet	Income Required	Square Feet	Income Required
402	$22,660	440	$28,934
506	$28,136	516	$37,414
625	$32,489	637	$39,354
715	$36,820	722	$51,317
965	$50,550	921	$60,316

In this specific comparison, **the additional annual income required** to afford the total monthly costs, including 1st mortgage financing, of a similar private condominium unit ranges from 19.32% to 39.37%.

While comparison to one specific private condominium may not be truly indicative of the experience in the overall market, there is little doubt that the OFH units are considerably more affordable to the initial buyer. The most significant impact is the increased opportunity for the moderate-income buyers (i.e. the household with an annual income around the median of $36,802). The 'Options' model creates opportunities for purchasing a one-bedroom or small two-bedroom unit whereas only bachelor units would be affordable in the private condominium market.

5.4. Risk Analysis of the Model

We were asked to include an analysis of risk-related issues that might pertain to the model as part of this review. Specifically, the analysis was to determine whether:

- the model could cause financial hardship for low-income owners
- the product and model are recession or inflation proof
- the long-term value of any unit purchased is likely to under or outperform comparable units in the resale market
- buyers fully understand the obligations that are placed on them by the 'Options' model

In our opinion, there is nothing specific to the 'Options' model, including its specific financial arrangements, that adds financial risk or could potentially create financial hardship to any buyer, including a low-income buyer.

All purchasers of residential properties, including condominiums, face certain future risks that include:

- security of their current and future sources of income to enable them to carry mortgage debt, pay property taxes and condominium fees and absorb any increases that might occur in these costs
- ability to adjust to increases in mortgage rates if they occur in the future given the historically low rates that exist today

- "liquidity" of their property on the resale market
- ability to meet any financial obligations that are specific to any subordinated debt incurred by the purchaser, which in the OFH case, is the Alternative A mortgage

Like any purchaser of a residential property in today's market of historically low interest rates, either an upward change in interest rates at the time of term renewal of the first mortgage, a decline in household income, or both, are risks to all owners of OFH units. There is nothing inherent in the 'Options' model that creates unique risk in this regard.

On the contrary, the terms and conditions of the Alternative A mortgage shield the owner from risks that would normally be the case with a standard vendor-take-back mortgage. The terms of this mortgage also provide greater protection than has been the case with certain government sponsored home ownership assistance programs that have existed in the past, such as Assisted Home Ownership Program (AHOP). The essential elements of risk protection under the Alternative A mortgage are:

- no payments on this mortgage or repayment of the mortgage are required until the point of resale, and hence neither inflation nor changes in the owner's financial situation would create any hardship;
- if value appreciation on the property occurs, the owner receives a proportional share of that appreciation as previously described;
- interest owing on the outstanding balance at the point of discharge is **the lesser of** an interest rate that compounds and accrues annually or one based on value appreciation, at the choice of the owner;
- protection against a scenario of depreciation in value as provided in the Alternative A mortgage agreement which states that:

"If the selling price is less then the original purchase price but greater than the net purchase price, no interest shall be payable. If the selling price is less than the net purchase price, then both no interest is payable and the principal amount of the mortgage shall be reduced by the difference between the net purchase price and the selling price" where:

- original purchase price means the purchase price paid by the original owner of the property, including the cost of upgrades and
- net purchase price means the original purchase price less the cost of upgrades.

Essentially, the risk in a depreciating market and the loss of value is borne by HOA which may either have to write down or write off a mortgage receivable.

Beyond the protections inherent in the Alternative A mortgage, the 'Options' model affords no special protection to a buyer in an inflationary or recessionary environment. Since purchasers are obtaining first mortgage financing from major financial institutions, it is reasonable to assume that these institutions are only approving mortgage loans for persons they believe have the means to meet their payment obligations. Finally, it is our understanding that approximately 20% of purchasers are obtaining CMHC-insured mortgages.

With respect to potential appreciation of value on resale, an OFH unit is a condominium unit legally no different than any other condominium unit on the market today and it is governed by all the same provisions of the *Condominium Act (Ontario)* as any other condominium corporation. While a typical OFH unit may have fewer common amenities than other private condominiums on the resale market, there is nothing unique to an OFH unit that would otherwise affect its relative value position to other units on the market. The "special" features of an Options for Homes unit, such as the Alternative A mortgage, only apply to the initial purchaser. Resale of units occurs in the open market and there are no peculiarities that would negatively interfere with a freely negotiated transaction between the seller and buyer.

The fact that the initial purchase price is determined by an appraisal, rather than a freely negotiated price, may very well mean the initial buyer immediately benefits from an appreciation in value relative to the market. Limited anecdotal evidence would suggest this initial undervaluing of the unit in determining the original purchase price relative to the market is more likely to be the case.

Neither OFH nor HOA had data on the resale experience of units in their projects that was accessible for this study There is, however, anecdotal evidence to suggest that there has been significant appreciation in the value of OFH units over the past few years. This limited anecdotal experience would suggest that resale prices have appreciated at a rate no less than experienced in the overall condominium market. For example, a three-bedroom, 1,200-square-foot unit at the OFH project at 39 Parliament Street appreciated in value over the original purchase price by 70% over the three year period of 1999 to 2002.

With respect to potential buyers being fully aware of the obligations they are undertaking, we have reviewed the documentation and materials provided to a potential buyer. In our view, OFH has made significant efforts to ensure the purchase and ownership obligations are clear and understandable in its written material. Efforts have clearly been made to provide information, including legal information, in layman's terms. Since all potential purchasers must attend a large group information session, each potential purchaser has the opportunity to ask questions as well as listen to the answers given to questions of other participants in these sessions.

Since the unit will be a unit in a registered condominium, a disclosure document is provided to all potential purchasers consistent with the requirements of the *Condominium Act*. The materials also clearly advise potential purchasers to seek legal counsel and provides them with a list of lawyers who are familiar with the 'Options' model.

The OFH model seeks to create a sense of comfort among potential purchasers through informational meetings and the pre-sales work with Options for Homes sales staff. This helps people to understand what they are buying and is seen as a value for money purchasers don't necessarily get from a "normal" developer.

6. Governance and Accountability

If there is some uncertainty about issues of corporate governance and accountability in relation to Options for Homes and Home Ownership Alternatives, it may be due to confusion about the status and function of the various entities that contribute money and services to make the 'Options' model work. This section will describe and assess the governance structures of both these entities, their relation to each and to the other entities that contribute to the 'Options' model.

Mel Gill, in his paper on board governance in the voluntary not-for-profit sector, lists seven types of governance models found in the voluntary sector in Canada.

Table 6-1 Governance Models

Governance Model	Description
1. Operational	The board does the work of the organization as well as governs it. This is typical of a board in the 'founding' stage and organizations, such as service clubs, that have no staff and must rely largely on board members and other volunteers to achieve their aims.
2. Collective	The board and staff are involved in 'single team' decision-making about governance and the work of the organization; board members may be involved in some of the work either in services or management functions.
3. Management	The board manages operations but may have a staff coordinator. board members actively manage finances, personnel, service delivery, etc.
4. Traditional	The board governs and oversees operations through committees but delegates the management functions to the CEO. Committees are used to process information for the board and sometimes do the work of the board. The CEO may have a primary reporting relationship to the board through the Chair.
5. Policy Governance (Carver)	The board governs through policies that establish organizational aims (ENDS), governance approach, management limitations and define the board/CEO relationship. It does not use committees. The CEO reports to the full board.
6. Corporate	The CEO is a non-voting member of the board, carries substantial influence over policy-making, is viewed as a full partner with the board and has a relatively free hand at managing to achieve objectives established by the board. Committees are used for monitoring/auditing performance of the board, CEO and organization. board members are selected for community profile, capacity to 'open doors' for the organization and may be used for selected tasks in their area of expertise
7. Constituent Representational	An approach used by publicly elected officials, federations or other constituency elected boards whose primary responsibility is to balance the interests of their constituents against the best interests of the overall organization. They may, and in the case of publicly elected officials do, carry grievance resolution/ombudsman functions. They may, as in the case of school boards, have prescribed responsibilities for public consultation and human resources.

Source: M. Gill **Governance Do's and Don'ts Lessons from Case Studies On Twenty Canadian Non-profits, Final Report** Institute for Governance, April 2001 p.10

Gill found that, rather than attempt to conform to one model, for instance Carver's policy governance model, most boards use aspects of a variety of models in order achieve their mission. It is useful to be able to place Options for Homes and Home Ownership

Alternatives along the continuum of governance models set out above. Ideally we would be able to recognise where they currently fit and where they might fit in the future.

7. Options for Homes Non-Profit Corporation

Options for Homes Non-Profit Corporation (Greater Toronto Area) received its charter and Letters Patent in September 1992. The objects for which it is incorporated are:

> "… to disseminate information and to provide advice and to assist in the development of residential non-profit concerns and undertakings that will produce housing at cost for low- and moderate-income groups."

Its articles of incorporation contain provisions that restrict its activities to those of a non-profit nature. While its exclusive focus has been on affordable ownership housing, this is not a restriction of its objects. In addition to the services of development consultants that OFH provides to building co-operatives, OFH also provides management services on contract to Home Ownership Alternatives.

As of March 2003, Options for Homes had a board of directors consisting of three persons – Michel Labbe, Roz Labbe and Paul Connelly. Both Michel Labbe and Roz Labbe are also employees of Options for Homes.

Options for Homes conforms to the 'collective' model of governance. The Board and the senior staff are very much a single team involved in governance and decision-making. According to its principals, Options for Homes has been designed on the model of a workers collective. After three years employment, employees could become members of the collective and be eligible for a seat on the board. Members of the collective (i.e. employees) elect the directors from among themselves.

The governance model chosen by OFH would seem to be based on experience gathered by the Options for Homes president during his tenure with Lantana, a co-operative housing resource group that operated in the 1980s in Ontario. Like these housing development consultants that helped non-profit groups build government funded social housing, OFH does not directly receive government or charitable funds nor does it acquire land or liability. It would appear that its not-for-profit designation relates more to its sense of mission than to any necessity to be non-profit.

8. Home Ownership Alternatives Non-Profit Corporation

Home Ownership Alternatives Non-Profit Corporation received its charter and Letters Patent in Ontario in May 1994. Its objects of incorporation state that its purpose is:

> "… to receive funds and to apply such funds to assist building co-operatives to develop affordable housing for their respective members with the assistance of non-profit development consulting organizations."

There are 3 special provisions to its articles of incorporation, which are:

- The Corporation's activities shall be carried on without the purpose of gain for its members and an profits or other accretions to the Corporation shall be used in promoting its objects,
- The directors and officers shall serve as such without remuneration, and no director shall receive, directly or indirectly, any profit from his/her position as a director or officer, provided that a director or officer may be paid reasonable expenses incurred by her/him in the performance of her/his duties,
- Upon dissolution of the Corporation and after the payment of all debts and liabilities, its remaining property shall be distributed or disposed of to a non-profit organization with similar objects in Ontario.

It is important to note that the articles of incorporation do not restrict it to assisting only affordable housing of an ownership nature. Equally noteworthy is that it can only apply the use of its funds to affordable housing developments that are being assisted by non-profit development consulting organizations.

As of June 2004, HOA's governance structure consisted of an Executive Director, who was also the Vice President of the Board and 12 independent directors in three categories. There were three vacancies. Independent directors are defined as being free of any interest in or relationship with any company providing services to Home Ownership Alternatives.

Seven members are appointed from the community sector. They are Francis Corrigan (President,signing officer), Milt Pearson (Executive Director and Vice President; signing officer), Loren Simerl (Treasurer; signing officer), David Walsh,(Director), Ron Dell'Agnese, (Director), Ed Sarnecki, (Director), Brian Smith, (Director). There is one vacancy.

Four members are appointed from among the building co-operatives and condominium projects in which HOA holds 2nd mortgages or that were supported by HOA loans. They are: Gilles Paradis, Janet Munroe , and Sugith Varughese (Director; signing officer). There is one vacancy. When 50% of the 2nd mortgages held by HOA in any particular project are paid out, that project can no longer appoint a member to the board of Home Ownership Alternatives.

Four members appointed from the co-operative sector: They are Andre Schroer (Secretary; signing officer), Judith Ramsay and Fred Allo. There is one vacancy.

In response to inquiries by this study about board structure and accountability, the Executive Director provided a memorandum dated June 9, 2004. It stated that

> "The Board of Directors believes that board committees assist in the effective functioning of a company's board and that the composition of board committees should ensure that the views of unrelated and independent directors are effectively represented."

The memorandum also detailed the Board structure as follows:

> "The Board of Director of HOA has three committees:
> Finance, Credit and Audit Committee
> Executive and Risk Management Committee
> Governance and Nominating Committee

Finance, Credit and Audit Committee

This committee is responsible for HOA's financial reporting processes and the quality of its financial reporting. In discharging its responsibilities, it meets as necessary to consider the approval of loans to a building co-operative, the risk involved, and the cash flow statement that indicates future cash obligations will not impair HOA's ability to meet future cash requirements.

This committee works closely with the Executive Committee with risk management issues to control the risk of a major loss resulting from over-exposure to a single project or group of related entities. Investment guidelines establish limits on the level of loans, which can be made and those limits are reviewed and amended at least annually or as necessary.

The audit function is mandated to a director who must have an accounting designation. We presently have a director who is a Certified General Accountant and Certified Internal Auditor who is the chair of this committee

Executive and Risk Management Committee

This is the board's principal working committee. Between board meetings, the committee exercises all powers of the board in respect to management and direction of the business affairs of the company, subject to limitations reserved by the full Board. Members of the committee include the officers of the board or any other director so appointed by the board.

Governance and Nominating Committee

This committee is responsible for corporate governance issues, including structures and procedures for the independent functioning of the Board.

The committee is responsible for recruiting new directors and assessing the effectiveness of the existing board and the contribution of its individual members. It is the responsibility of this committee to periodically assess the size and composition of the board and its committees to review the effectiveness of the board’s operation.

It ensures that directors have the right skills, experience and capabilities to meet the challenges facing HOA.”

The board may establish other ad hoc committees for special projects. The board has established the Additional Alternatives Mortgage Committee as an ad hoc committee.

Home Ownership Alternatives operates under a Declaration of Trust. The Declaration provides clear guidelines to the HOA Board about how it shall make decisions with respect to lending its assets. Home Ownership Alternatives holds all of its assets now and in the future in trust to be loaned to co-operative corporations selected by the Board of Directors of HOA to assist them in developing affordable housing for their members with the assistance of non-profit development consultants.

In practice, HOA has only provided loans to projects that OFH has presented to it. However, there is nothing that would prevent HOA from providing loans to other projects being assisted by non-profit development consultants other than OFH. This was confirmed in an interview with the chair of HOA who indicated, “If anybody else came along we could offer them the same thing,” adding “we have never had anybody else approach us.” He noted “[We are] open to anyone that is a non-profit development corporation.” During the course of this study HOA was approached by another development consultant. The project concept was not able to be developed.

There is however a provision in the Declaration of Trust that directs the board of HOA to make funds available to projects being developed with the assistance of development consultants whose projects have provided 2nd mortgages to HOA. The provision reads:

> “that HOA shall consider, in making decisions on loans to co-operative corporations, the principle that, where in the opinion of the board of HOA it is appropriate, where monies have been received by the HOA from a project:
> Develop with the assistance of a particular non-profit development consultant with in a particular geographic region; and of a particular type such monies shall be loaned to co-operative corporations being developed by such non-profit development consultant, in such a geographic area, and/or of a similar type.”

HOA is very much in the founding stage of its corporate development and not surprisingly conforms to the ‘operational’ model of corporate governance. For the most part, the board runs the corporation as well as governs it. HOA, however, is clearly an organization in transition and therefore demonstrates elements of both the managerial and traditional models of governance.

The traditional model is reflected in regular quarterly meetings of the full board and the emergence of three board committees. The managerial model is reflected in the recognition by the board of the need for full-time management. On this issue the board seems to have been making some progress.

Until very recently, Options for Homes provided management services to HOA. In 2004 the former chair of the board of HOA became the part-time Executive Director. This was described as being a significant step in the transition of HOA to an entity more independent of Options for Homes. The part-time Executive Director indicated that he is looking to mentor a full time Executive Director. Hiring a full-time Executive Director would also signal a growing recognition of how important HOA is to the delivery of the 'Options' model.

The board of HOA would appear to clearly recognise that it is the primary source of project start up funds. HOA's decision whether to provide start-up funds from its pool of $2.5 million in cashable investments (usually on a shared-risk basis with Tridel, the construction consortium) is the major determinant of whether a project will go forward.

Strong values and an emerging independence are reflected in the way HOA has dealt with two challenging issues. The first is the recognition that Options for Homes and HOA are very closely intertwined. Indeed it is clear that the 'Options' model was designed by Michel Labbe, among other objectives to provide funding to Options for Homes. Options for Homes and its employees benefit from every decision that HOA makes about the allocation of start-up funds. But for one exception, the only projects brought to HOA for funding consideration have been Options for Homes projects. Options for Homes has indicated that it would be pleased if other projects were brought to the HOA board for support. The HOA board has indicated that it would welcome proposals from other development consultants for ownership projects.

9. The Non-Profit Question

The second issue is the matter of whether HOA is truly a non-profit organization. To this end the board commissioned at considerable expense, a legal opinion on the matter. The legal brief confirmed the non-profit nature of Home Ownership Alternatives and indicated various procedures and structures that could be used by the board to safeguard that status.

As a corollary, the HOA board has also raised the matter of whether Options for Homes is truly a non-profit. This issue also emerged as an uncertainty among some government staff.

The question of whether Options for Homes is truly a non-profit has never been formally tested. It has been pointed out that this question is not new. During the 1980s government staff often asked this question about housing resource groups. In the case of Options for Homes, any earned surplus is reinvested in the corporation as retained earnings. It is used as a contingency fund to manage cash-flow requirements during the development phase of building projects. As noted above, our review of the financial statements, staffing, costs and fees of Options for Homes as the development consultant company reveals a very lean operation with modest costs, compensation arrangements and lower fees than would be found in private development companies.

Options for Homes would appear to meet the test of a non-profit organization, although a legal opinion was not sought as part of this study. The collective model of board governance is in keeping with the 'workers' collective' notion of corporate organization. There would appear to be valid reasons for housing resource groups to be governed by internal rather than external board arrangements. While Options for Homes management were extremely open and forthcoming with information for this study, it is probably more important that Home Ownership Alternatives meets the tests of good governance and accountability than Options for Homes.

Our analysis of the 'Options' model and the corporations that are integral to its delivery revealed an increasingly important role for Home Ownership Alternatives.. It would appear from interviews with the Chair of the HOA board that this is recognised and that steps are being taken to address these issues and create an independent identity for the corporation. In 2004, Allan Redway resigned from the Board of HOA to become its legal counsel. Previously, HOA had used Option for Homes' legal firm.

It is especially important to address these matters as any contribution of public funds to projects developed under the 'Options' model would very likely flow to Home Ownership Alternatives. Any surety for public funds or funds contributed from the private sector to increase the number of low-income households would be provided by Home Ownership Alternatives. Clearly, HOA is emerging as the major player in the delivery of low-income ownership housing through the 'Options' model.

10. Enduring Value of the Options Model to Affordable Housing

At the project and residential unit level of the OFA model, the affordability benefits almost entirely accrue to the initial buyer only. As long as the initial buyer remains the owner and occupant of the unit, she/he continues to benefit from the increased affordability effects of the model.

At the point of resale, the new buyer pays a purchase price that is freely determined in the market and must fully finance the costs of the unit without the benefit of the Alternative A mortgage. As previously noted, the initially lower construction costs, the minimal down payment required and the advantageous 2nd mortgage are not benefits received by a subsequent buyer. The extent to which an OFH condominium unit is then any more affordable than another unit in a private condominium is purely a function of fewer amenity facilities and possibly somewhat lower monthly fees. It is unlikely that this difference is particularly significant and it is clearly far less so than for the initial buyer.

<u>In simple terms, the financial benefits of the 'Options' model are tied to the initial buyer, not the unit.</u> Initial buyers of very modest means could build equity in an appreciating real estate market that allows them to remain in the ownership market upon sale of their unit. Of equal importance, the terms and conditions of the Alternative A mortgage shield them from the effects of an inflationary environment and a depreciating real estate market. This is an opportunity many would unlikely have otherwise had.

The importance of this outcome should not be understated. Enhancing opportunities for home ownership for individuals and families has been a broadly accepted public policy objective for a good portion of the last century and remains one today. Many government programs have focused on this objective over the same period. Various tax-related programs still exist today that are intended for this purpose, particularly for first-time buyers.

The 'Options' model makes an important contribution to increased affordability. This is particularly true for first-time buyers whose incomes fall on either side of the median of tenant household incomes in Toronto of $36,802. While data regarding resale value of OFH units is anecdotal, it would certainly appear that purchasers are building equity at a sufficient rate to allow them to remain in the ownership market upon sale. While the number of low-income purchasers has been limited, those few have clearly had an opportunity they would not otherwise have had.

It is also important to recognize that the 'Options' model has operated without government subsidy. What benefits it has received, such as deferred payments of permit fees and development charges, have been just that – deferrals. They have also been very time limited in that they have been paid on the final closings that occur at the end of construction and condominium registration.

At a broader level, HOA's objective is to stimulate the production of more affordable ownership units by using the proceeds from one project's repaid 2nd mortgages to assist the development of units in another location. This is an important part of the overall model and quite unique in the market today. To some extent, this mitigates the time-limited and unit-based benefits of the model at the unit level by continuing to expand opportunities for new initial buyers. Nonetheless, the fact remains that affordability benefits at the unit level are not received by a subsequent buyer.

Consideration of government assistance for the 'Options' model, though, does raise important issues relating to the long-term or enduring value of such assistance and who its beneficiaries would be. Most forms of assistance to increase affordability of rental housing have been structured so that the benefits stay with the unit, not the person. As turnover occurs, the affordability of the unit remains for subsequent tenants. In an environment of enormously long waiting lists for assisted rental housing, particularly for families of very low incomes, retaining housing affordability at the unit level is vital.

11. The Options Mode and Ownership Units for RGI Housholds

One of the major questions for the board of Home Ownership Alternatives has been whether they are supporting truly affordable housing for low-income people.

From a public policy point of view this question might be framed as "Could the 'Options' model be used to provide ownership housing to households currently occupying rent-geared-to-income (RGI) units in the City's social housing portfolio?"

As we have noted, the 'Options' model produces a unit at a cost price 15% to 17% lower than a comparable unit in the market place. By passing that saving on to the **initial buyer,** the 'Options' model provides moderate-income, first-time buyers with an opportunity to buy units that they might not otherwise have been able to own in the private condominium market.

In 2002, in an application to the CMHC Awards, OFH asserted "the third wave of Options Projects will have the financial resources to offer 20% to 30% of the homes to households below Toronto's poverty line."

From interviews and statements it was clear that the Board of Directors of Home Ownership Alternatives want to use the 'Options' model to provide ownership housing to a wide range of lower income groups.

Both OFH and HOA are motivated by a vision of community that originated in the co-operative housing movement. Namely, that by building housing, one was also building community and that the community was strengthened by including a range of income groups and household sizes.

Documents and statements provided to this study indicate that HOA and OFH would like to achieve a mix of incomes within their projects consisting of 10% of purchasers in an income range equivalent to the household incomes found in RGI units (this is sometimes referred to as deep core); 15% of purchasers in a range that would be described as lower moderate income (or shallow core); and 75% of purchasers interested in the value inherent in modest units.

Home Ownership Alternatives is keenly aware that it has not been able to meet this target in any of the projects it has supported to date. The 'Options' model has not been able to provide ownership units at a cost that is affordable to RGI households or to lower end of moderate-income households except in the case of some smaller units. As our analysis has shown, for 90% of households currently occupying Toronto Community Housing Corporation (TCHC) RGI units, even the carrying costs on bachelor units in Options projects are beyond their means. For the vast majority of the remaining 10%, it is likely that only bachelor and one-bedroom units might be within their means. In all instances, RGI tenants would unlikely be able to make even the minimum down payment of 5%.

Our analysis has concluded that the 'Options' model has probably reached the limit of its ability to increase affordability through deferrals, construction cost reductions and the Alternative A mortgage. To provide ownership housing to households currently housed in TCHC RGI units or on the City of Toronto's social housing waiting list would require some additional, external, financial contribution.

Both Options for Homes and Home Ownership Alternatives have recognized this need and are developing measures to attract external financial contributions that would enable them to offer units for sale to lower income households.

The 'Options' model assumes that there are two ways, either separately or in combination that the price of individual units could be reduced so as to be affordable to households that would be eligible for rent geared to income units. They are municipal concessions and/or external financial contributions or investment.

In 2002, Michel Labbe wrote:

> "…where municipal concessions are available…the savings can be used to provide extra help with the down payment for some households so that they can own at any income level without any down payment"
> (Ontario Planning Journal, Vol 15, No.2, 2000 pg. 22).

11.1. Municipal Concessions

In the case of municipal concessions, the matter appears to turn on two issues. The first is whether current city policy includes low-income ownership housing within the scope of its definition of affordable housing. The second issue is whether there is a case for the allocation of public financial resources to low-income home ownership when considered in relation to other public expenditures at the municipal level to address housing needs.

On the first issue, the Official Plan of the City of Toronto identifies low-income ownership housing among its range of housing options.

The City's Official Plan states:

- A full range of housing, in terms of form, tenure and affordability, across the City and within neighbourhoods, will be provided and maintained to meet the current and future needs of residents. A full range of housing includes: ownership and rental housing, affordable and mid range rental and ownership housing**,** social housing, shared and /or congregate living housing arrangements, supportive housing, emergency and transitional housing for homeless people and at-risk groups, housing that meets the needs of young people with physical disabilities and housing that makes more efficient use of existing housing stock. And
- Where appropriate, assistance will be provided to encourage the production of affordable housing either by the City itself or in combination with senior government programs and initiatives, or by senior governments along. Municipal assistance may include:

a) In the case of affordable rental housing and in order to achieve a range of affordability, measures such as: loans and grants, land at or below market rates, fees and property tax exemptions, rent supplement and other appropriate assistance; and

b) In the case of affordable ownership housing provided on a long term basis by non-profit groups, especially affordable low rise family housing, measures such as: land at or below market rate, fees exemption and other appropriate forms of assistance (Toronto Official Plan, May 2002, p. 45).

The Toronto Official Plan provides a definition of affordable ownership housing as:

> Housing which is priced at or below an amount where the total monthly shelter cost (mortgage principle and interest – based on a 25-year amortization, 10% down payment and the chartered bank administered mortgage rate for a conventional five year mortgage as reported by the Bank of Canada at the time of application – plus the property taxes calculated on a monthly basis) equals the average City of Toronto rent by unit type, as reported annually by the Canada Mortgage and Housing Corporation. Affordable ownership price includes GST and any other mandatory costs associated with purchasing the unit (Toronto Official Plan, 2002 p.47).

It should be noted that affordable according to this definition is very much higher than the monthly housing costs that a household qualifying for an RGI unit would be able to pay.

Under the *Municipal Act, 2001,* municipalities are able to enter into agreements with the private sector for the provision of municipal capital facilities. In May 2001, the province expanded the list of capital facilities to include municipal housing project facilities but required that a municipal housing facility by-law contain, among other things, a definition of "affordable housing".

In April 2002, the City of Toronto enacted By-law 282-2002 *A Municipal Housing Facility By-law*. The relevant definitional section of the By-law reads:

"For the purposes of this by-law, and of all municipal housing project facility agreements, the definition of affordable housing shall be housing with monthly occupancy costs at or below average rents" (City of Toronto By-law 282 –2002, section 2).

In a letter (dated March 7 2003) to Councillor Brian Ashton, the Commissioner of Urban Development Services noted that: "Council in passing this by-law defined affordable housing as affordable **rental** housing thus making OFH ineligible, under the terms of the capital facilities by-law for a deferral of municipal expenses on a 'Options' model housing project at the corner of Kingston Road and Eglinton Avenue in Toronto."

While there may a case for revisiting the grounds for this decision to not allow deferral of municipal fees, it is unlikely that a deferral of municipal fees alone could reduce costs sufficiently to make units affordable to truly low-income households or households currently occupying RGI units. Nevertheless, the City of Toronto could consider deferral of payments of permit fees, park levies, and development charges, and recognise that these are just deferrals to be paid on final closing at the end of construction and condominium registration.

Should City Council wish to offer concessions and or assistance to projects using the 'Options' model, there would appear to be policy support in the Official Plan.

The City of Toronto could develop an affordable home ownership strategy that would establish a target household by income, a set of criteria for selecting potential low income owners (e.g. from existing city social housing stock or from the social housing waiting list) and a process for working with the private sector to build these units. The strategy could also enumerate the kinds of assistance that might be available to the purchaser (e.g. ownership education, loans to assist with down payments and/or the waiving of fees) and assistance to the developer (e.g. defer or waive municipal fees). The strategy would also set out the relationship between the municipality and the actual housing unit. For instance, the municipality may want to be able to specifically identify the unit to which its assistance is being applied. The municipality may also want to determine if there are ways to preserve the affordability of the unit beyond the initial buyer through, for instance, a right of first refusal to purchase the unit upon resale and a clear understanding of how it would share in any appreciation in the value of the unit.

11.2. External Financial Contributions or Investment

The second method of increasing affordability for lower income purchasers would be some external financial contribution or investment. To achieve affordability for truly low-income households, this contribution would have to be consolidated and targeted to specific low-income buyers and/or units. (We have already indicated the importance of attaching affordability to units in the section on enduring value.) The goal of an external financial contribution would be to reduce the initial purchaser's down payment to zero or to a manageable sum and to reduce the mortgage from the bank or credit union to one that could be carried through the shelter component of Ontario Works.

Home Ownership Alternatives is pursuing measures to increase its ability to target contributions to low-income buyers and /or units.

One measure is the concept of an Alternative B mortgage. This mortgage would be drawn from a pool of funds called the Alternative B Pool. Currently, the source of B Pool funds is the discharged Alternative A mortgages held by Home Ownership Alternatives on units in other projects built through the 'Options' model. The pool currently stands at about $2.5 million.

The Alternative B mortgage would help reduce the amount of down payment required by the initial low-income household purchasing the unit. According to an example presented to this study, a unit valued at $160,000 could be bought for a down payment of $3,000 and a monthly payment of $610. The conventional mortgage obtained from a financial institution would be $90,000, at 6.5%per annum, repayable at $610/month and occupy the first position. The Alternatives B mortgage would be $47,000 and occupy second position. The Alternatives A mortgage (difference between the market price and the cost of production) would be $20,000 and occupy the third position. The purchaser's down payment is $3,000.

The greater the amount of money in the Alternative B mortgage Pool, the greater the number of low-income households/units could be targeted. Home Ownership Alternatives is currently seeking to increase the amount of cash in the Alternatives B Pool in order to accelerate the capital contributions that HOA could make to lower income households. To do this, Home Ownership Alternatives is currently attempting to attract investment from the private sector.

Entities like corporations, banks and pension funds would be asked to make contributions to HOA. The idea is to create a pool of funds that would be used to provide Alternatives B mortgages to help reduce the amount of down payment required by a low-income household purchasing the unit. Those lending funds to HOA in this manner could expect to receive a set rate of return on their investment to be paid by HOA and the full appreciation value of the unit on their portion of the mortgage. In addition, HOA would undertake to pay lenders back in a fixed period of time, for example 10 years.

Home Ownership Alternatives has indicated that, it will be asking the public sector to use an adaptation of this model to contribute to the growth of the Alternative B mortgage pool. Any public sector fees or contributions could be seen as loans to the Alternatives B Pool. The public sector could extend its waiver beyond closing and for a fixed term, if it wished. HOA has indicated that it could structure the arrangement so a contributor could earn a fixed rate of return and share of the appreciation of the units' value over time. Specific provisions could be negotiated with Home Ownership Alternatives giving the public sector the right of first refusal on the units to which it has contributed. It may be that the public sector would want its contribution to be attached to a specific unit but this would be a matter for public policy determination.

12. Conclusions

12.1. The 'Options' Model and What It Does:

1. Our review, particularly the detailed examination of the Shermount project, supports the position that the 'Options' model increases the affordability of condominium ownership, at least to its initial buyers. The specific ways in which it achieves this objective are also generally consistent with Options for Homes promotional materials.
2. The assertion that the 'Options' model produces condominium units at a lower cost than is the case with units produced by the private, profit sector is accurate. The Options for Homes model produces a roughly equivalent unit for approximately 15 - 17% less than a private developer, and this is passed onto the initial buyer in the "basic cost price".
3. The assertion that affordability is achieved through lower condominium fees charged in an 'Options' project as compared with those in a private condominium is accurate. Monthly condominium fees appear to be 10-20% lower than modest units in the private market. This is a reflection of the more modest amenities, fewer common amenities, space and facilities in 'Options' projects.
4. The assertion that greater affordability is achieved by means of the Alternative A mortgage is accurate. Given the method of determining the amount of the Alternative A mortgage (i.e. market value less cost of production), this mortgage essentially represents part of the profit a private condominium developer receives on the sale of units. Since no payments are required on this mortgage until the point of resale, monthly carrying costs are lower for an 'Options' unit than for a "market" condominium where the full purchase price needs to be financed by a combination of debt and cash down payment.
5. In our view, OFH makes significant efforts to provide potential buyers with clear and understandable information about their purchase. Ownership obligations are presented in a clear and understandable way. Efforts are made to provide information, including legal information, in "layman-like" terms. No evaluation was done of the effectiveness of the communications with purchasers, or potential purchasers who did not move on to complete a transaction.
6. In our opinion, there is nothing specific to the 'Options' model, including its financial arrangements, that adds financial risk or could potentially create financial hardship to any buyer (including a low-income buyer with high enough income to buy a unit). However, the model has not yet produced units that are affordable to low-income households. No evaluation was done of the financial arrangements (e.g. the B mortgage) that would be necessary to produce units affordable to low-income households or the impact that these arrangements would have on these households. This would require further study.
7. In simple terms, the financial benefits of the 'Options' model are tied to the initial buyer, not the unit. At the point of resale, the initial buyer is the beneficiary of

any appreciation in the value of the unit and HOA is the beneficiary of the originally deferred "profits" plus interest from the repaid Alternative A mortgage. The extent to which an 'Options' unit is more or less affordable than any other condominium unit on the market will be a function of fewer amenities and possibly lower monthly condominium fees (reflecting fewer amenities).

8. The "profit" represented in the Alternative A mortgage is captured in the sale but the actual cash proceeds of this profit are deferred. Receipt of these deferred profits accrue to Home Ownership Alternatives when the Alternative A mortgage is repaid. Control over this pool of assets lies with the Board of Directors of Home Ownership Alternatives.

9. As mortgages are repaid and HOA converts mortgages receivable to cash, it can provide financial assistance for new affordable housing projects. Normally, this assistance would be in the form of loans to new projects to fund pre-development costs, acquire land or meet other project cash flow requirements until construction financing commences or the project is complete. HOA usually shares the start-up risk on a 50/50 basis with Deltera Ltd. – a Tridel company.

12.2. Affordability Issues

10. The 'Options' model has not yet produced units that are affordable to low-income households except perhaps for some single buyers purchasing small units.

11. The 'Options' model is providing some first-time buyers with home ownership opportunities they would not otherwise have. The most significant impact is the increased opportunity for the moderate-income buyers (i.e. the household with an annual income around the median of $36,802). The 'Options' model does create opportunities for people to purchase a one-bedroom or small two-bedroom unit whereas they might only be able to afford bachelor units in the private condominium market.

12. For 90% of Toronto Community Housing Company's RGI households, even bachelor units produced using the 'Options' model are beyond their carrying cost means. For the vast majority of the remaining 10%, it is likely that only bachelor and one-bedroom units might be within their means. (Higher-income TCHC households tend to be the larger households for which a small unit would not be suitable even if affordable.) However, in all instances, RGI tenants would unlikely be able to make even the minimum down payment of 5%.

12.3. Governance and Accountability

13. If there is some uncertainty about issues of corporate governance and accountability in relation to Options for Homes Non-Profit Corporation and Home Ownership Alternatives, this is largely due to the confusion about the status and function of the various entities that contribute money and services to make the 'Options' model work.

- Options for Homes provides development assistance services at a set fee of 2% of the capital cost on a project specific basis. This includes marketing new projects to potential buyers and negotiating the land use approval process. It is modeled after a workers co-operative and operates as a non-profit corporation with a three person board (two of whom are employees).
- Home Ownership Alternatives provides start-up funds for marketing and holds the 2nd mortgages on units in projects developed using the 'Options' model. It operates as a non-profit corporation with a fifteen person board.
- Deltera Ltd., a Tridel company, acts as the general contractor and construction manager, on each project developed under the 'Options' model. It assembles and manages all of the consultants including architects and engineering consultants and delivers the product on a fixed-price contract basis. It is not a non-profit corporation.

14. Options for Homes would appear to meet the test of a non-profit organization although a legal opinion was not sought as part of this study. The collective model of board governance is in keeping with the 'workers collective' notion of corporate organization. Our review of the financial statements, staffing costs and fees of Options for Homes as a development consultant company reveals a very lean operation with modest costs, compensation arrangements and lower fees than would be found in private development companies.
15. As its assets grow, Home Ownership Alternatives is increasingly an important component in the delivery of the 'Options' model. It is important that HOA meet and be seen to meet the tests of good corporate governance and accountability.

12.4. Public Policy Issues and Future Development of the Options Model

16. Based on our analysis we have concluded that the 'Options' model has probably reached the limit of its ability to increase affordability through deferrals, construction cost reductions and the Alternative A mortgage.
17. Options for Homes and Home Ownership Alternatives appear to be committed to extending the 'Options' model to provide ownership housing to low-income households like those currently housed in TCHC RGI units or on the City of Toronto's social housing waiting list. They are currently attempting to attract additional, external, financial contributions either through public sector contributions, municipal concessions or assistance and/or private sector financial investments or contributions. According to HOA, the external financial contributions would be used to reduce the initial purchaser's down payment to zero (or to a manageable sum), and to reduce the mortgage from the bank or credit union to one that could be carried through the shelter component of Ontario Works or a similarly low income.
18. Home Ownership Alternatives and Options for Homes have yet to make the B mortgage model operational. This study did not assess the B mortgage model and cannot offer any conclusion about how a B mortgage could be used to improve affordability. Further study would be required to determine if home

ownership with the higher level of debt proposed under the B mortgage model would, in fact, benefit the low-income owner in the longer term. While the low-income owner could acquire equity through property value appreciation, it is not known whether this would be sufficient to repay the B mortgage and stay in the ownership market if he or she were to sell the unit.

19. It is not known whether the alternative B model would benefit the low-income owner in the longer term more than if that same household was a renter. Similarly, further study would be required to address the issue of the social benefits of home ownership and their impact on very low income.