

AFFORDABLE HOUSING INNOVATIONS



A HOUSING LEGACY IN THE MAKING

Incorporated in 1992, Options for Homes Non-Profit Corporation is the brainchild of Michel Labbé, the organization's President and founder. He launched Options as a development company, one with an unconventional twist: unlike private developers, Mr. Labbé wanted to minimize purchase prices, not maximize profits. Thanks to cost cutting and a novel financing strategy, hundreds of low and moderate income people now own Toronto condominiums—a goal once beyond the reach of many.

“When governments subsidize ownership housing,” says Mr. Labbé, “the first purchasers reap all the benefits. When they re-sell their condos, new buyers have to pay market rates. Consequently, speculators buy these new subsidized units, which are priced below market value, and flip them for a big profit. If you're fortunate enough to be the first purchaser, you gain a windfall. But we're back to square one then; the supply of affordable housing hasn't increased at all.”

How does Options for Homes avoid the buy and flip syndrome? They tack on a second mortgage that represents the difference between a condo's purchase price and its market value. Condominium owners don't make payments on this second mortgage. In fact, no one does; it represents value, not cash. The second mortgage sits there until the owner either sells the property or rents it. At that point, the second mortgage becomes due, a condition that deters speculators.

Dubbed the Affordable Housing and Community Equity Reinvestment Technique (AHCERT), the approach works like this:

Say a condo costs Options for Homes \$100,000 to build and it would sell for \$110,000 at market prices. The difference, or \$10,000, becomes the second mortgage. The first mortgage—the one owners have to make payments on—is calculated by subtracting the down-payment from the building cost. To help people qualify for a mortgage, Options for Homes asks for a minimum five per cent down-payment. In our example, the down-payment is therefore \$5,500 or five per cent of the \$110,000 market price. The purchaser ends up with a \$94,500 first mortgage, \$10,000 less than if they had they paid market price. And as the condos appreciate, so too do the second mortgages, providing an incentive to pay them off early, which has happened on 25% of the units so far.

To take advantage of AHCERT, the eventual owners form a co-operative housing corporation, and they hire Options for Homes as their development consultant. Providing the expertise to develop the project, Options for Homes finds contractors, architects, and lawyers; arranges financing; and provides marketing know-how. The corporation earns a small percentage of the purchase price for its efforts.

To date, Options for Homes has produced some 900 condominiums in five Toronto-area projects, saving owners thousands of dollars in the process. They currently have an additional 800 condominium units under development on three sites.

What compels Mr. Labbé to eschew the pursuit of profit that typically drives real estate development? “I'm keen to leave behind a legacy,” he says, “and I can't think of a better one. It's quite possible that in 20 years, we'll have a billion dollars in mortgages. Technically speaking, Options for Homes will have given that money away.”

Options for Homes Non-Profit Corporation is a finalist in the Finance and Tenure category of the 2002 Canada Mortgage and Housing Corporation (CMHC) Housing Awards Program, **Affordable Housing Innovations**. The Housing Awards recognize individuals, companies and organizations that have made significant contributions to improving housing affordability in Canada.

For more information about the Options for Homes Non-Profit Corporation's Affordable Home Ownership for Low to Moderate Income Residents, please contact:

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