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Home buyers trade equity for ownership

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Ten years after purchasing her one-bedroom condo with the help of Options for Homes, Heather Benway upgraded to a two-bedroom, two-bathroom condo in The Junction neighbourhood on Toronto's west end.

JENNA MARIE WAKANI/THE GLOBE AND MAIL

The flyer slapped onto the kitchen table. Heather Benway's father was convinced he had found the solution to his cash-strapped daughter's ambition to own a home.

"You're going to save your money and you're buying this," Ms. Benway recalls him saying, while pointing to a brochure for a local shared equity mortgage program.

It was 2001 and Ms. Benway, then 24-years-old and working a part-time, contract administrative job, had no plans of buying a home. She didn't think it was possible.

But a few weeks later, after narrowly qualifying for a mortgage, she placed a 5 per cent down payment on a one-bedroom condo near Lawrence West subway station in Toronto's north end. Another 10 per cent came from Options for Homes, a non-profit housing developer in the Greater Toronto Area that contributes to homeowners' down payments.

The affordable housing developer will contribute up to 15 per cent of the down payment, with buyers putting in the other five, in return for a portion of the equity when the unit is eventually sold. The additional funding allows home buyers to put a larger down payment than they would otherwise be able to afford, further lowering their monthly carrying costs. At Options, the funding is available to anyone that qualifies for a mortgage from a primary lender, regardless of income and repayment isn't required until the home is sold.

Ten years later, Ms. Benway upgraded to a two-bedroom, two-bathroom condo in the The Junction neighbourhood in Toronto's west end – another Options development with a shared equity mortgage.

"For me, it made the payments more manageable," she said. "Could I have afforded it [without Options]? Yes. But because of the [shared equity mortgage], it gave me the breathing room where things weren't so tight."

The investments paid off. In November, Ms. Benway sold her condo and purchased a house in Toronto's west end.

At The Humber, Options' latest development in north-west Toronto, a shared equity mortgage allows home buyers to purchase a three-bedroom condo starting at $635,700 with a down payment of about $40,000.

OPTIONS FOR HOMES

After 25 years in operation and more than 3,000 homes built, Options for Homes plans to nearly double that number, with 2,100 new condo units currently under development. In all that time, Options has had only five mortgage defaults, Options chief executive Heather Tremain says.

Options partners with Toronto-based Deltera Inc., a high-rise residential developer, to build condo units that forgo upscale and costly amenities such as swimming pools and gyms in favour of lower maintenance fees. It also avoids marketing expenses such as model suites – which Options says can add up to $15,000 a unit.

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In a shared equity mortgage, the buyer maintains ownership while the lender takes a stake in the property. If the property increases in value – which has been a constant in hot housing markets such as Toronto and Vancouver – then the lender profits off the capital gains from its investment. When an owner sells a unit, Options earns back its initial investment, plus the amount that it has appreciated if the price of the home went up.

Initially, Options softens the upfront financial burden of purchasing a home. But as the value of the home rises, so does the value of the investment that the buyer hands over to the lender when the home is sold.

For this reason, some buyers forgo Option's shared equity mortgage program. Kimberly Cadeau, who owns a 750-square-foot two-bedroom condo at an Option's development in Toronto's east end, said that she initially put down 5 per cent upon purchase with the intention of using a shared equity mortgage, but that she and her partner were later able to save enough to put down the entire 20 per cent at closing.

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"Now that we have the money, it just didn't make sense to add a cost that we didn't need," she said, referencing the appreciated amount on the Option's down payment that the company would take after sale. "And I'm glad we did, because our price has gone up a lot." Ms. Cadeau added that, even without the shared equity mortgage, she still would have chosen an Options condo for the lower maintenance fees and good quality build that make the units relatively reasonably priced in Toronto's hot housing market.

The organization's business model caught the attention of the federal government, which mentioned Options in its 2019 budget in March. The federal government earmarked $100-million fund for shared equity mortgage programs such as Options and other organizations that offer shared equity mortgages, such as Toronto-based Home Ownership Alternatives and Trillium Mortgage, to expand their businesses.

Ms. Tremain says the company is still waiting on further guidelines from the government, which plans to launch the incentive in September, but intends to use the funds to expand into other regions within Ontario and build more units.

“Our driver is: Where is the housing market that much more expensive where we can create an impact by delivering more affordable ownership,” Ms. Tremain says. “It would be in the larger urban areas that we would look first.”

The federal government also announced an incentive for first-time home buyers administered by the Canada Mortgage and Housing Corp. (CMHC) that would provide 10 per cent of the purchase price of a home. The program differs from Options, requiring that home buyers have a household income below $120,000 a year. The amount of the insured mortgage and the CMHC contribution would be limited to four times the home buyers’ annual incomes, or up to $480,000.

Shared equity mortgages profit if that the value of the home increases, but the federal government has not yet released details about how the program will manage debt if a home is sold at a loss.

Also, the capped mortgage amount nears February’s average home price of $460,000 and barely scratches at sale prices in Toronto and Vancouver, which hovered at $765,000 and $925,000 respectively, according to a report by TD Economics. The note added that increasing demand through affordability funding programs without building new units could push prices higher.

“In terms of the economy, these measures are not game changers, but they will have a modest impact on markets," TD chief economics Beata Caranci said in a note in March. "Early analysis suggests that sales could be pushed up by 2 per cent to 5 per cent through end-2020, with prices rising by a similar amount given an unchanged supply path in the near-term.”

Ms. Tremain says that the impact will be minor considering that the federal government is committing a maximum of $400-million per year in second mortgages.

“That’s not a lot. We’re putting out more than $20-million in second mortgages,” she says. “So I don’t see this being a huge driver of demand. It will have a very small impact, but it’s not a big enough amount to make a ripple in Canadian real estate.”

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