

**Sale of Untravelled Portion of New Crescent Located
Between 697 and 699 Danforth Road to Habitat for
Humanity Toronto Inc. for Seven New Affordable Homes**

Date:	May 11, 2010
To:	Affordable Housing Committee
From:	Bruce Bowes, Chief Corporate Officer and Sue Corke, Deputy City Manager
Wards:	35 – Scarborough Southwest
Reference Number:	P:\2010\Internal Services\ RE\Af10044re(AFS 11679)

SUMMARY

This report seeks approval for the sale of the untravelled portion of New Crescent, located between 697 and 699 Danforth Road, to Habitat for Humanity Toronto Inc. for its affordable housing building program in Toronto.

RECOMMENDATIONS

The Chief Corporate Officer and the Deputy City Manager responsible for the Affordable Housing Office recommend that:

1. City Council, subject to authorizing the permanent closure of the untravelled portion of New Crescent between 697 and 699 Danforth Road, authorize the City to accept the Offer to Purchase from Habitat for Humanity Toronto Inc. (“Habitat”), to purchase a portion of untravelled New Crescent, designated as untravelled portion of New Crescent on Plan 1776, save and except SC101937 and except SC84473 and shown as Part 1 on Sketch No. PS-2003-100 (the “Highway”), in the amount of \$460,000.00 less a Vendor Take Back Mortgage in the amount of \$390,000.00, substantially on the terms and conditions outlined in Appendix “A” to this report.

2. City Council authorize each of the Chief Corporate Officer and the Director of Real Estate Services severally to accept the Offer to Purchase on behalf of the City.
3. City Council authorize the City Solicitor to complete the transaction on behalf of the City, including paying any necessary expenses, amending the closing, due diligence and other dates, and amending and waiving terms and conditions, on such terms as she considers reasonable.
4. City Council authorize the City to provide its consent for Habitat to act as agent for the City, as owner, with respect to any searches, applications or inquiries, and to grant licences for a term of up to six months from the date of execution of the Offer, renewable for up to three additional months, for the purposes of entering onto the Highway to carry out pre-development activities and that the Director of Real Estate Services, or his designate, be authorized to execute the applications, consents and licences.
5. City Council grant authority to direct a portion of the proceeds of closing to fund the outstanding expenses related to the Highway and the completion of the sale transaction.
6. City Council authorize and direct the City Solicitor to execute all documents and to complete all discharge transactions required to give effect to the City's vendor take back mortgage.

Financial Impact

This report recommends the sale of the Highway to Habitat for \$460,000.00. Habitat expects to construct seven (7) affordable housing units on the Highway, and will pay the City, upon closing, \$10,000.00 per affordable housing unit to be constructed. The balance of the sale price of \$390,000.00 will be secured by a vendor take back mortgage (“VTB”) in favour of the City.

The Principal Amount of the VTB (the “Principal”) is based on the Purchaser constructing a minimum of seven (7) housing units on the Highway and has been calculated based on a down payment to be made to the City of \$10,000.00 per housing unit constructed. In the event the number of housing units built is greater than seven (7), Habitat will deliver to the City \$10,000.00 multiplied by the number of housing units over seven (7) that have been built on the Highway, prior to requesting the final discharge of the VTB. The Principal shall be adjusted downward prior to discharge of the VTB, to reflect additional housing units Habitat has been able to build on the Highway.

The City will partially discharge the VTB upon evidence from Habitat that a Purchase Agreement has been entered into with a Habitat family for a portion of the Highway containing one housing unit, and that the Purchase Agreement provides for a second mortgage (the “Second Mortgage”) in favour of the City. The principal amount (the “Family Principal”) of the Second Mortgage will be the sum equal to the result obtained

by dividing the Principal by the total number of housing units built. No payments of the Family Principal or interest are due on this Second Mortgage until the land is disposed of by the Habitat family, either by selling, renting, leasing, transferring or vacating the property for any reason at which time the Family Principal is payable in full to the City.

The immediate proceeds of the sale of \$70,000.00 and the deferred proceeds of the VTB in the amount of \$390,000.00 will be directed to the Land Acquisition Reserve Fund, in accordance with the City policy governing land transactions.

The Highway closing will not result in any costs to the City of Toronto as Habitat for Humanity Toronto Inc. will be required to pay all costs associated with the closing of the Highway as part of the sales transaction. Financial compensation will be realized from the sale of the Highway.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

In accordance with the City's Real Estate's Disposal By-law, No. 814-2007, the Highway was declared surplus on March 9, 2009 (DAF No. 2009-017) with the intended manner of disposal to be by inviting an offer to purchase the Highway from Habitat.

City Council, at its meeting of May 25, 26 and 27, 2009, adopted SC26.8 authorizing the closure subject to City Council declaring the Highway surplus and authorizing the sale to the Habitat for Humanity. Approval was granted to proceed with the enactment of the closing by-law once a recommendable offer from Habitat is approved by City Council.

ISSUE BACKGROUND

New Crescent was laid out as public highway by Plan of Subdivision in 1912. In 1952, a portion of the New Crescent Road was stopped-up and closed and subsequently conveyed to the Toronto District School Board. The Highway is residual portion of the road and is unopened on the ground. Adjacent the property on either side are one and two-storey detached homes. To the passer-by the site appears as a vacant lot.

A circulation to the City's ABCDs was undertaken to ascertain whether or not there is any municipal interest in retaining the Highway. Staff of the Affordable Housing Office advised that the Highway would be suitable for a Habitat for Humanity project. Habitat has been consulted and has stated that the land would be suitable for its building program in Toronto.

After reviewing the housing development model used by Habitat several years ago, City staff developed guidelines under which the City could agree to assist Habitat in the building of affordable housing, by providing it with land at below fair market value. Since that time Habitat has utilized 7 sites from the City which have provided 42 affordable homes. Originally, the City sold Habitat several properties for \$10,000.00 per unit constructed and the City took back a mortgage for the balance of the purchase price

(set at fair market value). Once the agreed upon number of affordable housing units were constructed and transferred to Habitat families, the VTB was forgiven.

Recently, partially due to the change in policy at Habitat not to forgive its own second mortgages to Habitat families, the City has changed its guidelines and the City's mortgage is no longer forgivable. The Second Mortgage given to the City by the Habitat families is interest free, but the Family Principle is repayable in full upon a disposition of the home by selling, renting, leasing, transferring or vacating the property for any reason.

Council at its most recent meeting of May 11 and 12, 2010 adopted the report Standardizing City Support for New Assisted Ownership Housing Opportunities (EX43.26) which lays the foundations for a new City assisted ownership policy and funding program. The policy provides for grants to non-profit affordable ownership developers to off-set City fees and charges related to the construction of new homes. The first recommended proponents and projects under the new policy will be brought forward to the August 2010 Executive Committee meeting for consideration after a formal procurement process has been completed. Habitat for Humanity and the homes to be built on the New Crescent site are potential candidates for funding under the new policy.

Habitat for Humanity has a strong track record of providing affordable ownership opportunities to families living in social housing and of marketing their homes in partnership with the Housing Connections social housing waiting list. The homes that will be built on these sites will be marketed and sold to lower-income families using the well-established Habitat for Humanity model.

The Habitat Model

As a charity, Habitat chooses families to occupy its volunteer-built homes, based on three criteria. First, the family's income must be below the poverty line for their geographic area, second, the family must be willing to pay back a long-term mortgage provided by Habitat and thirdly, it must be willing to contribute 500 hours of volunteer labour towards building their home and other Habitat homes (often referred to as "sweat equity").

When title to a home is transferred from Habitat to a qualified family, Habitat takes back two non-interest bearing mortgages on the home. Habitat will register a first mortgage on the home (the "First Mortgage") which is for the "at-cost" value of the house, representing what it cost Habitat to build. Monthly payments are made by the Habitat family to Habitat on the First Mortgage only. Habitat will register the other mortgage as a third mortgage on the home (the "Third Mortgage") and it is for the difference between the homes "at-cost" value and its appraised market value. No payments are made on the Third Mortgage.

The "at-cost" price is significantly lower than the market price because of donations, particularly of building materials, and volunteer labour. Both mortgages usually have terms of between 20 to 25 years and are due in full on maturity or resale, whichever occurs first. The Third Mortgage is often referred to as an "anti-flip" mortgage because the fact that it must be paid on resale guards against windfall capital gains should a buyer

family try to make a quick profit by selling the home soon after purchase. Any funds repaid through Habitat’s mortgages are used to build more homes using the same model.

Highway Details:

Description	Approximate Dimensions	Approximate Area
Part 1 on Sketch No. PS-2003-100	Irregular: 20 m x 57 m ± (65.6 ft x 187 ft ±)	1,071 m ² ± (11,529 ft ² ±)

Negotiations, in consultation with the Affordable Housing Office, have resulted in Habitat submitting an Offer to Purchase the Highway in the amount of \$460,000.00. Payment to the City would be comprised of a cash payment of \$70,000.00, with \$390,000.00 to be secured by the VTB granted to the City.

The VTB term is 30 months from the date of registration of the VTB, and if Habitat has not completed the affordable housing initiative by the end of the VTB term, then the Principal would become due and payable in full to the City. If Habitat does complete the affordable housing initiative the Principal of the VTB would be partially discharged downward and replaced by the Second Mortgages as Habitat families purchase the individual affordable housing units. The Second Mortgages are repayable in full by the Habitat families upon a disposition of the home by selling, renting, leasing, transferring or vacating the property for any reason.

Once title to the Property is transferred to Habitat, the City will not have future control over the use of the Property but will have a Second Mortgage registered on title of each housing unit.

The mortgages given in favour of Habitat and the City by the Habitat families, and the right to re-purchase that Habitat may exercise if the Habitat families elect to sell the properties, are intended to secure the long-term availability of the homes for affordable housing. The Habitat model has been successful in providing long-term affordable housing as Habitat families typically remain in their homes much longer than families in private market housing.

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SIGNATURE

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ATTACHMENTS

Appendix “A” – Terms & Conditions

Appendix “B” – Site Map & Sketch