LIFE LEASE INFORMATION FROM CHMC WEBSITE:

Summary

Life lease projects provide older individuals and couples-usually 55 years or older-with affordable housing with a life time right to occupy a unit and have access to communal facilities and services with the assurance that their neighbours will be in the same age group. They acquire the life lease through a single upfront payment. Depending upon the project, the amount of that payment could be affected by various factors, including their life expectancy and the redemption value of the unit at the end of the lease. They are also responsible for paying modest monthly fees to cover management and upkeep.

How the Strategy Works

In a life-lease project, an older individual or couple acquire the right to lease a unit until they die or decide to move out. They acquire the life lease through a single upfront payment. In addition, they are responsible for paying a monthly-and generally modest-fee towards the management and upkeep of the property.

Life-lease projects cater mainly to adults 55 years in age and older. They particularly provide older homeowners with an opportunity to move into smaller and more affordable housing than their existing homes. The older homeowners typically are often able to use the equity resulting from the sale of their earlier homes for the up-front payment. In many cases, financing is also available for some portion of the value of the life lease.

Life-lease residents are neither owners nor renters. They have a leasehold interest in their accommodation, which is defined in a contract, and giving them the "life-time" right to occupy their suite and to use various common areas and facilities like lounges, workshops and dining rooms.

When the life-lease occupant moves out or dies, the tenancy generally reverts back to the sponsoring organization. The occupants or their heirs receive the amount redeemable at the end of the lease. The sponsor then resells the rights to the unit to another individual or couple meeting the age requirements. In addition, many non-profit life-lease sponsors will give preference to a constituency served by their religious, service or community organization.

Many life leases in Canada are not, strictly speaking, for a life time. They can be terminated when the residents are unable to live independently. On the other hand, many organizations are creating life-lease projects that provide for ongoing support and services that enable older people to "continue to live at home".

The initial cost of securing a life lease varies widely. First of all, the cost of the unit will be affected by its size, amenities and location. In addition, the proportion of that cost covered by initial payment could be affected by other factors, such as the age of the individual or couple, and the amount of the payment that can be redeemed at the end of the lease by the leaseholders or their heirs. In general, the initial payment for a life lease will typically vary from 50 to 90% of the cost of purchasing a similar unit outright.

Types of Life Leases

There are various types of life leases. They are differentiated mostly by how the redemption value of the initial payment is determined. Different approaches will be more suitable to different seniors, depending upon such factors as their life expectancy, their equity and their concern about protecting or enhancing that equity. Similarly, different approaches will be preferred by different providers depending upon their objectives. The main options for setting the redemption value and initial payment are as follows:

- There is no redemption value upon the death of the leaseholder or the surviving spouse. This approach typically minimizes the initial payment that is required to roughly 50-70% of the cost of purchasing a comparable unit outright. The initial payment also is affected by the life expectancy of the individual or couple; with older individuals or couples paying less than younger ones.
- The redemption value decreases at a steady rate to zero over a prescribed period, such as 20 years. This form of life lease is usually around 60-80% of the cost of purchasing a similar unit outright. The life expectancy of the leaseholders can be a factor with older leaseholders paying more than younger ones.
- The redemption value is set at an amount equal to the initial payment which is typically 80-90% of the purchase cost.
- The redemption value is fixed by a pre-determined price index. This is intended to provide the leaseholders with some of the increase in value of the unit, but still allow the sponsor to protect the future affordability of the unit.
- The redemption value is based on the full market value of the unit at the time of termination, less charges to cover redecorating and marketing. This approach does not protect affordability, and generally is associated with high initial payments.

Different approaches are typically taken by non-profit and for-profit providers. For-profit sponsors are likely to charge close to the full market value for the units at the outset, but also permit the leaseholders to take out close to the new market value at termination, subject mainly to charges for redecorating and marketing.

Non-profit sponsors choose a different option because they are concerned about providing more affordable housing. They are able to reduce the cost of the housing by forgoing a profit, raising contributions and donations from other sources, and by using volunteers in marketing the project. These cost savings will be typically reflected in their lower initial payments. Furthermore, in order to safeguard these savings and protect the long-term affordability of the units, these sponsors also are likely to limit the redemption value when the leases are terminated.

Advantages & Issues

Advantages

- Life-lease projects provide older individuals and couples with an opportunity to move into smaller and usually more affordable housing than their previous homes. That housing typically provides a security of tenure, access to communal facilities and services, and the assurance that their neighbours will fall in a certain age group.
- The life-lease arrangement allows the developer or sponsor to use the upfront payments to raise all or a significant part of the capital needed to construct the building without borrowing.
- The tenure arrangement also enables non-profit organizations to provide more affordable housing for seniors and also to protect that affordability for subsequent residents.

Issues

- Life leases are a relatively new form of tenure that is typically not covered by legislation, and not well understood by many lawyers.
- The range of terms, conditions and life-lease options that are available can be quite confusing to buyers who may not fully understand the ramifications of the choices they make.
- The introduction of this tenure option in a jurisdiction could raise various issues, including questions about legality of reserving housing for households aged 55 or older, and about protecting the investments of the residents in the event of bankruptcy or other unforeseen problems.
- The various types of options in life leases will have a significantly different impact on value of the leaseholders investment, with most potential leaseholders having difficulty in understanding those differences and evaluating the options. Independent legal advice may be required.

Effectiveness as an Affordability Strategy

Life leases can be an effective vehicle for financing the development of housing that is more affordable to seniors. The upfront equity funding raised from the occupants' initial payments enables the developer to reduce, and possibly eliminate, construction financing. Other savings can also often be produced through the cost efficiencies associated with smaller units and multi-unit construction. Consequently, the permanent financing-and the ongoing monthly payments-can be significantly lower than a comparable rental or condominium unit where low equity down payments result in high monthly mortgage carrying costs.

This form of tenure, on the other hand, is not a universal solution in providing affordable housing. Such housing is only available for seniors who have significant funds available derived from the sale of their previous residence. The process also is only capable of generating modest cost reductions. Finally, protecting the long-term affordability of these units depends upon the willingness of the sponsors and the leaseholders to limit the value of the leaseholders' investment that can be redeemed at the termination of the life leases.

Sources of Further Information:

Bibliography

1. Social Data Research: Source Book on Life Leases: Findings of a Survey of Project Sponsors, CMHC, 1993.
2. Life Lease Associates of Canada: Life Lease Housing, Workshop Series'97, 1997.
3. Rostum, Hussein, Teega Consultants Inc., A Guidebook on Life Tenancy Options, CMHC, 1993.
4. Elfield Development Strategies Limited: Development of Innovative Financial and Tenure Approaches for Seniors' Retirement Housing Projects, CMHC, 1991.

Web Sites

1. www.life-lease.com The primary web site for Canadian Life Lease projects. An excellent source of information!

2. For the Manitoba Residential Tenancies Branch and a discussion paper on life leases: http://www.gov.mb.ca/finance/cca/rtb/

3. For Life Lease Developments Inc, a consortium of Ontario development consultants in Ontario, that advises non-profit groups developing life-lease projects: www.lifelease.com

4. For ACORN Development Consultants that provides advice on life leases: www.lifelease.ca

5. For the Lions Club of Winnipeg Housing Centres, and information on its life-lease project: http://www.retirementhomes.com/homes/Independent_Living/Canada/Manitoba/more4.html