

# Your Rights

## So, What's a Life Lease?



It's an alternative to buying your home, and it might be right for you

By Olev Edur

“I’ve been hearing lately about buildings where one purchases a ‘life lease,’” a reader recently wrote. “Do you think these are a good idea, and a safe investment?”

The answer depends on what you’re looking for in the way of accommodation and investment security. Certainly, for many retirees, a well-run life lease development can be an attractive alternative to home ownership. The costs depend on the dwelling unit’s size and features, as well as on the location, quality, and amenities of the overall project. The investment potential depends on how the life lease is financially structured.

Life leases are a relatively new concept in Canada, arriving here

from Europe and the United States in the mid-1980s. They’ve proliferated since, and, while there are no accurate statistics, a 2003 estimate from Lumina Services Inc. found more than 200 life lease developments in Canada that year, all located in provinces from Ontario westward. More recently, a 2007 brochure published by Canada Mortgage and Housing Corp. (CMHC)—*An Examination of Life Lease Housing Issues*—estimated “very conservatively” that this number had grown to 287, “for an increase of at least 40 per cent over three years.”

What *are* life leases? Life lease projects are multi-unit residential facilities typically developed and operated by non-profit “sponsor”

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organizations such as religious, charitable, or community service groups; some are run by commercial/charitable joint ventures. They're geared specifically to the needs and preferences of adult singles or couples aged 50-, 55-, or 65-plus (each development sets its own eligibility rules), and the amenities and features are tailored to that age segment.

The basic concept is that instead of buying a unit such as a condo apartment outright, you buy a life-long lease entitling you to occupy a particular unit and use whatever communal amenities are provided in the facility—such as game or entertainment rooms and exercise facilities—either for the rest of your life or for a fixed term such as 25 or 40 years. The sponsors retain the actual title to the property.

If you buy into a life lease project prior to construction, you can generally specify (within limits) how your own unit is to be designed, decorated, and accessorized. And since life leases are geared to retirees (and near-retirees), these developments also provide you with peer companionship in a quiet, community-oriented atmosphere; many also offer housekeeping, cooking, and other support services.

In addition to your initial payment, you must make ongoing monthly payments, which represent each resident's share of the development's operating costs, including maintenance and repair,

management and administration, utilities, insurance, and so on. These payments are the equivalent of the monthly fees you pay if you own a condominium, and they provide for the same carefree lifestyle.

## Two Models

Beyond these common threads, though, two very different types of life lease are currently being sold in Canada, and they have very different cost structures and financial/investment implications. And there can be many variations on these two basic models of life lease.

The original model, pioneered and now mandated in Manitoba (Manitoba is the only province to date with legislation specifically governing life lease arrangements), is sometimes referred to as a "rental" or "landlord/tenant" model. The other model, now more commonplace in Ontario, is sometimes referred to as an "equity agreement" model.

A "rental" life lease contract requires you to pay a one-time "entrance fee" to acquire the lease. The amount of the initial payment depends on the size of the unit as well as on the location and features of the overall development, but it typically ranges from \$30,000 to \$50,000 (based on some recent examples from the websites of life lease projects in Ontario, Manitoba, and Alberta). The value of the units themselves is typically pegged at between

\$100,000 and \$150,000, although the concept of value may be a bit of a misnomer for these products.

"The entrance fee is usually 30 to 40 per cent of the original cost of the suite," says Doug Leeies, president of Winnipeg-based Acorn Development Consultants and Murdoch Management, partner companies that help develop and then manage life lease properties. "That entrance fee is refunded when the lease is terminated."

The sponsor is responsible for obtaining all additional financing required for the project, but, as a non-profit corporation, may be able to obtain a bulk mortgage at very favourable terms. "The amortization can be as long as 35 years, and this spreads the cost so that it's not borne entirely by the initial tenants," Leeies notes.

While Acorn/Murdoch life leases guarantee the refund of the full entrance fee upon departure, in other rental projects you may be entitled only to a fixed percentage of the fee; in some cases, pro-rating methods may be used to calculate your refund entitlement over the passage of time, and in some cases sales/administration charges of as much as 10 per cent may be deducted from your refund.

The ongoing monthly payments typically range from \$400 to \$700 a month, based on examples taken from those same life lease websites. This rental fee covers every-

thing from maintenance and utilities to appliance repair or replacement. “About the only things that aren’t covered are phone and food,” Leeies says, adding: “If you were looking around for similar accommodations today in, say, a condo, you’d probably need a down payment of \$80,000, and your monthly costs would be \$1,200 to \$1,400.”

You also may be able to reduce your monthly payments by making an additional initial payment, or “second security fund.” These additional funds are invested by the sponsor so the resulting interest income is tax-free, and the proceeds are used solely to defray your monthly rental costs. This amount is also refundable upon leaving.

The net result, in any event, is that your overall cost is far lower than it would be for outright ownership of a comparable condo unit, yet you get the same security and rights of tenure that a homeowner enjoys. And those costs remain low for future tenants, rather than rising along with market values.

“One project we built in 1990, an excellent, high-quality building, originally required a \$20,000 entrance fee for a 1,000-square-foot unit, and the rental fees were \$595 a month,” Leeies says. “Now, almost 20 years later, the entrance fee is still \$20,000, although the rent has risen to \$795 because utility and other costs do rise over time.”

Because the costs remain low, demand for such accommodations remains high. “We have about 1,200 units under management, and there are 3,500 people on the waiting list,” Leeies says. “The goal of these projects is to provide long-term stability as well as flexibility; if you want to leave, all you have to do is provide 90 days’ notice, and the sponsor is responsible for finding a new lessee.”

As such, these types of life lease provide a long-term, low-cost alternative to outright ownership. But because all increases in market are retained within the project, there really is no investment potential for tenants; you’re simply buying a form of

tenure for the duration of your stay and will get back only what you invested to begin with (less any applicable fees and deductions).

“With our life leases, it’s more about lifestyle than profit,” Leeies says. “In fact, very few of our clients even ask about the investment value.”

### Or You Can Buy It

With an equity-based life lease, on the other hand, the buyer must secure his or her own financing for the entire cost of the unit.

“We require an initial deposit of five per cent to reserve a unit,” says Christine Thomas, a principal at Life Lease Associates of Canada, a Toronto-based consulting firm with some 40 projects in Ontario. “Another 25 per cent is required when construction begins, and the remaining 75 per cent—which includes the five per cent deposit—is due when it’s ready for occupancy.”

In this type of life lease, the leasehold interest is included in the deed itself, and the

## Questions to Ask About Life Leases

- Does the vendor/sponsor have a proven track record with life leases, and can they provide examples of other successfully developed and managed projects?
- Is it a “rental” or an “equity” type of lease arrangement?
- In a rental arrangement, how much of your entrance fee and second security fund (if any) can you expect to be refunded?
- What fees, if any, might be deducted from your refund?
- How much notice must be given if moving?
- In an equity arrangement, what fees and charges, if any, are deducted from the sale proceeds?
- What restrictions or fees, if any, are applied to sales?
- How much money do you need to provide before moving into the unit?
- How much will the monthly costs be, and will these costs increase over time?
- What happens to your deposit or entrance fee if construction is not completed?
- What amenities, features, and support services does the facility offer?
- What further optional features are available, and how much do they cost?
- What happens if your health begins to fail? Can you still be accommodated?
- What are your rights and responsibilities as a resident?

owner has the right to sell the lease at whatever amount it can fetch on the open market, or the owner can leave it to his or her estate and hence to an intended beneficiary. This type of life lease could be kept within a family in perpetuity, as would be the case for outright ownership.

Obtaining a mortgage for this type of life lease unit generally isn't a problem, Thomas adds. "With other types where the lease isn't included in the deed, financing can be more difficult," she says, adding: "RBC has done life lease mortgages for our clients, for example, and so has Meridian Financial."

Because you're paying full price for your unit, the initial

cost for this type of life lease is much the same as for a comparable condominium, and more than for a rental life lease. Thomas cites the example of a new high-end development in Georgetown, ON, where a fully-finished 1,089-square-foot two bedroom with six appliances, underground parking, locker, and GST included is \$306,900.

The big difference between this arrangement and ownership, according to Thomas, is that the lease structure ensures that only qualifying purchasers will be permitted. "It's like a condominium with controls; in this case, the only restriction is age. We can guarantee that the building will be occupied only by seniors."

Equity-based life leases are more expensive to buy than rental leases, but the flipside of that equation is that being able to sell at market value means they provide much the same profit potential as real estate ownership. Which is best, then, depends, first of all, on whether you're looking for low-cost living or for an investment.

There are many possible variations to both models of life lease, too, and these can affect costs or investment potential. All life leases are inherently complex legal arrangements, so you have to investigate all the details thoroughly and have a real estate lawyer vet the documentation before you sign on. ■

## Sample Features of a "Rental" Life Lease Project

Vic Wyatt House in Winnipeg is typical of the "rental" life lease developments in Manitoba, and this list of features illustrates the kind of accommodations that can be obtained for a very reasonable cost.

### Standard features:

- heated parking; visitor parking available
- two full baths, one with walk-in shower
- French balcony with full-view sliding windows and leaning railing, in addition to full walk-out balcony
- large, oversized windows throughout
- high-quality standard carpet and finishes
- mirrored closet doors
- pocket French or swing French doors in dens
- open kitchen with privacy wall and eating counter
- choice of full gourmet eat-in kitchen in some suites
- lever-style ease-of-access door handles
- lever-style ease-of-use kitchen and bath faucets
- free laundry room on every floor
- workshop and common storage space outside suites
- crafts, games, and recreation room

- library and resource/meeting room
- common room for resident activities and private family functions with full kitchen facilities
- hair salon
- common conservatory space, screened porch, outdoor shaded porch, outdoor garden, and rooftop patio with giant chess/checker boards
- security system at main entry; key access only to other entries
- emergency call system in every bedroom and bathroom
- live-in caretaker for daily complex upkeep and security
- property management service on call 24 hours a day, 7 days a week
- gas-fired forced air heating and cooling

### Optional features (selections customized by tenants prior to construction):

- extra parking available for those with RVs or more than one vehicle
- upgrades available for carpet and finish choices

- oak hardwood flooring
- personal choice of lighting fixtures
- fully glazed and screened balconies
- supplemental cooling if desired
- central vacuum
- ensuite laundry appliances
- dishwasher/garburator appliances
- additional choice of appliance features (self-clean ovens, vertical door fridges, etc.)
- oak kitchen cabinets
- oak bathroom vanities

Monthly "rent" in Vic Wyatt House covers all of the operational expenses associated with common costs, live-in custodian, enclosed heated parking, heat, light, water, property taxes, debt service, regular building, grounds, and appliance maintenance, building custodian services, free laundry, administration, property management, cable TV service, vacancy/bad debt reserves, and capital replacement reserves.