



Report to: General Committee

Report Date: January 13, 2014

SUBJECT: Heritage Estates Subdivision – First Mortgage Limitation

PREPARED BY: Catherine M. Conrad, City Solicitor Ext. 4737

RECOMMENDATION:

1. THAT the report entitled “Heritage Estates Subdivision – First Mortgage Limitation” be received:
2. AND THAT the standard Agreement of Purchase and Sale for a vacant lot in Markham Heritage Estates Subdivision be revised to permit:
 - a. an increase in the maximum principal amount of first mortgage in priority to the City’s second mortgage, from \$350,000 to \$500,000, upon the acquisition of the lot by the purchaser; and
 - b. a further increase in the principal amount of a first mortgage, up to 70% of market value of the lot and its improvements, upon refinancing of the first mortgage during or after renovations;
3. AND FURTHER THAT Staff be authorized and directed to take the actions set out in this report.

PURPOSE:

The purpose of this report is to recommend to Council that the limitations on the amount of first mortgages, which stand in priority to the City’s second mortgage securing the balance of the purchase price, be increased.

BACKGROUND:

First mortgage limitations

The City sells lots in the Markham Heritage Estates Subdivision at close to market value but on closing, defers the payment of 50% of the market value of the lot. This amount is in fact forgiven (at the rate of 20% annually) if the purchaser retains the lot for five years and complies with the requirements of the site plan approval for the relocated heritage building. The forgiveness of half the value of the lot is to help purchasers by compensating them for the considerable costs of physically relocating a threatened heritage house from its existing location to the subdivision.

To secure compliance with the above requirements (five year ownership and compliance with the conditions of site plan approval), the purchasers grant the City a second mortgage on closing. The principal amount of this second mortgage is equal to fifty percent (50%) of the sale price of the lot. This second mortgage is interest free and forgivable on the terms set out above. If the owner sells the property within the 5 year term, the outstanding balance is due and payable on closing of the transaction on a pro-rata basis.

Clause 4(a) of the Agreement of Purchase and Sale for Heritage Estates lots currently limits the principal amount of first mortgages registered on the lots to a maximum of \$350,000. This \$350,000 threshold was last increased by Council in 2003 from \$250,000 to \$350,000. Lot prices have increased significantly since 2003 and, on average, have increased approximately 70% since 2008.

Typically purchasers of vacant lots require mortgage financing to purchase the lot, move the house and complete the extensive and costly restoration of the heritage dwelling. As lot prices have increased, the amount of the first mortgage loan allocated to financing the purchase of the lot has increased, leaving fewer and in some cases, insufficient funds to undertake the restoration. Accordingly, it is now appropriate to acknowledge the effect the price increases have had on financing and increase the first mortgage limit.

There have been three resales of houses in the Heritage Estates Subdivision in the last three years: the average of the three sale prices (for completed or nearly completed renovations) is \$947,222. Commercial lenders typically loan a maximum of 75% of house/lot market value which would be \$710,416, far in excess of the currently permitted \$350,000. It would, therefore, be appropriate to permit the maximum principal amount of first mortgages to increase to \$500,000 when the lots are first purchased from the City (prior to any renovation occurring) and to permit a further increase of up to 70% of the house/lot value based on an appraisal if properties are refinanced during or after renovation.

As the outstanding balance of the City's second mortgage is forgivable and reduces on a pro-rata basis every year for five years, repayment of the City's mortgage, in the event of a re-sale prior to the five year period, remains secure.

ENVIRONMENTAL CONSIDERATIONS:

Not applicable.

ACCESSIBILITY CONSIDERATIONS:

Not applicable.

ALIGNMENT WITH STRATEGIC PRIORITIES:

The provision of an appropriate lot for a threatened heritage building aligns with Council's Strategic Priority of Managed Growth by facilitating the preservation of a heritage resource.

BUSINESS UNITS CONSULTED AND AFFECTED:

The Finance Department and Planning Department have reviewed this report.

RECOMMENDED BY:

A handwritten signature in cursive script, appearing to read "C. Conrad", written over a horizontal line.

Catherine M. Conrad
City Solicitor

q:\legal\reports\reports 2014\heritage estates issues\first mortgage limitations.doc