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Cleveland Lease-to-Purchase Program Celebrates Milestone

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Sahnara Hendrix was homeless with two small children in 2001 when she moved into a home owned and managed by the Cleveland Housing Network (CHN). Fifteen years later and now 40, Hendrix has two grown children, a bachelor's degree, a master's degree and a job in government.

And she *owns* her home.

Hendrix's residence is one of more than 1,000 that have been purchased from CHN by former low-income renters in an ambitious program that spends 15 years preparing residents to make the move from renter to homeowner.

"We know that families and children do much better when they have stable housing and they're not moving around," said Rob Curry, CHN's executive director. "And we've learned that lower-income families can succeed as long as the cost of housing after they take title is less than or equal to what it was before. We call it the equivalency principle: If the total housing costs are less than or equal to what they were before, the family is in a good position to succeed."

For Hendrix, that means a monthly mortgage payment of less than \$300 for a three-bedroom, 1.5-bathroom house.

"When I started, I heard stories about Cleveland Housing Network building and rehabilitating homes, but I was skeptical because I didn't know anyone who'd done it," Hendrix said. She stayed in the same home and ultimately saw an opportunity: after the home finished Year 15 of the low-income housing tax credit (LIHTC) allocation agreement, it was available for purchase. She bought it.

"It was a great experience," said Hendrix, who is now the CHN board's vice president. "It was scary to think about homeownership—doing things like paying taxes and water bills. But [CHN] helped me out. They take you through the educational process and provide resources."

CHN was the first program to link the LIHTC with a lease-to-purchase option in 1987, when the agency began developing homes on a large scale for families who couldn't otherwise own homes. Now CHN is the largest affordable single-family developer using the LIHTC.

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Cleveland Housing Network Lease-Purchase Program



60 Maximum percent of area median income for tenants.



\$275 Average monthly mortgage payment after purchase.



85 TO 90 Percentage of families that ultimately take title to their home



\$550 Average monthly rent before purchase.

1,023 Homes sold by CHN to tenants through June 2016



98 Percentage of families who took title in past five years and remain in their homes



2,739 Homes developed by CHN (with 15-year rental requirement)



\$19,750 Median sales price of homes

Source: Cleveland Housing Network, Novogradac & Company LLP

Cleveland City Councilman Tony Brancatelli is a fan. “This is a significant investment—not just in real estate, but in people,” Brancatelli said. “This is a model nationally. They use the LIHTC not just for affordable housing, but for stability. This program has been incredibly positive for our community.”

“I think the CHN could be called the inventor of this model,” said Sean Thomas, the chief of staff at the Ohio Housing Finance Agency (OHFA).

Renee Beaver, a partner in Novogradac & Company LLP’s Cleveland office, has worked with CHN and is impressed. “CHN pioneered this and it’s a great example of being creative and consistent to assist and empower

people in need,” she said. “It’s no surprise that this is being replicated around the country—the benefits are obvious.”

The Program

CHN was formed in 1981, six years before the LIHTC program launched. From the start, CHN focused on providing pathways to homeownership for low-income Clevelanders.

With the enactment of the LIHTC program, CHN was able to go to scale. Each year, CHN established site control of 50-to-100 scattered-site, single-family homes. From 1987 to 2009—with only one exception—CHN received one or more LIHTC awards each year. After each

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property is developed, CHN's property management division takes over and leases and manages them for 15 years. In Year 16, CHN's sales division begins working with each family to purchase their home.

"From Year 1, our message is quality rental housing, followed by homeownership," Curry said.

Families making less than 60 percent of the area median income (AMI) apply for the lease-to-purchase program through CHN or one of its partners. According to CHN, its typical resident is a single woman with two or three children and an income of less than 50 percent of the AMI. The program requires basic maintenance of the homes by the residents during the rental period, while CHN handles larger maintenance and mechanical repairs, pays the water bills, and pays property taxes.

CHN counsels residents for up to five years before they assume ownership. In Year 16, the home is sold for the outstanding debt, with CHN offering closing-cost assistance and some short-term financing, which can bring down the amount financed to \$10,000 or less. In the past five years, CHN says 485 families took title and 98 percent of them are still in their homes. The median sales price is \$19,750.

The state supports the program by dividing its QAP into several allocation pools, including one for single-family infill developments. "All of our major cities have projects like this," Thomas said. "It's been a good program for a variety of people."

How CHN Does It

Curry said CHN has received fewer LIHTC allocations in recent years. He said that when allocations were more frequent, his agency was working "around the clock" in land acquisition and development. Now, he says, CHN has switched from renovating to building homes. It usually accesses a land bank for Cleveland and puts in reservations for lots, based on receiving LIHTCs.

While there are always issues, it's become as simple a process as possible for tax credits and development. "We've skinned our knees in every way possible since 1987, so at this point, it's pretty routine," Curry said.

One key is how CHN manages the properties during the rental period. "The for-profit world is good at asset management ... and in the nonprofit world, the larger organizations are good, but others aren't necessarily good," Curry said. "You have to spend generously on maintenance and pay attention to ongoing maintenance."

Curry said the key for his group is to assure that the debt at Year 16 is as low as possible. That necessitates ongoing efforts to build reserves for the building and replacement costs. Curry said the CHN does 90 percent of its maintenance in-house.

He said that as the Year 15 deadline approaches, one-third of renters are ready to take title; one-third say they want to, but aren't ready; and one-third don't want to buy. CHN's job is to move the convinced third into ownership, the middle third toward ownership and to convince the other third of the value of homeownership. Curry said that for the portion of the renters who conclude that they don't want to pursue ownership, CHN doesn't evict them. Instead, it finds quality local landlords who purchase the homes as rentals. "We're committed to families remaining in the homes," Curry said.

Keys, Hurdles to Success

Funding, education and organization are the keys for success in the lease-to-purchase model. "They're definitely a strong organization that's well-funded and that's a critical part," Thomas said. "You need a strong sponsor that's well-supported. The [geographic] area is important, but the No. 1 factor is a strong sponsor with a good structure at Year 15 to transition from renter to owner."

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Thomas said the state encourages developers to cluster lease-to-purchase homes so they can maximize the benefits. “The lease-to-purchase program has been a great opportunity to show development opportunities,” Brancatelli said. “The Cleveland Housing Network has raised the bar—people now see this as a redevelopment tool. It goes into neighborhoods and stabilizes and is a real positive.”

Getting the residents ready for the transition is also crucial.

“What scared me was the responsibility for taxes, upkeep, water and sewer,” Hendrix said. “I was a little scared.” Since purchasing, she said she has put in new carpet and a new hot-water tank, but hasn’t faced significant repairs—although she sets aside money each month for the inevitable expenses.

Associated education is also important. Hendrix mentioned help in filing income tax forms and said she attended forums on water conservation, property maintenance and other educational topics.

The purchase, she said, wasn’t as difficult as it was monotonous. “It’s not scary, it’s more tedious,” said Hendrix. “You have to deal with the entire mortgage process.”

So why aren’t there more areas with robust lease-to-purchase programs? Curry said that the markets where the program works best are those with plenty of available property—mentioning several Ohio markets and Detroit. “There’s a cost associated with single-family instead of multifamily housing because of the economy of scale,” Thomas said. “In some large urban areas, you can’t locate enough land at an affordable price for single-family projects.”

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Image: Courtesy of Cleveland Housing Network

The Cleveland Housing Network works with low-income housing tax credit (LIHTC) property tenants to prepare them to purchase their home after the 15-year compliance period ends.





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A Big Deal

Hendrix is proud to be the owner of a home where she raised her children—who are now 22 and 25. “I was a young mom. There were a lot of things stacked against me,” Hendrix said. “[With CHN,] especially as a single mom, you have the resources you can pull from. That’s the difference between the Cleveland Housing Network and a traditional mortgage company. They (CHN) help you along the way.”

Along with hundreds of other Clevelanders, Hendrix has made the transition from low-income renter to homeowner.

“Ultimately, 1,000 homes is a big deal,” Curry said. “We have a lot of proud people who cherish their home.”❖

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