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Lease-to-Purchase Option Expands Affordable Homeownership

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After renting a three-bedroom home in Columbus, Ohio, for 18 years, Linda Powell became a homeowner in 2016–although the residence was originally financed with low-income housing tax credit (LIHTC) equity.

"I didn't think I would ever be a homeowner," Powell said. "I can't really explain the feeling. It's exciting."

Powell participated in a lesser-traveled road of the LIHTC program, one with roots in Ohio. She is one of 26 former renters to purchase their home from Homeport, a Columbus-based nonprofit that has more than 500 lease-purchase homes in the pipeline. Nearly 150 miles to the northeast, CHN Housing Partners in Cleveland has helped roughly 1,200 families purchase their LIHTC homes.

All single-family homes. All sold to former LIHTC renters.

"I thought it was going to be hard, because I'm a single parent and not a male," Powell said. "But I got my ducks in a row; I started talking to people at Homeport and everything started falling in place."

Now Powell owns the home she moved into in 1998, paying a mortgage of less than $500 a month and installing upgrades.

"I can do more than I did before as a renter," Powell said. "I put in a new floor and have done maintenance."

Selling LIHTC homes to renters after the mandatory 15-year compliance period may be a niche, but it's significant for some developers, investors and most of all, tenants.

Lease-to-Own Basics

The LIHTC program is generally used for multifamily housing, but there's no rule against single-family homes and nothing that forbids renters from becoming owners. It's just rare.

In Columbus, where Powell purchased her home, Homeport finances and builds homes with LIHTC equity and tenants rent them for the first 15 years. At

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Year 16, tenants have an option to purchase at a reduced rate. The price is based on remaining debt, taxes and costs of repairs made before the sale–Homeport upgrades the properties with a new roof, furnace and hot water heater.

"The typical mortgage amount puts them with a payment of less than their rent," said Leah Evans, vice president of neighborhood strategy at Homeport. "We check for the long-term sustainability. If they're paying $600 rent and their mortgage is $800, there might be problems. If they go from $600 to $450, they have a good cushion to save appropriately. Our counselors work independently from our sales team to assure accountability."

Also included is a no-interest silent second mortgage that covers the gap between sales price and market value. It goes away after five years, serving two purposes: setting the official sales price at market rate and discouraging new owners from flipping the home immediately to cash out equity.

Getting Tenants Ready

The change from renter to homeowner is significant and Homeport and CHN Housing Partners both provide classes, financial education and more.

"We talk to residents from the beginning," Evans said. "At about Year 11 or 12, we start some targeted outreach, with letters, calls and invitations to classes and counseling. … It's intentional."

She said there are predictable difficulties.

"The main hurdle is credit," Evans said. "People are living paycheck to paycheck, maybe getting payday loans and credit loans. When you have limited resources, that's when coaching and accountability helps."

Rob Curry, executive director of CHN Housing Partners, said it's all about preparation.

"There's the setting of expectations for people who are taking the next step," Curry said. "From Year 1 all the way through Year 15, you treat people as residents, not as tenants. You expect them to take care of the home."

CHN has extensive classes and preparation, too.

Where Lease-Purchase Works Best

While it's thriving in Columbus and Cleveland, the LIHTC lease-purchase model doesn't work everywhere.

"The model only works where land is readily available and cheap," Curry said. "It's a strategy for redevelopment in cities where the population was hollowed out by the growth of suburbs over the past 60 years or so. Not surprisingly, it seems to be mostly in the Ohio and Michigan markets. I'm sure there are other nooks and crannies, but that's the center."

In Columbus, there is agreement.

"The majority of our work is urban infill," said Jim Baugh, senior vice president of real estate development at Homeport. "[Developers] aren't building apartments with three-bedroom units."

Hal Keller is president of Ohio Capital Corporation for Housing, which has invested $371 million in 90 lease-purchase properties containing more than 3,200 homes. He said urban areas are key and that resources connected to the programs–especially preparing the future homeowner–are crucial.

"The other thing is that it's neighborhood revitalization," Keller said.

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Rise of the Lease-Purchase Model

CHN, then known as the Cleveland Housing Network, began working in lease-to-own LIHTC in 1987.

"CHN was the sole [LIHTC] developer of single-family homes in Cleveland and Ohio until the mid-1990s," Curry said. "Others joined … in a number of Ohio cities and in Detroit. There was a real growth of single-family products from the mid-to-late 1990s until the mid-2000s."

That surge created some problems, particularly in property management. Often the properties were managed by companies that specialized in multifamily housing and Curry said they often weren't quick to handle single-family home issues such as the risk of vandalism during vacancy.

Hurdles to Overcome

The lease-purchase option isn't for everyone and isn't universally accepted either in the LIHTC world or in communities.

Mark Shelburne, former senior manager at Novogradac Consulting LLP, said that some in the affordable housing world are reluctant to embrace the lease-purchase option because these properties require more LIHTCs and other subsidies due to greater-than-average costs for construction and operation.

Shelburne pointed out that LIHTC units often serve as a platform for homeownership outside the lease-to-own model: the lower rents allow savings for a down payment or affording childcare to take a better-paying job. The transition can take less than 15 years, allowing a home to produce multiple homeowners over time.

He said that some in the affordable housing world emphasize that the nation's housing crisis is more acute for renters than buyers and the lease-purchase policies can result in a permanent loss of affordable apartments.

CHN's Curry said there were more local concerns early in the program.

"There's a whole NIMBY concern that's dropped a bit," Curry said. "In the older suburbs in greater Cleveland, there was a lot of development after World War II. They were smaller bungalows and people were fearful of who was moving in. But there's less concern after the Great Recession."

The biggest challenge is financial–and that's more about single-family homes than the lease-option issue. It costs more to house people in single-family homes than in apartment complexes.

"It alters the equation," said Keller. "Single-family homes have other things that affect underwriting. There are higher operating costs because of things like sewer and water. Then you have whether it's all one big subdivision or scattered-site. A single site is better, because the more scattered it is, you can have a new house next to a boarded-up site, which creates underwriting risks."

The sale is not simple.

"It complicates the Year 15 exit," Keller said. "The whole point of the lease-purchase is for residents to buy the home, but if you do a 50-unit development and 40 turn over, what do you do with the other 10? That makes it difficult, but at the end of the day, it still might be worthwhile."

Tougher Competition

In Ohio, a significant challenge is supply–the Ohio Housing Finance Agency (OHFA) only awards two lease-purchase development allocations annually. Curry said

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the growth of specific targets within the LIHTC world created competition for single-family homes.

"The reality is that funder priorities change in response to local housing challenges–OFHA and others began focusing more resources on preservation and supportive housing," Curry said. "Given these shifts, the amount of tax credits awarded to single-family projects went down."

Keller said the primary reason the state has decreased single-family home allocations is cost. "A single-family home is more expensive compared to existing multifamily or even new construction," Keller said. "It might be 30 percent more than even a townhouse, which is probably the primary reason [for the decrease in allocations]."

Expanding the Vision

Curry said CHN Housing Partners has discussed the opportunities with leaders and nonprofits in other Midwest and East Coast cities with similar situations. One of CHN Housing Partners goals in its new five-year plan is to work with other cities to help bring the single-family home system there.

In Columbus, has Powell lived at the same address since 1998, paying a mortgage of less than $500 per month.

"I'm always doing something for my home," she said. "At the end of the day, I look back at what I've accomplished over the past 15 or 16 years. I love my home." ❖

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