Blight Remediation and Affordable Housing Finance: A Potential Future Model for Hartford Homeownership

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Executive Summary

Vacant and blighted properties have become a major problem for urban areas across the United States in recent years. These properties have limited the economic development of communities, as well as complicated the path to homeownership for city residents. In order to help mitigate this problem, organizations known as land banks have been established at a growing rate. Land banks are dedicated towards the identification and acquisition of vacant, abandoned, tax-delinquent and/or distressed properties," to ultimately "steward their rehabilitation" and return these properties to productive community assets.[1] These organizations have the power to: 1) acquire title to properties 2) eliminate liabilities (i.e. wipe tax-debt) and 3) transfer property to new ownership.[2] Land banks have deployed a number of effective tactics to ensure the accomplishment of this goal. Many conduct an evaluation of potential buyers to ensure they do not plan to hold the property for future resale. Also, land banks may require specific development plans to be submitted prior to property transfer.[3] The return of vacant and blighted properties to use not only promotes the overall safety and well-being of a community, but it can also generate functional benefits. For example, the establishment of retail or an affordable housing plan will "increase neighborhood value, and return the property to tax-paying status,".[4] Today, land banks have become almost a necessary establishment for any urban area that is faced with combating blight.

This report is designed to aid the Hartford Land Bank (HLB) in its efforts to remediate blight as well as lay the groundwork for a more frictionless path to homeownership for residents in the City of Hartford. Over the course of the semester, the team has conducted research and analysis on various models and state funding systems that could increase property ownership among city residents. In collaboration with the HLB and Cleveland Housing Network (CHN), the team has

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[1] *Hartford Land Bank*, 2022, https://hartfordlandbank.org/.
[2] Bollwahn, Brooke. "Property Disposition Matters: The Current Status of Land Bank Programs in the United States." 2019, https://digital.library.txstate.edu/bitstream/handle/10877/8186/Bollwahn-ARP-Final.pdf?isAllowed=y&sequence=1 12
[3] Bollwahn 2019, 12
[4] Bollwahn 2019, 15

focused on existing rent-to-own (RTO) and lease-purchase models of homeownership with decades of high success rate.

The report will proceed as follows:

- Background on Hartford Land Bank and blight remediation efforts
- Definition of key terms
- Review of existing literature and research on housing barriers
- Discussion of Hartford's status as a legacy city and its further complication of limitations to homeownership
- Review of existing legislation on rent-to-own and lease-purchase models
- Case study on the Cleveland Housing Network's lease-purchase low-income housing program and comparison to Hartford's housing landscape
- Additional resources for further project development
- Recommendations

The team ultimately recommends that the Hartford Land Bank establish *The Hartford Continuum of Care* modeled after the Cleveland Housing Network's lease purchase program. This program should utilize LIHTC and other funding sources to subsidize rent payments for a 15-20 year period followed by an opportunity for the tenant to purchase the home at a lower than market rate. Additionally, the team has put together a non-exhaustive list of integrated family support systems that HLB should establish to work in conjunction with their rent to own agreements.

<u>Background</u>

A. The Hartford Land Bank

The Hartford Land Bank (HLB) is a quasi-public non-profit organization that has made blight remediation and access to affordable housing top priorities. To accomplish this, the HLB identifies and acquires vacant, abandoned, tax-delinquent and/or distressed properties to ultimately "steward their rehabilitation and return to productive community assets,".[5] Upon preliminary discussions between the team and the HLB, it is evident that one of their primary goals in the process is to build generational community wealth. The proposed RTO model will create a pipeline of local residents that can take on property and ultimately begin building equity. As this report will highlight, the HLB is dedicated to the engagement and education of "individuals, stakeholders, and legislators in an effort to pass legislation, or build legislative and administrative support for, creating a state funding mechanism for the redevelopment of small multi-family homes,".[6]

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[5] *Hartford Land Bank*, 2022, https://hartfordlandbank.org/.

[6] "Hartford Foundation Awards $175,000 in Grants to Support Housing Policy and Advocacy Efforts." *Hartford Foundation for Public Giving*, 26 Jan. 2022, https://www.hfpg.org/what-we-do/new-and-noteworthy/hartford-foundation-awards-175000-in-grants-to-support-housing-policy-and-advocacy-efforts.

B. Blight Remediation

Blighted property has become a serious issue in many neighborhoods throughout the City of Hartford. These structures are often severely worn down or damaged, no longer serve any beneficial purpose to the community, and pose significant threats to public, personal, and environmental health.[7] Also, these properties have historically led to a decrease in the value of neighboring properties.[8] This is extremely problematic for the overall economic development and prosperity of a community. In any municipality, it is true that a strong revenue structure "begins and ends with a strong local economy,".[9] In order to limit disinvestment and distress, it is imperative that the issue of blighted property is efficiently and effectively addressed.

In addition to the establishment of the HLB, Hartford has developed a Blight Remediation Team (BRT) that works to enforce the city's Anti-Blight and Property Maintenance Ordinance by "targeting occupied and vacant properties that have deteriorated or become nuisances,".[10] This ordinance allows the city to ultimately "collect more revenue from fines and liens to offset the cost of blight on the Hartford community;".[11] It is evident that the city has identified the necessity to remediate blighted property and ultimately strive for a healthier housing market.

<u>Definitions</u>

A. Rent-to-Own and Lease-Purchase

A rent-to-own home is also called a lease-purchase home. This occurs when a potential buyer agrees to rent the home for a period of time before buying it from the owner. During this period, the buyer pays rent to bring down the overall cost to buy the house. This in turn makes the purchase more affordable to the buyer, while the seller is able to bring in rental income along the way. RTO programs allow for buyers to build up their credit score and potentially secure a mortgage as they require less financing from the bank. These options are favorable in urban areas as they provide affordable housing in markets that pander to vulnerable communities.

B. Low Income Housing Tax Credit

The Low-Income Housing Tax Credit (LIHTC) program is a useful resource for creating affordable housing in the United States. Created by the Tax Reform Act of 1986, the LIHTC program gives State and local LIHTC-allocating agencies the equivalent of around $8 billion annually to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted to lower-income households. The LIHTC provides a tax incentive for those who are constructing or repeating these homes, in turn making affordable housing more accessible in lower-income areas. In Connecticut, the Connecticut Housing Finance Authority deals with the allocation of LIHTC credits.

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[7] Bollwahn 2019, 2
[8] Bollwahn 2019, 4
[9] Bland, Robert L., and Michael R. Overton. *A Budgeting Guide for Local Government*. 4th ed., ICMA, 2019. 49
[10] "Blight Remediation and Housing Code Enforcement." *City of Hartford*, https://www.hartfordct.gov/Government/Departments/DDS/DDS-Divisions/Blight-Remediation-and-Housing-Code-Enforcement.
[11] *City of Hartford*

Research Findings

A. Variables Limiting Homeownership

There are numerous obstacles that prevent individuals and families from owning a home. It is important to note that the variables discussed below are not the only limitations on levels of homeownership. However, research and analysis indicate that they carry the greatest weight, especially in the City of Hartford. From 2016-2020, the owner-occupied housing unit rate was a mere 24.9%.[12] Only one in every four Hartford residents owned their residence. In some neighborhoods around the city, the rate of owner-occupied housing is even lower. For example, in the Frog Hollow Community, only 8% of residents own their home. A vast majority of Hartford's population is unable to attain the resources necessary to own a home and therefore must enter a rental agreement to live in the city. Figure 1 below highlights this unfortunate truth, as roughly 80% of properties in the city are either renter-occupied or vacant.

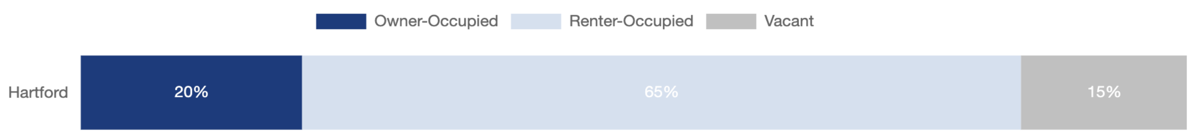

Figure 1[13]

1. High Credit Barrier

One major barrier to homeownership for many Hartford residents is their low levels of creditworthiness. In the last decade, the median credit score nationwide on new purchase originations has increased 20 points, and stood at 738 as of April 2018.[14] A low credit score makes it challenging to obtain the loans necessary to purchase a home: "A significant portion of Hartford residents have poor credit, are renting because they have poor credit, and are trying to improve their credit so that they can eventually buy a home".[15] For low-income individuals and families, credit score improvement is an extremely difficult task. This population faces "increased challenges when it comes to building and maintaining good credit… leading to issues with debt," and "difficulty securing housing,".[16] For example, low-income residents are often uneducated on how the lending process works. This leads many to fall behind and be classified as "credit invisible", meaning no credit score altogether or "thin credit files without enough

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[12] *U.S. Census Bureau Quickfacts: Hartford City, Connecticut*. 2021, https://www.census.gov/quickfacts/hartfordcityconnecticut.

[13] "Housing Data Profiles." *Housing Data Profiles – Connecticut*, https://housingprofiles.pschousing.org/profile/#Hartford.

[14] Goodman, Laurie, et al. "Barriers to Accessing Homeownership." *Urban Institute*, Sept. 2018, https://www.urban.org/sites/default/files/publication/99028/barriers_to_accessing_homeownership_2018_4.pdf. 7

[15] Dalhem, Alex, et al. "Hartford Home Ownership." *Liberal Arts Action Lab*, 2018, https://action-lab.org/home-ownership/.

[16] Gailey, Alex. "The U.S. Credit System Is Failing Millions of Americans. Here's What You Can Do About It ." *Time*, Time, 12 Nov. 2021, https://time.com/nextadvisor/credit-cards/credit-system-fails-underprivileged-communities/.

information to create a credit score,".[17] According to data from the Consumer Financial Protection Bureau (CFPB), roughly 45% of adults in low-income neighborhoods are considered credit invisible or have unscored credit records.[18] Under current housing models and policies, credit is a major limitation for residents seeking to own property.

2. Limited Housing Stock

The City of Hartford has been faced with a lack of housing stock, particularly for the many low-income residents that require affordable options. This follows a national trend: "Nationwide, there are just 37 affordable and available rental homes for every 100 [extremely low income] renter households,".[19] Demand to own a home also greatly exceeds the available supply. The truth is that many Hartford residents would like to see a change to the system that would generate greater opportunity: "owning a home promotes financial stability and well-being while also being a place in which people (and families) can feel grounded and comfortable,".[20] In order to build generational wealth, financial stability and comfort are essential.

3. Lack of Liquid Resources

In order to own a home, a potential buyer must have a significant amount of liquid resources available to make a downpayment upon initial purchase. In a national survey conducted in 2018, more than two thirds of respondents indicated that "affording the down payment was a barrier to becoming a homeowner,".[21] Many low-income individuals and families also must rely on a mortgage to secure property, and are increasingly being "boxed out" by well-off cash buyers.[22]

In Hartford, this lack of liquidity is a major concern for those seeking to own property. Leslie Hammond, a real estate broker in the Hartford area, has previously addressed this issue: "'[Low income and working class families] can't compete with these other buyers. Some of the other buyers are cash buyers, some have 10% down, 20% down, and the seller is going to go for who they are sure everything's going to work out, and the highest price,'".[23] It is crucial to note that renter households also have extremely limited access to liquid resources. Even if an individual or family was interested in purchasing a home, the lease or rental contract they are bound to uphold makes it virtually impossible: "70% of the poorest renter households are severely housing cost-burdened, spending more than half of their incomes on housing, with little left over for other basic necessities,".[24] To put this into perspective, Figure 2 below shows the median household income for both homeowners and renters in Hartford, Hartford County, and Connecticut as a whole in 2018. With a median income of $27,000, it is clear that renters in the city have extremely limited financial resources available after paying their bills.

[17] Gailey, 2021
[18] Gailey, 2021
[19] "Connecticut's Lowest-Income Residents Lack Housing They Can Afford." *Partnership for Strong Communities*, 18 Mar. 2021, https://www.pschousing.org/news/new-report-shows-connecticuts-lowest-income-residents-lack-housing-they-can-afford.
[20] Dalhem et al., 2018
[21] Goodman et al. 2018, 2
[22] Thomas & Pananjady, 2022
[23] Thomas & Pananjady, 2022
[24] *Partnership for Strong Communities*, 2021

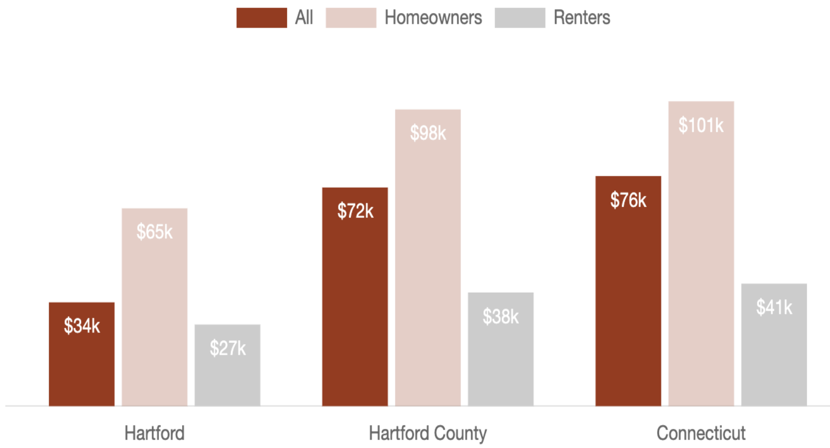

Figure 2[25]

4. COVID-19 Pandemic

The COVID-19 pandemic has further complicated the issue of limited homeownership. Many low-income residents lost their jobs and have since struggled to pay rent: "Across Connecticut, lower-income families are facing foreclosure at higher rates, renters are facing a wave of evictions, and a hot housing market and ever-changing banking rules are putting home-ownership further out of reach,".[26] The pandemic has heightened housing barriers to unprecedented levels. However, it has also shed light on the necessity for change in the housing market. In January of 2022, Connecticut Fair Housing Center Operations Director Fionnuala Darby-Hudgens noted that the global health crisis had shifted and "diversified" the fulfillment of their mission: "'One of the biggest changes is we are now working closer with tenants and grassroots organizing efforts, to promote equitable housing policy,'".[27] There is no better time than now to push for change in the housing arena.

B. Hartford as a Legacy City

These variables that have problematized homeownership in the City of Hartford are magnified even further due to the capital's classification as a legacy city. A legacy city is commonly defined as an older urban area that has lost much of its historic population and job base.[28] Once thriving manufacturing hubs, cities such as Hartford, Cleveland, and Detroit have struggled to fully adapt to post-industrial 21st century economic conditions. As a result, legacy cities face severe fiscal stress and instability: "facing growing deficits, they are reducing services, laying off hundreds of municipal employees, canceling capital projects, and cutting back on repair and

[25] *Housing Data Profiles – Connecticut*
[26] Thomas & Pananjady, 2022
[27] *Hartford Foundation for Public Giving*, 2022
[28] Mallach, Alan, and Eric Scorsone. "Long Term Stress and Systemic Failure: Taking Seriously the Fiscal Crisis of America's Older Cities." *Center for Community Progress*, 2011. 2.

maintenance of city facilities and infrastructure".[29] Arguably the largest challenge legacy cities face as a result of their declining property base is the growing share of properties that do not pay property taxes: "facilities such as universities, hospitals or religious institutions… or because they are vacant and abandoned," are exempt by law.[30] In Hartford, the property tax conundrum has greatly problematized fiscal stability. According to data from the city's 2018 grand list, a majority of property avoids property taxes: "Of the $7.1 billion of assessed real estate within the city of Hartford's tightly confined borders, 59 percent of it is untaxed because its owners are nonprofits or other tax-exempt entities,".[31]

The City of Hartford also has an extremely unique socio-economic climate. While the downtown area is considered the region's economic hub, many of the jobs that the city generates are held by wealthier suburban individuals. People commute to the city only for work, often leaving the downtown area somewhat desolate outside of business hours. Although these Fortune 500 companies generate numerous benefits for the city, they create enormous pockets of wealth in the surrounding suburbs that limit economic growth of the city itself.[32] Such concerns make the work of the HLB crucial to the fiscal stability and future prosperity of the City of Hartford. Although it is impossible to eliminate the barriers described above entirely, the RTO model will make the prospect of homeownership a reality for many residents, promoting generational community wealth that will ultimately help the City of Hartford ascend from its status as a struggling legacy city.

Legislative Review

A. Rent-to-Own and Lease-Purchase Legislation Across the Nation

A majority (47) states maintain laws regulating RTO transactions. These laws require that businesses must disclose to customers all of the rules that RTO contracts must adhere to. For example, California maintains the Karnette Rental-Purchase Act[33]. This Act defines the terms of rent-to-own agreements and provides provisions for consumer protection. Each state has its own variations in terms of what must be disclosed in a RTO contract. Common disclosures include: the number of payments that are necessary to acquire ownership of the property; the due date and the terms and conditions of payments including payment frequency; a legal document providing clarification that the renter consumer will not legally own the property until all payments are made; and the actual cash price of the unit.

States with major RTO markets include Florida, Texas, Georgia, and Ohio[34]. These markets are able to attract customers in their metropolitan areas and are able to thrive as an alternative option

[29] Mallach & Scorsone 2011, 2
[30] Mallach & Scorsone 2011, 11
[31] Bordonaro, Greg. "How Much Hartford Real Estate Is Tax-Exempt? The Percentage is Higher than you Think." *NewsTimes*, News Times, 8 July 2019, https://www.newstimes.com/local/article/How-much-Hartford-real-estate-is-tax-exempt-The-14058888.php#:~:text=Of%20the%20%247.1%20billion%20of,the%20city's%202018%20grand%20list.
[32] Dalhem et al., 2018
[33] Code Section Group
[34] Divvy, Is Divvy Available in my Area?

to those facing barriers while securing housing[35]. Only four states do not have working RTO legislation: Minnesota; New Jersey; North Carolina; and Wisconsin[36]. Minnesota is an exception, they do have RTO legislation but the Minnesota Supreme Court has ruled that RTO agreements are also considered to be a credit sale. This has caused the undoing of the RTO industry entirely in the state as sales are limited to an 8 percent annual interest rate. This lack of legislation has severely restricted the growth of RTO businesses and land banks.

B. Lease-Purchase Legislation in Ohio

When seeking rent-to-own property in Ohio, one should note that there are two key types of RTO properties: a lease-option agreement, and a lease-purchase agreement. A lease-option agreement allows a renter the option to buy the house after their rental period is up, while also allowing them to walk away from the house entirely. A lease-purchase agreement requires the renter to buy the home from the owner at or before the end of the rental period.

In Ohio, all RTO agreements are real estate documents that combine a residential lease with a purchase agreement that gives tenants the opportunity to buy the property at a designated period during the rental term. While tenants are often asked to pay a fee upfront to acquire their lease option, these fees are generally non-refundable and act as a down payment on the property should the tenant decide to buy. If a tenant does not choose to purchase the property, they forfeit their exclusive buying rights and the landlord can rent or sell the property to other interested buyers.

Ohio's markets include Low Income Housing Tax Credit lease-purchase programs. The utilization of LIHTC dollars to fund housing programs, paired with concrete statutory language regarding lease-purchase agreements allow programs in Ohio, such as the Cleveland Housing Network, to succeed. Notable statutes concerning RTO agreements cover: rental laws, purchase agreement disclosure forms, purchase agreement disclosures, and purchase agreement laws.

Rental laws for landlords and tenants are laid out in O*hio Revised Code Title [53] LIII Real Property - Chapter 5321 - Landlords and Tenants*[37]. This section of Ohio law and administrative rules outlines obligations and actions surrounding lease-purchase agreements. *Section 5231.01* presents landlord and tenant definitions[38]. Among said definitions are "Tenant," "Landlord," "Residential premises," "Rental agreement," "Security deposit," and "Dwelling unit." Ensuring that definitions are clearly defined and compatible allows for the Ohio RTO market to flourish.

Majority of real estate transactions in Ohio require sellers to provide the buyers with a disclosure form. Transfers and assignment of property from one individual or entity to another is statutorily rooted in *Ohio Revised Code Title [53] LIII Real Property - Chapter 5302 - Statutory Forms of Land Conveyance*[39]. *§5302.30* governs property disclosure forms and ensures that the statute

[35] Divvy, How do I Qualify?
[36] Peeler, 2021
[37] Chapter 5321: Landlords and Tenants
[38] Section 5321.01: Landlord and Tenant Definitions
[39] Chapter 5302: Statutory Forms of Land Conveyance

applies to any residential property transfers that occur on or after July 1, 1993[40]. The statute does not apply to commercial real estate, which has its own laws. It applies to installment contracts, leases with options to purchase, and renewable leases with ninety-nine-year terms. This statute defines the required seller's disclosure form as: "The form prescribed by the director shall be designed to permit the transferor to disclose material matters relating to the physical condition of the property to be transferred, including, but not limited to, the source of water supply to the property; the nature of the sewer system serving the property; the condition of the structure of the property, including the roof, foundation, walls, and floors; the presence of hazardous materials or substances, including lead-based paint, asbestos, urea-formaldehyde foam insulation, and radon gas; and any material defects in the property that are within the actual knowledge of the transferor.[41]" This ensures that a seller must disclose what is reasonably known to them at the time of sale. If they neglect to do so, they may be held responsible in a subsequent lawsuit alleging latent defects by the buyer. Latent defects include issues not easily ascertained by the buyer during walkthrough or inspection. In Ohio, it must be proven that the seller had knowledge of a defect for a buyer to be successful in a real estate disclosure lawsuit. These provisions ensure that transactions occur in a good faith manner.

Additional measures in place to protect good faith transactions can be found in *Ohio Revised Code Title [53] LIII Real Property - Chapter 5301 - Conveyances; Encumbrances*[42]. This chapter regulates purchase agreement laws and notice of code violations is enforced through *Section 5301.253 - Written notice of code violations prior to entering into agreement for transfer of title to property*[43]. Establishing that lease-purchase transactions are transparent allows for legal action to be taken by a renter. This helps ensure that those participating in least-to-own programs, usually low-income individuals, are able to avoid potential scams.

Further, lease-purchase agreements are specifically outlined in *Ohio Revised Code Title [13] XIII Commercial Transactions - Chapter 1351 - Lease-purchase Agreements*[44]. This chapter puts forth definitions, required disclosures, and steps for acquiring ownership. Required disclosures can be found in *Section 1351.02 - Disclosures required in connection with lease-purchase agreement*[45]. These disclosures serve as additional checks to ensure transactions are made in a good faith manner.

The various statutes noted above serve to regulate the lease-purchase agreements while ensuring that the marketplace is transparent and good mannered. They create a vehicle for individuals to navigate variables which limit homeownership. With a homeownership rate of 24% in the city of Hartford, there is an opportunity to expand on RTO programs. Understanding how other cities run their programs verifies that all options are being considered.

[40] Section 5302.30: Property disclosure form required for all residential real property transfers.
[41] Section 5302.30: Property disclosure form required for all residential real property transfers.
[42] Chapter 5301: Conveyances; Encumbrances
[43] Section 5301.253: Written Notice of Code Violations Prior to Entering into Agreement for Transfer of Title to Property.
[44] Chapter 1351: Lease-Purchase Agreements
[45] Section 1351.02: Disclosures Required in Connection with Lease-Purchase Agreement."

C. Rent-to-Own Legislation in Connecticut

RTO legislation in Connecticut can be found in *Chapter 743i - Consumer Rent-to-Own Agreements*[46]. The various sections of this chapter set out definitions, information which must be disclosed, and lessor's obligations among other things. This legislation closely resembles that seen in Ohio, with the information which must be disclosed nearly matching.

Connecticut has RTO agreements in which a contract between a property owner and an interested buyer combines a fixed-term lease and purchase proposal for residential property. The buyer agrees to rent the owner's property as a tenant for the time of the lease with an option to purchase the residence in accordance with the contact.

Connecticut outlines definitions, rules, and regulations regarding rental laws in *Chapter 830 - Rights and Responsibilities of Landlord and Tenant*[47]. These statutes are clearly outlined and create a market for RTO agreements to take place. Also regulating the RTO market is *Chapter 392 - Real Estate Brokers and Salespersons - Sec. 20-327b - Residential condition report. Exemptions. Templates.*[48]*,* which ensures transparency in the sale, exchange, or lease with option to buy with regard to a residential property.

D. The Future: Low Income Housing Tax Credit in Connecticut

Understanding the statutory regulations placed on RTO and lease-purchase programs in Ohio is critical in understanding the applicability of these same programs in Connecticut. The team is under the opinion that, due to the similarities in the statutory language in Ohio and Connecticut, utilization of the Low Income Housing Tax Credit is feasible and would not require significant legislative action. Additionally the team found that LITCH credits could open doors of possibility for the Hartford Land Bank, and the Hartford Community.

Cleveland Housing Network is known nationally for its lease-purchase program, which is a 15-year pathway to home ownership for low-income families. They utilize LITCH by linking it with purchase opportunities. LIHTC is an indirect federal subsidy used to finance the construction and rehabilitation of low-income affordable rental housing. Through this tax incentive program, the supply of quality, affordable rental housing increases. This is achieved through offsetting the costs of rental housing developments for individuals with low- to moderate-income. This program has thrived in Ohio, facilitating the development of over 100,000 affordable rental housing units in the State.

The RTO and lease-purchase legislation outlined above, along with LIHTC, creates a framework that would be beneficial for the Hartford Land Bank to explore. The use of Low Income Housing Tax Credit lease-purchase programs provide significantly reduced rent through subsidized payments. With that being the case, the Hartford Land Bank would greatly benefit from submitting applications for LIHTC to Connecticut Housing Finance Authority to be considered

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[46]CHAPTER 743i CONSUMER RENT-TO-OWN AGREEMENTS
[47]CHAPTER 830* RIGHTS AND RESPONSIBILITIES OF LANDLORD AND TENANT
[48]CHAPTER 392* REAL ESTATE BROKERS AND SALESPERSONS

for financing. This would open doors for the Land Bank as it would allocate tax credits every year to run a lease-purchase program, giving them more resources to work with.

The Hartford Land Bank navigates its operation under strict statutory regulations, working to meet the States criteria and goal of providing affordable housing to residents. This means that the Land Bank is a qualified candidate which the Connecticut Housing Finance Authority would have to give strong consideration to. As a result, it is feasible the Hartford Land Bank would be able to expand and generate increased opportunity in the community with access to the proper tools and additional funding.

Cleveland Housing Network Case Study

While rent-to-own/lease-purchase models are relatively new in many housing markets, there are some organizations that have built successful programs that have been around for years. Cleveland Housing Network (CHN) has a flagship Low Income Housing Tax Credit (LIHTC) Lease Purchase program that should be considered by the Hartford Landbank when developing their own program. CHN has been operating for over 40 years and currently has an 80-95% success rate of converting residents into homeowners out of its lease-purchase program[49]. The utilization of LIHTC is what makes CHN's program uniquely successful. CHN operates throughout Ohio, neighboring states and provides consulting services to firms interested in developing their own lease-purchase programs.

Unlike many rent-to-own models, CHN's program does not build equity along with rent payments. Instead, over a 15-year period the Network provides significantly reduced rent payments that are subsidized by LIHTC. According to the United States Department of Housing and Urban Development (HUD), LIHTC was;

> Created by the Tax Reform Act of 1986, the LIHTC program gives State and local LIHTC-allocating agencies the equivalent of approximately $8 billion in annual budget authority to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted to lower-income households.

In Connecticut, LIHTC dollars are distributed by the Connecticut Housing Finance Authority (CHFA) through a highly competitive process called the Qualified Allocation Plan (the "Plan"). The plan outlines the procedures for

> the reservation, allocation and compliance monitoring of the federal Low-Income Housing Tax Credit Program (the "LIHTC Program") in the State of Connecticut (the "State") and establishes policies, procedures and requirements for the use of federal Low-Income Housing Tax Credits (the "Credits") in the State in order to meet the purposes contained in Section 252 of Public Law No. 99-514 (October 22, 1986), known as the federal Tax Reform Act of 1986, as amended and as codified in Section 42 of the Internal Revenue Code (the "Code").[50]

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[49] Conversation with CHH
[50] https://www.chfa.org/assets/1/6/QualifiedAllocationPlanFINAL.pdf

Connecticut has a credit ceiling of approximately $10 million each year to allocate to its 9% LIHTC program. In order to qualify for LIHTC financing, applicants and awardees must comply with all of the guidelines outlined in the plan. CHN, in Cleveland and the other areas in which they operate, submits applications for LIHTC tax credits every year to run their lease purchase program. If HLB were to follow a similar route in Connecticut, they must submit their applications for LIHTC to CHFA every year to be considered for the credits. Since there is only $10 million available for the entire state each year, HLB will have to create a compelling case to receive some of the very limited allocation. HLB could show how successful CHN's lease purchase program is in order to make their application for LIHTC credits attractive to CHFA.

CHN works to get approximately one million LIHTC dollars allocated to their program annually to fund the operation of their lease-purchase program. The state of Ohio has a LIHTC ceiling of around $30 million annually, so they try to get approximately 1/30 of this amount each year dedicated to their program. HLB should look to receive around $300,000 of CT's annual LIHTC allocation if they hope to have an amount proportional to what CHN receives. CHN works primarily through the Ohio Housing Finance Agency to receive their LIHTC allocation. Since they began their program, they have always been able to receive a certain amount of money from the agency. There are two types of housing credit programs available: a competitive 9% and a 4% non-competitive housing tax credit program. CHN operates using the 9% program which is a significantly greater subsidy than the 4% thus enabling their program to have a large impact. The housing finance authorities in both states have competitive and well outlined processes for their 9% tax credit programs listed on their respective websites.

Typical rent-to-own programs set aside a certain amount of monthly rent payments into a down payment on the renter's house. CNH does not do this. Instead, they use the 9% tax credit through LIHTC to significantly subsidize their tenant's rental payments. "However, residents receive a credit of $1,000 per year, up to $10,000 maximum towards the purchase price of their home."[51] In a zoom call with HLB, Joe Perkus and Mark Whipkey, the Chief Asset Management Officer, Mark stated that the goal of their program is to provide good affordable housing to their residents and have them purchase it at the end of their program. He said that if they purchase a house with an appraisal of approximately $95,000, the goal of the program is to provide the tenant the opportunity to purchase this home for about $35,000 at the end of the 15-year program. So, in addition to lower than market-rate rent payments for 15 years, tenants of CNH's program are presented with the option to buy the home they have been renting for less than 40% of its market value. CHN develops lease purchase projects with a structure intended to maximize the equity that is transferable to the tenant. 90% of the capital stack[52] is made of LIHTC equity and soft sources, there cannot be bank debt that exceeds $10,000 per unit at the financial closing of the development, and there must be an agreement in advance to release the structure for funds from a government entity. Maintaining a strict adherence to these guidelines empowers CHN to expand homeownership access to people who face great challenges to owning homes in the traditional market. Their very high success rates prove that the LIHTC program, while competitive and time-consuming, can offer financial independence to thousands of new homeowners if utilized properly.

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[51] CHN Lease-Purchase Resident Handbook

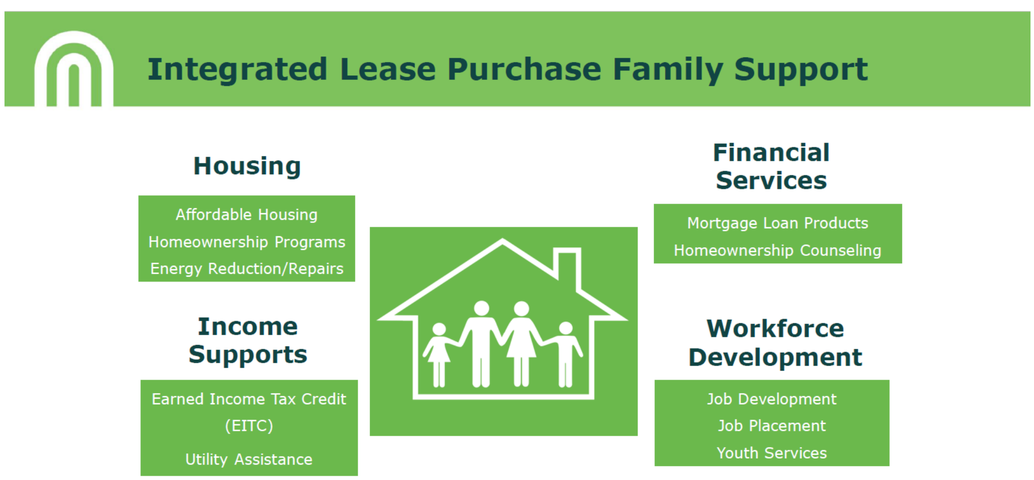
[52] layers of capital that go into purchasing and operating a commercial real estate investment (https://www.feldmanequities.com/education/everything-you-need-to-know-about-the-capital-stack/)

A. Cleveland Housing Network: The Equivalency Principle

Central to CHN's argument for the success of their lease purchase program is the "equivalency principle." The equivalency principle "maintains a family will succeed as a homeowner as long as the cost of homeownership (including insurance and taxes) does not exceed what they had previously paid in rent."[53] There are many barriers that stop people of modest incomes from becoming homeowners. One of the largest barriers and hardest to overcome is having access to enough capital to make a down payment. Without a large sum of money required to put down on a house, lower income people are stuck in an endless cycle of renting. With relatively stagnant wages and rising costs of living, it is very challenging for people who can just make rent payments to ever save enough money for a down payment. The equivalency principle says that if people are able to make consistent rent payments, they will also be able to make mortgage payments if the monthly amount is the same. The logic behind this argument is clear. If the amount does not change, someone who pays $500 a month in rent could spend $500 a month towards a mortgage. CNH, using mostly LIHTC dollars to finance their operation, understands that if they can remove the barrier of the down payment and keep costs consistent with what the tenant was previously paying for rent, they can provide people with affordable long term home ownership.

B. A Holistic Approach to Affordable Home Ownership

CHN understands that barriers to home ownership to lower income individuals are not only financial in nature. That is why in addition to providing significantly reduced monthly payments, a lower purchase cost after 15 years, and restricted access to only people on lower incomes, CHN also does periodical check-ins with their tenants, trainings and workforce development services.



As seen in the graphic above, CNH engages their tenants in an integrated lease purchase support system. Understanding all the different factors that provide someone with the environment to support their ability to own a home is absolutely critical to CHN's success. A CNBC article

[53] CHN Lease-Purchase Resident Handbook pg 5

published in 2021 about the importance of financial literacy training provided a grim view of how Americans currently stand:

> While the U.S. is the world's largest economy, the Standard & Poor's Global Financial Literacy Survey ranks our country No. 14 when measuring the proportion of adults in the country who are financially literate. To put that into perspective: the U.S. adult financial literacy level, at 57%... In the same report, it estimated only 4% of children from low-income families will break the cycle of poverty and break into the upper-middle class.[54]

One of CHN's core sections of their integrated lease purchase program is that they provide their tenants with mandatory financial services which include homeownership counseling, bookkeeping, credit counseling, and budgeting. This has proven to be very successful, since the tenants who enter into the lease purchase agreements are likely to lack proper financial literacy at the beginning of their agreement.

CHN provided us with numerous documents that further expand upon their lease purchase program. The image below shows some basic figures of their lease purchase deals from 2016-2020. They typically construct around 30 homes per year and have maintained a per unit cost of around $200,000. To scale to the size of Connecticut, HLB should look to construct around 10 homes per year with this program. However, the cost of property in Connecticut is significantly more expensive than in OH, so 5-7 homes per year using this program could be more obtainable.

Last Five Lease Purchase Deals

	Slavic Village Green Homes	International Village	La Villa Hispana	SW Detroit Shoreway Homes	Detroit Shoreway Homes
LIHTC Award Year	2016	2017	2018	2019	2020
Unit Count	37	22	30	30	30
Construction Duration (includes early starts)	May 2017 - September 2018	September 2018 – September 2019	October 2019 – November 2020	October 2020 – October 2021	*tbd*
TDC per Unit	$260,262 (per cost cert)	$271,684 (per cost cert)	$253,066 (per closing budget)	$270,330 (per closing budget)	$277,817 (as of final application)
Total Hard Construction per Unit	$190,313 (per cost cert)	$191,582 (per cost cert)	$188,586 (per closing budget)	$205,490 (per closing budget)	$210,821 (as of final application)

CHN works with numerous stakeholders to facilitate the lease purchase process. This includes investors, land banks, governments, contractors, and tenants. Land banks often provide low-cost sites for CHN to offer lease purchase housing opportunities. If the Hartford Land Bank intends to offer lease to purchase agreements to their tenants, they will have to take on much more than the land banks in Illinois who work with CHN. This is because the land banks in Illinois that work with CHN are focused solely on revitalizing blighted property and not all of the other factors that go into the functionality of the lease purchase agreements that are handled by CHN.

[54] https://www.cnbc.com/2021/05/02/op-ed-why-financial-literacy-needs-to-be-a-national-priority.html

CHN has built a scaled property management and maintenance platform with specialized skills in scattered site lease purchase portfolios. This property management unit's responsibilities are to:

- Utilize operating cash to make capital improvements throughout the compliance period.
- Judiciously utilize project reserves to pay off debt and handle major capital issues.
- Engage tenants more regularly with 6-month lease terms within 5 years of sale.
- Focus on 60% AMI income restrictions instead of deep income targeting.[55]

CHN clearly states what its role in the lease purchase agreement is. They also provide tenants with a 22-page resident handbook that explains the policies they are agreeing to adhere by in plain language. For tenant accountability reasons, this agreement is critical. But, CHN is successful because they ensure that they go over this agreement and ensure that every tenant understands it in its entirety. With well documented histories of nefarious rental agreements for lower income Americans, it is important that those entering a lease purchase agreement know the ins and outs of what they are signing up for. Transparency is a key component of success, which is why CHN has regular check-ins with their tenants, during the 15-year rental period and for 5 years after the sale of the house.

In addition to LIHTC credits, which provide the vast majority of the funding for CHN's lease purchase program, they also use HUD's HOME program. HOME funds are grants provided by HUD to assist low-income and very low-income Americans with various tenant assistance programs including rent and homeownership.[56] HOME funds are available in all states for cities and urban centers, so HLB could consider pursuing these funds to support some of their lease purchase programs.

Additional Models & Funding Resources

A. Impact Seven & Layton Boulevard West Neighbors (Milwaukee)

In Milwaukee, Impact Seven, a community development financial institution, has developed a collaborative RTO partnership with Layton Boulevard West Neighbors, a community development corporation.[57] This partnership actively searches for foreclosed property to revitalize while simultaneously providing affordable housing for low-income families. The program is primarily funded by loans from the Wisconsin Housing and Economic Development Authority and Federal Home Loan Bank of Chicago.[58] The program was created to address foreclosure rates and depreciating property values in areas with high unemployment rates and crime. In practice, it allows low-income residents to live and pay an affordable rent for 15 years, as well as receive credit towards a down payment when the resident acquires the financial resources necessary to do so.[59] The Hartford Land Bank can learn from the Milwaukee model by incorporating a community development corporation partnership in the City of Hartford. For

[55] CHN Single Family Lease Purchase Model Packet pg 6
[56] https://www.hud.gov/hudprograms/home-program
[57] PD&R Edge, "Rent-to-own Program Rehabilitates Abandoned and Foreclosed Properties" *PD&R Edge*, 2014, https://www.huduser.gov/portal/pdredge/pdr_edge_inpractice_102014.html
[58] Ibid.
[59] Ibid.

example, the Land Bank could partner with the Southside Institutions Neighborhood Alliance (SINA) and Northside Institutions Neighborhood Alliance (NINA) respectively. These alliances both “work cooperatively with community stakeholders to restore economic vitality and improve the quality of life for the benefit of the people who live, work, visit, study, and play in the neighborhoods” in the city of Hartford.[60] These organizations have access to the financial resources necessary for revitalization projects, and could generate real change in collaboration with the HLB. A link to each of these potential partnerships is listed below:

a. **Southside Institutions Neighborhood Alliance**
b. **Northside Institutions Neighborhood Alliance**

Recommendations

The team ultimately recommends that the Hartford Land Bank establish *The Hartford Continuum of Care* modeled after the Cleveland Housing Network’s lease purchase program. This program should utilize LIHTC and other funding sources to subsidize rent payments for a 15-20 year period followed by an opportunity for the tenant to purchase the home at a lower than market rate. Additionally, the team has put together a non-exhaustive list of integrated family support systems that HLB should establish to work in conjunction with their rent to own agreements.

A. The Hartford Continuum of Care

60 “Mission & Vision.” *Southside Institutions Neighborhood Alliance (SINA)*, https://sinainc.org/mission-vision/.

B. Important Considerations for Hartford

While Cleveland and Hartford share many characteristics as American legacy cities, Cleveland is roughly three times the size of Hartford. Using a cost-of-living calculator, it is apparent that housing prices are significantly greater in Hartford than in Cleveland.[61] According to the calculator, the average cost of a home in Hartford is $135,100 while it is just $68,900 in Cleveland. Additionally, CHN says that an organization that facilitates LIHTC lease purchase agreements must achieve a critical mass of 30-40 homes for the project to be financially feasible.[62] The HLB should look to LIHTC to fund their lease purchase program, but it is unlikely that LIHTC funds will be able to finance 30 homes in the program's first year. There are other avenues of funding and the smaller scale in Hartford could mean that 30 homes are not necessary for success, but it is an important barrier for HLB to consider. Fortunately, CHN works with local Cleveland land banks to purchase lots for the development of their lease purchase homes. Since HLB is Hartford's landbank, they will have complete control over these lots and have a deep understanding about which ones might be best for these sorts of developments. Overall, HLB can learn a great deal about lease to purchase home ownership agreements from the CHN but will have to adjust their plans to the more expensive market here in Connecticut.

[61] https://www.bestplaces.net/religion/city/ohio/cleveland & https://www.bestplaces.net/cost_of_living/city/connecticut/hartford

[62] CHN Housing Partners Lease Purchase 2.17.21

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