OFFICE OF AFFORDABLE HOUSING RESEARCH

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Evaluating OHFA's Lease-Purchase Housing Model

Dr. Holly L. Beard, Office of Affordable Housing Research
Christin Doyle, Master's Candidate in City Planning and Public Policy, The Ohio State University
Ohio Housing Finance Agency
57 East Main Street, Columbus OH, 43215
614.752.9429 | hbeard@ohiohome.org

Ohio Housing Finance Agency

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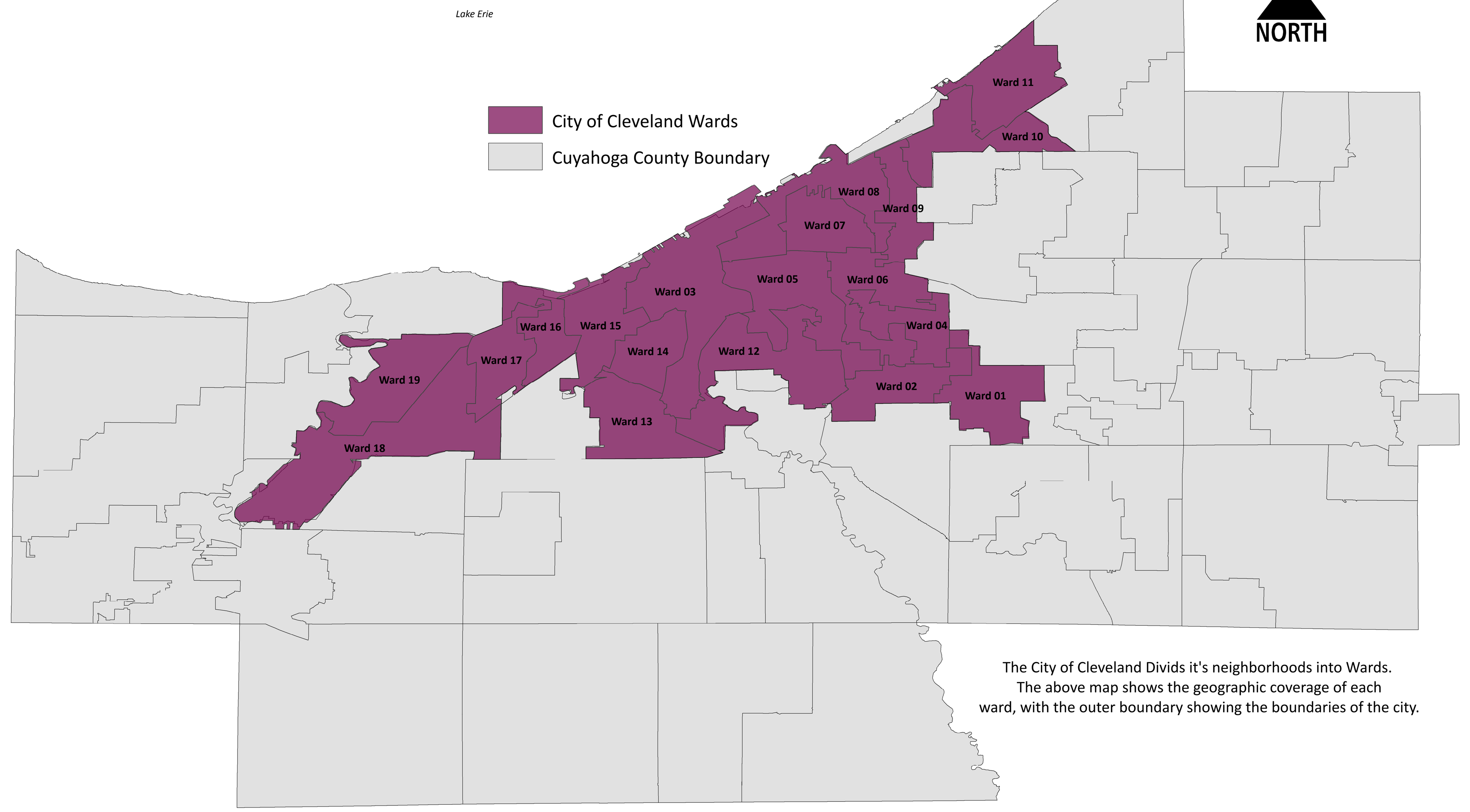
Abstract

According to 2006-2008 American Community Survey, there are an estimated 15.6 million vacant residential properties in the U.S. Over 3% or 550, 000 of these vacant properties are estimated to exist in Ohio alone. The increased prevalence of vacant properties is due, in part, to the collapse of the housing market, the Great Recession, and continuing economic uncertainty. Aimed at helping low-to- moderate income families become homeowners, the use of Low-Income Housing Tax Credits (LIHTC's) for Single Family Lease Purchase (LP) homes could be one way to mitigate the negative impact of vacant properties through community stabilization and revitalization. Using administrative data from the Ohio Housing Finance Agency and its syndicators and non-profit sponsors, the research conducted evaluates the effect of one LP project in Cleveland after the 15 year compliance period. Our objective is to examine the neighborhood effects of these LIHTC Lease Purchase scattered site projects in Ohio, and eventually translate the findings to inform housing policy and the allocation of single-family lease purchase funds.

Key Points

- Non-Profit developers receive Low Income Housing Tax Credits (LIHTC's) through an annual competitive funding round, and use the funds to acquire and rehabilitate vacant housing structures. The structures are then rented to and occupied by income-qualified tenants making 60% or less of the Area Median Income (AMI), whose rent payments partially help pay down the mortgage. After their 15 year "affordability period," the house is put up for sale with the intention of the long-term tenant purchasing the structure for the remaining balance of the mortgage.
- The aim of this project was to establish preliminary research on the use of Single Family Lease-Purchase (LP) in Ohio to create affordable housing and eventual homeownership for income-qualified residents Further research will enable us to add all 5,000+ units of Lease Purchase from 1990 to present into our data base, and we aim to develop a reliable multivariate regression model that effectively captures the success rate of this model as well as any effects that homeownership may have on the surrounding neighborhoods.
- This research created a "snapshot" of one LP project place in service in 1992, with units transitioning to individual ownership beginning in late 2007 to early 2008. Of the 65 structures, 53 have been bought by individuals who lived in the structures during the 15 year compliance period, 36 of which were long term tenants. The average tenure was 7.23 years, and the average sale price was $17, 362.
- Rehabilitation costs vary widely, as some of the 65 structures contained two or three units. Condition of the property upon acquisition is an unknown variable. Federal minimum standards require a rehabilitation value of at least $3,000; however none of the units were renovated at this bare minimum. Sixty- nine percent of the properties underwent a significant rehab valued above $20,000, and the average rehab cost was $28,231.
- The remaining 12 structures have sold to property management companies or other individuals, but due to the restrictive covenants placed on the land, must remain affordable. This means that even if the units remain as rental property, they must be leased only to income-qualified tenants, with incomes at or below 60% of AMI.
- Using data from the 1990 and 2000 Decennial Census reports, we analyzed changes in the larger neighborhoods that contained LP homes. This analysis was conducted at the census tract level, using homeownership and median income as variables. We found no significant changes within the larger neighborhoods for any of these variables.
- Final analysis of the full data set is expected to have several implications for OHFA Lease-Purchase policy. If neighborhood effects are found, the agency may decide to pursue the following:
  - encourage strategic acquisition of properties, or limit the geographic scope of projects;
  - require additional maintenance reserves in financial underwriting to assure Y15 buyers are not suddenly burdened with necessary repairs; or
  - encourage programs for renters to support their transition to homeownership and prepare them for success.
- City Planners must address housing needs as a crucial part of their task in improving neighborhoods. This poster could inform administrators, planners, Community Development Corporation members, and housing advocates to the potential benefits of using LP in their own communities as a strategy of revitalization.



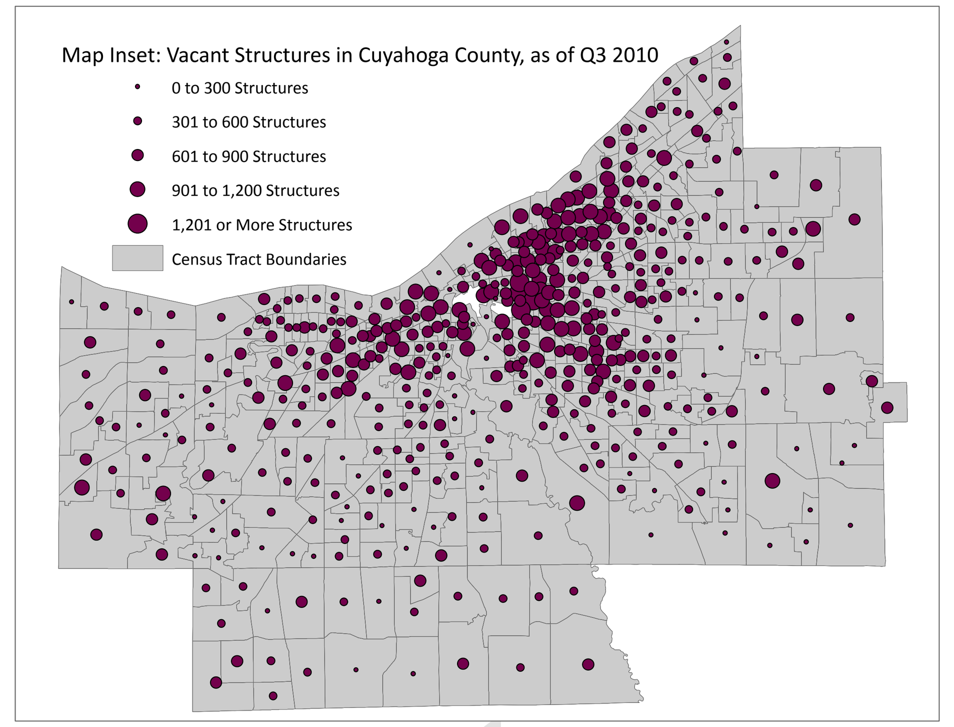
The City of Cleveland Divids it's neighborhoods into Wards. The above map shows the geographic coverage of each ward, with the outer boundary showing the boundaries of the city.

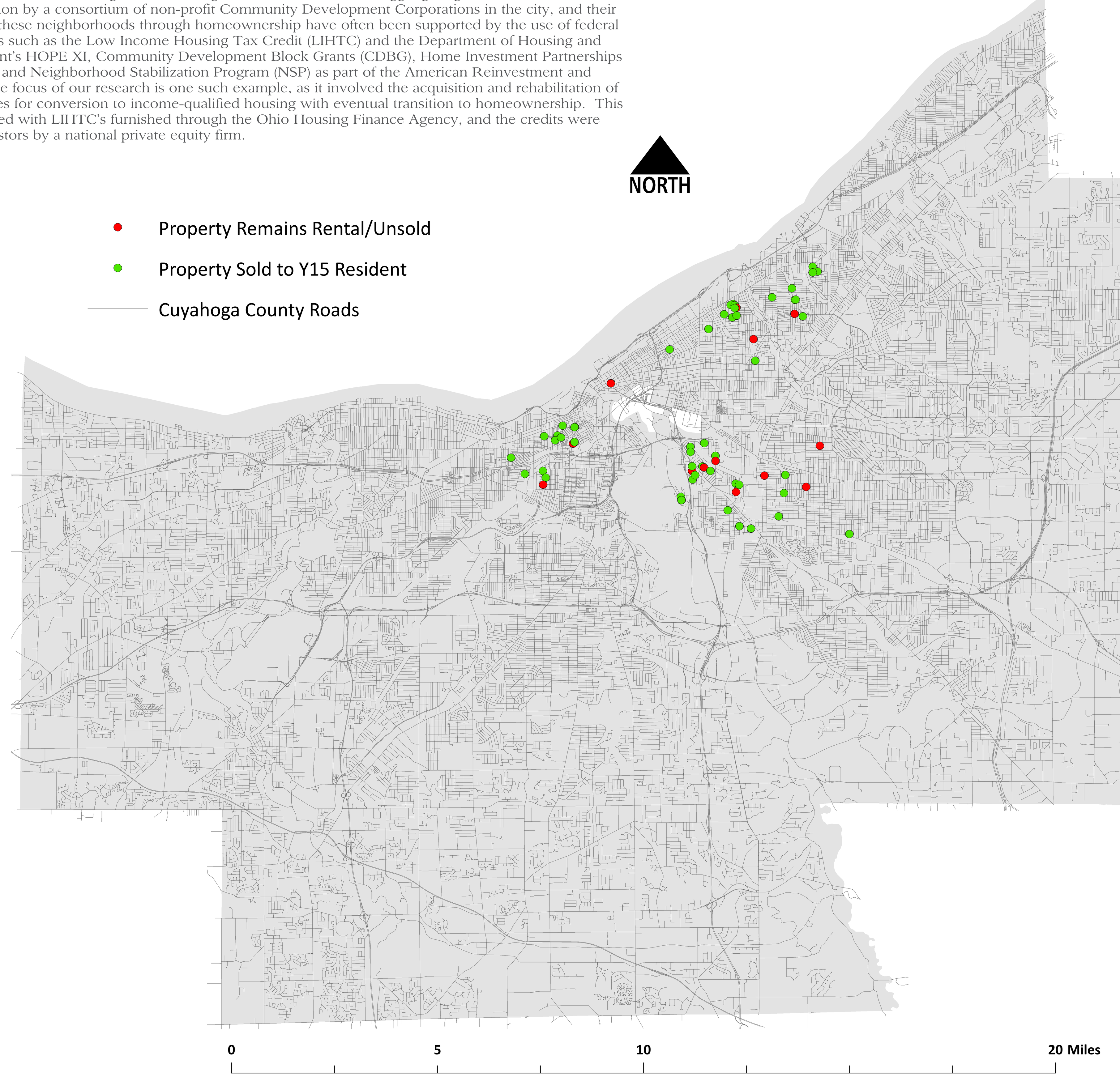
Cleveland, OH At-A-Glance

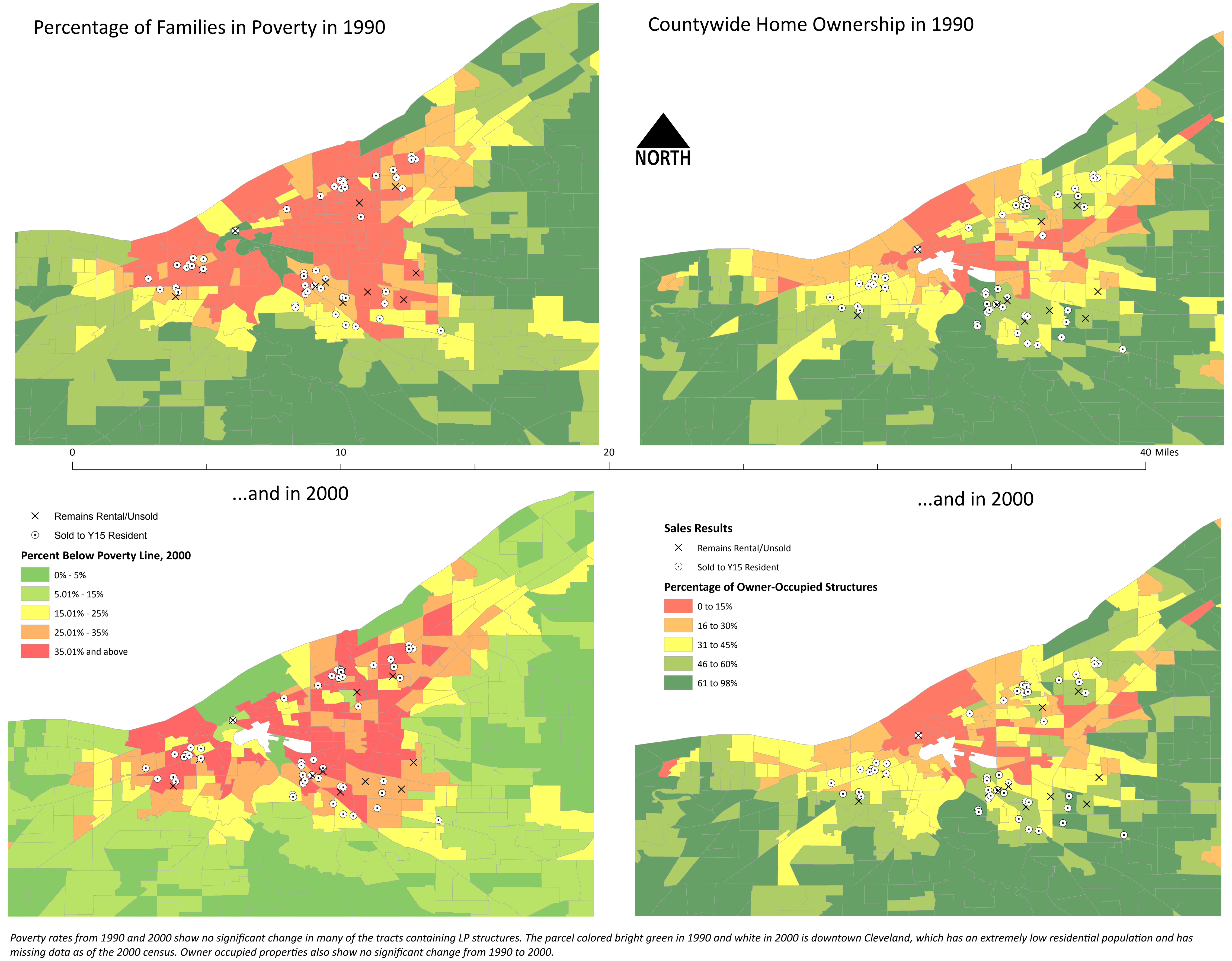
Cleveland, like many cities of the post-industrial "Rust Belt," has struggled over decades with inner city population loss, suburban sprawl, and the decline of manufacturing and other blue collar jobs. According to US Census data, the city has been losing residents since 1950. The mid-century era was far from kind, as Cleveland gained national negative attention for a series of race riots in 1968, a burning oil slick on the Cuyahoga River in 1969, and a financial crisis that led the city into default on its federal loans in 1978. The recession of the early 80's also hit Cleveland hard, resulting in the closure of a General Motors parts plant as well as two steel manufacturing operations.

The 1990's saw several intense "come-back" efforts by city leaders, and redevelopment of the waterfront and downtown including the Great Lakes Science Center, the Rock & Roll Hall of Fame, Quicken Loans Arena, home base of the Cavaliers, Cleveland Browns Stadium, and Progressive Field, home of the Indians. Economically, the city has diversified its business footprint to include service sector jobs, as well as several firms in the insurance, financial services, and healthcare sector. However, the recent progress has yet to mitigate the problems indicative of the previous century's decline: brain drain, a shrinking tax base, and struggling schools. Between the year 2000 and the year 2010 alone, the City of Cleveland lost 17% of its urban population, and now sits at just under 397,000 residents--less than half of its 1950 population of roughly 950,000.

Inner-city neighborhoods that make up the first ring suburbs suffer from lack of investment, high rates of poverty and vacancy, and in some cases, higher than average rates of crime. Such struggling neighborhoods have been the focus of revitalization by a consortium of non-profit Community Development Corporations in the city, and their efforts to stabilize these neighborhoods through homeownership have often been supported by the use of federal financing programs such as the Low Income Housing Tax Credit (LIHTC) and the Department of Housing and Urban Development's HOPE XI, Community Development Block Grants (CDBG), Home Investment Partnerships Program (HOME), and Neighborhood Stabilization Program (NSP) as part of the American Reinvestment and Recovery Act. The focus of our research is one such example, as it involved the acquisition and rehabilitation of 65 vacant structures for conversion to income-qualified housing with eventual transition to homeownership. This project was financed with LIHTC's furnished through the Ohio Housing Finance Agency, and the credits were syndicated to investors by a national private equity firm.







Poverty rates from 1990 and 2000 show no significant change in many of the tracts containing LP structures. The parcel colored bright green in 1990 and white in 2000 is downtown Cleveland, which has an extremely low residential population and has missing data as of the 2000 census. Owner occupied properties also show no significant change from 1990 to 2000.

Who We Are

The Ohio Housing Finance Agency (OHFA) makes affordable housing opportunities available to low- to moderate-income Ohioans, including first-time homebuyers, renters, senior citizens, and other populations with special needs. Formerly a division of the Ohio Department of Development, OHFA became an independent state agency on July 1, 2005. Our independent status allows us to institute cost-saving measures and achieve efficiencies to better serve Ohio's long-term affordable housing needs.

What We Do

OHFA helps low- to moderate-income Ohioans purchase new homes or find quality, affordable rental housing. Through a variety of different programs, OHFA:

- Provides low-cost mortgages to homeowners and homebuyers
  Through partnerships with real estate professionals and mortgage lenders throughout the state, OHFA's Office of Homeownership offers low-interest loans to first-time homebuyers and buyers purchasing homes in HUD's target reinvestment areas.
- Offers financial incentives for developers to increase the supply of affordable rental housing
  OHFA's Office of Planning, Preservation, and Development administers different funding programs, including the federal Housing Credit Program, which for-profit and nonprofit developers can use to reduce costs associated with developing or rehabilitating affordable rental housing.
- Helps property managers maintain safe, decent, affordable housing environments
  OHFA's Office of Program Compliance monitors more than 1,000 tax credit properties throughout the state to ensure compliance with program regulations.

How We Do It

OHFA funds low-cost mortgage loans and finances the development and rehabilitation of affordable rental housing primarily by issuing tax-exempt mortgage revenue bonds. Since its inception, OHFA has issued more than $10 billion in single-family mortgage revenue bonds and $614 million in multifamily mortgage revenue bonds, resulting in $6.5 billion in mortgage loans to more than 100,000 Ohioans and the creation of more than 87,400 affordable rental housing units. To learn more, visit www.ohiohome.org.

Acknowledgements: Adam Anderson, OHFA Policy Research Assistant

The coordinate system used for these maps is GCS North American 1983, with the North American 1983 Datum and Units in Degrees. Data for this project was provided by the following resources: Cuyahoga County Department of GIS, Ohio Geographically Referenced Information Program (OGRIP), United States Census Bureau FactFinder, Ohio Housing Finance Agency, and the United States General Services Administration (www.data.gov)