

Ten Years of Lessons Doing Lease to Purchase

William Goldsmith, President
Mercy Portfolio Services

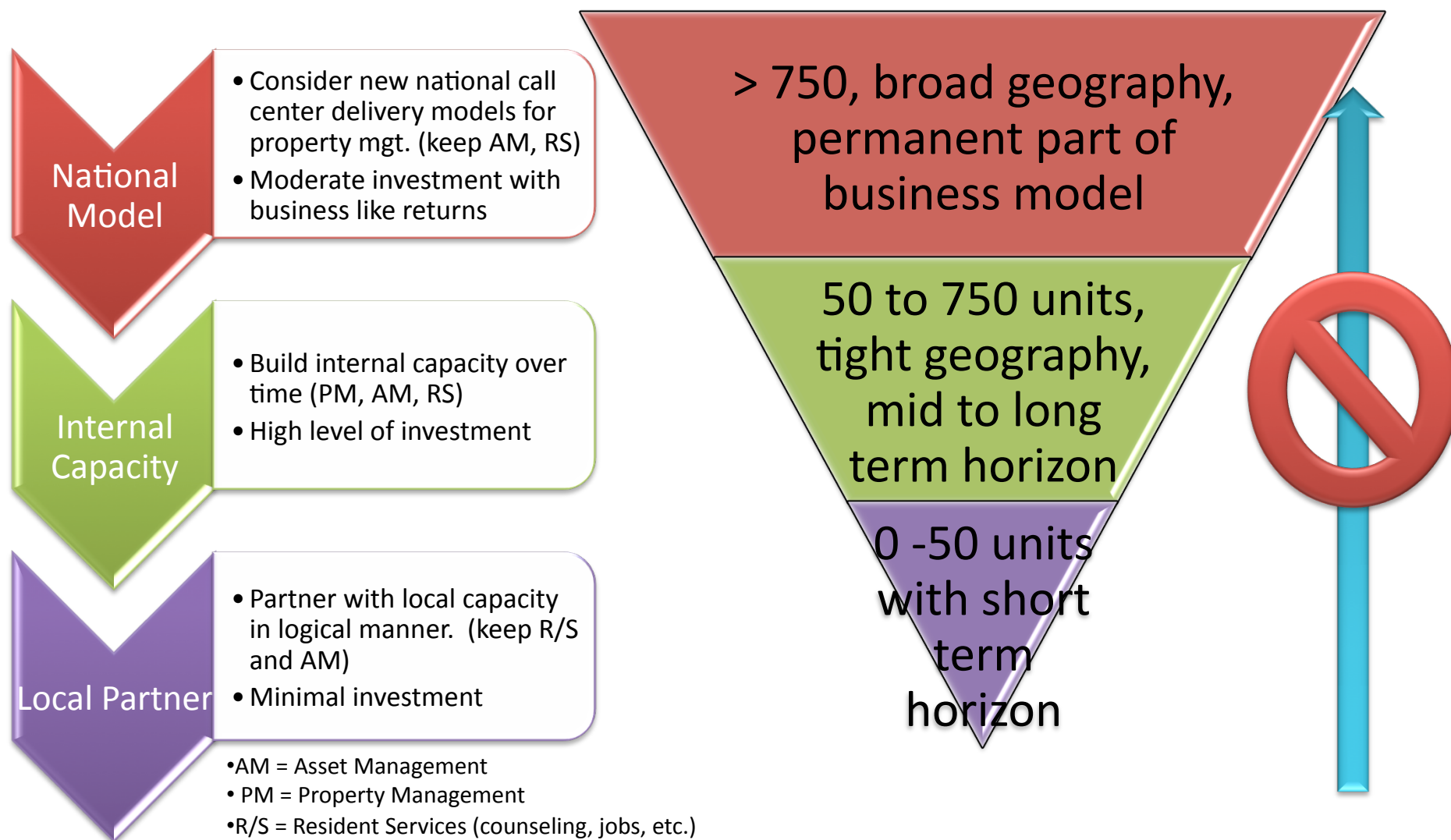
Context

- New Cities CDC: faith-based CDC in partnership with Alinsky-style parent in south Cook County
- High concentration of FHA foreclosures, contributor to cycle of neighborhood and market decline
- HOPE III: Received three HOPE III grants starting in 1991. Had already bought and rehabbed 120 homes before HP3.
- \$22MM purchase-rehab LOC with 11 banks
- FHA First-Look Program with 15% discount (NPA)
- 457 single-family homes in 12 municipalities
- Markets varied from:
 - Relatively strong such as South Holland and Country Club Hills
 - Modest but struggling such as Riverdale, Chicago Heights and Dolton
 - Very weak such as Robbins, west side of Harvey or east Markham
- Primary marketing through member churches with goal of 100% for-sale. Was not working, so began to move toward lease to purchase.

Weak * Weak * Weak * Weak * Weak = Weak⁵

- **Weak 1: Weak Homes** - frame houses that did not have the benefit of construction subsidy because we did not have HOPE III funds or any other sources of government subsidy, resulting in a less than optimal scope of work.
- **Weak 2: Weak Markets** - these were places where families did not want to make an equity investment because of high taxes, disinvestment and crime mostly driven by the crack epidemic.
- **Weak 3: Weak Buyers** - bad credit, no real interest in becoming a homeowner, with few options in the marketplace.
- **Weak 4: Weak Rental Property Infrastructure** - New Cities was a for-sale CDC doing the hardest kind of rental with no infrastructure. We fell into lease to purchase instead of designing systems to manage it as a separate and distinct asset class with its own unique challenges and requirements.
- **Weak 5: Weak Capital Structure** – New Cities purchased its first 120 properties without any of the above or HOPE3 to serve as equity.

Begin with the End in Mind



One Response Example

- **Strength: Markets of Relative Strength**
- **Strength: Quality Housing Stock Rehabbed for Sustainable Occupancy**
- **Strength: Strong Families that have proven their commitment to homeownership**
 - Six week Home Buyer Education
 - Commitment to clean credit and savings
- **Strength: Capital alignment with ultimate strategy**
 - Source of inexpensive equity
 - DSCR: 1.3 or higher
 - Strong reserves
 - Careful on setting end sales price
- **Strength: Strong Lease to Purchase Infrastructure if committed to building internal capacity**
 - Staff with relevant experience
 - Home Buyer Education and Counseling Program (understand residents' strength and weaknesses)
 - Leasing Systems – Hard job, often overlooked
 - Project Delivery and Accounting Systems
 - Asset management as distinct from property management
- **Good tracking systems such as Developer Central (see www.developercentral.us)**