Staying in Place to Get Ahead
Creating Renter Stability through Master Leases with Built-in Savings Accounts

By Andrew Jakabovics and Allison Charette

June 2016
ABOUT THE AUTHORS

ANDREW JAKABOVICS
Andrew is senior director of Policy Development & Research at Enterprise. He writes about emerging housing and community development issues and trends; analyzes housing, economic and demographic data; and makes data-driven policy recommendations. Prior to joining Enterprise, he served as senior policy advisor to the assistant secretary for Policy Development and Research at HUD, where he provided policy recommendations and analysis to the assistant secretary, secretary and other senior staff both within HUD and across agencies. You can follow him on Twitter at @ajakabovics.

ALLISON CHARETTE
Allison is a senior policy analyst on Enterprise’s Policy Development & Research (PD&R) team. She conducts research and analysis on housing and community development policy, focusing specifically on health- and education-related issues. She is the managing editor of Enterprise's daily Community Developments newsletter and has co-authored additional PD&R reports, including Projecting Trends in Severely Cost-Burdened Renters and Food at Home: Affordable Housing as a Platform to Overcome Nutritional Challenges. Allison earned her master’s degree in Public Policy from the American University School of Public Affairs in Washington, D.C.

ACKNOWLEDGEMENTS
This research was funded by the Annie E. Casey Foundation. We thank them for their support and acknowledge that the findings and conclusions presented in this report are those of the authors alone, and do not necessarily reflect the opinions of the Foundation.

ABOUT ENTERPRISE COMMUNITY PARTNERS, INC.
Enterprise works with partners nationwide to build opportunity. We create and advocate for affordable homes in thriving communities linked to good schools, jobs, transit and health care. We lend funds, finance development and manage and build affordable housing, while shaping new strategies, solutions and policy. Over more than 30 years, Enterprise has created nearly 358,000 homes, invested nearly $23.4 billion and touched millions of lives. Join us at www.EnterpriseCommunity.org.

Enterprise’s Policy Development and Research team provides thought leadership and data-backed recommendations to influence housing and community development policy, addressing both emerging policy issues and long-term needs. Follow us on Twitter at @E_HousingPolicy.

Cover photo by Gabor Ekecs.
Copyright © 2016 Enterprise Community Partners, Inc.
# CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>4</td>
</tr>
<tr>
<td>Introduction</td>
<td>5</td>
</tr>
<tr>
<td>Leveraging a Master Lease Model to Create Stability</td>
<td>7</td>
</tr>
<tr>
<td>Owner Benefits</td>
<td>8</td>
</tr>
<tr>
<td>Specific Benefits for Small Multifamily Properties</td>
<td>9</td>
</tr>
<tr>
<td>Leveraging Existing Units: High-Opportunity Places and Pre-Gentrifying Neighborhoods</td>
<td>10</td>
</tr>
<tr>
<td>Creating Opportunities For Low- and Moderate-Income Households</td>
<td>10</td>
</tr>
<tr>
<td>Scaling Up the Program</td>
<td>11</td>
</tr>
<tr>
<td>Additional Benefits From This Model</td>
<td>11</td>
</tr>
<tr>
<td>Incorporating Tenant Savings Accounts into Rental Housing</td>
<td>12</td>
</tr>
<tr>
<td>Broad Benefits of Renter Stability</td>
<td>14</td>
</tr>
<tr>
<td>Individual and Family Benefits of Stability</td>
<td>14</td>
</tr>
<tr>
<td>Owner Benefits of Stability</td>
<td>18</td>
</tr>
<tr>
<td>Community Benefits of Stability</td>
<td>19</td>
</tr>
<tr>
<td>Conclusion</td>
<td>20</td>
</tr>
<tr>
<td>References</td>
<td>21</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

Renters today are facing the most serious affordability crisis in U.S. history, particularly low- and middle-income earners. In 2014, nearly half of all renters were paying more than 30 percent of their incomes for housing, including more than 26 percent of renters who devoted over half of their incomes to this necessity. With housing demanding so much of their budgets, families have little left for other essentials like food, transportation and health care. When unexpected expenses come up, renters often face eviction, making it difficult to remain in one residence for a long period.

In this paper we propose a master lease program that can offer low-income renting families greater housing stability while reducing their costs and helping them build savings. Under this approach, a nonprofit or mission-driven organization would gain long-term access to units in existing buildings through a master lease arrangement – a multiyear, fixed-price contract between the owner and nonprofit for control over some or all the units in a building – modeled on standard commercial leases. There would be multiple benefits from this arrangement:

- The master lease would protect the owner against vacancy risk and turnover costs.
- In exchange for the annuitized cash flow paid out by the nonprofit, the master lease would be priced below market, allowing the nonprofit to price individual units affordably.
- Because the nonprofit’s lease would run as long as a decade with known escalations, tenants could also be offered long-term, multiyear leases with protections against rent shocks.
- This lease structure would continue to provide tenants the flexibility of renting but also allow them the kind of cost control that is one of the benefits associated with long-term, fixed-rate mortgages.

At a time when federal funds for rental assistance programs are disappearing, this unsubsidized program could provide much needed rental housing to low-income families. To the extent that some discounts are needed to make units affordable to tenants, the nonprofit could cross-subsidize by pricing some units at market rates. We believe the model could be particularly impactful for small multifamily properties and in neighborhoods at risk of gentrification that would displace long-time residents.

An important element of the model is a savings component woven into the tenants’ monthly lease payments. A small amount each month – we propose $25 – would be allocated to a custodial savings account in the tenant’s name. The goal is to provide a liquid financial cushion that could be called on in the event of unanticipated expenses – car problems, medical bills, etc. – and would keep the family from having to choose between meeting crisis expenses or failing to pay rent and therefore risk eviction. With the addition of a simple match program, at $25 per month and without any withdrawals, a family would have $600 in reserve after one year, equal to the median liquid savings among low- and moderate-income households.
INTRODUCTION

The share of American households who rent now stands at 36.3 percent. This translates into nearly 45 million renter households. Moreover, it has been predicted that by 2023, there will be between 4 million and 4.7 million new renters, and a recent analysis argues that the share of renter households will continue to increase through 2030. Some of these renters hope to become owners in the future, but for an increasing number of families, renting is a long-term if not permanent living situation. The stresses on many of these renters are increasing: In 2014, one-quarter of all working renters spent at least half their income on housing, an untenable situation driven by the twin factors of increasing rents and stagnant wages. Similarly, the 65+-plus population is projected to increase by more than 50 percent by 2030, and many of these seniors will have fixed incomes. If rent increases outpace cost of living adjustments, older renters will face even greater challenges.

While some argue that renters have more mobility to take advantage of economic opportunity than owners, frequent, involuntary moves are often damaging to families and the communities and buildings through which they cycle. Highly mobile households, also called “churning” movers, currently make up 46 percent of all moving families with children. They often have low incomes and move frequently over short distances, usually out of economic necessity. In his new book, *Evicted: Poverty and Profit in the American City*, Harvard sociologist Matthew Desmond writes about the devastating effects of eviction and the low-income families who become trapped in a cycle of poor quality housing, eviction and homelessness.

Churning movers could benefit enormously from rental assistance, but shrinking funding for housing and community development programs prevent the majority of eligible individuals and families from receiving help. It is estimated that only one-quarter of income-eligible households receive housing assistance. While the Bipartisan Policy Center’s Housing Commission has called for a “transition to a system in which our most vulnerable households, those with extremely low incomes (at or below 30 percent of area median income) are assured access to housing assistance if they need it,” shifting to such a system is unlikely in the near term.

Recent research has also highlighted the precarious financial situation of many families, which undoubtedly plays into frequent moves. The JPMorgan Chase Institute, based on an analysis of a sample of the bank’s customers, found that most individuals had significant fluctuations in income over the course of a year. Similarly, the Pew Charitable Trusts reported that nearly half of all households saw a 25 percent change in income over a two-year period. The same study noted that the poorest 20 percent of households had only nine days of income in liquid savings, and the next 20 percent only had 15 days of accessible savings. Moreover, “some or all of those funds may be earmarked for upcoming regular expenses such as food or housing,” according to Pew.

A solution to improving the stability of at-risk families, therefore, lies with keeping rents in check and developing mechanisms to buffer income fluctuations and unanticipated expenses that may otherwise lead to evictions. Policies and programs to address these needs have included asset-building tools, but many of those programs focus on long-term savings and limit the circumstances under which funds may be withdrawn.
There are certain benefits homeowners receive that renters do not, including the stable costs and the forced savings that mortgage payments create. As the number of renters continues to grow, and as we struggle as a country to create access to and sustain a middle class, there is an increased need to afford renters some of the financial benefits generally associated with homeownership.

A great deal of work has been done around individual development accounts and other savings mechanisms. For renting families where a reduced or missed paycheck can result in eviction, savings accumulated over time as a result of locking in rents in today’s dollars or even explicitly built into the monthly rent could help families remain in place during periods of stress. We believe it is feasible to incorporate a savings program into property management. Therefore, in this paper we consider how funds might be established to serve as rainy-day reserves for renters with volatile incomes.

Specifically, the paper proposes a master lease program run through a nonprofit or mission-driven organization to gain long-term access to units in existing buildings. It places a third party between the landlord and the tenant; this organization will offer protection against vacancy risk to the owners and long-term leases to the tenants. This model will make rental units more affordable for low- and moderate-income households without deep subsidy.

Longer-term leases are common in commercial real estate, and automated transfers into savings accounts are easily accomplished with most banks. A long-term lease structure keeps the flexibility of renting for tenants but also allows for a measure of cost control that mirrors a benefit that comes with long-term, fixed-rate mortgages. Incorporating these and other items typically associated with homeownership into standard residential leases would potentially allow renters to gain another advantage of homeownership, increased stability.

Overall, the purpose of this proposed program is to offer low-income renting families greater housing stability. If renters are securely housed for longer periods, adults can achieve greater work stability, children can benefit academically, and families can have more opportunities to save money and plan for the future. These individual and family benefits could improve communities, and the landlords and building owners who rent to low-income families could also gain.

This paper is organized in three parts. The first describes the structure of the master lease program and walks through critical elements of implementation. The second details how it is possible (as well as desirable) to incorporate a savings and asset building component into the program. Finally, drawing on reviews of the existing literature, we consider the benefits of widespread adoption of master lease programs – for individuals and families, for property owners and for communities.
LEVERAGING A MASTER LEASE MODEL TO CREATE STABILITY

Under the master lease model, a nonprofit with experience in housing would enter into a master lease agreement with a property owner in order to rent units to lower-income households. By contracting with a property owner to master lease a portion of a building for an extended period using a standard commercial lease structure, the nonprofit can shield the occupants from market pressures and rent hikes. The standard format of a commercial lease allows for modest but known increases in rent over the life of the lease.

From the owner’s perspective, contracting with a well-capitalized organization reduces the number of units subject to vacancy and non-payment risk. In exchange for accepting those risks, the nonprofit should be able to negotiate access to the units at a reasonable discount to prevailing market rents, with an ability to pass some of the resulting savings along to its tenants. Moreover, with access to foundation support or flexible state or local funds that would allow for a shallow subsidy (or a large portfolio of units that would allow for cross-subsidization), the nonprofit could offer tenants significantly below-market rents and flexible payments, further reducing the risk of eviction and increasing stability.

Overall, market-rate properties have significantly higher turnover rates than subsidized properties (on average, 55 percent annual turnover versus 37 percent), and market-rate properties have higher losses due to vacancies than do subsidized properties. Vacancy and turnover costs can range from $1,500 to over $5,000 per unit, with $2,000 a commonly cited figure. When we consider the difference between the average turnover rate for market-rate and subsidized properties, there is a clear opportunity to negotiate for a master lease contract that provides the property owner with similar net operating income and leaves the nonprofit sufficient flexibility to offer below-market rents while still covering its own operating costs.

This model generally aims for nonprofits to gain access to properties that already are naturally affordable in an effort to preserve that affordability over the medium term (seven to 10 years). This master lease length may not align with the term of financing on the property or with the owner’s desired holding period. Therefore, any master lease contract should stipulate that the lease should survive changes in ownership (also recognizing that the master lease potentially adds value to the property) or, perhaps, offer the nonprofit a right of first refusal should the owner decide to sell.
Although this model would not establish permanent affordability, it would protect the tenant from rent uncertainty for a significant period. Integrating a nonprofit into a privately owned property would also provide an on-site advocate for tenants and a reliable source of rent payments for landlords. As described below, there is evidence that owners benefit when there is an intermediary between them and their tenants.

**How a Master Lease Program Works**

- Negotiate long-term contract for block of units
- Establish responsibilities for management

**OWNER**

- Lease and manage units
- Establish savings program

**NONPROFIT**

- Negotiate long-term contract for block of units
- Establish responsibilities for management

**TENANTS**

**OWNER BENEFITS**

Multifamily property owners take on a certain level of vacancy and turnover costs when managing rental units. Even in a highly stable rental market, an owner will incur vacancy and turnover costs – not only from rent lost when a unit lacks tenants, but also as a result of paying for repainting, updating, cleaning, and other refurbishing activities to ready the unit for a new tenant, as well as marketing the newly vacant unit. These costs add up, particularly when turnover rates are high.

An owner could actually benefit from slightly lower levels of rent if those payments are guaranteed for the full contracted period, regardless of occupancy. It would be the nonprofit’s responsibility, after all, to fill the units and take on any turnover costs. As a result of this relationship, owners would have zero vacancy risk for the nonprofit’s units. Based on the specific terms of an agreement, owners could also save through lower refurbishing, updating, administrative and other costs. Additional upkeep and maintenance costs unrelated to turnover would likely remain the responsibility of the property owner but would have to be worked out between the parties.

The master lease model is predicated on negotiating for a share of units in an already leased-up building. Through the course of our research, the question of how current management would feel about handing control over tenant selection to an outside party has come up. Similarly, the issue has been raised from the perspective of existing tenants and their comfort with sharing their building with lower-income residents. We believe the issue boils down to perception, rather than reality, that the new residents would fundamentally change the makeup of the property.
Nevertheless, this perception must be acknowledged and addressed. We believe that the best way to overcome this challenge is to have the nonprofit show the market-rate owner the communities it currently owns and operates, along with sharing the screening criteria.

Another approach, if partial access to a property proves too difficult, is to negotiate outright for a master lease on an entire property. Using this strategy, existing tenants need not be displaced; they would simply see a change in the management company. As units become vacant, the nonprofit would have the ability to make those units available below market.

SPECIFIC BENEFITS FOR SMALL MULTIFAMILY PROPERTIES

For small (typically defined as fewer than 49 units) multifamily properties, the optimal strategy would be to contract with the ownership for access to the entire building and become the management company. Unlike a standard management company, whose responsibility is to maximize profits for the owners, the nonprofit management company would factor in the personal and financial needs of the tenants as well. As with the basic model described above, owners would give up outsized rent increases in exchange for certainty of payment. Instead of a standard management contract that would offer fee for service with all net proceeds flowing back to the owner, the contract would offer a guaranteed payment stream to the owners while giving the nonprofit flexibility to manage the building based on mission and finances.

This simplified version of the master lease model may be attractive to owners of smaller multifamily buildings, many of whom are individuals rather than corporations. Over 25 percent of 25- to 49-unit buildings are owned by individuals or held in trusts for estates; the share exceeds 62 percent of 5- to 24-unit properties.¹⁵ For many owners of smaller properties, property management is only a part-time activity and source of supplemental income;¹⁶ as these owners age, they may be less interested in or capable of maintaining and managing the properties. The master lease arrangement might prove an attractive option for these owners by allowing them to have annuity income and retain title (and thus pass the asset on to their heirs) while absolving themselves of operational responsibilities. Alternatively, a right of purchase at the end of the master lease could also be included. The owners may value having a ready buyer on hand and benefitting from the cash from the sale (as well as avoiding broker fees), which would also make it easier to divide assets among heirs and free them from having to dispose of potentially unwanted real estate.

Moreover, to the extent that smaller, older properties may need rehabilitation and are often harder to finance, a relationship with a nonprofit through a master lease may also provide some capital for improvements. If the nonprofit can access philanthropic or public funds for affordable housing, it can act as a conduit for low-cost capital. By passing through the subsidized funds to the property owner, the nonprofit can use the reduction in debt service to lower rents or gain access to more units. Further exploration of the optimal structure of this type of arrangement from a tax perspective is needed.
LEVERAGING EXISTING UNITS: HIGH-OPPORTUNITY PLACES AND PRE-GENTRIFYING NEIGHBORHOODS

As opposed to most other affordable housing development or preservation programs, this model is designed to work in already leased-up (or immediately leasable) buildings. It would be the goal of the nonprofit to look at the existing stock of rental housing, identify opportunities and act when units turn over.

Generally speaking, bringing new affordable units online requires significant time and capital. This model is a way to expedite the process by repurposing existing units as affordable housing. While it would take time for turnover to occur in existing properties, it would still take less time and less capital than new development. This is not to say that lawmakers should not commit funds to build new affordable units – that capital investment is crucial for creating long-term, permanently affordable housing. However, this model could augment that process and expand affordable options beyond new units, including in high-opportunity neighborhoods without developable parcels or buildings for sale.

As rents continue to rise in almost every part of the country, the pressure on neighborhoods that have long been affordable has multiplied. Areas that are close to downtown or feature other amenities (including improved transit access) are especially at risk of gentrification, but not all neighborhoods will ultimately feel the pressure of gentrification. Because the master lease model requires no capital investment in specific properties, adopting it in a small number of affordable neighborhoods at risk of gentrification can provide an efficient way to preserve affordability while minimizing the risk that comes from betting wrong on where prices will rise rapidly. The master lease model can be a way to get a toehold into multiple neighborhoods ahead of the market with relatively little downside risk – if the affordable neighborhood never gentrifies, nothing has been lost, and the quality of the management and tenant experience is likely to improve. At the same time, scarce long-term capital will not have been committed to a place that will remain affordable, leaving those funds to preserve affordability in neighborhoods that ultimately saw gentrification and displacement.

CREATING OPPORTUNITIES FOR LOW- AND MODERATE-INCOME HOUSEHOLDS

Once the nonprofit has control of a unit, it would then rent it out at the price it chooses. The nonprofit can designate units at different below-market rates and even keep some at market rate. This flexibility gives the nonprofit the ability to meet the income limitations of a given community. Any subsidy to fill the gap between paid rent and owed rent could come from a number of sources, including public programs, foundation grants or other private funding. This subsidy could be kept relatively low, particularly if some of the nonprofit’s units were rented at market rates. (We also believe that this model could be eligible for participation in HUD’s project-based voucher program, but further exploration is needed.)

This model is not just meant to reduce the cost of rent, but also to make rent payments more flexible for tenants. Research has shown that families living paycheck to paycheck have difficulty
making rent payments when financial emergencies come up, such as unexpected medical expenses or car repairs. In many cases, these competing demands lead to families being evicted and having to find new housing. Under this model, tenants would not skip rent payments when emergencies occur but work with the nonprofit to create temporary payment structures in order to avoid missed rent and eviction. Similar to Cornerstone’s Renter Equity Program (as detailed on page 16), this system would essentially work as a zero-interest short-term loan. Tenants would not have to choose between eviction or high-interest payday loans, as many low-income households currently must.

This structure would also give low- and moderate-income households greater access to opportunity. When families spend more than 30 percent, and in many cases more than 50 percent, of their income on rent, there is little left over for food, clothing, transportation, education and health care. Spending less on housing means that families could buy more nutritious food for their children, purchase a car to reduce commuting times, or save money for higher education or retirement.

### Key Benefits of a Master Lease Program

<table>
<thead>
<tr>
<th>Owner Benefits</th>
<th>Tenant Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stable income stream because turnover/vacancy risk has been eliminated</td>
<td>Greater affordability and longer-term leases</td>
</tr>
<tr>
<td>No marketing expenses because intermediary organization is responsible for filling units</td>
<td>Built-in savings mechanism, reducing disruptions (even eviction) caused by unexpected expenses</td>
</tr>
<tr>
<td>Retains control of underlying asset</td>
<td>Protection against unpredictable rent increases</td>
</tr>
</tbody>
</table>

### SCALING UP THE PROGRAM

Once a nonprofit has this program running in one building, it could scale up to multiple properties across owners and neighborhoods. In general, scattered-site rental housing is both difficult and expensive to manage. The time and resources it takes to travel between locations and meet the needs of all units is significant. Under this model, frequent travel would be required by the nonprofit in order to maintain a regular presence in all buildings. However, if the nonprofit is only responsible for tenant rent payments and turnover, rather than daily upkeep and maintenance, the costs of managing scattered-site properties would likely be significantly lower.

In the small property model where the nonprofit assumes property management responsibilities, operating within a narrower radius will be important for making the model work. However, because small properties are often clustered more closely together in a specific neighborhoods, adopting a smaller footprint should be feasible. Similarly, targeting specific neighborhoods for applying the model based on expected gentrification will also address some of the challenges posed by widely dispersed operations.

### ADDITIONAL BENEFITS FROM THIS MODEL

Given the significant shortage of affordable housing in most communities today, this model would be helpful to people facing significant housing cost burdens. In addition, these units could also be
used for rapid rehousing. In an effort to reduce homelessness, localities across the U.S. have adopted rapid rehousing programs that help individuals and families transfer out of shelters into apartments. Nonprofit-run units could be ideal for homeless families, as the rent payments are more flexible within lease periods and services could be coordinated through the nonprofit.

Units under this housing model could also be used as emergency housing after natural disasters. In the aftermath of events such as Hurricane Katrina and Superstorm Sandy, thousands of households were forced to live in trailers, tents and motels. While such a model could not house everyone, it would serve as an extra source of supply. Because increasing the number of units in the program is a matter of contract and not construction, it has the potential to scale quickly in times of great need; as the housing emergency subsides, units could be allowed to float back to market (thus providing a source of cross-subsidy for more affordable units in the portfolio) or remain available at affordable levels to those families facing cost burdens.

Care should be taken, however, not to enter into long-term contracts based on short-term spikes in the market after a crisis. Striking the right balance could be tricky, but a contract could be structured with elevated rates for a short period and lower rates for the remainder of the master lease.

INCORPORATING TENANT SAVINGS ACCOUNTS INTO RENTAL HOUSING

As part of our proposed master lease program, the nonprofit would provide its tenants with interest-bearing custodial or escrow accounts in an effort to encourage savings. According to a survey by NeighborWorks America, 34 percent of adults in America say they have no emergency savings and 47 percent say their savings would last them three months or less. Households with incomes below $40,000 a year are the least likely to have any emergency savings and the most likely to lose their housing in the event of an emergency. The goal of the savings accounts would be to help tenants avoid missing rent payments when unexpected expenses come up (such as medical bills or car repairs) or help them save for future expenditures (such as household appliances or education).

When tenants sign leases with the nonprofit, they would be made aware that a small portion of their monthly rent payment (we suggest $25 per month) will be automatically put into a personal savings account. That account would be managed by the nonprofit and could be accessed by the tenant once an initial period (such as six months) had passed. This time is meant to allow a decent amount of savings to accumulate before making the money available to the tenants. According to the New America Foundation’s Flexible Savings report, it is critical for consumers to be able to withdraw funds from savings accounts to meet immediate needs. The report states that being able to access flexible savings when expenses exceed income prevents an over-reliance on debt, decreases the likelihood of experiencing hardship, and promotes advantageous asset building over time. Long-term savings are important and can help households meet large expenses in the future; however, consumers need assurance that the funds will be there when they need them.
After the waiting period, tenants can draw the funds as cash and use them for any purpose. They can pay off bills or make a larger-than-usual purchase as they see fit. However, it would be important for the nonprofit and tenant to work out how often funds can be drawn from the escrow account, as the ultimate purpose is to save for a rainy day. One option would be to require a minimum account balance before the tenant can withdraw funds. We also recommend that financial counseling and education be provided for participants at account setup and linked to withdrawals.

To further encourage savings, the nonprofit could match the amount deposited by the tenant each month. This match would be performance-based, meaning the nonprofit would match the tenant’s deposit when the tenant pays rent on time, or a minimum amount is saved in the account, or some other desired outcome occurs. Even a $25 monthly contribution by the tenant, when paired with matching funds, would result in a $600 balance after one year. While $600 may not seem like a large amount, in a recent survey by the Federal Reserve, 46 percent of respondents said they would struggle to handle an unexpected $400 expense.

Benefits of a Savings Program

While savings accounts and asset-building incentives are not commonly offered with rental housing, they are not new concepts. Ohio nonprofit Cornerstone, for example, runs a Renter Equity Program in its affordable rental buildings that allows tenants to earn cash equity by paying rent on time, attending monthly management meetings and participating in regular property maintenance. After five years, the funds can be drawn as cash and used for any purpose the tenant chooses. Another approach comes from for-profit developer Waypoint Homes, which rents single-family homes across the country. The “Waypoints” incentive system allows tenants to earn points by participating in financial literacy classes; points can be turned into credit toward buying a house or for property upgrades.

The Cornerstone and Waypoint programs have features similar to the one proposed in this paper, but there are also key differences. Our proposed program would aim to help tenants accumulate emergency savings rather than build assets over the long term for potential homeownership. While savings could be used for a future down payment on a house, they are more likely to be used for unexpected expenses. Using savings in this way will help low-income households continue to pay rent on time, even when financial emergencies occur. For the millions of renters who are just one paycheck away from losing their housing, custodial or escrowed savings accounts designed specifically for rainy day needs could create much needed stability.
BROAD BENEFITS OF RENTER STABILITY

As stated earlier, this program is designed to provide low-income renting families more stability in housing and therefore more access to opportunity. Secure housing can give adults greater work stability, provide academic benefits to children, and offer families access to opportunities to save money and plan for the future. Communities may also benefit, and landlords and building owners can gain as well. There is extensive research that supports the methods and goals of this program.

INDIVIDUAL AND FAMILY BENEFITS OF STABILITY

Multiple analyses have linked stable housing with individual and family well-being. Research shows a positive housing experience can provide households with improved senses of safety, empowerment and self. Positive housing encompasses physical quality, affordability, density, safety, access to employment and education, as well as fair tenure options. Such qualities are not exclusive to homeownership and should benefit renters as well.

Providing Renters the Kind of Stability Homeowners Enjoy

In the United States, homeownership has been encouraged as a primary source of stability. In order to provide renters with similar benefits, we must first understand how individuals and families benefit from homeownership.

Wealth building is touted as a key reason to own. When the value of the home is maintained (and possibly even increases) and circumstances are favorable regarding location, timing and tenure, homeowners can accumulate equity and access capital through increased available credit. Such capital can include second mortgages, senior annuity mortgages, unsecured debt and home equity lines of credit. While homeownership can result in increased wealth, it is important to note that lower-income borrowers experience far fewer of these financial benefits than affluent borrowers, primarily due to property location. The devastating impact of the foreclosure crisis on middle- and low-income borrowers reminds us that homeownership does not always provide stability.

Research also suggests that with respect to financial literacy, homeownership is associated with financial and organizational skills. Such skills can be used to improve a family’s economic well-being and can be passed down to children, improving their future outcomes.

Homeowners often have more access to community support than renters, whether through homeowner associations, parent teacher associations (PTAs) or other types of civic engagement. Through involvement in civic organizations, households can develop diverse social capital networks. This kind of community participation not only benefits the communities themselves but also adds to the social connectivity and perceived security of families. Families often feel safer when they know who their neighbors are and what similarities they share. Active community ties have been shown to be associated with positive cognitive, behavioral and educational outcomes for children. Unfortunately, avenues to civic engagement and equity building often open to homeowners are frequently closed to renters, particularly to lower-income renters.
In addition, homeowners perceive benefits that renters may not typically experience. While homeowners are not directly less vulnerable to crime and disorder than renters, survey data suggests they often feel safer, resulting in reduced mental and emotional stress.30 Perceived physical safety is an indirect yet crucial factor in residential stability that, again, is more common among homeowners. Feelings of financial stress are also less intense for homeowners in comparison to renters—despite the ongoing effects of the foreclosure crisis.31

This serves as an important reminder that homeownership is too often the key that unlocks access to amenity-rich communities—good schools, plentiful open spaces and an overall high quality of life. To the extent that multifamily buildings may be found in stable, high-opportunity places, creating affordable access to those buildings through private contracts rather than a lengthy public approvals process and an extended construction period may prove to be an attractive strategy in the near-to-medium term.

A master lease renting program would not offer tenants the same opportunities to build equity and it may not create the kind of community engagement that many homeowners experience. However, tenancy in program units could offer households similar benefits. For example, the escrowed savings accounts will help encourage household savings and allow tenants to remain in place longer by reducing evictions. The practice of saving (not to mention the liquidity itself) not only helps mitigate emergencies but also encourages thoughtful financial practices. In addition, when renters are able to remain in a neighborhood for a longer period, there is increased opportunity to engage with the larger community.

**Consequences of Renter Households Moving Frequently**

Frequent moves have harmful impacts, particularly on children. According to recent research, at-risk households move often over short distances, generally because of financial necessity. Eviction, job loss, landlord foreclosure and lack of household savings or assets often force these relocations. The family unit is severely disrupted by these kinds of moves but gains very little.32

Due to shorter tenures, at-risk households are usually not involved in their neighborhoods. And because they move within struggling communities, they are often described as “trapped.”33 As most churning movers live well below the poverty line, periods of homelessness are not uncommon.34

Holding onto a regular job is difficult for people who are constantly on the move, and yet moving is necessary because lower-income employment can be inconsistent. In addition, the transaction costs of moving are high, particularly when factoring in time and missed wages. The situation becomes increasingly difficult for households without cars and without access to public transportation—as is often the case in American suburbs and rural areas. This cycle is debilitating for working adults, not only financially but also psychologically and emotionally.35

Seniors who relocate involuntarily also often struggle. They can experience negative health outcomes—particularly seniors with physical restrictions—and their health conditions are often exacerbated. Emotional upheaval, depression and anxiety are also common for seniors forced to move.36
EnTPrISe CoMMunity P ARtnERS , inC.  | 16

**Effects of Frequent Moves on Children**

Forty-six percent of all moving families with children are churning movers. Regardless if the move is reactive or strategic, household mobility is most detrimental to children. Children living in churning households are affected in a range of ways, including academics, health, behavior and social skills. The number of residentially unstable families has increased since the Great Recession, raising stress levels for both children and parents.

Research by the MacArthur Foundation has confirmed that residential instability and frequent moves have negative consequences for children over the long term. The study finds that these children have significantly lower emotional and behavioral functioning, in addition to weaker academic test scores, than other children. Behavioral challenges can manifest in a variety of ways, including lying, stealing and aggression.

Additional research has found that social skills and behavior contribute significantly to the future outcomes of children. The growing academic achievement gap between children from families of different income levels is also tied to household stability. While underfunded and underperforming schools play a role, out-of-school factors are actually the leading causes of achievement gaps. Some of those factors include medical care, food insecurity, pollutants, family relations and neighborhood norms, and are therefore heavily determined by living environment. Frequent moves and school transfers are, at a minimum, disruptive to a child’s learning. Due to inconsistent instruction and higher rates of absence, children from churning households often perform poorly in school. Psychological stress is also exacerbated for children on the move, potentially damaging brain development and causing other health issues.

**Benefits of Mobility**

When a household's decision to move is strategic rather than forced, especially to a higher quality neighborhood, outcomes are generally positive. Recent research by Raj Chetty evaluates the latest data from HUD's Moving to Opportunity Demonstration and finds that every extra year a child spends in a high-opportunity neighborhood improves his or her chances of future

---

**CASE STUDY: BUILDING SAVINGS THROUGH RENTER ENGAGEMENT**

In 2000, the nonprofit organization Cornerstone Corporation for Shared Equity began its Renter Equity program with the goal of using housing as a platform to improve financial outcomes for low-income people. Cornerstone finances, develops and manages affordable housing using Renter Equity, which allows low-income renters to build wealth and experience other similar benefits to owning a home. A comprehensive evaluation of the program, conducted and published by the Corporation for Enterprise Development (CFED) and the Economics Center at the University of Cincinnati, looked at three of Cornerstone’s properties in Cincinnati’s Over-the-Rhine neighborhood that implemented the Renter Equity system. With the help of Low-Income Housing Tax Credits, Historic Tax Credits and other public, private and philanthropic funding sources, Cornerstone acquired St. Anthony Village, Community Views and Friars Court to serve as below market-rate rental housing for low-income households.

As part of its Renter Equity program, Cornerstone offers financial and long-term tenancy incentives to residents for on-time rent payments, attendance at monthly management meetings and participation in regular property maintenance. Using the funds saved from lower vacancy and maintenance costs, residents were able to earn as much as $4,137 over five years and $10,000 over 10 years. After five years of residency, the funds can be drawn as cash for any purpose. Eligible residents are also able to draw from management’s loan fund to cover a financial emergency or purchase a large household appliance. This fund allows residents to deal with financial emergencies without missing rent payments or relying on high-interest payday loans.

According to the evaluation, just over half of the properties’ 71 residents met the requirements to earn equity. In addition, Cornerstone’s management system successfully resulted in significant vacancy and maintenance savings, making the resident equity and loan funds possible. While the majority of residents used their cash awards and loans to cover debt and other financial emergencies rather than for savings or investments, the availability of such funds helped residents continue to benefit from stable, affordable housing.

Overall, Cornerstone kept its operating costs for the three properties low enough to afford the Renter Equity program. The operating costs of Cornerstone’s buildings (including the Renter Equity costs) were found to be at similar levels to other comparable federally subsidized properties in the area. In addition, Cornerstone’s tenants did not just benefit from below-market rents, equity and loans, they also reported feeling involved and in control of their living environments.

As part of its Renter Equity program, Cornerstone offers financial and long-term tenancy incentives to residents for on-time rent payments, attendance at monthly management meetings and participation in regular property maintenance. Using the funds saved from lower vacancy and maintenance costs, residents were able to earn as much as $4,137 over five years and $10,000 over 10 years. After five years of residency, the funds can be drawn as cash for any purpose. Eligible residents are also able to draw from management’s loan fund to cover a financial emergency or purchase a large household appliance. This fund allows residents to deal with financial emergencies without missing rent payments or relying on high-interest payday loans.

According to the evaluation, just over half of the properties’ 71 residents met the requirements to earn equity. In addition, Cornerstone’s management system successfully resulted in significant vacancy and maintenance savings, making the resident equity and loan funds possible. While the majority of residents used their cash awards and loans to cover debt and other financial emergencies rather than for savings or investments, the availability of such funds helped residents continue to benefit from stable, affordable housing.

Overall, Cornerstone kept its operating costs for the three properties low enough to afford the Renter Equity program. The operating costs of Cornerstone’s buildings (including the Renter Equity costs) were found to be at similar levels to other comparable federally subsidized properties in the area. In addition, Cornerstone’s tenants did not just benefit from below-market rents, equity and loans, they also reported feeling involved and in control of their living environments.
success. Early assessments of the same program also found that households that moved to better neighborhoods and stayed for a significant period of time experienced positive health, safety and social outcomes; the results were particularly evident among young girls.

**Links Between Financial Security and Household Stability**

As previously discussed, tenant savings accounts are a critical component of our proposed master lease program, as the benefits to families can be immense. A growing body of research reveals that both short- and long-term savings can lead to greater economic opportunity and also protect against financial hardships. In fact, new evidence suggests that saving is associated with positive outcomes for children’s well-being.

According to research by the Corporation for Economic Development, lower-income children have a 21 percent greater chance for upward mobility when their parents are high-savers; family savings is associated with aspirations for college, and children from families with as little as $3,000 in savings are more likely to graduate from high school than those without savings. Asset and savings benefits are generally tied to homeownership, but with practice and habit-forming programs, lower-income renters can also experience these benefits.

HUD’s Family Self-Sufficiency (FSS) program provides an example of how government and other organizations can encourage and incentivize savings practices among lower-income households. By offering the program to existing participants in certain federal housing programs, FSS aims to help households increase their earnings, save more money and eventually lift themselves out of these programs. Households included are participants in the Section 8 Housing Choice Voucher program, public housing residents, and residents of the Native American Housing Assistance and Self-Determination Act-assisted housing. In an effort to increase incomes, FSS gives participants opportunities for education, job training, housing counseling and other forms of assistance.

Simultaneously, FSS offers a savings mechanism. Under typical circumstances in federally-assisted housing, residents pay 30 percent of their earnings for rent, regardless of the unit’s market value, and HUD covers the difference. When residents’ incomes rise, the amount owed in rent rises as well. However, under the FSS program, rents remain steady even when incomes rise. Instead, any increase in household earnings is put into an escrow account maintained by the associated public housing authority. After five years, families can access the funds for any purpose. Saving money is particularly difficult for people barely making ends meet, and while the FSS program helps households earn more while also developing these financial skills, the five-year waiting period for unrestricted access is not designed to build an often-needed cash cushion.

Similarly, the Assets for Independence program run by the U.S. Department of Health and Human Services, which can match up to $8 for every dollar participants save, only allows participants access to their individual development accounts for home purchases, capitalization or expansion of a business, or post-secondary education or training. Again, while the match is generous, the program precludes accessing matched funds for immediate financial needs.
**Case Study: Accessing Units Through Management Acquisition**

In Ohio and Kentucky, the Ohio Capital Corporation for Housing (OCCH) acquired and redeveloped 1,950 units of project-based Section 8 housing. Of those units, 1,335 were located in Columbus. These units, serving extremely low-income tenants, were dilapidated and seen as a public nuisance by HUD, city officials, neighbors and the residents. The Ohio State University, located nearby, partnered with OCCH to improve the properties for the tenants and the community.

Through one large transaction using HUD’s Mark-to-Market program, OCCH was able to take over the mortgage notes of the properties, and it later consolidated all of the Section 8 contracts. Importantly for our master lease model, OCCH also bought out the Broad Street Management Company, which had managed the units but had not prioritized maintenance or tenant relations. The company was converted into a nonprofit and employees who were willing to adapt to the changing culture remained. Once in place, the revamped limited liability corporation (LLC) offered residents enhanced and innovative services, and enacted a strict lease-compliance policy.

With the Columbus portfolio, OCCH worked to rehabilitate the units as well as deconcentrate at least 300 of them. The goals were to improve the living environment for tenants as well as revitalize the surrounding neighborhoods. At the close of the initiative, OCCH had redeveloped the units, relocated families without displacement, and helped significantly reduce criminal activities in and around the properties. Gaining direct control of the properties as managers was critical to the initiative.

**Owner Benefits of Stability**

While the focus of the proposed master lease program is on tenants, especially creating stability for them, landlords and building owners can also benefit. Just like any business owner, landlords need a steady stream of income in order to remain in business – in this case, regular, on-time rent payments. Experience has shown that unstable renters and the resulting turnover, eviction and vacancy costs can add up quickly.

**How Churning Movers Affect Building Owners**

Overall, churning households are not desirable tenants. They often have volatile incomes, unreliable jobs, little to no savings, and short tenures. While owners and landlords may not prefer to rent to churning movers, those with property in struggling neighborhoods often have little choice. When tenants are routinely squeezed financially, a real downside for these landlords becomes frequent turnover.

Neighborhoods with high levels of impoverished households are associated with higher rates of tenant turnover. Inconsistent rent payments and the frequent evictions that result create high turnover. While turnover costs are higher for some apartment units and buildings than others, they are most significant for older and high-rise buildings that are typically occupied by lower-income renters. Turnover costs include refurbishing, cleaning, lost rent payments, searching for new tenants, and possible upgrades. Landlords need to set rent in a way that minimizes turnover costs, whether that means charging more to short-term renters or incentivizing tenants to stay longer term with lower rates. More often than not, landlords will choose the former.

An evaluation of Cornerstone’s Renter Equity program found that incentivizing residents to stay for long periods led to significant vacancy and turnover savings. As part of tenancy in Cornerstone’s buildings, tenants paid below-market rate rents and were able to build equity by paying rent on time and abiding by other building rules. However, tenants could not draw the equity earned unless they stayed for at least five years, thus incentivizing them to stay. The costs that Cornerstone saved on vacancy and turnover activities allowed for units to remain below-market rate and for tenants to continue building equity. While Cornerstone’s model is program specific, the evaluation does find a correlation between longer-term tenancy incentives and vacancy/turnover cost savings for owners.
Rent Discount Strategies

Existing research suggests that discounts on rent costs will more likely affect new tenants than longer-term ones. In order to attract new tenants, landlords will often offer an initial financial incentive. An existing resident’s attachment to the building or location, on the other hand, allows landlords an opportunity to charge more and come away with higher profits.

However, churning movers may respond differently to this approach. In high-poverty areas with large numbers of frequent movers, units constantly go in and out of vacancy. For tenants who have jobs and want to stay for longer periods, perhaps there is an incentive for landlords to offer longer leases at lower costs. The lifestyle of churning movers is not conducive for steady landlord business – but with slightly more financial stability, families may stay in one place longer.

There is also evidence to suggest that a third party placed between landlord and tenant can result in lower rent costs. A study performed in Norway found that when an intermediary was used, rent costs were lower on average. Intermediaries in this study included individuals as well as organizations. When there is trust between the landlord and intermediary, and between the tenant and intermediary, longer-term leases could result in lower rent costs. There are many reasons for landlords to avoid renting to churning movers, but reduced vacancy costs in communities with high turnover rates could incentivize a change in the structure of renting finances.

COMMUNITY BENEFITS OF STABILITY

Effects of Homeowners on Communities

Households and landlords are not the only ones who can gain from rental stability – communities at large can benefit as well. Existing literature suggests that civic engagement is more likely among homeowners than among renters in lower-income neighborhoods. In fact, homeowners are twice as likely to belong to a neighborhood group as renters. Robert Putnam writes about the benefits of civic engagement in his classic book *Bowling Alone: The Collapse and Revival of American Community*, finding that civically engaged communities are more likely to have successful outcomes in education and health, along with greater success in addressing urban poverty and unemployment, and controlling crime and drug abuse. Putnam discusses the importance of social trust and networks in communities – calling the combination of the two “social capital.”

While duration of stay has a great deal to do with the correlation between homeownership and civic engagement, there is also a sense of community investment among homeowners that is often missing among renters. If renters stayed for longer or had built equity in their units, would their civic engagement increase and would communities benefit?

This is not to say that renters in struggling areas with high rates of mobility do not interact. In fact, in some rental communities there is extensive social capital built between households. However, the effects can sometimes be more isolating than productive. Civic engagement is largely positive, but
when it bonds a homogenous group together rather than bridges networks across group lines, negative externalities can result. Bonding is more common within lower-income rental neighborhoods than bridging, resulting in minimal community improvement.

**Effects of Churning Renters on Communities**

As higher-poverty neighborhoods are associated with higher levels of churning movers, the result is less community involvement in these areas. Churning movers are generally not civically engaged and do not often have social capital – in fact, their frequent moves can be counterproductive to community cohesion. For example, schools with large quantities of highly mobile boys and girls often suffer as academic consistency is lost as children enter and exit schools. All students, therefore, would benefit greatly from increased renter stability.

**CONCLUSION**

As demand for rental housing continues to increase and drives rents higher, more middle- and low-income families will find themselves paying more of their incomes for housing. That trend, combined with largely stagnant wages and declining federal funds for housing assistance programs, means that escaping financial and housing uncertainty, or at the very least avoiding homelessness, will be challenging. Low-subsidy programs like the one proposed in this paper could help renters maintain stable housing while cities and states work to increase the supply of affordable housing. Our proposed program will not solve the housing crisis, but it could offer families the stability they need to remain in place for longer, build savings, and achieve better access to opportunity.
REFERENCES

1. Authors’ analysis of 2014 American Community Survey 1-year Sample, as provided by IPUMS. Steven Ruggles et al., Integrated Public Use Microdata Series, version 6.0 (Minneapolis: University of Minnesota, 2015), www.ipums.org. See also: “America’s Rental Housing” (Cambridge, MA: Joint Center for Housing Studies of Harvard University, December 2015), http://www.jchs.harvard.edu/americas-rental-housing.


17. Coulton, Theodos, and Turner, “Family Mobility and Neighborhood Change.”


26. Ibid.


32. Coulton, Theodos, and Turner, “Family Mobility and Neighborhood Change.”

33. Ibid.


37. Coulton, Theodos, and Turner, “Family Mobility and Neighborhood Change.”


40. Ibid.


44. Ibid.

45. Isaacs, “The Ongoing Impact of Foreclosures on Children.”


52. Ibid.

53. Manturuk, Dorrance, and Riley, “Factors Affecting Completion of a Matched Savings Program.”


56. Coulton, Theodos, and Turner, “Family Mobility and Neighborhood Change.”


63. Ibid.


68. “The Enduring Challenge of Concentrated Poverty in America: Case Studies from Communities Across the U.S.”

69. Isaacs, “The Ongoing Impact of Foreclosures on Children.”