
MASTER LEASING FOR ORANGE COUNTY: A PROPOSAL TO HOUSE THOSE WITH LOW INCOME OR OTHER BARRIERS TO HOUSING

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EXECUTIVE SUMMARY

We as citizens of Orange County, NC propose to provide housing quickly for the residents of our county with low-income, very low income, even extremely low income, and other barriers to housing. The focus is on persons who are homeless or near homeless. They are persons who cannot readily obtain housing on the commercial market because of low income, criminal background, poor credit rating, a delinquent rent payment, or a combination of the reasons named above.

The project proposes to provide housing quickly by renting groups of existing housing units under master leases of existing, market rate units. The project further proposes subleasing these housing units with subsidies adjusted periodically to the income of the tenants. To keep the rents affordable, the project proposes that the tenants pay a maximum of 30 percent of their income for rent.

In accordance with the Fair Housing Act, the project will sublease these housing units without discriminating on the basis of race, color, religion, gender, sexual orientation, disability, familial status, national origin, or veteran status. The project will select tenants on a case by case basis and will not uniformly disqualify candidates on the basis of the nature of their aforementioned characteristics.

For master leasing to be attractive to landlords, the project recognizes the need to assure landlords 1) that the administrative agency, governmental or non-governmental, is a trustworthy source of longtime rent payment; 2) that the tenants have demonstrated peaceful and law-abiding behavior; and 3) that the tenants are committed to maintaining the property of the landlord in good condition.

On the basis of an income survey of potential tenants, and of existing commercial rents, the project estimates that the costs of subsidies for 50 low-income persons or families will be between \$174,000 and \$189,000 per year. In addition, the project estimates a cost of approximately \$60,000 - \$100,000 for administration.

The project plans a rigorous evaluation to include the selection process, landlord and tenant satisfaction and multiple measures of efficiency and effectiveness.

INTRODUCTION

We as citizens of Orange County, NC are concerned about those who are homeless in our county and the difficulties they face in obtaining housing. The numbers are not small. In January 2017, the one night count in Orange County found 127 people experienced homelessness. For one year, there were 269 unduplicated homeless persons, 212 homeless for the first time (Orange County Partnership to End Homelessness 2017). Though some people are housed in transitional facilities such as the Community House and Home Start of the Inter-Faith Council and the apartments rented by Caramore Community, they are stymied in their efforts to move out of those facilities and obtain permanent housing.

Why are people homeless? Orange County's homeless face multiple barriers to adequate housing including low income, very low income, even extremely low income, criminal background, poor credit rating and past delinquent rent payment. Many of our residents in Orange County face not one but several of the above problems.

THE PROPOSAL

Although we do not believe that there is a single solution to the problem of homelessness, we advance this proposal as a significant contribution toward solving the problem of homelessness.

We propose to support the housing of residents of Orange County through the master leasing of multiple units of existing housing and subleasing these units with flexible subsidies to our low income residents. Our proposal for master leasing offers these advantages:

- **Housing now:** We propose renting multiple existing housing units and housing low income people within months instead of years.
- **Affordability:** We propose supporting tenants according to their income through flexible subsidies adjusted periodically as the means and needs of the tenants change
- **Accessibility:** We propose housing people facing barriers difficult to overcome in the commercial housing market.
- **Reduced Risk to Landlords:** We propose assuring landlords that tenants will be interviewed and vetted through a rigorous application process, that landlords will receive timely rent payment from the project without lapse for the length of the lease, and that their property will be protected. For the protection of the property for the benefit of both the landlords and the tenants, the project will independently schedule a visit to the housing units every six months to verify that the unit is in good condition.. The renewal of the sublease each year to the tenant will be based on keeping the unit in good condition.

MASTER LEASING

A master lease is a controlling lease under which lessees can sub-lease the property for a period not exceeding the term of the master lease (Business Dictionary 2017). This project proposes one or more master leases negotiated for a period of time, for a fixed monthly rent, renewable for up to 10 years. For the landlord, a master lease has the advantage of assuring rental for multiple units through a single lease and assured payment from a guaranteeing master lessor.

Although negotiating a single master lease for many units might appear to be administratively attractive, very low local vacancy rates and uncertainty with a new program can mean the total number of units available at any one property may be limited. For that reason, this proposal contemplates the possibility of negotiating a group of master leases, each master lease associated with a different property for a smaller number of units than the total contemplated.

The subleasing of the master-leased units will create the possibility of renting to the low income and the homeless, who might otherwise struggle to lease from commercial landlords. The sub-leases will also protect tenants from eviction for frivolous reasons. Each selected tenant will have a lease for one year, with the opportunity for renewal for tenants who maintain the payment of their subsidized rent, who behave in a manner not detrimental to the welfare of other tenants, and who properly maintain the property. We note that a survey of landlords cited by HUD found that the most frequently cited reason landlords were reluctant to rent to those with criminal backgrounds was the potential endangerment of other tenants (HUD 2016).

MASTER LEASING: AN EXAMPLE

Caramore Community in Carrboro offers a local example of master leasing. As a transitional community, Caramore has multi-year master leases with five landlords for ten housing units located at University Commons, 303 Smith Level Road, Carrboro. Caramore generally negotiates the master leases for a period of three years, and, with the support of its funding agencies, pays a fixed rental rate regardless of the number of current tenants.

Each of the 10 housing units contains four apartments for a total of $10 \text{ units} \times 4 = 40$ apartments. Each apartment has one bedroom and one bathroom. The four apartments in each unit share a common living room and kitchen. Caramore carefully vets the clients through extensive medical and criminal background checks. The clients subleasing the apartments pay monthly rents.

SELECTION OF TENANTS

Selection process: In keeping with the Fair Housing Act, the project will not discriminate on the basis of race, color, religion, gender, disability, familial status, national origin or veteran status. The project will select tenants from interested persons through a combination of a written application form, employment, housing, and criminal records, personal interview, and references. The project will encourage agencies supporting likely clients to have those persons apply. The project will consider all candidates on a case by case basis. The fact that a potential applicant has a criminal background, has a low or no income, a poor credit rating or has a record of delinquent payment of rent, will not alone disqualify a candidate. Tenants will be required to submit proof of current income including disability benefits.

Single persons or families only: Initially, tenants will be selected as single persons or families (though we intend the most inclusive definition of family). While the project could offer cheaper rents per person by letting unrelated parties room together in two or three bedroom apartments, the difficulties of matching

apartment-mate preferences and the potential instability of such relationships, argue against renting to unrelated individuals.

Income: On a case by case basis, the project will consider candidates with low income, very low income, extremely low income and even no income. Based on income, the project will offer rent subsidies. Periodically the project will adjust the subsidies as tenants' incomes change. To keep the rents affordable, the project proposes that the tenants pay no more than 30 percent of their income for basic rent and utilities (gross rent).

Admittedly, obtaining income data will be no small problem. One method of verifying income will be income tax returns, but some candidates will not have filed tax returns because their income was too low or non-existent. Others may have worked off the books. The project will encourage tenants to work and for this purpose refer tenants to employment services. For those who do work, the project will offer income tax preparation assistance. In order encourage tenants to earn more income, the project will not decrease subsidies dollar for dollar of additional income. Instead the project will decrease the subsidies by an amount less than the increased income. For those who lose income, the project will again encourage tenants to seek work and be prepared to increase subsidies if necessary to keep the tenants housed.

Criminal background: This project proposes to comply with The Fair Housing Act, which discourages overly broad discrimination on the basis of a criminal record. According to the Fair Housing Act, a housing provider that excludes all persons with particular types of convictions must prove that such exclusions are justified. In accordance with that law, the project will utilize criminal background checks and deal with all applicants on a case by case basis.

ESTIMATE OF COSTS

Tables 1 and 2 provide estimates of subsidy costs on the basis of an income survey of potential tenants and of existing commercial rents. As an incentive to keep the cost of utilities low, the project assumes that all tenants will pay their own utilities except where the landlord includes utilities as part of the master lease. The tables assume a mix of 50 low income persons and families. If tenants were to pay no more than 30 percent of their income for basic rent plus utilities (gross rent), Table 1 shows the estimated cost of subsidies to be \$189,000 per year. Although the project favors using the criterion of 30 percent of income for rent, Table 2 shows the estimated cost for subsidies to be \$174,000 per year if tenants paid no more than 50% of their income for rent. Note that these data are preliminary.

Table 3 estimates annual project costs for 10, 20, 30, 40, or 50 housing units. Subsidies are based on Table 1 for 30% of tenant income for rent and utilities.

Table 1. Model A: Income and subsidies for all renters when renters spend no more than 30% of their monthly income for rent

People	Units		monthly income	money for rent	one bedroom	two bedroom	three bedroom	Monthly Subsidy needed	Annual Subsidy Needed
					\$695	\$895	\$1,200		
					Monthly Subsidy Needed				
1	1	single male	\$600	\$180	\$515			\$515	\$6,180
6	6	single male	\$700	\$210	\$485			\$2,910	\$34,920
1	1	single male	\$1,000	\$300	\$395			\$395	\$4,740
3	3	single male	\$1,650	\$495	\$200			\$600	\$7,200
1	1	single male	\$2,400	\$720	\$0			\$0	\$0
									\$0
2	2	single female	\$750	\$225	\$470			\$940	\$11,280
9	9	single female	\$969	\$291	\$404			\$3,639	\$43,673
1	1	single female	\$2,080	\$624	\$71			\$71	\$852
1	1	single female	\$927	\$278	\$417			\$417	\$5,003
1	1	single female	\$1,200	\$360	\$335			\$335	\$4,020
									\$0
5	1	family of five	\$1,080	\$324			\$876	\$876	\$10,512
2	1	family of two	\$1,085	\$326		\$570		\$570	\$6,834
2	1	family of two	\$236	\$71		\$824		\$824	\$9,890
3	1	family of three	\$760	\$228		\$667		\$667	\$8,004
12	5	families	\$969	\$291		\$604		\$3,022	\$36,263
50	35							\$15,781	\$189,370

Source: Aaron Nelson, Chapel Hill/Carrboro Chamber of Commerce

Table 2. Model B: Income and subsidies for renters when renters spend no more than 50% of their income for rent.

People	Units		monthly income	money for rent	one bedroom	two bedroom	three bedroom	Monthly Subsidy Needed	Annual subsidy Needed
					\$695	\$895	\$1,200		
					Monthly Subsidy Needed				
1	1	single male	\$600	\$300	\$395			\$395	\$4,740
6	6	single male	\$700	\$300	\$395			\$2,370	\$28,440
1	1	single male	\$1,000	\$300	\$395			\$395	\$4,740
3	3	single male	\$1,650	\$495	\$200			\$600	\$7,200
1	1	single male	\$2,400	\$720	\$0			\$0	\$0
2	2	single female	\$750	\$300	\$395			\$790	\$9,480
9	9	single female	\$969	\$300	\$395			\$3,555	\$42,660
1	1	single female	\$2,080	\$624	\$71			\$71	\$852
1	1	single female	\$927	\$300	\$395			\$395	\$4,740
1	1	single female	\$1,200	\$360	\$335			\$335	\$4,020
5	1	family of five	\$1,080	\$324			\$876	\$876	\$10,512
2	1	family of two	\$1,085	\$326		\$570		\$570	\$6,834
2	1	family of two	\$236	\$300		\$595		\$595	\$7,140
3	1	family of three	\$760	\$300		\$595		\$595	\$7,140
12	5	families	\$969	\$300		\$595		\$2,975	\$35,700
50	35							\$14,517	\$174,198

Source: Aaron Nelson, Chapel Hill/Carrboro Chamber of Commerce

In addition to subsidies, the project will incur administrative costs in identifying landlords and negotiating the master leases, costs of selecting the applicants, placing the tenants, paying rents for vacant periods between tenant occupancies, semi-annual visits to the rental unit to be sure the unit is being well maintained both for the landlord and the tenant, evaluation, and other costs for executing the project throughout the year. Many of the tenants will continue to require case management as they did prior to obtaining housing. While the project will encourage the tenants to obtain such assistance, the project will not assume the cost of case management. The project intends to make good use of volunteers to assist in many aspects of the administration, but intends to hire a project staff.

Table 3. Preliminary Annual Budget for Multiple Numbers of Housing Units

Item	10 Units	20 Units	30 Units	40 Units	50 Units	Notes
Tenant Subsidies	\$37,874	\$75,748	\$113,622	\$151,496	\$189,370	Calculated pro rata from Table 1
Administrative salaries and benefits	\$30,000	\$40,000	\$50,000	\$60,000	\$70,000	For the larger number of units, the project contemplates the possibility of multiple staff persons
Office space, equipment and supplies	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000	
Communications and travel	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	
Vacancy periods	\$4,000	\$8,000	\$12,000	\$16,000	\$20,000	Calculated one month of vacancy per year per unit at \$400 per unit (i.e., each unit occupied 11 months of the year)
Excess property damage	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000	Calculated pro rata by the number of units
Semi-Annual Visits to Units	\$200	\$400	\$600	\$800	\$1,000	Calculated pro rata by the number of units
Evaluation	\$2,000	\$3,000	\$4,000	\$5,000	\$6,000	
Eviction costs	\$200	\$400	\$600	\$800	\$1,000	Calculated pro rata by the number of units
Miscellaneous	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000	Calculated pro rata by the number of units
Total	\$84,274	\$139,548	\$194,822	\$250,096	\$305,370	
Cost per Housing Unit per year	\$8,207	\$6,807	\$6,341	\$6,252	\$6,107	

PROJECT EVALUATION

The project proposes to carry out a rigorous evaluation starting from the very inception of the project and continuing throughout the project. To accomplish such an evaluation, the project proposes to define major indicators, desired output tables, and methodology before the project begins.

- **Selection process:** The project will record the characteristics of each candidate, both selected and not selected. In addition to the characteristics of those selected and not selected, the project will gather a textual record of reasons the candidates were accepted or turned away. Rather than simply grading the candidates as a “yes” or “no,” accept or reject, the project will internally rate the candidates with composite scores for predicting tenant longevity and to gauge the candidate’s need for housing. These are two quite different measures since the candidates most in need may not be the candidates most likely to succeed in retaining their housing. The project is aware of the complexity of the selection process. Both objective and subjective elements warrant attention. Suffice it to say that from the beginning the project intends to collect both quantitative and textual information to facilitate ongoing evaluation of the selection process and its progressive improvement.

- Tenant longevity: The project aims for tenants to stay housed for long periods. That is one reason for negotiating multi-year leases. For tenants a move to a new housing unit can prove traumatic. For the project, every premature tenant move is financially costly. Periods of unoccupied housing units constitute losses of the rent the tenant would normally be paying and foist upon the project the entire cost of the unit in addition to the administrative cost of selecting and installing a new tenant. The project plans to minimize both voluntary departures and evictions through careful tenant selection and by working with tenants to overcome problems. Nonetheless, the project must realistically anticipate some evictions and their attendant costs.

Occupant Days as an indicator (dependent variable): A principal indicator of tenant longevity will be the number of days the tenant occupies the housing unit (less any days when the tenant is awaiting eviction). As noted above, for the benefit of both the tenant and the project, the project aims to maximize the occupant days for each tenant. The project will calculate summary indicators such as the average number of occupant days for all tenants and for all tenants by landlord. Additional summary indicators will be the number of tenants occupying their units after one year, two years or more after initial placement.

Factors Influencing Occupant Days (the independent variables): The project plans to use information from the tenants themselves, from the landlords, administrators, and possibly the neighbors. For the tenants, the project will have collected tenant characteristics and textual information during the selection process. In addition the project plans to conduct periodic tenant satisfaction surveys, longer surveys in person and shorter surveys by telephone. The project wants to detect any tenant dissatisfaction or any problem with neighbors before a problem swells into major discontent. Subsequent to occupancy, the project will also gather information about the tenants from both the landlords and the administrator. The neighbors constitute an additional source of information for selected tenants.

Analysis of Occupant Days by Landlord: Since the project anticipates negotiating leases with multiple landlords and since landlord management may influence tenant longevity, the project intends to tabulate and analyze Occupant Days by landlord as well as in the aggregate.

Life-Table Analysis: In looking at tenant retention by days, the project proposes to view retention as a continuous process, a life-table analysis, rather than using only one or two discrete end points in time. To maximize occupant days, we prefer to see a slow and gradual decline in occupancy rather than a precipitous drop followed by a leveling off.

Landlord longevity: We propose multi-year leases with the landlords. Caramore routinely negotiates three-year leases and has had few problems with the landlords. Caramore has a good record with landlords, and the Caramore Program Director has suggested that the landlords for Caramore would be willing to testify to their good experience with Caramore multi-year leases.

Unlike Caramore, the project cannot boast of 52 years of experience, but the project certainly wants to negotiate multi-year leases to reduce administrative costs and the difficulties entailed of moving tenants to new units at the end of a one-year lease.

As mentioned above, the project is particularly concerned in assuring the landlords about 1) rent payment, 2) maintenance of property, and 3) interaction with other tenants.

The need to satisfy landlords suggests communicating frequently throughout the lease to attend to any problems. Measuring landlord satisfaction may thereby need to take the form of both frequent informal conversations by telephone and less frequent surveys..

Vacancy rates: An indicator of project efficiency, both overall and by each master lease, is the number of days the units remain vacant divided by the total number of days in the master lease. The vacant days will include the days before a unit can be initially subleased and occupied.

Conclusion: The success of this project turns upon successfully housing those who face barriers in obtaining housing in the conventional market. Although the project can try to foresee administrative problems, unforeseen difficulties will inevitably arise. The rigorous ongoing evaluation here proposed will not prevent problems from initially occurring, but it will help ensure that the project learns of the problems early on and has a chance to resolve them quickly.

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