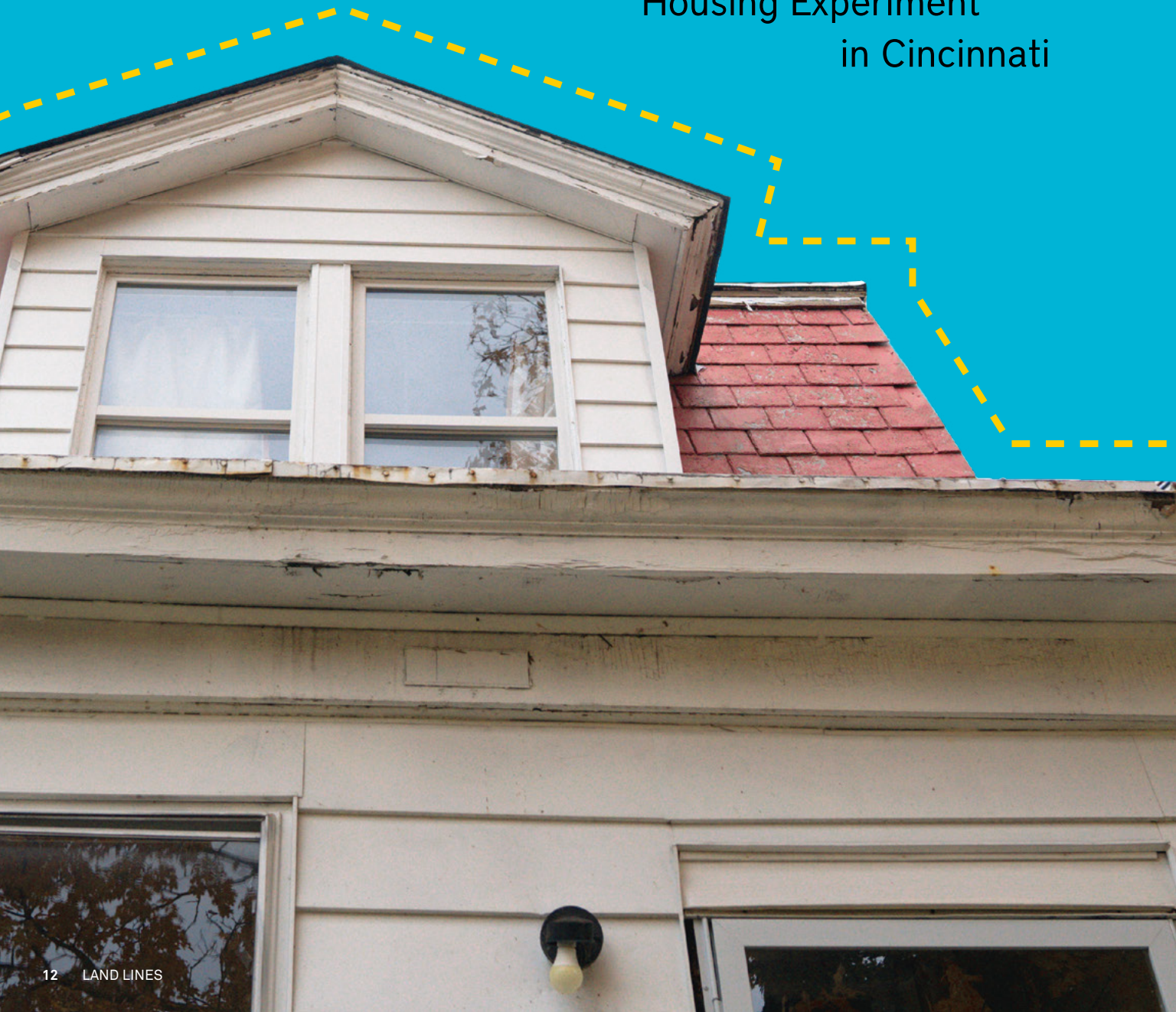


A **BID** FOR AFFORDABILITY

Notes from an Ambitious
Housing Experiment
in Cincinnati



By Loren Berlin

EVERY YEAR, THE BOARD OF DIRECTORS of the Port of Greater Cincinnati Development Authority makes dozens of resolutions. Most relate to buying or renovating specific properties, approving budgets, creating committees, and other standard orders of business. But in December 2021, the board issued a different kind of decision. Resolution 2021-34 authorized the agency, commonly known as the Port, to proceed with an unprecedented and ambitious plan: securing and spending up to \$16.25 million to purchase and rehabilitate a portfolio of 194 single-family rental properties in a handful of largely low- and moderate-income neighborhoods in and around Cincinnati.

It would be a bold move for any local government authority to buy so many properties at once, but especially for an agency without experience owning occupied homes. The Port, jointly established in 2000 by the City of Cincinnati and Hamilton County to promote economic development in the metro area, operates a land bank that manages hundreds of properties at any given time, redeveloping them and returning them to productive use; it also invests in the construction and renovation of single-family homes and commercial and industrial properties. But this would be something altogether different. The vast majority of these homes would come with tenants.

Then again, that was the point: to try something different, to fight back against the institutional investors who have been buying up the area's affordable housing stock. Today, outside investors purchase about one in five single-family

homes in Cincinnati. This mirrors a national trend: institutional investors made 24 percent of single-family home purchases in 2021. The results of this property grab are the same in Cincinnati and across the country: higher rents, lower rates of individual homeownership, and less affordable neighborhoods.

The Port took action because it wanted to keep these 194 properties—which are located throughout the city and county, with many concentrated in the neighborhoods of Price Hill, Westwood, and Springfield Township—out of the hands of corporate buyers. The agency also wanted to preserve the pathways to affordable homeownership that these homes could offer current tenants and other local residents.

A dozen private investors were bidding on the portfolio, and the Port was concerned that most intended to continue with the previous owner's business model of absentee landlords, bare-minimum maintenance, market-rate rents, and hostile eviction practices, a cash-cow approach for investors that wreaks havoc on local housing markets. The Port team knew it would need to act quickly and aggressively to win the bid.

This is the story of how a local, quasi-public agency pulled off a bit of a coup against powerful market forces, of what comes next when that agency suddenly becomes a landlord, and of the lessons the Port's experience could offer other cities grappling with increasing corporate ownership of the nation's limited supply of affordable homes.

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Predatory Investors in Legacy Cities

To understand how the Port came to own these properties, it's important to consider what was happening in Cincinnati when the portfolio became available. The local housing market was, and still is, one with relatively low home prices. In October 2021, the median home sale price was \$213,000 in Cincinnati, compared to \$378,000 nationally (Redfin 2022).

This creates the perfect market conditions for institutional investors to swoop in, says Alison Goebel, executive director of the Greater Ohio Policy Center. "Investors think they will get a good return here, especially the ones who are coming from outside of Ohio and are used to seeing higher home prices," Goebel says. "They see that the home prices here are low enough that they can afford to buy a bunch of properties and make money on the rents, but the prices aren't so low as to give them pause. They see it as a good deal."

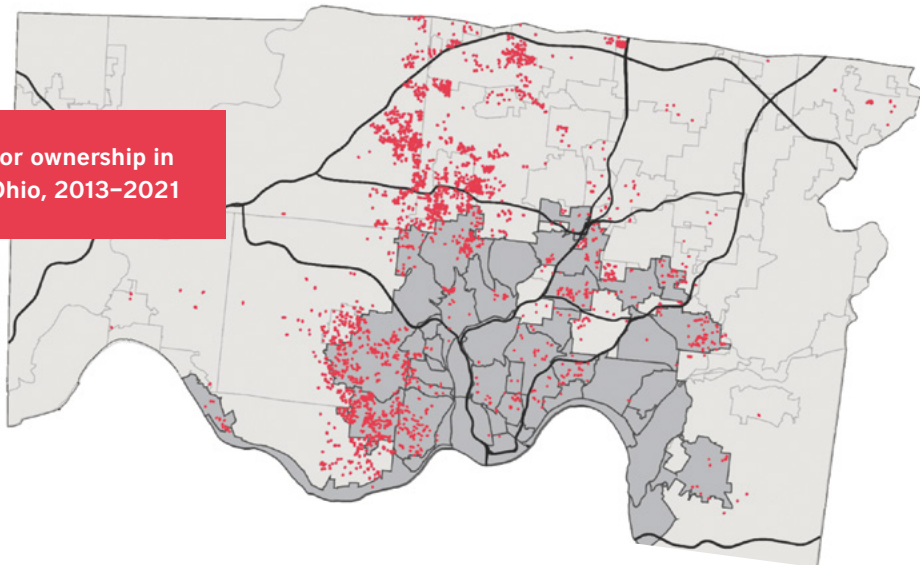
By analyzing property records from the Hamilton County Auditor's office, the Port discovered that institutional investors owned more than 4,000 homes in the area.

These market conditions are not unique to Cincinnati, says Goebel, who has coauthored two Lincoln Institute Policy Focus Reports on the challenges and opportunities facing postindustrial cities in the United States (Hollingsworth and Goebel 2017; Patras, Goebel, and Elam 2021). Also known as legacy cities, such places experienced substantial economic and population decline in the second half of the 20th century. Most of these former economic powerhouses are in the Midwest and Northeast; they vary significantly in size, from very large cities like Detroit and Baltimore to smaller ones like Gary, Indiana, and Worcester, Massachusetts. Roughly 17 million people live in legacy cities, with per capita and household incomes that tend to be lower than those in non-legacy cities, making access to affordable homeownership both more critical and further out of reach.

Both the Port and the Greater Ohio Policy Center are participants in the first national community of practice established by the Lincoln Institute's Accelerating Community Investment initiative (ACI), which seeks to mobilize investment in low- and moderate-income communities and bring new partners to the community investment ecosystem (see sidebar). "Building stronger community investment ecosystems is essential for achieving more equitable redevelopment in places across the

Institutional investor ownership in Hamilton County, Ohio, 2013–2021

Credit: The Port of Greater Cincinnati Development Authority.





In Hamilton County, Ohio, home prices below the national average created an opportunity for institutional investors to swoop in. Credit: Cathy via Flickr CC BY-NC 2.0.

nation,” says Robert J. “R.J.” McGrail, senior research fellow at the Lincoln Institute and director of the ACI initiative. “This work is especially important now, when low-income and moderate-income communities are facing new challenges from deep-pocketed institutional investors.”

The staff at the Port had long been aware of the increasing presence of outside investors in the local housing market. In early 2021, they decided to do some digging. By analyzing property records from the Hamilton County Auditor’s office, the Port discovered that institutional investors owned more than 4,000 homes in the area. As was the case in cities across the country, many single-family homes that had been registered as owner-occupied a decade earlier were now listed as rental properties.

Further research also confirmed a troubling suspicion: an opaque connection seemed to exist among the most negligent property owners. The Port team was able to map networks of limited liability corporations (LLCs), many of which were related to just a few central entities. In some

ABOUT THE ACCELERATING COMMUNITY INVESTMENT INITIATIVE

The Lincoln Institute launched the Accelerating Community Investment (ACI) initiative in 2021 to mobilize investment in low- and moderate-income communities, especially those that have been excluded from access to mainstream financial and wealth-building resources. ACI began by convening a national community of practice, with more than 40 agencies and institutions participating from 14 states; the group has met virtually and in person to build partnerships, identify new investment opportunities, and share experiences and advice.

The initiative has also held three Local Investor Challenges, spotlighting community investment opportunities in Cincinnati, New Orleans, and Texas. These sessions provide community of practice participants the chance to pitch investment-ready projects to the local investment community and get direct feedback—on the pitch and the projects—from potential investors. “The investor summit ACI held in Cincinnati led to a lot of relationships that could potentially allow us to scale our investment much more significantly,” says Laura Brunner, CEO of the Port of Greater Cincinnati Development Authority. “The relationships I have made through them have been invaluable.”

In the year ahead, ACI will complete the initial eight-session run of its community of practice and share results, hold additional Local Investor Challenges, and make plans for new activities that support its goal of accelerating community investment across the nation.

To learn more about ACI, contact program director Robert “R. J.” McGrail: ACI@lincolnst.edu.



Downtown Cincinnati from East Price Hill, where many of the homes purchased by the Port are located. Credit: Courtesy of East Price Hill Improvement Association.

cases, properties were transferred between LLCs multiple times a year. These investor-owned properties were primarily concentrated in low- to moderate-income neighborhoods.

The Port staff and board were still digesting this information when a call came from Colliers, which was managing a portfolio of foreclosed rental homes. The properties had most recently been owned by Raineth Housing, an institutional investor based in Los Angeles that had gained local notoriety for being delinquent on its property taxes and neglecting maintenance to the point where its properties had become, in the words of a lawsuit filed by the city in 2019, a “public nuisance.” Now they were going up for sale. Would the Port want to bid on them?

“My deep conviction is that we should use the powers and expertise of this agency to make the biggest positive impact we possibly can,” said Laura Brunner, president and CEO of the Port. “So when we were suddenly faced with the opportunity to do something that was possible and where, in this case, we saw a moral imperative to act, there was no chance in the world that we would say no.”

Putting a Plan Together

Neither the Port’s budget nor its strategic plan included the acquisition of nearly 200 occupied single-family homes, so the staff had to move swiftly to pull together a bid. After securing informal support from the Port’s board, Brunner and her team met with more than a dozen area organizations active in the housing space to confirm that what the Port wanted to do made sense from their respective positions in the community. Those groups included the Legal Aid Society of Greater Cincinnati, the nonprofit community development corporation Price Hill Will, the Cincinnati Metropolitan Housing Authority, the Home Ownership Center of Greater Cincinnati, and Working in Neighborhoods, a nonprofit founded by the Catholic community Sisters of Charity.

The Port pledged that it would keep rents at their current rates for a year—the average rent for the homes was \$750—and work with tenants who were behind on their rent, rather than evicting them. Port staff also reassured the organizations that their commitment to supporting the tenants and their path to homeownership was sincere. The purchase is an important part of

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the Port's effort to address the racial homeownership gap in Cincinnati, where roughly 33 percent of Black households own their homes, compared to 73 percent of white households.

"The racial wealth gap is the biggest problem we have in this county," Brunner says. "We believe that real estate is the fastest way to solve it."

With support from the nonprofits and after confirming that the portfolio—which included thousands of homes in St. Louis, Kansas City, and Cincinnati—could be broken up to allow the Port to bid only on the 194 in the Cincinnati area, Brunner approached her board of directors for formal approval. She says the board—which has 12 members representing the business sector, half appointed by the city and half by the county—was "incredibly supportive from the beginning." One of the big questions, though, was how to finance the deal.

"We knew we couldn't look at every home. But we got some history on the financials, which gave us an idea of what we were dealing with," says Todd Castellini, the Port's vice president of public finance and industrial development. Castellini estimates that Port staff got to inspect about 30 of the properties. "We knew the homes weren't in perfect condition, so we made a very conservative assumption as to what the homes needed. Some needed a lot, some needed a little, and some needed everything in between. Then we did some cash-flow analysis, and then made it even more conservative, and that's how we got comfortable with the deal. We approached the deal not looking to make money on it but to break even, and we are confident we can do that."

Port staff concluded that they needed to borrow \$16.25 million—\$15.5 million to purchase the homes and \$750,000 for repairs and improvements, though the Port planned to cover the bulk of those deferred maintenance expenses with rental income. For the financing, the Port issued bonds with a term of 30 months, which would allow adequate time to assess, upgrade, and eventually begin selling the properties.

The Port purchased 194 houses, which were in varying states of repair and occupancy. Credit: The Port of Greater Cincinnati Development Authority.

The Port was able to sell the bonds quickly, with the entire issuance purchased by a local entity that has been buying Port-issued bonds for the last several years. This longstanding relationship was critical, says Castellini: "They understand us. They've seen our financials. They know how we work. So it was easy for them to analyze us and the deal and to act quickly."

Having secured a buyer for the bonds, Brunner and her team submitted an offer to buy the portfolio for \$15 million. On the morning of the final bid, at the suggestion of the board, they increased their offer by \$500,000 to make it more competitive. Critically, the Port offered a short timeframe for closing the deal, which worked to its advantage. Though three private equity firms also each offered \$15.5 million, those bidders required a longer due diligence period, positioning the Port's offer as the highest and best. Not only had the Port won the sale, but this quasi-public agency had foiled a dozen institutional investors, a nearly unprecedented feat in the world of real estate investment.



“Honestly, I think the acquisition—the whole project, really—is emblematic of many things we have done,” says Brunner. “I’d be wracked with guilt if we had just said that it was too hard or too risky or all the ‘what ifs.’ We have years of history of smaller examples, and this is just a more dramatic one.”

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Taking Ownership

Since closing on the deal, the Port’s staff has learned a great deal about the portfolio. Many more of the homes were vacant than was represented, creating both opportunity—it’s easier to fix up empty houses—and challenge, since rental income was part of the financing formula. And many of the occupied homes are in worse shape than expected. Consequently, Brunner estimates that the Port’s improvement costs will likely be at least double what they originally anticipated, bringing the project total closer to \$17 million.

LyDonna Turner, who lives with her children and grandchild in one of the houses now owned by the Port, confirmed that she had told the previous landlords about a broken garage door, a collapsed cabinet under her kitchen sink, and a problem with mice, but they never addressed the issues. Her situation is just one example of a backlog of 160 maintenance problems waiting to be addressed when the Port took ownership.

“On the one hand, that’s a financial challenge,” Brunner concedes. “On the other hand, those conditions really reinforce that we needed to be the buyer. We can’t just have all of these houses that are literally deteriorating in these neighborhoods.”

To maintain transparency and gain advice on a multitude of topics, from eviction prevention to homeownership training to potential tenant sourcing, the Port established an advisory committee. The agency also hired an experienced property manager who will handle operations and provide residents with the kind of attention and support they hadn’t received in the past. “It took us a long time to find a property manager willing to be as empathetic and responsive as we are,” Brunner says.

The Port has also partnered with local organizations to offer tenant credit counseling and homeownership preparation initiatives. Goebel notes that the city has a particularly

The Port hired a property manager to address a backlog of 160 maintenance requests and to handle operations. Credit: Jeff Dean.



A contractor hired by the Port examines the condition of one of the agency's newly purchased houses. Credit: Jeff Dean.

strong nonprofit sector, and says that ecosystem of partners will be essential to helping current tenants become homeowners or finding new homebuyers.

At least 80 percent of the occupied properties were behind on rent payments when the Port took over the portfolio, with roughly 20 percent at least one year delinquent. The Port was able to provide rental assistance to close that gap, thanks to \$600,000 of American Recovery Plan Act (ARPA) funds provided via the county's Community Action Agency.

Though the houses may end up selling for closer to \$130,000 than to the initially projected \$120,000, they will still cost significantly less than Cincinnati's current median single-family home price, which has continued to rise and had reached \$230,000 by late 2022 (Redfin 2022). And this will all happen without subsidies, Brunner is quick to add.

"Every other house we have ever sold we have had to subsidize," she said. "Typically, that's the way we have lived. But our pro forma shows that we can pay off our debt with a combination of

rental income and the sale of the homes. Honestly, it boggled our minds for quite some time that 200 houses can be converted to homeownership without public subsidy. But they can."

Nevertheless, Port staff are exploring the possibility of securing grants from the City of Cincinnati and Hamilton County for down payment assistance and to help lower the homebuyers' purchase price.

The demand is certainly there, says Turner, who hopes to buy her own home one day. "I do have a couple of friends who have been looking to buy homes but haven't been successful. So I think it's a good idea for the Port to buy these homes and to offer them to the tenants first."

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Credit: The Port of Greater Cincinnati Development Authority.

Building Out the Portfolio

Since news of the Port's purchase broke—and spread, earning coverage in national outlets including NPR and the *Wall Street Journal*—the agency has heard from receivers and property owners interested in discussing similar deals. At press time, the team was working to acquire a second portfolio of foreclosed homes, and it is eager to expand as much as the realities of financing allow.

With a property manager on board and tenant counseling in place, "it [would be logistically] easy for us to add properties to our portfolio," Brunner says. "Honestly, I would like nothing more than to buy all 4,000 investor-owned properties that are in our county and get them all out. We may not be there yet, but the opportunity to add that many new homeowners to our market is significant."

But building out the portfolio in a meaningful way will require corporate or philanthropic involvement, Brunner says. Last year, Brunner and her team participated in an ACI Local Investor Challenge, where they pitched the idea of a fund that could finance more opportunistic investments and, Brunner says, made connections that could help make that fund a reality.

Even as the agency explores the possibility of scaling up, questions remain about the current portfolio. For example, how can the agency ensure that properties remain affordable over the long term? According to Brunner, the Port is considering deed restrictions but has not yet settled on the best strategy for ensuring affordability—and, perhaps more critically, sustaining resident ownership. "We are less concerned with how long the buyer stays in the home and more concerned with who they sell it to," she says. "We don't want these homes sold back to investors."

The Port is also reexamining how best to finance mortgages once the time comes. Port staff initially assumed that partner organizations would originate and service the mortgage loans. They are now considering keeping those activities in house to allow for more flexible underwriting guidelines and more “compassionate” collections, Brunner says. By self-servicing mortgages, the Port could help the individual mortgage holders establish a stronger borrowing and repayment history, and could eventually issue mortgage revenue bonds to repay the debt from the acquisition of the homes. Replacing the acquisition financing with a more traditional mortgage-backed security structure would allow the Port to reach a larger potential market of mission-oriented buyers.

That kind of shift could create a more sustainable business model for the Port and others interested in following the agency’s lead, says McGrail of ACI. “If the Port can move the financing out of the public sector and into the capital markets without risk to the mortgage holder, that becomes a strategy that is fully a market solution, and that feels potentially transformative to me in the bigger picture,” he says. “That feels like an actionable, testable, provable solution for getting the wrong type of property owners swapped out for the right ones.”

A Replicable Model?

For all Brunner’s enthusiasm, she is nevertheless aware of the David and Goliath dynamic underpinning the project and what that could mean for its scalability or replicability. “On the one hand, our acquisition of this portfolio is a big deal. On the other hand, we are talking about 200 houses and \$15.5 million. That’s small potatoes in the grand scheme of this national challenge. And the fact that the purchase stands out so dramatically makes me wonder a lot about who the entities are out there that can move the needle on this problem.”

Brett Theodos, senior fellow and director of the Community Economic Development Hub at the Urban Institute, has a few ideas on that front. “There are land banks and sophisticated community development corporations and some development finance agencies that could serve this function,” he says. “With different actors there are different constraints. Most of them can issue bonds, but the question is whether they would work to push this sort of project forward. For those agencies, it isn’t altogether a new flavor combination so much as a willingness to say, ‘Yes, we have this purpose, too, and we are willing to put in the muscle to make it happen.’”

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As part of its effort to increase local homeownership, the Port has partnered with local nonprofit Working in Neighborhoods (WIN) to provide classes for tenants and prospective homebuyers. Credit: Jeff Dean.

In other words, the Port's acquisition is likely neither the story of a one-off victory for the public good, nor an easy formula that other cities can follow to facilitate these sorts of acquisitions. But housing experts agree that while some of the circumstances in Cincinnati may be rare, the fundamental strategy is replicable.

"It's important to remember that this was a portfolio that was [in] foreclosure, so it was essentially a fire sale," says Goebel. "These types of sales do happen, whether due to foreclosure or because the owner wants to retire, but they aren't dependable. I'd say that in Ohio, we hear about these sorts of portfolios of single-family rental properties popping up for sale every 12 to 18 months." When they do become available, it's not a given that the broker or others involved would think to alert a quasi-public agency.

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A second relatively unique piece of the story is the Port's statutory construct, says McGrail. "The Ohio port authority statute has amongst the most robust set of powers I've ever seen in a public finance entity," he explains. "In addition to giving port authorities the typical public finance powers needed to issue bonds, Ohio's legislature has given them broad tax powers, allowed them to operate as land banks, and empowered them to be able to hold and redevelop a range of real estate across asset classes, including both commercial and residential property."

He is quick to add that those powers are made more meaningful by the way Brunner and her senior leadership team use them. "They are a dynamic, multi-credentialed team that has adopted a community-first lens in a way that I think is a little unique for a quasi-public agency, because they do a lot of asking and listening before acting—and that understanding of local needs creates more tolerance for pursuing risk-adjusted goals."

The Port's board of directors deserves credit too, says Goebel. They could have easily stopped the project in its tracks. Instead, they not only approved it but also provided crucial guidance on

Laura Brunner, CEO of the Port, describes the damaging impacts of institutional investors on local communities for an interview with NBC News in November. Credit: The Port of Greater Cincinnati Development Authority.





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The view from the porch of a Port-owned home. Credit: The Port of Greater Cincinnati Development Authority.

the structure of the Port’s bid. “They need as many kudos for that as they can get,” she notes.

As this experiment continues to unfold in Cincinnati, Theodos urges other cities and investors to consider taking action, noting that plenty of housing markets need this sort of intervention. “The tide—these investors—is coming in quickly, and we are swimming very much upstream,” he says. “The Port is reacting in real time to directly address the problem, which is exactly what we need. We need it again and again, every number of months, and in every city.”

Loren Berlin is a writer and communications consultant specializing in housing and economic opportunity. Read more about her at www.lorenberlin.com.

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