July/August 2023

Best Practices in Lease-Purchase Programs

Report created by *Dahlia Chaudhury, Micah Erfan, Marwah Khan, Karena Longoria*

Table of Contents

Executive Summary

The following project is the creation of Micah Erfan, Dahlia Chaudhury, Marwah Khan, and Karena Longoria for the Fifth Ward Community Redevelopment Corporation as part of the Social Economy and Enterprise Academy during the University of Houston's Summer 2023 semester.

The purpose of the project is to aid the Fifth Ward CRC in the establishment of a new Lease-Purchase program by providing the legal and operational information required to understand how Lease-Purchase programs work, as well as the best practices available in how they can be structured. The report first summarizes areas where multiple program options exist and then provides information to help 5th Ward CRC's decision-makers in designing their program. The report also includes additional legal and financial information.

Introduction

Wealth refers to the “net worth,” or assets, property, possessions, cash, and resources of a family (Schaeffer 2021). Many families in the United States have been accumulating wealth since before the inception of the country, while others were forced into slavery, denied wages and access to land, and systematically oppressed through laws and regulations. The deleterious effects of low wealth are multi-generational; a child born into a household with low wealth is less likely to have access to nutritious food and more likely to have poor health outcomes and low school achievement (Stewart 2018). In addition, there is a likelihood of struggling financially as an adult, given that the parents of these children have a reduced ability to aid them.

Unfortunately, many in the United States have low household wealth; out of the $140.58 trillion of total household wealth, the bottom 50% of households collectively hold only 2.4%, with a per capita net worth of about $53,960. Worse yet, thirteen million Americans have more debt than assets (Board n.d.). African Americans are disproportionately affected by low household wealth. According to the Federal Reserve Bank of Minneapolis, "the typical black household is poorer than 80% of white households." A sizable gap, and one that has remained stable for the past 70 years (Kuhn, Schularick, and Ulrike 2018).

Much of this divergence in wealth can be attributed to lower homeownership rates amongst Black households. African American homeownership is the lowest of any ethnic group at 44%, 18.8 percentage points lower than that of white people (Yun et al. 2023). This is to be expected, as homeownership is the single largest contributor to household wealth (Kuo 2021). There have been several targeted policies, such as redlining and predatory mortgage practices, that have contributed to less access to homeownership for African Americans. However, in recent years, the federal government and private companies have created numerous programs targeted at increasing homeownership for marginalized groups–with some that have shown promising results.

Homeownership has a positive impact on household wealth, all else equal, this remains the case for African American households. Various studies have demonstrated that homeowners, on average, have higher wealth accumulation than renters with the same demographic features (Weiss et al. 2013; Boehm and Schlottmann 2008). The primary mechanism by which this occurs is via the effect of homeownership on savings. Homeowners, regardless of income, tend to save more than comparable renters as they are forced to do so each month when making their mortgage payments. This is because part of homeowners' payments, unlike renters, go towards building equity in their homes. While it is theoretically possible that renters could make up for this by taking advantage of their lower monthly payments to save more through some other means, in practice, they do not (Weiss et al.).

Given this information, one way in which low wealth among African American households can be ameliorated is through expanding their access to homeownership. Lease-purchase programs, when designed properly, are able to do exactly that. Lease-purchase programs expand homeownership by allowing families that otherwise would not be in a place to buy a house gain the ability to purchase a home. These programs achieve this by providing eligible buyers with the opportunity to lease for a prolonged period with the exclusive right to transition to making payments against a mortgage at the end of their lease term. Over the course of the lease, a share of their monthly payments goes towards building up a down payment. The lease term is typically adjusted so that the down payment saved is sizable enough to ensure that once the occupant transitions from being a renter to owner, their monthly bill is approximately the same size.

Program Recommendations

Since their initial creation in the 1980s, lease-purchase programs have been tried all over the United States, from Cleveland to Charlotte to Milwaukee. In their many applications, they have differed in a great number of ways in mission and structure. The following subsections will outline the ways in which programs can have distinct features and what policy choices are advisable for the objective of increasing homeownership among African American households, with a special focus on low-income families and higher-income young individuals.

Price and Lease Terms

In order to efficiently achieve the objectives of this program, it's very important that it features a monthly bill that is affordable. A lower monthly lease bill and, later, mortgage bill will allow a greater number of people to have income high enough to qualify and, more importantly, will reduce the risk that any program participant becomes delinquent because of inability to pay.

In lease-purchase programs like traditional mortgages, there are two variables that affect monthly affordability, the price of the housing itself and the term of the lease. A slightly more expensive home may have a lower monthly cost for enrollees than a slightly less expensive home if the term of the lease is longer. This is because the longer the lease, the larger the down payment that will be accrued by the end; the more down payment that is accrued, the lower the eventual mortgage payments will be.

The importance of looking at monthly bills emerges from the fact that it is these bills, and not directly housing prices themselves that determine access. This is, in part, why, despite the fact that housing prices as a ratio to median household income are 48% higher than they were 50 years ago, homeownership is also higher than it was before (Frank; FRED 2023). Historically rising prices have been in part offset by increases in the length of mortgage terms and reductions in downpayment size. This all makes sense of the high degree of elasticity of housing demand to interest rate changes (Bhasin 2023).

There is a cap on how long the process of acquiring a home can take. The average American can be expected to enter into full-time employment around age 21 and work until they retire at age 65, in total spending 44 years in the labor force. After retiring, households see a substantial reduction in their income, making them less capable of supporting housing payments. This is especially true for low-income households, where retirement savings are usually low, retirement benefits are especially scarce, and social security benefits are lower than for other groups. As of 2021, only 36.8% of working-age African Americans had a retirement account (Hoffman 2022). In addition, the median African American family approaching retirement only has $62,000 in savings, or roughly $5,040 annually, to live off if they retire at 65 (Morrissey n.d.).

Since retirement savings are so low among African Americans, especially the lower income ones, it is advisable for lease-purchase programs to be structured in such a way so as to not require a participant to pay toward their mortgage into retirement. For this reason, assuming enrollees are aged between 25 and 30 years old, the length of the lease plus the expected term of the mortgage should be between 35 and 40 years.

Mortgages for the homes themselves, to maximize the availability of financing options and minimize monthly payments, will likely need to be 30 years. This means lease terms will have to be below 10 years in order to avoid pushing the payment period past the retirement threshold. Out of the lease-purchase programs that currently exist, this is common practice.

Using this term determination, we can begin to tease out what price range of homes will be affordable to enrolled households. The median household income for household heads ages 25 to 34 (the age range to which this program will most appeal to) is nearly $75,000 annually. Meanwhile, the average Black household has an income of $48,297 (Statista n.d.). However, Houston is becoming a hub for young, Black professionals, so incomes of enrollees may vary widely (Black Achievers 2022). To remain inclusive on an income spectrum, the program should make sure it has a monthly payment that can be covered by a household income of at least $45,000. Affordability estimates can be roughly captured using the 30% rule, the rule that no more than 30% of income should go toward housing. This rule is more than just a helpful rule of thumb, rather it has actually been confirmed by previous research to be a reliable general estimate of affordability (Mccue et al. n.d.). Using the 30% rule, an applicant household making the aforementioned $45,000 can be expected to afford $1,125 a month in housing payments without subsidies. This figure was found by multiplying 45,000 by 30% and then dividing it by 12. Assuming a lease length of 5 years with 10% of yearly payments counting towards the eventual downpayment and a credit score above 620 by the time of purchase (the minimum required to reliably get an FHA loan), program participants can be expected to afford a home of around $150,000 (Nerd Wallet n.d.; Paddio FHA Interview).

The present value calculation of cash flows is helpful for evaluating whether the financial structure proposed in this section is sustainable for 5th Ward CRC's programming efforts. These calculations in the table below represent the organization's cash flow using the values in the previous paragraph over a five year timeline. A negative product of the calculation represents an outflow of money and a positive product represents an inflow.

Cash flow Equation

$$\text{Value} = Cashflow * \frac{(1 + inflation)}{(1 + discount\ rate)\hat{}year}$$

Cash flow Calculation		
Year	Cash Flow	Present Value
Purchase	-150,000	-$150,000.00
Year 1	13,500 (1+.02)ˆ1 / (1+.0525)ˆ1	$13,083.14
Year 2	13,500 (1+.02)ˆ2 / (1+.0525)ˆ2	$12,678.66

Year 3	13,500 (1+.02)ˆ3/(1+.0525)ˆ3	$12,287.63
Year 4	13,500 (1+.02)ˆ4 / (1+.0525)ˆ4	$11,908.20
Year 5	$13,500 (1+.02)ˆ5 / (1+.0525)ˆ5	$11,540.49
Sale	$150,000 (1+.02)ˆ5/(1+.0525)ˆ5 - (1,350*(1+.02)ˆ1 + 1,350*(1+.02)ˆ2 + 1,350*(1+.02)ˆ3 + 1,350*(1+.02)ˆ4 + 1,350*(1+.02)ˆ5)	$121,111.66
Sum of Cash flows		$32,610

Table 1. Present value calculations of the organization's cash flow over a five year timeline. The exponents in each equation are represented by the year. Present value of cash flow with the discount rate of 5.25% at year 1 is $13,083.14.

To further explain this model, cash flow per year is equal to the sum of rent payments over the course of the year. Previously these rent payments were established as $1,125 monthly, making for $13,500 annual cash flow. Rent payments will grow over time as housing prices rise, for this model rent growth was taken to grow at a rate equal to average inflation, 2%. The rent payments that are to be retained by Fifth Ward CRC to count towards downpayments were taken off the purchase price, which was estimated as the original price times the rate of inflation over five years.The discount rate is set at the federal discount rate, 5.25%. The sum of cash flows and profit is $32,610. The lease period for this calculation was taken to be five years as an example, however lease terms can vary.

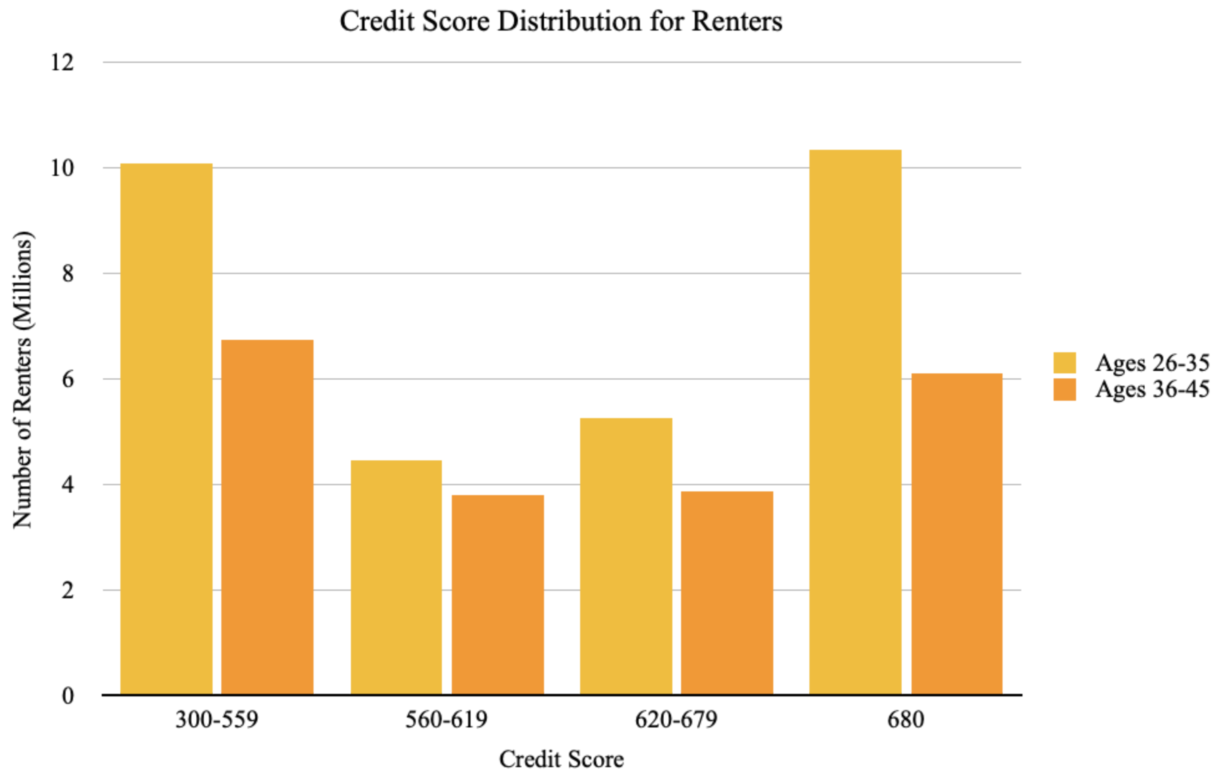
Eligibility

The eligibility requirements for a lease-purchase program are a crucial aspect to identify prior to creation for several reasons. First, eligibility requirements ensure the beneficiaries of the program are among the targeted population of the program. Administrators can identify specific communities that they want to use resources for–typically those who have been systemically prevented from homeownership. Next, eligibility requirements are essential for the financial stability of the program; because programs involve risk for both the organizers and participants, establishing eligibility criteria helps assess the financial capacity of applicants to ensure the program's obligations can be, and are, met. Eligibility criteria are also essential to program efficiency as resources are able to go to individuals or households that meet requirements and have a higher likelihood of successful homeownership. Finally, eligibility requirements often provide certainty that program funds are going to those in need to grant issuers and other donors, which is essential to attracting continual funding for programs. By establishing a baseline, programs can identify individuals who are more equipped to handle the responsibilities and challenges of homeownership, increasing success.

Generally, eligibility requirements of a program involve several practical elements that help paint a picture of the applicant and their financial capabilities. To begin, income is assessed; programs often have income limits or minimums to target individuals or families with a specific income and may vary depending on family size (Acolin et al. 2021). Where the income is coming from is another important piece; programs often require applicants to show stable employment history to ensure applicants have sufficient income to cover the monthly payments. Another commonly used element is creditworthiness; this may involve reviewing credit scores, rental and credit history, and debt-to-income ratios. Non-traditional credit, such as utilities or automobile insurance payments, is an important consideration to take, especially if targeting those who are recovering from financial stress (Anderson and Jaggia 2012). Additionally, programs can include completion of homeownership education and/or financial literacy as a requirement to improve preparedness for the responsibilities of homeownership. They can also require a demonstrated intention to become a homeowner in a certain community and establish long-term ties there, typically through a service-learning requirement. Several different lease-purchase programs were analyzed for their eligibility requirements; the summaries can be found in Appendix A on page 30.

The 5th Ward Community Redevelopment Corporation will be partnering with Habitat for Humanity on their use of grant funding for a lease-purchase program for lower-income individuals, but also hopes to increase Black homeownership by targeting younger households with higher incomes. Using information gleaned from the different models of lease-purchase programs, 5th Ward CRC should consider the following as important eligibility requirements when structuring the program:

1. Income: First, all households should have a verified income and stable employment history. For low and middle income (LMI) individuals and families, the family-size-based income requirements that Habitat for Humanity uses can be used as well. For higher-income renters, income should be high enough so that the debt-to-income ratio (DTI) does not go above 31%. Renters' DTI should be adjusted annually based on anticipated tax and insurance increases (Fort Myers 2013).
2. Creditworthiness/Alternative Credit: Credit score is a valuable tool to assess eligibility, however potential strong applicants should not be judged if they have had less access to credit. The figure below shows data from the Urban Institute on credit scores of renters ages 26-45: those who are most likely to be looking to buy a home. 70% of renters have less than a 680 credit score, which is seen as the commonly accepted minimum requirement for home purchases. For households that already fall in the higher income bracket, the minimum credit score should be set at 620 (the established credit score that would allow renters to reach 680 by purchase date). This opens a window for potential homeowners who have had a harder time building credit or have endured a financial event that lowered their credit but still have the income and desire to purchase a home because they will be able to raise their credit score while in the lease-purchase program.



Source: Li, Wei, and Laurie Goodman. “Comparing Credit Profiles of American Renters and Owners,” The Urban Institute, March 2016.

3. Financial and Homeowner Empowerment: The program should include the completion of an educational component as required for eligibility. 5th Ward CRC already carries out a HUD-approved homebuyer education course as well as housing counseling–these should be mandatory components of the program to ensure buy-in and commitment by renters. In this case, the education should fixate on ensuring program enrollees have the information they need to successfully transition to being a homeowner. Additionally, all interested parties should also meet with a financial advisor or counselor prior to being approved so that long-term planning is emphasized as an aspect of homeownership.
4. Residency Intent: Because the mission of 5th Ward CRC is to “build and preserve an inclusive 5th Ward Community by developing places and opportunities to live, work and play,” we recommend an eligibility requirement that involves applicants sharing their desires for living in 5th Ward and how they want to impact the community by becoming a homeowner in the area (5th Ward n.d.). This is also

where the program could involve an aspect of “sweat equity” in the form of service to the community that potential homebuyers will live in. Prior to being approved to move into a lease-purchase property, applicants should have at least 50 service hours in the last six months. This requirement also gives homebuyers not from the 5th Ward the opportunity to get integrated with their neighbors and community members.

Delinquency

In a lease-purchase program, defaulting refers to the failure by either party to meet the contractual obligations outlined in the governing documents. Defaulting, or failing to pay rent or meet another part of the lease agreement, can have various consequences for both parties; eligibility requirements are set to minimize the opportunity for default to happen. However, as possibilities of a default happening still remain, policies need to be set to protect both the organization and the renter.

First, to mitigate default from the start, program participants should have regular meetings with HUD-certified housing counselors at 5th Ward CRC. Consistent communication will ensure resources are shared with all potential households and counselors are kept up to date on participants’ information. One strategy Cleveland Housing Network uses to mitigate foreclosure is providing monetary assistance for property taxes (CHN n.d.). This provides a safety net for future homebuyers if they encounter hardship or financial setbacks.

Should mitigation strategies not prevent default, one approach to remedy is through loss of equity. Participants typically can pay an upfront option fee or a portion of their monthly payments towards building equity in the property. If a participant defaults during their lease agreement, the program may retain the equity as compensation for the default, and the participant may not be entitled to a full refund should they remedy their default quickly.

In addition to loss of equity, defaulting on a lease-purchase program can result in the forfeiture of any payments made towards the purchase of the property. This can include any option fee, down payment, or additional funds allocated toward the purchase. These funds may be retained by the program as liquidated damages. Also, the program can charge to remedy default. Trio, the for-profit lease to purchase a product, charges a $795 fee to cover turnover costs should a renter move out and not exercise their purchase option. (Stegman et al. 2019)

If a participant defaults and fails to rectify the situation, the program or landlord should take legal action to evict the participant from the property. This could involve the initiation of eviction proceedings, which will result in the participant being required to vacate the premises. The program or landlord can also pursue legal action to recover any financial losses incurred due to the default; the participant would therefore be liable for additional costs such as legal fees.

Legal Information

Governing Document

In Texas, lease options, title deeds, and lease purchases have traditionally been used by residential real estate investors for their ability to attract tenant-buyers with a minimal upfront cost and to provide an effective eviction process through the case-law enforcement procedure. However, since 2005, lease options have been classified as "executory contracts" and are subject to strict regulation under Section 5 of the Texas Property Code. Numerous requirements now apply, placing the responsibility on the seller to fulfill these obligations. Also, the current lender's approval, if any, is required. Failure to comply with these regulations may authorize the buyer to terminate the contract and recover all payments made to the seller. In addition, claims under the Deceptive Business Practices-Consumer Protection Act can be pursued and potentially result in triple damages and reimbursement of attorneys' fees. These changes mean increased scrutiny and protection for lease-option arrangements in Texas, placing significant legal responsibilities on sellers and potentially exposing them to significant financial liabilities (Willis 2023).

In a lease-to-purchase contract in Texas, the notice period required if the buyer decides to terminate the contract may depend on the terms specified in the contract itself. The specific notice period for termination of the contract should be clearly stated in the lease for a purchase contract. In general, repercussions can include the loss of serious money or the initial deposit provided by the buyer. Additionally, the agreement may outline any termination fees or penalties the buyer is liable to pay upon cancellation. If the buyer cancels without proper justification, the seller may be held liable for damages, including costs related to re-listing the property, lost revenue, or other financial losses. More information for this process is located in Appendix C.

Regulatory Considerations

To examine the regulatory environment a lease-purchase program operates in, the program conducted by the Cleveland Housing Network will be examined. This program was selected because the Cleveland Housing Network, better known as CHN, has the longest operating lease-purchase program (Edelman, Gordon, and Zonta). The CHN successfully executes their lease-purchase program by using low-income housing tax credits (LIHTC) which are granted to equity investors for 15 years provided they supply aid to the purchase of single-family rental properties priced at an affordable monthly cost of $550 (Edelman, Gordon, and Zonta 2019). Once the period has come to an end, the home is worth $30,000 to $80,000 and can be purchased by the participant at a below-market price of around $20,000. Those in the program are also given the opportunity of an interest-free second mortgage, repaid in the case of resale or refinancing, funded for Cleveland by the US Department of Housing and Urban Development's (HUD) HOME program. This is how the CHN conducts their lease-purchase program.

This program not only provides affordable housing, but it also promotes wealth growth. Low and middle-income families are able to build wealth as the equity built in the duration of the program is kept by the household and 85% of participants go on to become homeowners through the CHN. It is evident that this operation is effective in offering a solution to affordable housing. To further assess the effectiveness and environment of this particular program, the regulation that is the backbone of the program will be examined next (Edelman, Gordon, and Zonta 2019).

The major entity allowing a successful lease-purchase program is the LIHTC, as seen in the CHN's lease-purchase program, because it is the main source of funding and has certain requirements. The LIHTC credits prevent massive debt and the purchase price from increasing. Provided by the federal government, these credits are given to housing developers and then sold to investors to fund about 70% of development costs, thus having a major role in the program. The LIHTC also comes with qualifications to be met: either 20% of tenants must earn less than 50% of the median gross income (AMGI) or 40% of tenants must earn less than 60% AMGI. Developers also have to adjust rents in low-income units to 30% of one's income limit一either 50 or 60% of AMGI for minimum affordability of 30 years. Depending on the cost of constructing or rehabilitating the low-income units, the appropriate amount of tax credits will be dispersed, followed by the application of the housing tax credit rate to determine the annual tax credit. This credit rate is 9% for projects that the federal government does not subsidize and 4% for all others and paid out for a time frame of 10 years. With specific qualifications and supporting lease purchase programs, the LIHTC logistically is a viable solution but still faces many challenges (Diamond and McQuade 2019).

With the affordable housing crisis intensifying each year, a major challenge arises as the criteria for the LIHTC are easily met. However, this incentivizes better performance in utilization among applicants. It has been found that project proposals and tax allocation requests to states are two to four times higher than the federal allotments they have sent to states. In order to allocate tax credits, project characteristics are assigned points, and this is completed until all funds are diminished. Some of these characteristics include tenant demographics, location, further funding sources, and structural building properties. Due to these criteria being met by many applicants, it is encouraged that the minimum number of units and level of affordability be surpassed. The overflowing demand of requests is just one challenge faced by the use of the LIHTC (Diamond and McQuade 2019).

While successful upon execution, another drawback involves the LIHTC's long-term ailment to the affordable housing crisis, which has been criticized and referred to as a "leaky bucket." This is due to the fact that housing costs keep rising, and the LIHTC is only effective in providing affordable housing for 15 to 30 years. It has been estimated that by 2029, the affordability requirement will expire, and around half of LIHTC housing units will be lost, which poses a challenge to lease purchase programs that depend on this policy to cater to the affordable housing crisis. While this policy has allowed lease purchase programs to be successfully orchestrated, it may not be the most effective policy for a long-term solution, specifically for those severely cost-burdened (Algernon 2019).

In comparison to Housing Choice Vouchers, the second largest affordable housing program, the LIHTC is not as effective in preventing cost burdens when aiding program participants that make less than 50% of the area median family income. The Housing Choice Vouchers, or "Section 8," covers the difference between the cost of rent and 30% of one's annual income to ensure that the cost burden of the program participant is removed. Through this process, the household is the recipient of the benefit and has many social advantages, including not only the removal of the cost burden but also a reduction in racial and class segregation and more opportunities for low-income children. While the LIHTC is extremely beneficial to those in a higher income bracket, the program in conjunction with the Housing Choice Voucher program for those severely cost burdened, would be extremely effective in providing aid to the affordable housing crisis and promoting wealth growth (Kinder 2020).

The lease purchase program or the Housing Voucher Program, however successfully operated, is limited by market conditions that exacerbate the affordable housing crisis. These limiting conditions can be seen in the housing market analysis carried out by the Kinder Institute for Urban Research. The housing affordability gap, defined as the difference between the median sales price and what the median household can afford with 30% of income, has been shown to be drastically widening due to increasing housing sales prices and low inventory (Kinder 2020). In 2021, Harris County experienced a 16% increase in housing sales price, with a median sales price of $350,000. Ten years ago, the median household could afford the median sales price as opposed to being unable to meet that price by $70,000 in 2021. Renters also encountered increasing struggles as the affordability gap from 2011 to 2021 increased by $100,000. The root cause of this increase can be credited to the single-family homes with increasing demand that comprises 84% of sales volume in Houston. An appropriate market response is unable to be given to soften the negative impacts of this high demand due to barriers, including construction costs and supply-chain issues. Such market conditions create an unsupportive environment for affordable housing programs and decrease their ability to flourish (Kinder 2022).

In analyzing the regulatory environment, the Cleveland Housing Network is successful in administering a lease purchase program to respond to the affordable housing crisis. This program is able to do so by using the LIHTC to attract investors and build affordable housing under the condition of certain criteria being met. While successfully executed, those who make less than 50% of the median income are likely to still be cost-burdened and may benefit more with the Housing Voucher Program. These benefits include the removal of being cost-burdened, increased opportunity to build wealth, more opportunities for children, and less racial segregation in certain areas. However, regardless of how these programs are successfully implemented, the state of the market does not provide a supportive environment for these programs. This is because the affordability gap is drastically increasing each year, creating an even greater demand for lease purchase programs and discovering other effective ways to respond to the affordable housing crisis.

Alternative Options

Lease purchase programs are not the only way an organization can attempt to increase homeownership among a population. A narrow list of alternative options exists that Fifth Ward CRC could utilize:

First-time home buyer grants work so that qualifying applicants receive a set grant to help purchase a home which can vary based on the income of participants. This grant counts toward the down payment on a property and is intended to help those who could not afford it otherwise. These programs are not uncommon; one exists in Houston administered by a Texas state-owned enterprise called the Texas State Affordable Housing Corporation (TSAHC 2023).

High-quality data on this program was not available at the time of the creation of this report, but its effects can be predicted. As established previously in this report, homeownership rates are sensitive to prices. As home prices climb, all else equal, homeownership can be expected to decline. With this stated, homeownership grants are likely an effective way to increase homeownership by reducing the financial burden of purchasing a home. Yet they may be less effective than lease purchase programs for certain populations and do come with financial disadvantages for administrators.

For people with low credit scores, homeownership grants offer little help. They cannot qualify for a mortgage even if they were to receive down payment assistance. In addition, they are ineligible for the aforementioned down payment assistance program since it requires a credit score of 620 in order to qualify. For this population, lease-purchase programs will be much more helpful (TSAHC 2023).

Another population which lease-purchase programs may be preferable for are those that have not reached the stage where they are comfortable making the commitment to purchase a property but want to start down that path. For this disproportionally younger group, lease purchase programs provide one of the best options. They get access to a specific property at a more affordable price and without the need to negotiate while also having the flexibility to opt-out if necessary.

While first-time home buyer grants will have lower administrative costs, as no property management role is entailed, they require continuous external funding to operate. This is because, unlike with a lease purchase program, every dollar spent on an enrollee is a dollar lost. With lease-purchase programs, administrators yield a return on the money they spend in the form of lease payments and the purchase of their property by a program participant. In the cases that enrollees do receive a financial benefit from being in the program, this benefit usually comes from the administering nonprofit not raising the price of the home for sale at the same rate as the market, creating a de facto subsidy for buyers. For example, a buyer may acquire the property they have been leasing for five years at only 10% more than the original price as opposed to the property being sold at the market rate at 27%. Mimicking the sustainable cash flow model of lease purchase programs would require first-time home buyer grant administrators to set aside the vast majority of the funding they have received to invest, using only the returns of this investment to provide grants.

In short, a lease purchase program may be preferable for the specific groups Fifth Ward CRC intends to target. It also will be more financially sustainable for programs that intend to use all of their resources for immediate homeownership aid. This is because they yield returns from lease payments and property sales to program participants. Other options also exist, like homeowner assistance and the community land trust model. But in the former instance, these programs target a distinct segment of the population from those that Fifth Ward CRC is attempting to aid, and in the latter case, Fifth Ward CRC is already well acquainted.

Conclusion

Lease-purchase programs provide an opportunity for individuals and families who may not have the financial means to secure conventional mortgages to start on the path to homeownership. By allowing tenants to gradually transition from rent to home ownership, lease-to-purchase agreements enable them to build equity and accumulate wealth over time. Thereby these agreements can be a useful mechanism by which to help low-income black households build wealth.

This analysis has been conducted in order to provide the best options and guidance to the Fifth Ward CRC in structuring a new lease purchase program. From our analysis, we have come to some key recommendations. Lease terms should ideally be kept below ten years in order to avoid stretching into retirement when combined with a 30-year mortgage. Housing used for the program should ideally be around $150,000 to ensure accessibility for African American households below the median income, however, for higher-earning Black individuals, the debt-to-income ratio should be used to calculate the home price they can afford. Participant eligibility in the lease purchase program should take into consideration: income levels, creditworthiness/alternative forms of credit, participation in financial and homeownership education, and residency intent for the community of 5th Ward. To mitigate defaults, 5th Ward CRC should employ safety net programs and intensive housing and/or financial counseling to support participants; however, if there is a default, the organization is within its rights to assume equity, liquidate payments, send charges to the renter, and pursue legal eviction. It is also crucial to have a well-designed governing document for lease-to-purchase agreements, addressing key aspects such as price, lease term, eligibility, and late payments. In doing so, 5th Ward CRC can ensure a fair and transparent process that enables more individuals to own affordable homes.

References

5th Ward Community Redevelopment Corporation. “About Fifth Ward Community Redevelopment Corporation.” Accessed June 29, 2023. https://www.fifthwardcrc.org/about-us/#Our-Mission-and-Vision

Acolin, Arthur, Alex Ramiller, Rebecca J. Walter, Samantha Thompson, and Ruoniu Wang. “Transitioning to Homeownership: Asset Building for Low- and Moderate-Income Households.” Housing Policy Debate 31, no. 6 (2021): 1032–1049. https://doi.org/10.1080/10511482.2021.1949372.

Ahir, Hites, Prakash Loungani, and Karan Bhasin. “House Prices Continue to Fall as Borrowing Costs Rise.” IMF, March 15, 2023. https://www.imf.org/en/Blogs/Articles/2023/03/14/house-prices-continue-to-fall-as-borrowing-costs-rise .

Algernon, Austin. “Affordable Housing for All.” Demos. April 26, 2019.

Anderson, Michael, and Sanjiv Jaggia. “Return, Purchase, or Skip? Outcome, Duration, and Consumer Behavior in the Rent-to-Own Market.” Empirical Economics 43, no. 1 (2012): 313–34. https://doi.org/10.1007/s00181-011-0461-4.

Board of Governors of the Federal Reserve System. “Distributional Financial Accounts,” n.d. https://www.federalreserve.gov/releases/z1/dataviz/dfa/distribute/table/#quarter:132;series:Net%20worth;demographic:networth;population:all;units:levels;range:2008.1,2022.3

Boehm, Thomas, and Alan Schlottmann. “Wealth Accumulation and - JSTOR.” Wealth Accumulation and Homeownership: Evidence for Low Income Households, 2008. https://www.jstor.org/stable/20868659.

CHN. "Lease Purchase Flagship Program." Cleveland Housing Network Housing Partners, September 14, 2017. https://chnhousingpartners.org/real-estate-and-partner-services/explore-our-projects/project/lease-purchase-homes/.

CHN. "Property Tax Assistance." Cleveland Housing Network Housing Partners. https://chnhousingpartners.org/housing-and-community-services/avoid-foreclosure-eviction/

Cooper, Kerris, and Kitty Stewart. "Does Money Affect Children's Outcomes?" JRF, July 27, 2018.https://www.jrf.org.uk/report/does-money-affect-children%E2%80%99s-outcomes.

David J. Willis. 2023. "Lease-Options in Texas - LoneStarLandLaw.Com." Houston Real Estate Attorney - Texas Real Estate Attorney. January 23, 2023. https://lonestarlandlaw.com/lease-options-in-texas/.

David J. Willis. 2023. "Lease-Purchases in Texas Real Estate - LoneStarLandLaw.Com." Houston Real Estate Attorney - Texas Real Estate Attorney. January 23, 2023. https://lonestarlandlaw.com/lease-purchase-in-texas-real-estate/.

Diamond, Rebecca. McQuade, Tim. "Who Wants Affordable Housing in their Backyard? An Equilibrium Analysis of Low-Income Property Development." Journal of Political Economy v.127 iss.3 pg. 1063-17. June 2019.

Edelman, Sarah. Gordon, Julia. Zonta, Michela. "Lease Purchase Failed Before–Can it Work Now?" Center for American Progress. April 29, 2015.

Frank, Silvan. "Home Price to Income Ratio US." Long Term Trends. Accessed June 25, 2023. https://www.longtermtrends.net/home-price-median-annual-income-ratio/.

Fort Myers News-Press. "Habitat for Humanity, harsh reality hits home." WTSP. October 13, 2013.

Galante, Carol; Reid, Carolina, and Rocio Sanchez-Moyano. “Expanding Access to Homeownership through Lease-Purchase.” Terner Center for Housing Innovation. January 2017.

Grinstein-Weiss, M.; Key, C.; Guo, S.; Yeo, Y.H.; and Holub, K. “Homeownership and Wealth Among Low- and Moderate-Income Households.” Housing Policy Debate. 2013;23(2):259-79. doi:10.1080/10511482.2013.771786

Habitat Staff. “What Is Sweat Equity?” Habitat for Humanity. Accessed June 29, 2023. https://www.habitat.org/stories/what-is-sweat-equity.

Houston Habitat Staff. “Homeownership.” Houston Habitat for Humanity. Accessed June 29, 2023. https://www.houstonhabitat.org/services/homeownership/

“Home Buying Assistance in Houston.” Grants For First Time & Repeat Home Buyers - Texas State Affordable Housing Corporation (TSAHC). Accessed July 8, 2023. https://www.tsahc.org/homebuyers-renters/houston-area-down-payment-assistance.

Hoffman, Maria G. “New Data Reveal Inequality in Retirement Account Ownership.” Census.gov, August 30, 2022. https://www.census.gov/library/stories/2022/08/who-has-retirement-accounts.html.

Herbert, Christopher, Alexander Hermann, and Daniel Mccue. “Joint Center for Housing Studies.” Measuring Housing Affordability: Assessing the 30 Percent of Income Standard. Accessed June 30, 2023. https://www.jchs.harvard.edu/sites/default/files/Harvard_JCHS_Herbert_Hermann_McCue_measuring_housing_affordability.pdf.

“Homeownership Rate in the United States.” FRED, May 3, 2023. https://fred.stlouisfed.org/series/RHORUSQ156N.

“Household Income of Black Families U.S. 2021.” Statista, September 30, 2022. https://www.statista.com/statistics/203295/median-income-of-black-households-in-the-us/.

Kinder Institute for Urban Research. “The 2022 State of Housing in Harris County and Houston.” Rice University, June 22, 2022.

Kinder Institute for Urban Research. “The Housing Voucher Program isn’t Perfect, but it’s Essential.” January 29, 2020.

Kinder Institute of Urban Research. “State of Housing:Houston Real Estate Boom Leaves a Vulnerable Situation in its Wake.” June 22, 2022

Kuhn, Moritz, Moritz Schularick, and Ulrike Steins. “Income and Wealth Inequality in America, 1949-2016.” Minneapolis FED Research Division. May 14, 2018. https://researchdatabase.minneapolisfed.org/concern/publications/ft848q758.

Kuo, Fan-Yu. “Homeownership Remains Primary Driver of Household Wealth: Eye On Housing.” National Association of Home Builders, February 16, 2021. https://eyeonhousing.org/2021/02/homeownership-remains-primary-driver-of-household-wealth/.

“Median Household Income in the United States in 2021, by Age of Householder,” October 11, 2022. https://www.statista.com/statistics/233184/median-household-income-in-the-united-states-by-age/

Morrissey, Monique, Siavash Radpoor, and Barbara Schuster. “Chapter 2. Retirement.” Economic Policy Institute. Accessed June 29, 2023. https://www.epi.org/publication/chapter-2-retirement/.

Nerd Wallet. n.d. “How Much House Can I Afford? Affordability Calculator.” NerdWallet. Accessed June 29, 2023. https://www.nerdwallet.com/mortgages/how-much-house-can-i-afford/calculate-affordability.

Schaeffer, Katherine. “‘What’s the difference between income and wealth?’ and other common questions about economic concepts.” Pew Research Center. July 23, 2021.

https://www.pewresearch.org/decoded/2021/07/23/whats-the-difference-between-income-and-wealth-and-other-common-questions-about-economic-concepts/

Stegman, Michael, Mason, Jeb, and Mark Zandi. "Lease to Purchase. How to Build Homeownership." *Moody's Analytics* (2022).

Texas State Law. 2023. "Landlord/Tenant Law." Https://Guides.Sll.Texas.Gov/Landlord-Tenant-Law/Security-Deposits. June 15, 2023. https://guides.sll.texas.gov/landlord-tenant-law/security-deposits.

Texas Young Lawyers Association, and The State Bar of Texas. Tenants' Rights Handbook. Https://Tyla.Org/Resource/Tenants-Rights-Handbook/ . 12th ed., n.d. Accessed June 23, 2023.

United States Census Bureau. "Selected Social Characteristics in the United States," n.d. https://data.census.gov/table?q=household&tid=ACSDP1Y2021.DP02

Velt, Tracey. "NAHB: Each $1,000 Increase in Home Price Pushes 127,560 Buyers out of Range." RealTrends. January 9, 2019. https://www.realtrends.com/articles/nahb-each-1000-increase-price-pushes-buyers-out-of-range/.

Willis, David. "Lease-Options in Texas - LoneStarLandLaw.com." Houston Real Estate Attorney - Texas Real Estate Attorney. January 23, 2023. https://lonestarlandlaw.com/lease-options-in-texas/.

Willis, David. "Lease-Purchases in Texas Real Estate - LoneStarLandLaw.com"Houston Real Estate Attorney - Texas Real Estate Attorney. January 23, 2023. https://lonestarlandlaw.com/lease-purchase-in-texas-real-estate/.

Yun, Lawrence, Jessica Lautz, Nadia Evangelou, Brandi Snowden, and Meredith Dunn. "2023 Snapshot of Race and Home Buying in America ." National Association of REALTORS, 2023. https://cdn.nar.realtor/sites/default/files/documents/2023-snapshot-of-race-and-home-buying-in-t

he-us-03-02-2023.pdf.

Appendix A

The Habitat for Humanity Homeownership Program is a prominent and internationally respected model that has supported homeownership for thousands of people in the United States and abroad. The Houston chapter of the program splits its eligibility requirements into different categories; the first requirement is that there is a need for housing–applicants must demonstrate a reason why they need to improve their housing situation; some possibilities include: living in housing that is overcrowded, substandard, unsafe, unsanitary or paying more than 30% of gross income on rent. (Habitat 2023) The applicant must also have citizenship or permanent residency in the United States.

To ensure there is a commitment by the applicant to become a homeowner, Habitat for Humanity requires a “Willingness to Partner,” which includes at least 250 hours of “sweat equity.” Sweat equity is one of the cornerstones of the Habitat for Humanity model, as it creates true buy-in for families constructing a home through the program. There are several ways to earn hours which include: engaging in construction work in any HfH home, clearing debris from sites, working at a Habitat ReStore, supporting Habitat with administrative tasks, packing meals for builders and volunteers, and participating in financial counseling and homeownership courses. (Fort Myers 2013)

Habitat for Humanity’s next requirement is “Ability to Pay,” this encapsulates credit score–the minimum they will partner with is 620, and the ability to afford monthly mortgage payments, including escrow and insurance. (Habitat n.d.) Habitat has both minimum and maximum annual household gross income levels by family size; for example, in Houston, to qualify as a family of 6, you must make at least $54,100 but not greater than $86,500. In every community, Habitat bases these eligibility windows on Area Median Income as reported by the U.S. Department for Housing and Urban Development. (Habitat n.d.)

The Cleveland Housing Network Lease-Purchase program is a pioneer in the lease-purchase industry and has seen large success working with low-income individuals and families to increase homeownership in northeastern Ohio. Because it is a 15-year pathway to homeownership, the program has fewer specific eligibility requirements than other typical programs. Prospective tenants must have an income below 60% of the Area Median Income and complete a homeownership course prior to moving in; however, there are not many defined eligibility characteristics beyond those, likely because CHN provides many other community-based services which help identify potential strong applicants (CHN 2017).

For-profit businesses running lease-purchase programs also maintain eligibility requirements, just as pre-approval is required for typical home purchasers to obtain a mortgage. Home Partners of America operates its "Lease with a Right to Purchase" Program in over 50 metro areas in 20 states; the program requires a minimum household income of $40,000 and a minimum credit score of 580-620, depending on the market and the specific terms of the lease-purchase agreement. However, the mean household income for all lease-purchase residents in 2022 was $131,000, and the median credit score was 640 (Galante et al. 2017). Home Partners' homeownership success rate was around 43% in 2022 for all households independent of when they moved in (Stegman et al. 2022).

Another company, Trio operates a lease-to-purchase "product" that does not have an income requirement for eligibility, but rather, "to qualify, a household must have verified income and the ability to afford lease payments no greater than the equivalent of a 38% debt-to-income ratio" (Stegman). Typically applicants must have at least a 580 credit score and no active bankruptcies, foreclosures, short sales, or disqualifying criminal history. Interested parties must also have verified on-time rental history for a minimum of 24 months (Stegman). Trio's product is too new and limited to generate reliable homeownership success rates; however, in 2022, 80 households out of 470 had successfully exercised their purchase option–and of those, approximately 64% were Black (Stegman).

Appendix B

Rental and mortgage agreements are in a standard format in the United States, but the specific content and structure may vary depending on the parties involved, the type of property, and any additional terms negotiated between the parties. Here is an overview of typical sections and information found in these agreements:

1. **Title:** The document will typically contain a title that clearly identifies it as a lease or mortgage agreement. It may also include the names of interested parties, the address of the property, and the effective date of the contract.
2. **Parties:** The lease or mortgage agreement will identify the parties involved, including the names and contact information of the lessor/landlord or lender/mortgage and the lessee/tenant or borrower/mortgage taker.
3. **Property Description**: A detailed description of the leased or mortgaged property, including address, legal description, and any specific details about the property.
4. **Purchase Price or Option Price:** For lease-to-buy agreements, the document states the purchase price or option price; this is the amount the tenant/buyer must pay to exercise the option to buy the property.
5. **Option Period:** In the lease-to-buy agreement, there is usually an option period in which the lessee/buyer can exercise the right to buy the property. The document specifies the duration of the option period and related terms and conditions.
6. **Terms of Purchase Agreement:** In the lease-to-purchase agreement, the document includes final purchase terms such as closing date, financing arrangements, and any contingencies that must be met before the purchase can take place.
7. **Mortgage Terms (if applicable):** A mortgage document will specify the details of the loan, including the loan amount, interest rate, repayment terms, and any additional fees or charges.
8. **Default and Remedies:** This section will explain the consequences of defaulting on the contract, such as late payments or breach of terms or failure to complete the purchase. It

will outline the remedies available to the non-defaulting party, which may include eviction or foreclosure procedures.

9. **Applicable Law and Jurisdiction:** The certificate of lease or mortgage to buy defines the applicable law and jurisdiction in which any dispute will be resolved.
10. **Termination:** The conditions under which the lease or mortgage contract can be terminated shall be stated. Early termination may include renewal options or the process of terminating the contract at the end of the lease or mortgage term.
11. **Signatures:** The lease or mortgage agreement will be concluded with the signature date, leaving spaces for the signatures of all parties involved.

Appendix C

In Texas Property Code, Sections 5.069 and 5.070 cover a set of requirements that must be met by the buyer before an enforcement agreement can be executed.

- Section 5.069(a)(1) requires the seller to provide the buyer with a survey conducted in the past year or an existing plan.

- Section 5.069(a)(2) stipulates that the seller must provide the buyer with copies of liens, restrictive agreements, and easements affecting ownership of the property.

- Section 5.069(a)(3) requires the delivery of a legal statement to the buyer that addresses practical issues such as whether the property is in a registered subdivision, the availability of water, sewer, and electric power, and the property's location in an area. floodplain, responsibility for maintenance of the road leading to the property, etc. A positive statement confirming that no person or entity other than the seller is claiming ownership or interest in the property is mandatory.

Additionally, subsection (a) requires the seller to explain to the buyer that there are no restrictive contracts, easements, or other title exemptions or obligations that would prevent a home from being built on the property. Another notice advising the buyer to obtain a title deed or deed commitment for the property and to have it reviewed by an attorney before entering into such a contract and obtaining a property insurance policy that covers the property is mandatory.

- Section 5.069(b) states that if the property is not in a registered subdivision, the seller must provide the buyer with a separate disclosure form stating that public services may not be accessible until the subdivision has been duly registered as required by law.

- Section 5.069(c) deals with the advertising of enforcing contracts and requires the inclusion of information regarding the availability of water, sewer, and electricity services in the advertisement.

- Section 5.070(a)(1) requires the seller to provide a tax certificate from the collector to the buyer for each taxation unit responsible for collecting property taxes on the property.

- Section 5.070(a)(2) requires the seller to provide the buyer with a copy of any insurance policy, binder or proof showing the names of the insurer and the insured, a description of the insured property, and the policy amount. (Willis 2023)

The eviction process in Texas involves a systematic series of steps. Under an executory contract, simply evicting a buyer in case of default is unacceptable, as the buyer has equitable rights and has status beyond just a tenant. Prior to initiating eviction proceedings, the buyer must be given an unconditional 30-day opportunity to correct the default. However, if the judge gives the property to the seller during the eviction hearing, the buyer loses his upfront payment. In addition, Property Code Section 5.066(a) requires a 60-day notice if, in a lease-purchase agreement, the buyer pays 40% or more of the purchase price or the equivalent of 48 monthly payments. If the default remains unresolved, a traditional foreclosure process must be used, rather than eviction, to regain ownership. Obviously, these provisions are intended to prevent sellers from unfairly withholding prepayments and draining buyers' equity. (Willis 2023)

The lease agreement only identifies the tenant as a tenant without any condition for future property ownership, whereas the lease-to-purchase agreement gives the lessee the opportunity to acquire ownership of the property by exercising the purchase option within predetermined terms. Thus, the implications for the eviction process and the termination of the agreement may follow a similar framework in both types of arrangements. In a case when the seller/landlord issues a written notice of eviction, outlining the reasons for the eviction and setting a certain time frame for the buyer/tenant to vacate the premises. This notice period varies based on the reason for the eviction, such as non-payment of rent or lease violations. Non-payment of rent usually requires three days' notice, while other violations require 30 days' notice. If the buyer/tenant fails to comply with the notice, the seller/landlord can move forward by filing an eviction suit, known as a "forcible entry and detainer" suit, in the local county court. After filing, the buyer/tenant is presented with a summons informing them of the lawsuit and the scheduled court hearing. A court session allows both parties to present their arguments and evidence, after which the judge issues a ruling. If the judgment is in the seller/landlord's favor, a "writ of possession" is issued, giving the seller/landlord the legal authority to repossess the property. The buyer/tenant is usually given a few days to vacate the premises voluntarily. If the buyer/tenant refuses to leave, the seller/landlord can use law enforcement to enforce the possession order and remove the tenant from the property.

Example of a lease-to-purchase agreement (seller/buyer) document:

https://eforms.com/download/2015/12/texas-residential-lease-agreement-option-to-purchase.pdf

TEXAS RESIDENTIAL LEASE WITH OPTION TO PURCHASE

Title 8, Chapter 92

This Lease to Purchase Option Agreement ("Option to Purchase Agreement") is made on ______________________ [month, day, year] between ______________________ (the "Seller/Landlord") and ______________________ (the "Buyer/Tenant") Hereinafter known as the "Parties".

WHEREAS, Seller/Landlord is the fee owner of certain real property being, lying and situated in ______________ County, __________, Texas such real property having a street address of ____ (the "Property").

WHEREAS, Seller/Landlord and Buyer/Tenant have together executed a prior lease agreement, the subject of which is the aforementioned Property (the "Lease Agreement").

NOW, THEREFORE, for and in consideration of the covenants and obligations contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Seller/ Landlord hereby grants to Buyer/Tenant an exclusive option to purchase the aforementioned "Property."

The parties hereto hereby agree as follows:

1. **Rent**: Tenant shall pay Landlord the annual rent of ____________________ Dollars ($______________) during said term, in monthly payments of ____________________ Dollars ($______________), each payable monthly on the ____ day of each month in advance at such place as we may from time to time specify by written notice to you. Tenant shall pay a security deposit of ____________________ Dollars ($______________) to be returned upon termination of this Lease and the payment of all rents due and performance of all other obligations.

2. **Utilities and Services:** Tenant shall at its own expense provide the following utilities or services: Tenant must pay promptly as they become due all charges for furnishing ____
[specify, e.g., water, electricity, garbage service, and other public utilities] to the premises during the lease term.

Landlord shall at its expense provide the following utilities or services: ________ ____
[specify]

Landlord does not warrant the quality or adequacy of the utilities or services specified above, nor does Landlord warrant that any of the utilities or services specified above will be free from interruption caused by repairs, improvements, or alterations of the building or the premises or any of the equipment and facilities of the building, any labor controversy, or any other causes of any kind beyond Landlord's reasonable control. Any such interruption--and any other inability on Landlord's part to fulfill Landlord's lease obligations resulting from any such cause--will not be considered an eviction or disturbance of Tenant's use and possession of the premises, or render Landlord liable to Tenant for damages, or relieve Tenant from performing Tenant's lease obligations.

3. **Tenant further agrees that**:

a) Condition of Premises: Upon the expiration of the Lease it shall return possession of the leased premises in its present condition, reasonable wear and tear, fire casualty excepted. Tenant shall commit no waste to the leased premises.

b) Assignment or Subletting: Tenant shall not assign or sublet said premises or allow any other person to occupy the leased premises without Landlord's prior written consent.

c) Alterations: Tenant shall not make any material or structural alterations to the leased premises without Landlord's prior written consent.

d) Compliance with Law: Tenant shall comply with all building, zoning and health codes and other applicable laws for the use of said premises.

e) Tenant's Conduct: Tenant shall not conduct on premises any activity deemed extra hazardous, or a nuisance, or requiring an increase in fire insurance premiums.

f) Pets: Tenant shall not allow pets on the premises.

g) Right of Termination and Re-Entry: In the event of any breach of the payment of rent or any other allowed charge, or other breach of this Lease, Landlord shall have full rights to terminate this Lease in accordance with Texas State law and re-enter and re-claim possession of the leased premises, in addition to such other remedies available to Landlord arising from said breach.

4. **OPTION TERM**. The option to purchase period commences on ______________________ [month, day, year] and expires at 11:59 PM ______________________ [month, day, year].

Example of a lease agreement (landlord/tenant) document:

http://content.har.com/FormManager/pdf/79.pdf

TEXAS REALTORS

TEXAS RESIDENTIAL LEASE WITH OPTION TO PURCHASE

Title 8, Chapter 92

This Lease to Purchase Option Agreement ("Option to Purchase Agreement") is made on ______________________ [month, day, year] between ______________________ (the "Seller/Landlord") and ______________________ (the "Buyer/Tenant") Hereinafter known as the "Parties".

WHEREAS, Seller/Landlord is the fee owner of certain real property being, lying and situated in ____________ County, __________, Texas such real property having a street address of ______________________ (the "Property").

WHEREAS, Seller/Landlord and Buyer/Tenant have together executed a prior lease agreement, the subject of which is the aforementioned Property (the "Lease Agreement").

NOW, THEREFORE, for and in consideration of the covenants and obligations contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Seller/ Landlord hereby grants to Buyer/Tenant an exclusive option to purchase the aforementioned "Property."

The parties hereto hereby agree as follows:

1. **Rent**: Tenant shall pay Landlord the annual rent of ______________ Dollars ($______________) during said term, in monthly payments of ______________ Dollars ($______________), each payable monthly on the ____ day of each month in advance at such place as we may from time to time specify by written notice to you. Tenant shall pay a security deposit of ______________ Dollars ($______________) to be returned upon termination of this Lease and the payment of all rents due and performance of all other obligations.

2. **Utilities and Services:** Tenant shall at its own expense provide the following utilities or services: Tenant must pay promptly as they become due all charges for furnishing ______________________ [specify, e.g., water, electricity, garbage service, and other public utilities] to the premises during the lease term.

Landlord shall at its expense provide the following utilities or services: ______________________ [specify]

party written notice of termination not less than: *(Check only one box.)*

❑ (1) 30 days before the Expiration Date.

(TXR-2001) 07-08-22 Landlord or Landlord's Representative:_____,_____ & Tenants:_____,_____,_____,_____ Page 1 of 17

Residential Lease concerning: ______________________

Landlord does not warrant the quality or adequacy of the utilities or services specified above, nor does Landlord warrant that any of the utilities or services specified above will be free from interruption caused by repairs, improvements, or alterations of the building or the premises or any of the equipment and facilities of the building, any labor controversy, or any other causes of any kind beyond Landlord's reasonable control. Any such interruption--and any other inability on Landlord's part to fulfill Landlord's lease obligations resulting from any such cause--will not be considered an eviction or disturbance of Tenant's use and possession of the premises, or render Landlord liable to Tenant for damages, or relieve Tenant from performing Tenant's lease obligations.

3. **Tenant further agrees that**:

a) Condition of Premises: Upon the expiration of the Lease it shall return possession of the leased premises in its present condition, reasonable wear and tear, fire casualty excepted. Tenant shall commit no waste to the leased premises.

b) Assignment or Subletting: Tenant shall not assign or sublet said premises or allow any other person to occupy the leased premises without Landlord's prior written consent.

c) Alterations: Tenant shall not make any material or structural alterations to the leased premises without Landlord's prior written consent.

d) Compliance with Law: Tenant shall comply with all building, zoning and health codes and other applicable laws for the use of said premises.

e) Tenant's Conduct: Tenant shall not conduct on premises any activity deemed extra hazardous, or a nuisance, or requiring an increase in fire insurance premiums.

f) Pets: Tenant shall not allow pets on the premises.

g) Right of Termination and Re-Entry: In the event of any breach of the payment of rent or any other allowed charge, or other breach of this Lease, Landlord shall have full rights to terminate this Lease in accordance with Texas State law and re-enter and re-claim possession of the leased premises, in addition to such other remedies available to Landlord arising from said breach.

4. **OPTION TERM**. The option to purchase period commences on ______________________ [month, day, year] and expires at 11:59 PM ______________________ [month, day, year].

process or accept payment by *(select one or more only if Landlord indicates a reasonable fee may be charged)*: ❑cashier's check ❑electronic payment ❑money order ❑personal check or ❑other means acceptable to Landlord.

(4) Landlord ❑ requires ❑ does not require Tenant(s) to pay monthly rents by one payment.