



# **MASTER LEASING STRATEGIES TO INCREASE HOUSING**

**TIFFANY ADAMS, TECHNICAL ADVISOR**

Master Leasing is an effective strategy used to broaden access to rental units among those with the highest barriers to entering a lease on their own. This type of lease agreement, better known as a corporate lease to landlords, allows a property owner (lessor) to reduce risks and maximize return by leasing their property to a single tenant (master lessee), who in turn sub-leases to renters who would not be able to enter into a direct lease for various circumstances (e.g., history of justice involvement, credit or eviction history, and low income).

In the nonprofit space, particularly in homeless services, nonprofit service organizations have successfully used the master leasing strategy to house those with the highest barriers and service needs to attain and sustain housing. While there are several variables involved in negotiating a master lease agreement, there are benefits for each party involved, including guaranteed rental income, increased occupancy rates for the property owner, more access to affordable units for the master lessee and sub-lessee, and connection to support services that mitigate the cost and risk of eviction.

## HOW IT WORKS

The master leaseholder (master lessee), usually a not-for-profit organization, manages and leases multiple existing rental units as the primary tenant. The master lessee may also contract a property manager to handle the managing duties or work with the existing property manager for a subset of units being leased.

Leading with a housing first approach, the property owner/manager and master lessee determine the most appropriate way to lease up the units. Tenants can be added to the original lease as an occupant or, more commonly, enter a lease with the master lessee.

Tenants typically receive support services through a local nonprofit service organization

to focus on maintaining housing stability.

The property owner/manager and master lessee communicate closely to ensure timely repairs, rent payments, and lease compliance. Ideally, staff from the master lessee are easily accessible and communicative with the property manager/owner so that case management and supportive service can be provided as needed to support tenants living in the unit.

## CONSIDERATIONS FOR MASTER LESSEES

The master lessee is responsible for unit turnover, occupancy, and paying the rent to the property owner for the life of the lease, whether the unit is occupied or not. A coordinated entry process or unit turnover time may be impacting factors, but units should not remain vacant for longer than 15-30 days.

Depending upon the agreement of the master lessee and property owner/manager, the master lessee might be responsible for minor cosmetic repairs needed to turn over a unit to a new occupant, including unit cleaning, painting, and carpet cleaning. To decrease costs, it is also common for nonprofit organizations to develop a robust volunteer program to support unit turnover by managing simple cosmetic repairs like painting, touch-ups, and cleaning.

Various funding sources are available to cover costs related to rent, deposits, utilities, and support services, including Emergency Solutions Grant (ESG), HUD Continuum of Care Program Funds, and Community Development Block Grants (CDBG); however, most uses of these funding sources are tied to a specific person needing assistance rather than a specific rental unit, meaning there needs to be flexible funding to cover a vacant unit in the process of being turned over.

Tenant contributions or occupancy fees are often put in place if the tenant has income.

This is encouraged by HUD and can generate program income to invest back into services that benefit the program and/or authorized activities under the grant (e.g., hiring a property manager to delineate roles, property management software to streamline operations, Homeless Management Information System (HMIS), and excessive unit repairs.)

To ensure nonprofit organizations are supported and incentivized as master leasing partners, Landlord Risk Mitigation funds should be accessible to nonprofit organizations serving as master leaseholders rather than just private landlords in the community. These funds can increase landlord participation and pay for things like damages, up-front expenses, signing bonuses, and more. You can read more about operationalizing these funds in the linked resources below.

## CONSIDERATIONS FOR PROPERTY OWNERS

A primary advantage for the owner is steady rental income and help to maintain the unit once the master lessee has taken responsibility. In some instances, nonprofits receive funding that allows for up to 24 months of rental assistance and can cover sign-on bonuses for property owners. Property owners may also be able to take advantage of new mandatory or local option property tax exemptions offered under the Live Local Act for offering units for rent below market rates, depending on the location, total number of units, and age of the property. This would further increase profitability.

Nonprofits using HUD funding are restricted to HUD's rent limits at either Fair Market Rent and/or rent reasonableness standards, along with regulations around utilities. Master Lessees may negotiate a utility allowance to be included in the rent. If the tenant exceeds the utility allowance, the master lessee typically pays the overage.

It is important to note that fair housing laws may be a concern in an earnest effort to do good in the community. Being flexible with tenant selection criteria for applicants participating in this type of lease agreement does not violate fair housing law so long as determinations are not based on race, color, religion, sex (including gender identity and sexual orientation), disability, familial status, or national origin.

Most owners are familiar with corporate leasing and have established documents and procedures that can be adapted by adding addendums and enforcing time limitations ranging from 6 – 12 months or ongoing while building trust with the master lessee. While the master lessee may be willing to absorb some costs related to unit turnover, the property owner is still responsible for maintaining the property, including major repairs.

## ACTUAL AND PERCEIVED RISKS

Property owners and managers may view low-barrier or flexible screening criteria as a risk; however, the support and services tenants receive contribute to decreased unit turnover, timely rent payments, lease compliance, and overall housing stability. While master leasing reduces owner liability, most of the actual risk is carried by the partner agreeing as the master lessee, and thus may be difficult to acquire organizations willing to take on this role. Each party should consider the risks and benefits, and negotiate terms that work for all parties, including the tenant.



**TIFFANY ADAMS** is a Technical Advisor for the Florida Housing Coalition and works with the Ending Homeless Team. Tiffany has over a decade of experience mobilizing and cultivating skills and community knowledge to provide tailored case management in the Jacksonville community. In addition to work experience, Tiffany's lived experience of homelessness helps communities foster inclusive, meaningful strategies and implementation to end homelessness.

## EXAMPLES IN ACTION



**WHY HOMELESS ORGANIZATIONS IN OREGON ARE BECOMING LANDLORDS (NPR):** Many cities are seeing a dramatic increase in homelessness. To answer the crisis, advocates in Portland, Ore., are turning to a strategy used in commercial real estate. Tiffany Camhi from Oregon Public Broadcasting explains.

**SAN FRANCISCO'S DEPARTMENT OF PUBLIC HEALTH'S DIRECT ACCESS TO HOUSING PROGRAM:** Established in 1998, the San Francisco Department of Public Health's (SFDPH) Direct Access to Housing (DAH) program provides permanent housing with on-site supportive services for approximately 400 formerly homeless adults, most of whom have concurrent mental health, substance use, and chronic medical conditions.



## ADDITIONAL RESOURCES



**HUD EXCHANGE PROJECT FUNDING AND STRUCTURE BRIEF MASTER LEASING:** Master leasing can provide flexibility on tenant screening criteria because the master leaser takes on responsibility for the unit. This system is also beneficial for landlords, as they will receive rent on the master leased properties regardless of whether they are occupied and can manage the units with a single lessee rather than multiple individuals.

**THE HOMELESS HUB: LANDLORD ENGAGEMENT TOOL:** Important features of the Housing First approach—such as separation of housing and clinical services, community integration and participant choice—largely depend on access to private market housing. Positive relationships with landlords can support the well-being of program participants, facilitate recovery and contribute to successful tenancies.



**NATIONAL ALLIANCE TO END HOMELESSNESS: HOW MASTER LEASING CAN HELP WITH THE HOUSING CRISIS:** To offer an immediate solution to housing shortages, many cities and municipalities are turning to master leasing and third-party leasing, with a particular focus on multi-bedroom housing units being used as shared housing. Master leasing and third-party leasing offer many benefits for low-income and homeless prospective renters.

**URBAN INSTITUTE: MASTER LEASING IN LOS ANGELES:** On any given night in 2020, nearly 50,000 people endured unsheltered homelessness in Los Angeles County (Henry et al. 2021). In response to stagnating progress on placing people in housing, local and statewide agencies have been experimenting with various distinct strategies commonly referred to as “master leasing.”

