World Bank Global Affordable Housing conference

Rent-to-own 2.0: innovations in rent to own to reach previously excluded households

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So what is RtO?

Though there are vast range of definitions, technically, it is an intermediate ownership tenure choice that ultimately provides the benefit of home ownership at a lower entry price point for middle to lower income households.

RTO can only work at a minimum for households who can maintain the costs of a tenancy and then only on the basis of having an option to purchase in the future and maybe a savings scheme if they have some surplus income.

We are effectively talking broadly of four main types of products.

1. Rent to Own- Where tenant pays initial deposit as sign of commitment with option to buy at a future date. The financing arrangement to exercise the option is purely down to the tenant. More of a private/market scheme

2. Rent to Own- Similar to the above, the difference is that the tenant pays a lower deposit, subsidised rent for a period to create surplus income to set up a savings scheme to buy at the end of the term.

3. Shared ownership/ equity – Where the tenant pays initial deposit and buys % shares of the equity over a term from savings or other sources and pays rent only on the part not owned. Here incremental equity transfer is a key feature.

4. Tenant purchase scheme TPS- Where the tenant pays initial deposit and makes lease payment over a fixed term and ownership reverts at the end of the term.

Variable characteristics of rent to own products

- Level and type of Government subsidy
- Extent of the involvement of the Private sector
- Various types of organisations play the role of asset owner or shared asset owner ranging from for Profit housing associations such as Legal General in the UK, Non for profit organisations, Public authorities such NHC in Kenya.
- The Landlord and tenant responsibilities vary depending on the product type, local contract laws and enforcement
- Availability of mortgage finance affects ability to exercise purchase options
- Range of Income groups and level of affordability
- Extent of consumer protection and regulatory oversight of providers
- Ownership /Equity transfer points
- Lease term, price determination, default etc

Examples of rent to own in emerging countries

Rent-to-own projects, also known as lease-to-own or rent-to-buy programs, are increasingly popular in emerging countries as a means of promoting affordable housing and facilitating homeownership. While specific projects may vary, here are a few examples of rent-to-own initiatives in emerging countries:

Mexico: "Tu Casa Express" is a rent-to-own housing program in Mexico that allows low-income families to rent a home with the option to purchase it in the future. Participants pay monthly rent, a portion of which goes towards building equity in the property. After a certain period, tenants have the opportunity to buy the house using the accumulated equity.

Philippines: The "Pag-IBIG Fund Rent-to-Own Program" is a government-backed initiative that helps Filipino citizens acquire affordable homes. The program offers rent-to-own options for eligible individuals, with monthly payments serving as both rent and equity towards homeownership. The tenants have the option to purchase the property after a specified period.

Brazil: In Brazil, the "Minha Casa, Minha Vida" (My House, My Life) program provides housing solutions for low-income families. The program includes a rent-to-own component where participants can rent a home initially and gradually transition into ownership by making monthly payments. Over time, tenants can accumulate equity and become homeowners.

South Africa: The "Finance Linked Individual Subsidy Program" (FLISP) in South Africa helps low- to middle-income individuals access affordable housing. The program includes rent-to-own options, where tenants can rent a property initially and later convert their rental payments into a mortgage. This allows them to transition from renting to owning their homes.

Examples of rent to own in emerging countries

India: "Housing for All" is an initiative by the Indian government aimed at providing affordable housing to all citizens. Under this program, rent-to-own schemes have been implemented, allowing individuals to rent a home with the possibility of ownership in the future. Regular rental payments contribute to building equity, and tenants can eventually purchase the property.

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It's important to note that rent-to-own projects can vary in structure and availability across different countries. The examples provided here represent some initiatives that have been implemented in emerging countries to promote affordable housing and homeownership through rent-to-own arrangements.

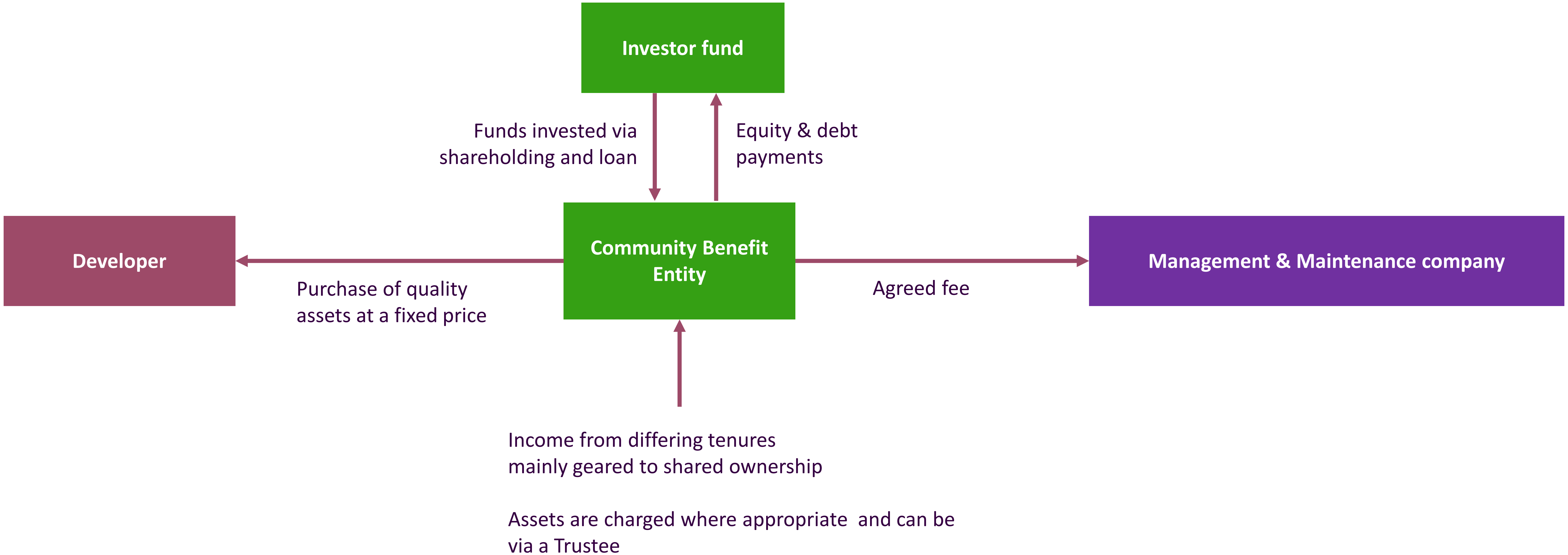
Enabling conditions for successful implementation of RtO programmes.

- Availability of patient capital to finance supply and off take.
- Income group who can meet the costs of tenancy, savings schemes and fund deposit payments.
- Subsidy to reduce the costs of purchasing the home to the level affordable to the target income group and sometimes rent.
- Consumer protection laws and regulator to protect tenant rights
- Large scale landlord entity.
- Mortgage finance to exercise equity or full purchase options
- Supply of affordable homes and functioning development industry
- Functioning Legal and regulatory framework.
- Enabling Government policies, initiatives and functioning institutions.

An example of how Shared Equity works in practice

	Customer	Community Benefit Entity
Step 1	Select your home from those advertised.	The home will be safe and high quality.
Step 2	Determine the amount you can initially purchase - say the home is US$100k and you can afford US$5k, you will own 5% of that home and pay an initial deposit of US$500. You then pay rent on the remaining 95% owned by the organisation.	Customer assessed for suitability and affordability. Rental payments will be considered to ensure the total payment is less than a 100% mortgage payment. Making it more affordable than purchasing your own home.
Step 3	The legal – this is the same as buying your own home, you provide your initial deposit and then make your payment on completion of all legal matters. The documentation will detail your options to purchase more. Like buying your own home you are responsible for maintaining it under the agreement.	As per the customer.
What if you want to own more	You can purchase more of your home and as little or as much as you want. Taking the example above you already own 5%, if you purchase another 1% you own 6% and your rental payments decrease. The property value is based on the market at the time.	The organisation will secure an independent valuation from a reputable firm. The increase in the customers ownership will be legally documented and the rent reduced.
What if you want to exit your home and sell your share	You must contact the organisation in the first instance. The organisation will determine whether they wish to purchase the home.	In order to determine the value of the share the organisation will secure an independent valuation from a reputable firm.

Shared equity structure example For profit Housing association UK



NB

A traditional UK housing association (HA) will complete all areas and may bring in market sale, but structures can differ, e.g. joint venture. These do not yet hold a credit rating.

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