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Vacant-House Hunters

Charities shift from building to renovating foreclosed properties

Like thousands of people in Northern California in years past, Tracie VanHook faced some familiar obstacles to her goal of owning a home: \$600,000 price tags and banks that wouldn't lend to people who make a modest salary — as Ms. VanHook does as a personal trainer.

But in the past year, as the housing market crashed, Ms. VanHook's prospects brightened. As foreclosures spiked, available housing did as well, and prices nose-dived. And in a move that counters strategies many housing charities have long used, a local group began to buy some of the houses, renovating them and offering them to low-income families.

A new influx of \$4-billion in federal money to help stabilize neighborhoods hit hard by vacancies is adding fuel to such efforts.

With the help of Habitat for Humanity of Greater San Francisco, in Redwood City, Calif., Ms. VanHook is hoping to move in November to a three-bedroom home in Menlo Park that had been foreclosed. The charity bought it for \$225,000 — nearly one-third of its pre-housing-bust value. The house is being readied for occupancy with the help of donated labor and materials, local government money, and foundation grants.

"The shame of it is that some other family lost their home," says Ms. VanHook. "The good thing, though, is that Habitat is working to rebuild the community by putting hardworking families into these homes."

Along with other Habitat chapters in hard-hit states such as Arizona, Florida, New York, North Carolina, and Texas, some affiliates in California are buying up handfuls of foreclosed homes. They hope to demonstrate how their financial model works to help people of modest means buy homes, particularly when compared with the subprime loans and adjustable-rate mortgages that forced millions of people out of their houses.

Rescuing Neighborhoods

Habitat for Humanity cites a second reason for the changing its strategy from building new homes to rehabbing existing ones: the need to rescue foreclosure-ridden neighborhoods from further deterioration and abandonment.

"We see buying these existing homes as another tool in our arsenal," says Stephen Seidel, senior director of global programs at Habitat for Humanity International, in Americus, Ga. He estimates that Habitat's new effort has resulted in the purchase of dozens of properties so far, with more in the offing.

"This is the best way for us to respond to communities' needs and conditions right now. We're trying to help them overcome the unfortunate process that led these properties to become vacant, and offer loan products that won't lead to the same kind of disaster."

Habitat loans frequently carry no interest charges. Because of donated labor and materials, rehabilitation costs are greatly reduced, usually enabling low-income buyers to take out smaller mortgages.

'Economy Has Shifted'

Some affiliates have completely jettisoned their old approach to focus entirely on renovating foreclosed homes. Habitat for Humanity Greater Los Angeles, the builder of more than 300 homes in the past four years, recently bought three foreclosed homes.

"The whole economy has shifted," says Mark Van Lue, the group's vice president for construction and real estate. "A few years ago, it made no sense to try and buy three-bedroom homes for \$400,000 to \$550,000, and then spend more to renovate them. But we've found it's cheaper right now to buy homes for around \$250,000" — the lower end of the cost range for building new housing in Los Angeles, with substantial help from local and state governments.

To help neighborhoods ravaged by newly vacated homes and the blight that often follows, Housing and Neighborhood Development Services — a charity in Orange, N.J., that regularly goes by its acronym, Hands — shifted its strategy back to its original mission: saving homes in low-income areas.

"We had moved on from housing, but then a bomb got dropped on urban neighborhoods," says Patrick Morrissy, the group's executive director.

For nearly two decades, the group had purchased vacant houses and refurbished them. However, in 2007, it stopped to focus on commercial areas.

But after a local scam artist defaulted on 57 properties last year, the organization decided to buy all but 10 of them. With a total of \$720,000 from government agencies and private donors, the group made a successful bid of \$2.5-million. "Our reasoning was to get out in front of this before these properties got too bad," Mr. Morrissy says.

So far, the group has cleaned out those homes and boarded them up. Soon, it will begin restoring them with government money, and then sell them to people of modest means for around \$150,000.

Buying in Bulk

When discussing the purchases, he echoes Habitat for Humanity leaders, who see value in reinvigorating flagging neighborhoods.

"A lot of these places will be affordable, but we need to make sure these areas come back," says Mr. Morrissy.

Toward that end, Hands has also begun to put together an association of northern New Jersey banks, charities, community developers, and government officials to come up with ways to buy blocs of foreclosed homes with ready cash.

"The larger goal here," Mr. Morrissy says, "is to find ways to do community development on a larger scale. What does it take to turn around a neighborhood in a down market? No one really knows that."

Other nonprofit organizations agree that purchasing properties en masse with an available line of credit might be a good way to make a dent in the foreclosures trend.

They have been aided by the promise of \$4-billion from the federal Neighborhood Stabilization Program, which focuses on areas that have been hit hard by foreclosures, many of which have received government help in the past.

That money, as well as \$50-million from the Ford Foundation, will go to cities and counties that have been hit particularly hard, or to groups that can help in those areas.

"The goal is to strengthen neighborhoods that are being torn apart by this crisis," says William Goldsmith, director of Mercy Portfolio Services, in Chicago. "We don't want up to 40 years of work to unwind on us."

Government Partners

Mercy Housing, a national group headquartered in Denver that builds affordable homes, created Mercy Portfolio Services in November in response to the foreclosure epidemic.

The charity hopes that the Chicago operation, which will advise Cook County on how to spend \$55-million in federal money to buy and renovate, or raze and rebuild properties, will become a model for future affiliates.

Started with the help of \$1.3-million from the John D. and Catherine T. MacArthur Foundation, Living Cities, a foundation-financed collaborative in New York, and several banks, Mercy Portfolio Services will eventually help several cities use federal money to rebuild neighborhoods wracked by foreclosures.

In order to use the federal Neighborhood Stabilization Program money, charities need to work closely with counties and municipalities.

Mercy Portfolio Services will offer its services to areas that might face trouble meeting the federal program's application deadlines, or developing lists of properties that might make for a good use of federal money. By spending \$500,000 of their start-up funds on a database that links information from hundreds of thousands of federal Housing and Urban Development entries, the group is in a good position to determine how to help repair neighborhoods in Chicago and elsewhere, Mr. Goldsmith believes.

"We serve as a conduit between public and private sources of money and developers," he says. "We hope to have 300 Chicago homes in our portfolio and in the hands of developers sometime next year, and then move into other cities that have been suffering."

Deals Gone Sour

By stepping into the role of development facilitator, or by rehabilitating a property itself, a charity can help poor people find a home and increase their assets. But because many of the people who have been displaced during the foreclosure epidemic were of the same socioeconomic status, some critics have wondered whether nonprofit groups aren't merely spinning their wheels.

While hundreds of groups nationwide offer advice to people facing foreclosure, charities such as Habitat for Humanity aren't included among them.

"We hope that we're out of this business tomorrow, but foreclosure counseling isn't what we do," says Phillip Kilbridge, executive director of Habitat for Humanity of Greater San Francisco. "Our view is that intervening in foreclosure is ideal but intervention after foreclosure is a necessity."

But pursuing foreclosed properties can produce some sour results. Groups can negotiate a deal with a bank, and then see it scuttled when the bank makes a deal with the original owner, setting the group back on the money and staff time it has invested. The same thing can happen when one bank merges with another. And getting credit, tough enough for for-profit companies, is a major headache for charities.

'It's Very Dangerous'

What's more, many vacant properties are vandalized. Others haven't been properly maintained because of the previous owners' financial straits. Squatters and drug abusers have appropriated some of them.

"It's very dangerous being in a lot of these homes, and you have to go inside to find out what you're dealing with," says Gladys Schneider, technical-assistance director at the Florida Housing Coalition, in Tallahassee, a statewide membership group that promotes low-cost shelter. "The buildings are trashed, with copper piping ripped out by scavengers, or dry cement poured into toilets by former homeowners."

Some organization leaders worry that the boom in foreclosures may have already gone bust. "It's basically over because the houses are starting to sell for more than the banks originally asked for them" in Florida, says Ms. Schneider.

But nonprofit organizations have some advantages over for-profit buyers and investors.

For one thing, charities can offer banks the opportunity for tax breaks if banks sell a property well below its market value. Lending institutions can calculate their deduction by subtracting the sale price from a property's current appraised value, says Chase V. Magnuson, president of Real Estate for Charities, a company in Albuquerque that advises organizations on acquiring properties.

But he urges groups to be careful about what they cannot offer them.

"Some organizations are trying to find a way to get banks a deduction for donating these properties," he says. "It's simply not legal."

In the meantime, organizations will measure whether dealing with foreclosed homes will ultimately change the way they do business.

At least one group has already made that decision. "Some changes to our model will be permanent," says Mr. Van Lue. "More and more, we're seeing the value of mixing in rehabs with new construction. It makes much more sense to rehab in areas where we might be building new homes as well. That way, we can help stave off blight before it gets too strong a foothold."

Noelle Barton contributed to this article.

REAL-ESTATE GIFTS: STEPS TO TAKE BEFORE ACCEPTING THEM

- Ask a professional broker to evaluate the appraisal that a prospective donor has commissioned. Ideally, a charity should hire someone to perform an independent appraisal.
- Hire a lawyer to review contracts.
- Make sure the property has been inspected.
- Urge the donor to pay for an extensive environmental evaluation. The charity can reimburse the donor for the cost if no problems are found.
- Figure out how much income a commercial property could provide.
- Determine the monthly costs of keeping the property, and project its future maintenance costs.
- Identify all of the potential risks of owning the property, and of selling it in the future.
- Figure out how to manage the property once it is purchased.