Housing Action Illinois - Rental Housing Discussion.

You are involved with a not for profit corporation located in a community that has many foreclosed properties. You help your clients with their basic needs but your organization doesn't provide housing. You know that your low income clients are struggling to meet their rental payments and they are worried about keeping their jobs and feeding their families. In many cases, their families of 5 or 6 people are larger than what the apartment rental market serves with 2 bedroom units, so they are overcrowded.

At this time, you learn about <u>an opportunity to get 6 houses donated to your organization from a bank.</u> The bank has owned them for a few years, and they have been vacant all that time. The opportunity is to take the houses "As Is", which means the bank will not repair any problems that exist. All taxes will be paid up to date, and if you agree to take these houses, you will have to pay the property taxes going forward unless you appeal to the Tax Board of Review in your county.

What do you say? While you get excited about free houses, do you feel in your heart that this is a step you should take?

Does it fit with your mission? Had you been planning to include housing at some time in the future? Are the houses located where you would be able to use them in your operation? Would you only consider taking them on as housing your clients, or would you also rent to the public?

<u>What would your board say about this?</u> Would this be a special business model and not something that would fit into the current overall program? Do you have any board members who are experienced with real estate or maintenance?

If your board is likely to be interested, there are several considerations to be addressed before you go any further. The birds eye considerations are important. Just consider the overall facts such as location in the community, proximity to schools, shopping and transportation, condition of the houses, and the surrounding neighborhood issues like are they on busy streets. Are the size of the houses appropriate to what you need them for, e.g. larger families need larger houses. If the houses are all located in the same general area, you may need to find out if one developer built them all, and what shortcuts he typically took to keep his costs down. This could be anything from carpentry, to heating, and to drainage. Being able to review these issues to the board can lead to a first level decision as to whether to proceed further.

If the board is favorable to this point, you might want to suggest setting up a committee at this point to look into the opportunity further. Someone experienced in building and maintenance should be on this committee.

Since the offer is on an "As Is" basis, you must agree to getting the houses without any expectation of having problems fixed. The expression "Caviet Emptor " or let the buyer beware was never more appropriate than now. You need to have a thorough inspection done of each house to see where problems exist. Building inspectors have differing peculiarities in their areas of concentration. A good lawyer or realtor who has seen many inspection reports can refer you to a good inspector. Typically, an inspector will charge $350 per house, which includes a thorough report of recommendations, but no budget as to how much the rehab work would cost. A house that has been vacant for a couple of years in Illinois is likely to have plumbing and heating problems. A house built before 1978 is likely to have lead based paint exposed, and all houses left unattended are susceptible to mold problems.

While the building inspector is working on the sites, it would be best to have an experienced contractor involved to develop a budget for the cost of all the repairs. These two professionals would be sure to discuss the severity of the issues, and their reports would agree as to priorities of the work to be planned.

The major budget items to be prepared for are the drainage of storm water on each house, the roofs, windows, furnaces, and plumbing. Painting, insulation, and flooring are three more. If there are structural issues, such as floors not being level, or walls not plumb, do not continue this process further.

So, as you are now armed with will to move forward in the housing business, and the budget to repair the houses, you need to plan your operation to see if you have further repair costs. Do you plan to offer handicapped accessibility? As the houses are all independent units, you shouldn't have to worry about HUD saying that one in 6 be handicapped accessible, but deaf people need special strobe lights for doorbells, people in wheelchairs need roll- in showers, grab bars, and electric sockets at 18 inches off the floor. All of these issues should be considered in your budgeting.

Also, don't forget to budget for simple amenities like washers and driers, garbage disposals, and landscaping.

Operating costs to consider are property taxes, insurance, and debt service on any borrowing you need to take our for repairs until it's paid off. In addition, you need to decide how you will operate this business. Will you hire a property manager and a maintenance person to inspect the units when a tenant moves out, assess for damages from the security deposit, screen the applicants, collect their rent payments, and receive calls from them about problems that need repairs? Also, will that maintenance person call licensed professionals to fix or replace roofs, windows, furnaces, plumbing systems? And then someone needs to line up seasonal "mow and snow" contractors.

Obviously, you won't be able to pass along responsibility and you must get people you can trust in these matters. A property manager might charge $75 a month per unit, and a realtor who shows the rental units would likely charge one month's rent. A good maintenance man working alone would likely charge $30 to $50 an hour plus materials. In addition, a cleaner to handle thorough cleaning of each unit turning over might run $200 for a thorough job. Further, you would need your bookkeeper to record the financial information on the units and the tenants, including security deposits, repairs, and advertising.

Funding for this "free donation" would likely be significant with all of the elements previously mentioned. No doubt the board would want assurances about how this would be handled. It is possible that the bank would be interested in making a loan for this.

Moving on to the closing, you would need an experienced attorney to review the contract to purchase, and to deal with the bank's attorney. During a period of weeks before the closing, you might want to have the properties inspected by lead based paint inspectors, mold remediation experts, and heating professionals.

As you have taken all of this into consideration for the board discussion and approval, you can plan to respond to the bank's opportunity. No doubt you are wondering whether this will lead to your organization getting into the housing business on a bigger scale. With the population changes we have seen occur over the last 20 years, we know that affordable housing is going to be more critical. Single family houses, including town houses, are ideal for renting to larger families. While they are generally more expensive than apartment buildings, they do provide more space for larger families. As a general rule, one full time property manager can handle 250 units in scattered site locations, and one maintenance man can handle 70 units. Thus one property manager and four maintenance people represent an economy of scale.

If you have any comments after you have acquired your properties, please feel free to email me at CHADbridge@AOL.com. Thank you, Bob Wahlgren