

United Housing of Memphis

Outsourcing Rehab Management: Saving Both Time and Money

BY JACK JENSEN

The most remarkable thing about Memphis-based United Housing's rehab staff is that they're invisible, odorless, and take up no space. They don't occupy a desk,

require a phone or computer, or draw a salary or benefits, yet last year they cranked out 42 rehabilitation projects.

Tim Bolding, United Housing's executive director, looking to cut overhead costs, decided a few years ago to privatize its construction management function, and is very well pleased with the results.

"We hired a private construction management company," Bolding says, "that does all my rehab inspections, puts together specifications, puts the job out to bid with contractors, monitors the construction, and does the construction draw inspections."

They work on a flat fee per house, typically in the \$1,200 to \$1,500 range, and report directly to Bolding, who reports that he spends less than 10 percent of his time managing them. They also interact directly with United Housing's finance department, turning in draw requests, and with the homeownership department, coordinating details and schedules. In short, they act like any other nonprofit housing rehabilitation coordinator, without the overhead.

What did United Housing lose by getting rid of its rehab coordinators? "What I lose is a big payroll," said Bolding. "I hate to say it, but it costs

me a lot less to do it this way. Let me take that back. I'm glad to say it. Sometimes I see nonprofits who think of themselves as being outside the normal course of business. We've made United Housing operate as closely as possible to the way industry operates."

Plus, now the costs of construction management per project are known.

Do they lose some of the personal touch? A tie to the community, perhaps? Values alignment? "Our customers' first point of contact is our homeownership person," Bolding says, "who is on our staff and is very good at dealing with people. So I don't think we've lost any of the personal touch by privatizing our construction management."

So far, there have been no complaints, and the lower overhead translates into a more affordable product.

"The one thing I miss about not having my own people on staff is that I don't have anybody out there scouting for properties to acquire," Bolding says. "When I had rehab staff, I had somebody always looking out for me. When I go out to the private sector, I know the inspector is going to be doing a bang-up job on the project I've assigned to him, but I haven't yet gotten them to the point where they're helping me look for



An assortment of Memphis rehabs for resale.

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Memphis's Foreclosure Rate

There seems to be no shortage of inventory available to United Housing, since Memphis has the unhappy title of the foreclosure capital of America.

"Memphis is the top foreclosure city for FHA, Fannie, and Freddie," said Tim Bolding, United Housing's executive director. The foreclosure rate is 12.9 percent, twice as high as the national average. In some census tracts it's as high as 29 percent. Last year, 28,000 households filed bankruptcy. Predatory lending, as a result, is running rampant, as people with credit problems turn to unsavory mortgage brokers.

There seems to be a negative spiral happening in Memphis, as people with bankruptcy problems find themselves locked out of the market and the subprime lenders get their hooks into them. Like buzzards, the predatory lenders are attracted to other buzzards.

Last year, Tennessee passed legislation that requires registration of mortgage brokers. In the first year, 30,000 brokers registered. "Of these, 15,000 are in Memphis," said Bolding. Experts predict that Memphis will retain its title, as foreclosures may hit 6,100 a year by the end of 2005.

Why so many? "I wish I could tell you," said Bolding. "I've been here for 30 years, and haven't been able to figure it out. Although new homebuilding continues at a rapid pace in Memphis, there's this huge loss on the other side as people go into bankruptcy. It's an interesting phenomenon."

Is it a cultural thing, or something unique to west Tennessee? "The University of Memphis is looking into it, doing research," Bolding said, "and there's a debt collaborative looking at foreclosures and bankruptcy filings, trying to figure out why it's so high."

their next job."

"Another downside of doing it this way," Bolding says, "is that your construction manager can get sidetracked. We're not their only customer. If they're also working for a commercial customer who is doing a million-dollar project, guess which customer is going to get priority? You don't get the same level of loyalty as you do from a staff person."

What do they gain? "My construction manager gets the last 50 percent of his fee at the closing," Bolding says, "so he's highly motivated to finish up construction and clear the path to the closing table. Nothing motivates people more than getting paid. Salaried employees don't have that same motivation. So we've seen a decrease in project time and an increase in production. And that makes me happy."

Outsourcing Sales, Too

Bolding also has an invisible sales staff.

"We always use realtors," he said. "We list all our properties with agents from the National Association of Real Estate Brokers (NAREB), which is a minority-based real estate trade association."

Bolding, who teaches a class in single-family development at NeighborWorks® Training Institutes, preaches the gospel of using agents to his students. "They have a link to the real world," he says. "Real estate agents make sure that properties are in the multiple listing service, so I instantly have 4,000 people who can see what I have to offer. They can manage open houses and showings, and they bring me into the industry."

In addition, they can serve as a buffer from a customer who's upset or may be somewhat difficult. "They

help intervene in those kind of situations, which is really handy," Bolding says. Plus, he finds them to be motivated to get to the closing table, since they don't make a dime until the deal is finalized.

"All the stuff that needs to be done before the closing, in fact, happens," Bolding says. "They're very motivated to get that last little bit of documentation. They really help me tie it all up at the end and get everybody through the closing."

The bulk of United Housing's projects are house-recycling projects. "We either buy existing houses which need a lot of renovation, or we pick up foreclosed properties, clean them up, and turn them around for sale to first-time homebuyers," says Bolding. They also do rehab loans for existing homeowners. Last year they closed on 102 loans.

Memphis is a beautiful place, and the downtown has benefited from a lot of redevelopment efforts.

"But there's a broad swath of poverty around the downtown," Bolding says. "The city has made a long-term commitment to make those kinds of changes, tearing down some old public housing sites, and they have absolutely seen the need for rehabs surrounding those sites. It's a critical need in any neighborhood, really. You've got to have that rehab component to shore up the rest of the neighborhood."

And while Memphis has suffered from a slow economy, that doesn't mean construction costs aren't rising. "The cost of construction and rehab has been going up, while the price of homes in the neighborhoods where we work has been flat or declining," Bolding says. "So we've had to work really hard to push the values up. People think that affordable housing

means a less expensive house, but we feel that we need to drive property values up so the private market can work.”

That means bringing creative financing to the table. “We bring interesting financing along with the package,” Bolding says, “like a \$15,000 second mortgage with zero percent interest. This helps drive the value up. You can’t escape the private sector. You have to compete in the real world. We may have a better product; our houses may be renovated better, and maybe we have a better financing product, but we try to stay aligned with the private sector.”

Producing a Better Product

How does United Housing differentiate itself from the market? “Our key is long-term sustainability,” Bolding says.

“Our goal is that when somebody moves in,” he says, “they’ve got a five-year period without significant maintenance expenses. All the systems are new, in most cases. They’ve got a new roof, new heat and air conditioning, and upgraded electrical and plumbing. Our customer isn’t going to have any surprise expenses in the next five years.

“We’re always going to do extra insulation, storm windows and storm doors on the house, to make sure that their operating expenses are manageable. We make sure we include good kitchen appliances. The last thing we want is our customer going out and spending \$2,000 on a credit card the day after they close on a house. The last thing I want is to get them more debt.”

What are the keys to managing a privatized rehab and sales force? “Obviously, you’ve got to hire people

who align with your values,” Bolding says.

“The NERAB motto is ‘Democracy in Housing,’ ” he says. “Being the minority trade association, they’re as sensitive as anybody to the market that we’re dealing with. Our goals are extremely compatible. Our builders use a very high percentage of minority contractors. In general, they have respect for our organization, and what we’re doing, and that translates into a good public image.”

“The reputation of our organization does a lot of its own talking,” Bolding says. “In this business, you’re selling three things – the house, the neighborhood, and your organization. I know we’re successful because of the kinds of calls we get. Folks call up and instead of saying, ‘I’m interested in a house,’ or ‘I’m interested in this particular neighborhood,’ they say, ‘I’ve heard of United Housing, tell me some of the addresses you have available so we can look at them.’

“That’s a great question to get,” Bolding says. “That tells me we’re doing something right.” ■

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