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Housing Groups Take On Wall Street

To help low-income families buy homes, nonprofits try to beat investors on deals

By Will Parker

Acts Housing, a Milwaukee nonprofit, has helped local low-income families buy their first home for more than two decades. More recently, these families have been losing out to investors whose all-cash bids are more attractive to sellers.

"If a family is willing to pay the same amount for a property as an investor, how do we make sure that family actually gets that opportunity?" asked the group's president and chief executive, Michael Gosman.

The answer, he decided, was to act more like an investor. Mr. Gosman said he is raising money for a fund that would purchase homes in cash, then flip them back to families for close to cost.

The Milwaukee fund is part of an emerging strategy among housing groups aiming to keep investors from buying lower-cost homes by beating them to the deal.

Call them activist house flippers.

Investment firms and other investors bought a record number of homes during the Covid-19 pandemic. In the first quarter of 2022, investors accounted for more than one in five home purchases nationally. Many of those investors converted homes into rentals.

Investors say that through rental conversions they are making more homes available to people who can't afford to buy or who would prefer to rent. Housing groups say the growth of this business has come at the expense of lower-income residents because rental conversions reduce opportunities for residents to build wealth through homeownership.

While there are many nonprofits nationwide that renovate homes or offer homeownership programs, the emphasis on getting ahead of investors is a budding trend. In Jackson, Miss., one neighborhood leader is flipping houses to first-time buyers. A Memphis, Tenn., nonprofit aims to restore the status of a once-middle-class neighborhood by

selling investor-targeted homes back to longtime residents.

Activist flippers say they are leveling the playing field. Many home sellers prefer cash buyers because they are viewed as the fastest and most reliable purchaser. Nonprofits want to offer an alternative all-cash option. "We're going to make you a competitive offer," Mr. Gosman said.

The Milwaukee fund's goal is to raise \$10 million by next year, drawing contributions from government and private philanthropic sources. The group typically targets homes such as a small bungalow on Milwaukee's north side that costs \$75,000 and needs \$25,000 in repairs. Acts said about 80% of the families it works with are people of color, and the group has a registry of more than 100 qualified families that it hopes to begin serving with the new fund.

"I'd find something and the investors would come in and outbid me," said Niya Preston, a Milwaukee resident who started working with Acts to buy a home in 2020. The nonprofit helped her improve her credit, connected her with down-payment assistance and provided her with a real-estate agent. Then Ms. Preston qualified for a mortgage, but lost out to cash buyers on homes priced under \$100,000. One of those homes is now a \$1,420-a-month rental, about twice as much as Ms. Preston's expected mortgage payment.

In Memphis, Seth Harkins, who leads the nonprofit Alcy Ball Development Corp., said he sees similar trends. The homeownership rate across Memphis has declined over the past two decades, he said, and recently homes in the Alcy Ball neighborhood have been selling to out-of-town rental landlords paying in cash.

"What that means to me is that no one in Memphis will ever be able to build equity in that house ever again," Mr. Harkins said. He is now raising money from charity and government sources so he can purchase homes to sell back to neighborhood residents who qualify.

California also set aside \$500

million last year to subsidize nonprofits that purchase homes and rental properties, with the intent of helping these groups compete with Wall Street firms.

Housing groups buying homes face market challenges that their new interventions are unlikely to solve. Most families still need mortgages, and mortgage rates are twice as high as they were a year ago, putting homeownership further out of reach for many. And while investors are buying fewer homes lately, they are still active and have lots of capital, meaning they might be able to pay higher prices than nonprofit buyers.

These limitations are why some housing analysts say publicly controlled buyers might prove more effective, in terms of accountability, impact and the size of resources at their disposal.

The biggest buyer with public backing is the Port of Greater Cincinnati Development Authority, which bought nearly 200 rental homes also targeted by large investment firms. The authority hopes to sell as many of the homes as possible to the renters. Low-interest bonds are financing the endeavor. The authority also is looking into issuing its own mortgages so buyers can borrow at rates below prevailing norms.

Converting the tenants into homeowners has been slow going. When the authority acquired the homes, many of the tenants lived in deteriorating conditions and were behind on rental payments, said Laura Brunner, the authority's chief executive.

Ms. Brunner said she hopes half the tenants will have started the authority's homeownership counseling program by the end of next year, but only one tenant is ready to buy so far. Pitching the program's benefits and getting the tenants financially prepared to buy is a long process. "These are people who have been abused by the system for a long time -- and just knocking on the door saying, 'We're here to help, do you want to buy a house?' is met with a great deal of skepticism," she said.

In Milwaukee, Ms. Preston, who

was outbid at least twice by investors, eventually succeeded. She found a home for sale late last year that was owned by the local housing authority and sold through a program for low- to moderate-income buyers.

But many families working with Acts haven't had the same good fortune and will look to buy homes through the nonprofit's new acquisition fund. To promote the fund, Mr. Gosman is working on outreach to potential home sellers. He said he is thinking of taking cues from the professional flippers, who often put up fliers or send mailers.