

Hermit crab housing: Part 2, how and why, economic

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[Continued from yesterday's [Part 1](#).]<?xml:namespace prefix ="" o />

Yesterday's post introduced us to [Builders Of Hope](#) in Raleigh, North Carolina, whose executive director Nancy Murray and operating director Lew Schulman have invented a whizzo business model for what I have dubbed 'hermit crab housing.' As profiled in the [Wall Street Journal](#), the program uproots good but economically obsolete houses from lots that will hold a much larger structure, and relocates them in more suitable neighborhoods, as part of planned affordable housing.

Betty Ann Lennon, a 62-year-old "stay-at-home grandmother" ... had just bought a 1950s ranch house because she and her husband fell in love with the lot. They wanted to build something larger but were wary of tearing down the house. Now, the neighbors are thrilled that the old house was rescued and the couple was pleased their lot was cleared free of charge — "a lot easier than having a bulldozer," she says.



<?xml:namespace prefix ="" st1 />Barrington Village: easier than a bulldozer, and worth trucking to a new location

As Ms. Murray explains it:

First the houses come in and get set on new foundations. Then we add the front porches and matching front doors with side lights. Then we come in with the siding and Shaker style shingles in the gable ends for a complete new look, giving a brand new face to affordable housing.

Yesterday we identified three elements of why the hermit crab housing model works:

- Demographic change
- Location economic obsolescence
- Buildings with good bones

There's at least three more reasons:

4. Why it works: policy environment

Mr. Brickle's house was one of five donated by [Kane Realty Corp.](#), which needed to make room for an office and retail development. "It was such a great opportunity to do the right thing," says Mike Smith, the company's president.

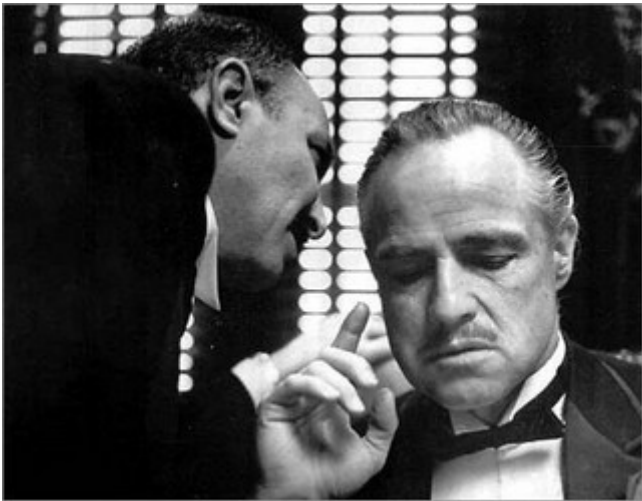
Allow my cynicism. People may wistfully dream of doing the right thing, but a lot more of them do the economically sensible thing.

And it made sense financially: Kane saved the cost of bulldozing the houses –

Builders of Hope pays all the costs of detaching the home and trucking it off-site.

– and likely will get a tax deduction.

Builders of Hope has, with the aid of our tax code, come up with an offer the right home owner cannot refuse:



Let me make you an offer you can't refuse

For homeowners ... the tactic can be a good move: They often receive a tax deduction, their lots are cleared free of charge and they may avoid criticism from neighbors and preservationists concerned about saving old structures.

Precision is required. A current home owned in fee simple combines two assets – the building, and the land on which it sits. These are usually appraised as a package, but they can be appraised separately.

The tax deduction is critical. A transaction like this could be very difficult to do in the UK.

[The Clarks, previously mentioned] discovered that by donating the house [*To a qualified housing-oriented 501(c)(3) – Ed.*], they could get a federal tax deduction of 80% of the home's \$145,000 appraised value — and save \$25,000 by not having to bulldoze. (The amount of deduction varies according to a donor's adjusted gross income.) "It gives you such a great feeling when you know you're not destroying it and you know it will go on to be someone else's house," Mrs. Clark says.

If we assume the Clarks were in the 35% bracket (a reasonable presumption), the tax deduction is worth \$40,600 to them, well more than the \$25,000 in relocation costs, and in any case \$65,000 for doing the right thing. Who wouldn't?

Obviously, the appraisal's a critical piece. If I were doing the work – and my for-profit [Recap has done valuations of complex ownership interests in affordable housing](#) – I'd appraise the land as vacant, and also the land as improved, with the structure's value being Improved minus Vacant.



Inquiring accountants want to know what it's worth

Economic benefit to current home owner From Hermit Crab Housing

+ Current property and home owner's cost to demolish the hermit crab house
+ Tax savings from charitable contribution of the *structure's as-is value in situ*
= Net cash benefit to home owner from donating to Builders of Hope

It also helps to have friends like local government. Builders of Hope has sometimes been able to identify and tie up sites that are suitable for one of their relocation subdivisions but are currently zoned as something else. Once rezoned as high-density residential, the land is immediately more valuable, a nifty trick made politically palatable because Builders of Hope is bringing in good quality housing familiar to Raleighites, giving new meaning to **inclusionary zoning**.



Higher density, consolidation and similarity of building types:
It starts to look like an established community

Success is a beacon visible for miles around, bringing with it people who want to help:

The National Trust for Historic Preservation recently identified over 500 communities in 40 states where homes in historic neighborhoods were being torn down, up from 100 communities in 20 states in 2002.

5. Why it works: economic

The economics work because by the act of decoupling home from land, one converts a negative-value asset (the house *in situ*) into a positive-value asset (house relocated) via its relocation.

That value boost is the juice that makes the whole thing go, and its equation is:

Boost in real estate value from Hermit Crab Housing

- + Current property and home owner's cost to demolish the hermit crab house
- Cost for Builders of Hope to detach the home and transplant it at the new location
- + Supportable improved value of the house on its new site
- Cost to upgrade building interior with new systems
- = Value boost from Hermit Crab relocation**

(The two last terms could also be telescoped into 'value as-is of the relocated structure' but this approach is clearer.)

The economic circumstances – basically, the relationship between relocation cost and as-is structure value before renovation on the new site – determine which buildings are worth saving. Observe that the better the building's bones, the more it will cost to demolish, and the more value it will value when relocate.

Better buildings, bigger bang. Nice.

The demography also has an economic consequence. High and rising median incomes mean that even affordable housing will support a fair amount of **hard debt** that pays for the physical rebuilding costs and the sponsor's overhead and profit.



A new community: hard debt supported by mortgage payments from workforce housing owners

6. Why it works: mission-entrepreneurial

Beer is nothing without yeast. With all the ingredients in the world, it takes fermentation to change them into

something more. In Raleigh's case, change is being made by a [mission entrepreneurial entity](#), Builders of Hope.

The nonprofit in Raleigh, Builders of Hope, is one of the only groups moving and renovating houses on a large scale.

Nancy Murray thought up this idea, born of her own experience:

The idea for a recycled housing community took spark four years ago when founder Nancy Murray was putting an addition on her house. Frustrated that her contractor, John Jenkins, was taking much longer than planned because of a shortage of subcontractors, Mrs. Murray, 41, asked the contractor to show her how to help. She loved the construction work so much that when the project was finished, she **bought a foreclosed house and subdivided the land for three homes**, but she needed to move the existing house.

Like many a self-taught entrepreneur, Ms. Murray found the path to entrepreneurship through real estate:

The house mover, Sammy Jackson, told Mrs. Murray that there were dozens of houses slated for teardown that she could move and renovate. One idea led to another, and Builders of Hope was born when Mrs. Murray started moving homes to **another property — one she donated to the nonprofit**.

Like [many another non-profit founder \(including AHI's!\)](#), Ms. Murray's first charitable contributions were her own:

Mr. Jenkins, Mr. Jackson and Mrs. Murray now work full time for it (though she says she doesn't yet get paid).



What, you want good treatment, too?

Builders of Hope and Ms. Murray thought up the idea, established the entity, and took all the risk to get to [the initial pilot project](#). Would a government ever do this?

In Martha's Vineyard, the [Island Affordable Housing Fund](#) has moved and renovated seven houses so far, though they weren't sited in one location.

[Another MEE](#), not government. And the next example is an affiliate of the biggest housing MEE of all:

[Habitat for Humanity](#), which builds houses from scratch for low-income people, has moved a few houses that were slated for teardown, including four relocated to one North Carolina development, says Susan Levy, executive director of the nonprofit's Orange County, N.C., affiliate.



Better than tearing it down: the Old Maynard House from Part 1, restored
(The house was donated by Pulte Homes, which was doing a new subdivision in Cary, NC

[Continued tomorrow in Part 3.]
