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Real Estate

Tech start-ups look to disrupt the affordable housing industry

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The United States is in the grips of an affordable housing crisis with many people of low and moderate incomes struggling to find inexpensive places to live. Until recently, technology companies ignored the housing market. Then businesses such as Compass, Redfin and Zillow disrupted how homes were bought and sold. Now, more start-ups are addressing ways to make renting and homeownership available to more people. A few entrepreneurs are working to solve the more prosaic problem of housing affordability.

Companies such as Module, which manufactures Lego-like prefabricated housing, or Rentlogic, which culls publicly available data to issue ratings for 1.1 million apartment buildings in New York City to give tenants more bargaining power, are looking to make a difference in the housing crisis — and build successful businesses.

Money is flowing into the property technology field — also known as proptech — which focuses on aspects including databases for home buyers (Zillow), smart-home devices (HomeLink) and streamlining construction (Katerra). Venture-capital firms invested $18.6 billion into proptech companies from 2015 to 2017 — and more than 25 percent of that was invested in the fourth quarter of 2017 alone, according to Re:Tech.

“What we really need to see is a transformation in how housing is provided and consumed, not so much from a regulatory or subsidy-driven approach but really from a transformation on the market side,” said Matt Hoffman, former vice president of innovation at Enterprise Community Partners, where he built an investment portfolio of start-ups trying to make housing more affordable. Hoffman left Enterprise in May after he said his position was eliminated. He’s now a managing partner at Innovation Ventures, a spinoff of his work at Enterprise.

The need is acute. According to the National Low Income Housing Coalition’s 2019 Gap Report, the United States has a shortage of 7 million affordable rental homes for extremely low-income renters. Meanwhile, home prices continue to outpace wage growth. In the past six years, they’ve jumped 47 percent, while wages rose 16 percent. A growing share of renters — 56 percent — say the big reason they don’t own a home is because they can’t afford it, according to the National Association of Realtors.

Against this backdrop, a handful of early-stage companies are trying to disrupt the affordable housing space.

“Many start-ups try to overpromise,” said Brian Gaudio, CEO of Pittsburgh-based Module. “We’re not a silver bullet to solve the affordable housing crisis, but we’re a very important component of it.”

Here’s a look at a few companies using tech in interesting ways to address affordable housing.

Module

Module’s incremental approach to home building allows buyers to start small but easily add onto their homes as needed. The company builds one-, two- and three-bedroom homes with a median size of about 1,000 square feet, which Gaudio said is smaller than most single-family homes built by the typical home builder today. The company is working to produce infill housing on vacant land within Pittsburgh’s urban core that can change and grow with the homeowner.

A prospective buyer enters information about their current needs, future needs and financial health on Module’s website, which then suggests the “right-sized” starter home and location in Pittsburgh where it could be built. The company’s customers can buy the size of home they need today and, over time, expand it by adding another story or another bedroom on the ground floor, if their needs change. Gaudio said millennials buying their first home may not have a lot of money to spend right now, but might want to add on after they start a family or if they have an older relative come live with them.

A one-bedroom unit starts at about $150,000, which includes the house, cabinets and appliances, but not land, site and foundation work, and utilities.

Gaudio, a Pittsburgh native and architect who co-directed a 2016 documentary on the global housing crisis, co-founded Module in 2016 with business partners Drew Brisley and Hallie Dumont. The company operates only in Pittsburgh, which Gaudio said has a patchwork of about 27,000 vacant lots. Module completed and sold its first home, in the Friendship neighborhood, in April, and has zoning approval for its next project, a four-unit mixed-income development that it is building with the Urban Redevelopment Authority of Pittsburgh and Bloomfield-Garfield Corp., a local nonprofit.

Eventually, Module would like to expand to more cities but Gaudio said local permitting and zoning regulations are a big factor in deciding how the company can grow, especially as a start-up in the prefab construction industry. “If you don’t have those relationships, you can build the most beautiful box but they’re not going to let you put it there,” he said.

Another challenge is perception. While Gaudio said many investors think prefab construction “is the next greatest thing,” the average homeowner hearing the words modular and prefab often asks, “Is that a trailer home? Does it have wheels on it?” Gaudio said Module’s homes go “above and beyond” what’s required by the International Residential Code. It plans to continue educating consumers as it expands its operations.

Rentlogic

Finding an affordable rental can be a big challenge, particularly for people who don’t have a lot of money. Decisions often must be made quickly without objective information on landlords and buildings. Rentlogic analyzes millions of pieces of data to generate grades of A, B, C or F for 1.1 million multifamily buildings across New York City. Prospective tenants can search grades free on the company’s website. The goal is to give tenants more bargaining power and put market pressure on landlords to increase quality of their rentals.

Rentlogic was founded in 2016 by CEO Yale Fox after he moved to New York from Toronto to an apartment that looked great online but was full of mold, roaches and other problems.

“I had a bad reaction to the mold and I wanted to get out of my apartment,” Fox said.

Even luxury buildings have problems, he said. Rentlogic uses publicly available data from the City of New York to come up with building grades, based on landlord complaints reported by tenants to the city that result in a violation. Complaints can include mold, heat and hot water issues, infestations, structural problems and more.

Rentlogic charges landlords to have their property inspected and certified, which then allows them to display a Rentlogic sign with the building’s letter grade and a QR code on the exterior of the building. The company is considering expanding to other markets, but Fox said the biggest challenge is “trying to scale across cities” in an industry that has traditionally been somewhat tech-adverse.

PadSplit

One reason the affordable housing problem is so severe is the lack of new affordable housing stock. PadSplit, an Atlanta-based co-living start-up, is working to create more living options by taking existing single-family homes and apartments and subdividing them to accommodate more bedrooms, with shared common spaces and bathrooms.

The company hopes to make finding a place to live close to work easier and less expensive with water, Internet, washers and dryers, and parking, all in one fixed weekly payment.

“Dues” (including utilities) average $137 a week or $587 a month. Residents are referred to as “members,” can rate roommates and will soon be able to rate specific homes. After applying on PadSplit’s website, potential residents can peruse a variety of available rooms near them.

Other co-living start-ups such as WeLive are targeting millennial professionals, but PadSplit CEO and founder Atticus LeBlanc, who spent the past 12 years as an Atlanta affordable housing developer and investor, said he saw an untapped need for working people who live paycheck to paycheck and how a stable and affordable living situation can help someone save to get their own place, advance their career or launch a new company.

The average PadSplit resident makes $21,000 a year. LeBlanc admits PadSplit has collections and credit challenges, but said he tries to work with members to figure out payment plans and a budget.

While HUD guidelines say people should spend no more than 30 percent of their income on housing, LeBlanc argues rent is only a small piece of the puzzle. He believes housing needs to be addressed in a more holistic way, particularly because while someone may be living in affordable housing under the U.S. Department of Housing and Urban Development’s definition, it’s not truly affordable if she has to drive 1½ hours each way to work.

LeBlanc launched PadSplit in 2017 with a home he owned. He has since partnered with other real estate investors to expand into six Atlanta-area communities. The company has about 300 units — each of which it defines as a bedroom — in nearly 60 houses and apartments.

PadSplit differs from a traditional rooming or boardinghouse, Leblanc said, “like hitchhiking versus Uber. Technically, the act is similar but the product is 10 [times] different,” LeBlanc said.

In addition to running background checks and conducting personal interviews with potential renters, the company has monitored electronic locks and added extensive fire-safety measures in its properties.

“The idea is that the best disinfectant is sunshine,” he said.

Point

Most of a homeowner’s wealth is tied up in the equity they have in their home. That can be a big problem when faced with retirement, a period of unemployment, large home improvement expenses, a medical crisis or divorce. Homeowners with excellent income and good credit usually are able to unlock their home’s equity value by borrowing against their home via a home equity line of credit (HELOC) or home equity loan.

But many homeowners with fixed incomes and less than stellar credit can’t qualify, and many more don’t want to take on additional monthly loan payments.

And faced with a financial hit, they often “have very limited bandwidth to salvage their financial situation” and often resort to selling their homes to cash out, said Eoin Matthews, co-founder and chief business officer of Point, a Palo Alto, Calif.-based start-up.

The company, founded in 2015, offers homeowners the ability to sell fractional interests in their homes in exchange for a share in the property’s future appreciation. Point can underwrite to more forgiving standards and to people with lower credit scores than lenders issuing HELOCs because there’s no monthly payment and no interest rate, according to Matthews.

Homeowners can typically access up to 20 percent of their property’s value, equity permitting. Point’s share of the appreciation varies based on many factors but averages 35 percent, Matthews said. A homeowner can buy Point out or sell the home at any time. It’s important to note that Point’s product isn’t a reverse mortgage, a type of loan reserved for consumers ages 62 and up — those generally are for people who own their homes outright or have large amounts of equity.

Point offers 10- and 30-year agreements. The cost to the borrower is based on the home’s appreciation or depreciation. If home prices stagnate or drop between the time a homeowner signs and exits an agreement, Point “could be sharing in losses,” Matthews conceded. The company takes a 3 percent transaction fee for the funding amount and charges appraisal and escrow fees. Point operates in 14 states and the District.