If the hotel and legal industries are willing to roll up their sleeves, we might get things accomplished

Right now, unprecedented numbers of American homeowners are struggling to meet their monthly mortgage payments. Many are losing that struggle. While much time has been spent by the media and our elected representatives assigning blame for the mess to the sub-prime lenders or to the improvidence of borrowers who should have known better, or both, the fact remains: when a lender forecloses on a home and the owner has nowhere to go, that owner and his or her family are out on the street. Blame can wait. Homeless families cannot. Given the ever-present shortage of safe and affordable permanent and transitional housing for families just about everywhere in this country, one wonders what will become of the likely increasing numbers of people turned out of their homes.

First responders in what has been called the "sub-prime crisis" include Community Development Corporations (CDC), many of which have established financial literacy, credit counseling and foreclosure prevention programs designed to keep families in their homes. At least one CDC in New England, working together with Mass. state representative Barry Finegold D-Andover, is working on a pilot program to amass a private investment fund to acquire troubled homeowner debt and later work it out with the homeowners on affordable economic terms. Despite this and other creative initiatives, there will always be people for whom help arrives too late, or for whom no restructuring will be likely to work. What, then, do we do about those situations? Put mom, dad and the kids in a homeless shelter? Even assuming we could find space in the shelter, from a public policy perspective, the kind of social services which are available at many shelters are best devoted to assisting persons who have become homeless by reason of causes such as substance abuse or mental illness, not to assisting families that have suffered foreclosure and could conceivably be housed elsewhere. Shall we help the family rent an apartment? Probably… but doing so will take time. What shall we do in the interim?

The Idea

You know how every now and then you get a crazy idea? Most of mine occur in traffic. The Boston commute offers plenty of time for reflection. Part of my route takes me past several extended-stay hotels. Those are the ones with larger rooms, kichenettes and sitting areas. They cater mostly to business travelers needing to stay close to a site for more than a few days. Business travel is slowing along with the economy and rising fuel costs. The times of high occupancy may be behind us for some time to come. What could we do with those empty rooms in the meanwhile? It seems to me that for a week or two, a family could be quite comfortable in a clean and safe extended-stay hotel room. Those rooms, although empty, are not free. How would a family, presumably with very little cash, and likely with no credit, pay for such a room? The hotel operator could offer it for free, but doing so would likely be prohibited by its management agreement with the hotel's owner. The owner could ask the hotel operator to offer it for free, but it seems unlikely that our problem could efficiently be addressed on an owner by owner basis. Assuming we figured out a way to pay for the rooms, how would we identify families at risk? Now for the crazy idea and a challenge to the industries of hospitality and law.

ISSUES & PERSPECTIVES

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The 501c(3): Room at the Inn

With the help of a capable law firm willing to work on a pro bono basis, we could form a nonprofit 501c(3) corporation eligible to receive tax-deductible donations. Let's call it "Room at the Inn" (RATI). RATI's mission would be to work cooperatively with local CDCs and other community service organizations to identify persons at risk of homelessness, to assist them in relocating temporarily to a nearby extended-stay hotel facility, to pay the hotel for the cost of their room, and in the meanwhile help find them long-term affordable housing. RATI would screen all candidates to verify their suitability for participation in the RATI program. For example, program guest criteria could include status as a homeowner subject to a foreclosure process, absence of adverse information appearing in a criminal offender record inquiry, and family income falling within a certain range indicating need. RATI would further establish criteria for hotels eligible to receive program guests and then go out and recruit appropriate hotels for participation in the program. Program hotel criteria could include proximity to places of employment and schools of program guests, physical facility standards, and room rate parameters. In order to minimize overhead for RATI, its operations could be housed in the offices of a community service organization that had extra space and its staff could be drawn from one or more such organizations in the region where we decide to launch the program, from the local volunteer community in that region, and from internship programs at colleges (perhaps even those with a hospitality school).

Identifying Homeowners at Risk

Local CDCs and other community service organizations would be a good and ready source of information regarding homeowners at risk. That said, RATI need not merely wait passively for likely beneficiaries of its services to learn of its existence, or of that of the CDC's financial literacy program, and to seek RATI's help, but rather it could reach out to banks, mortgage companies, and loan servicers of all stripes to obtain information about properties headed toward foreclosure. Armed with that information, RATI could then initiate contact with the persons affected by those impending foreclosures. Once program candidates are identified and screened, RATI would arrange for placement in a program hotel while working with the candidates to obtain suitable permanent housing.

The Hotel Partners

RATI will need to identify individual hotels and hotel brands willing to participate in the program. A two-pronged approach involving discussions with senior brand executives and with local hotel owners could be facilitated by the same law firm which undertook pro bono representation. Selling points in favor of the program for brands or individual hotels willing to become involved would include the "double-bottom line" aspect of participation, the chance to fill otherwise empty rooms, and the potential tax benefits discussed below. In order to allay potential concerns regarding program candidates being proposed for placement into the program hotels, RATI will explain its screening process, point out that the rooms are being paid for, and undertake responsibility to ensure removal from the program hotel of any program guests who do not depart on schedule.

Sources of Funding

Just how will RATI pay for all of this? By soliciting and receiving (presumably tax-deductible) donations. Who will donate and why? Somewhat obvious targets for solicitation are hotel brands and owners participating in the program, banks and mortgage companies. In the case of hotel brands and hotel owners, each could make a donation which would have the effect, indirectly, of increasing occupancy and top line revenue at program hotels, some of which would likely be hotels managed or owned by the same donors. In the case of banks and mortgage companies, the money which might otherwise be spent on an eviction proceeding to remove a family from a foreclosed home and to repair any damage done to the property (it happens) (say an average of $2,000 to $5,000 per foreclosure) could be donated to RATI in exchange for RATI's arranging for the family to vacate the property and move into a program hotel. While both banks and mortgage companies may not be looking for additional tax deductions in the current environment, banks are typically always looking for ways to obtain Community Reinvestment Act credit (for which a donation to RATI would likely qualify) and mortgage companies may be looking for a way to improve a public image which has been tarnished by the "predatory lending" practices of others.

Much as was the case with a certain family 2008 years ago, a hotel may never know whose reservation it just refused to accept. Thus, if the hotel industry can find room at the inn, and the legal industry is willing to roll up its sleeves and assist in structuring the program, we might get something good accomplished. Bill Marriott, are you listening?

About this month's author

***Ken MacKenzie** is a director in the hospitality & recreation and real estate groups at Goulston & Storrs, PC. He represents institutional investors, private equity funds, investment managers, pension funds, university endowments, REITs, major lending institutions and developers in the acquisition, financing and disposition of all classes of real estate assets both nationally and internationally.*

MacKenzie specializes in transactions involving hospitality assets and has significant experience in large-scale joint-ventured deals, often involving non-profit institutions such as universities or hospitals. MacKenzie earned his JD from Boston University School of Law and his AB from Dartmouth College. He is a member of the International Society of Hospitality Consultants, and also serves on the hospitality advisory board for the New England Real Estate Journal.

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