

# *Unique but not Uncommon: The Loss of 25 Homes at the Dundry House*

## **Introduction**

Nonprofit affordable housing providers throughout Minnesota and the country are experiencing operational challenges that pose a threat to tenant stability and organizational health.

Based in Minneapolis' Ventura Village neighborhood, Hope Community provides stable, long-term housing for people who have experienced homelessness and people living on low incomes.

In May 2024, Hope Community had to demolish 25 units of permanent supportive housing – the Dundry House – despite its best efforts to preserve the property and protect the stability of the tenants. As an important case study for the broader affordable housing market, it is critical to understand what happened to the Dundry House and apply the lessons learned to prevent further loss of affordable housing.

Hope Community had owned the Dundry House since 2002, and in 2010 transitioned the property from general affordable housing to exclusively renting to individuals and couples who had previously experienced homelessness. The state Housing Support program (formerly Group Residential Housing or GRH) paid the residents' rents, and residents received supportive services at their homes through partnerships with Project for Pride in Living (PPL), Agate Housing Services, and Catholic Charities. In 2019, Hope Community renovated the building, upgrading the units, modernizing mechanical systems, and completing tuckpointing on the 100-year-old masonry – all to respond to resident needs and ensure the property remained a dignified place to live. But in the years that followed, the building became unsustainable to manage thanks to a combination of market, financial, and operational factors – factors that continue to impact other affordable housing properties throughout Minnesota.

## Types of Distress Impacting Affordable Rental Housing

<i>Factor Type</i>	<i>Contributors to Distress</i>
<b>Market Conditions</b>	<ul style="list-style-type: none"> <li>• Increased public safety concerns and safety threats, especially related to trespassing and vandalism</li> <li>• Increasing insurance costs and difficulty obtaining insurance</li> <li>• Nearby vacant lots and the security of those properties</li> <li>• Increases in substance abuse disorder and recovery needs in community</li> </ul>
<b>Financing Structure</b>	<ul style="list-style-type: none"> <li>• Property receives one-time low/no-interest deferred financing to reduce ongoing costs of debt service in exchange for commitments to long-term affordability and services</li> <li>• Property requires subsidy, or a more profitable program/property is subsidizing it</li> <li>• Standard maintenance is deferred until an extensive rehab can be funded</li> <li>• There are not enough units to create an economy of scale</li> <li>• Underwriting requires specific conditions that affect the long-term sustainability of the property</li> </ul>
<b>Operations</b>	<ul style="list-style-type: none"> <li>• The referral pipeline for new tenants does not fill units quickly, leading to long periods of vacancy without subsidy</li> <li>• Lack of adequate funding for 24/7 staffing and other supportive services</li> <li>• Resident dissatisfaction</li> <li>• High turnover among service providers or property managers (organizations or staff)</li> <li>• Lack of resources to optimize building systems such as utility billing</li> </ul>

## Market Conditions Impacting the Dundry House

In 2022, a homeless encampment started in the vacant lot next to the Dundry House. While the encampment provided safety and a sense of community for some unhoused neighbors, as it grew, drug sales and use, vandalism, and break ins also became safety concerns for staff and Dundry House residents. Some Dundry House residents decided to move because they did not feel safe against the threat of an intruder and living close to the encampment put their mental health and sobriety at risk. That April, there was a fire on the second floor that appeared to be retaliatory; a resident had been trying to keep people from trespassing into the building, and later, his door was set on fire, creating greater fear among residents and neighbors.

Hope Community met with City, County, and State officials on multiple occasions to try to find a solution that met the needs of the Dundry House residents and the people staying in the encampment. No coordinated safety, health, and housing effort materialized. In August 2022, the City closed the encampment. Yet, people who were not tenants or guests at the Dundry House continued to break into the building. After the murder of George Floyd, getting any response to 9-1-1 calls became more and more challenging; in a 2023 meeting with the Mayor and others, police officials promised extra patrols around the Dundry House, but staff never noticed an increase.

After trying to address safety concerns with property management staff and unarmed security onsite, Hope Community had to hire private armed security. Hope Community did not have funding to pay for security costs and the costs were not an eligible use for any new public funding sources, creating a significant financial burden. Over 18 months, Hope Community paid more than \$500,000 for private security with variable levels of success.

## Financing Structure of the Dundry House

In 2010, Hope Community transitioned the Dundry House to supportive housing in response to shifting community needs. In exchange for one-time deferred capital funding, Hope Community committed to providing supportive services at the property for up to 30 years. However, no equivalent funding award was made for Hope Community's service provider partners, creating another ongoing financial obligation for Hope Community.

Ultimately, the Dundry House rents did not cover the total cost of running the building, even with the reduced debt service costs made possible by the public funding and especially after security and insurance costs skyrocketed. Subsidies provided through the state Housing Support program did not equal what it cost to operate each unit, so even with these resources, the Dundry House didn't break even. And because nonprofit owners' rents are often capped at a certain level to ensure affordability, raising rents to cover the costs of owning and operating the property was not an option.

Hope Community approached the City of Minneapolis, Hennepin County, and the State of Minnesota to request a temporary operating subsidy to stabilize the building. However, given the

limited funding available and the restrictions on that funding, no public money could be identified to support the Dundry House operating expenses.

## Operational Factors Impacting the Dundry House

In 2010, in exchange for capital financing, Hope Community committed to only accept referrals through the newly created Coordinated Entry process. The new process, which began implementation in 2013, sought to create efficiency by centralizing resources while also ensuring that the people with the highest need could get housing first. At the time, this single referral source was not a concern, and in fact seemed promising for the sustainability of the property. In recent years, however, it has taken longer than both tenants and property owners would like for people to move through Coordinated Entry into housing due to lack of affordable housing, administrative requirements, and other leasing requirements. Hennepin County reports that, currently, it takes about two and a half months (75 days) for a home to become available due to the insufficient supply of supportive housing. Once a unit becomes available, it takes on average 21 days to confirm the referral and another 61 days until someone moves into the home.<sup>1</sup> While going through the Coordinated Entry process, including client engagement, eligibility determinations, paperwork requirements, and other lease-up processes, units at the Dundry House would be vacant for months, causing Hope Community to lose out on Housing Support rent payments. This was one factor that, after several years of sustainable operations, began to push the property into an operating deficit.

## Closing the Dundry House

Ultimately, the combination of long periods of vacancy without rent, Housing Support program rent payments not covering the full cost of operating a unit, security threats, skyrocketing insurance and security costs, and expensive repairs after the building was repeatedly vandalized made it unsustainable to continue operating the Dundry House. In April 2023, Hope Community made the difficult decision to close the building and began relocating the residents. Dedicated to keeping the building affordable to community members, Hope looked for another mission-driven owner with a different service model who could buy the building and maintain it as affordable housing.

Then, on June 9, 2023, someone broke into the building and stole the copper gas and water lines. The City immediately condemned the property, and the remaining five households who had not yet moved had to leave immediately. “It was all hands on deck that day,” said Will Delaney, associate director and interim co-executive director of Hope Community. “I was in people’s apartments helping them pack and trying to provide reassurance. One couple had lived there for 25 years.”

Hope Community immediately boarded the vacant property, but people still broke in. There were two fires a month apart in November and December 2023. After each fire, Hope Community resecured the building and hoped that a potential buyer would be able to restore the Dundry House to a dignified place to live, but by the end of the year, no sale had gone through.

<sup>1</sup> Hennepin County. (2024, November 4). Health of System: Length of Time Summary. Retrieved from CES System Dashboard: <https://app.powerbigov.us/view?r=eyJrjoiYzU3MmZkYzYtOTYyNC00NzBkLThiZjAtYmFhZGMzNmVjMWNjliwidCI6IjhhZWZkZjlmLTg3ODAtNDZiZi04ZmI3LTRjOTI0NjUzYThiZSJ9>.

In January 2024, the City of Minneapolis ordered that the building be torn down. Hope Community agreed this was the safest solution for the community but didn't have the \$250,000 needed for demolition and cleanup. By February, the insurance provider canceled the Dundry House policy, exposing the nonprofit to significant risk as long as the property stood.

Overnight on April 3, 2024 – just one day after Hope Community had resecured the boards protecting the property – a major fire at the Dundry House destroyed much of the roof. Hope Community desperately wanted to move forward with demolition, understanding the community safety challenges and risks posed by the building. The Family Housing Fund stepped in to provide Hope Community with a grant to demolish the building in May, utilizing dollars that had been designated for troubled buildings in emergency.

“The irony is,” explained Will Delaney, “that we estimated Hope Community would need \$250,000 to help maintain the building until it could be sold to another nonprofit owner. Ultimately, \$250,000 is what it cost to demolish the building.”

Today, the Dundry House is gone and the lot vacant. Millions of dollars in public and philanthropic investment in the building have been lost. All the residents have had to start over, from the newest tenant to the couple who had lived there for 25 years. Reflecting on the loss, Will Delaney said, “This hurt the people who were living there, and it will hurt people for decades who can longer choose to live there.”

## Call to Action

It is too late to save the Dundry House, but it's not too late to save thousands of other affordable homes that are currently facing similar challenges. Now is the time to make systemic changes that will stabilize these properties and the families who rely on them for a safe place to call home.