



Managing our Information to Make Good Asset Management Decisions

*Thanks to:
HUD and NPF*

Presented by:
The Housing Development Center
TACS

February 26, 2009 8:30 PM - 4:30 PM

A decorative graphic consisting of a teal circle on the left, a dark brown bracket on the left, a teal bracket on the right, and a horizontal bar with a green-to-white gradient background. The word 'Introductions' is centered within the bar.

Introductions

Agenda

- Decisions Making Models
- Self Assessment
- Decisions in the Life of a Project
- Asset Management Outcomes and Indicators
- Managing Your Information
- Yardi Demonstration

A decorative graphic consisting of a teal circle on the left, a teal bracket on the right, and a horizontal bar with a green-to-white gradient in the center. The text 'Decision Making Models' is centered within the bar.

Decision Making Models

Steps in Any Decision Making Process

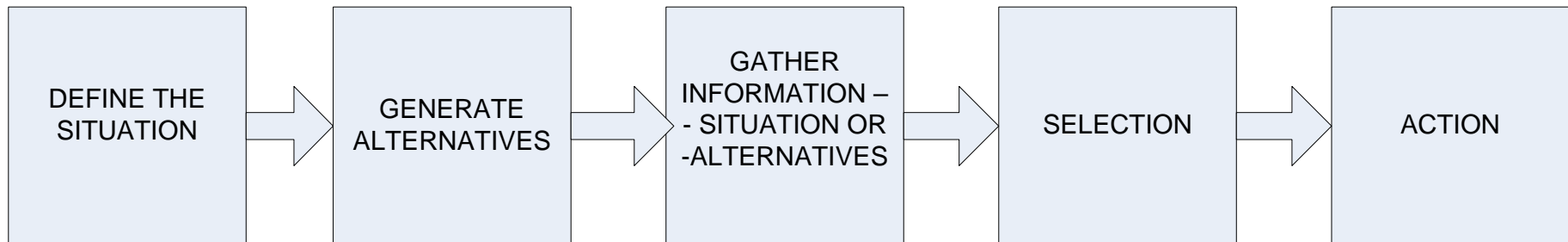
- Being clear about what you are addressing
- Understanding what is important in the decision
- Gathering sufficient data to help refine your thinking
- Evaluating options
- Making the decision and moving forward

Different ways to look at decision making process

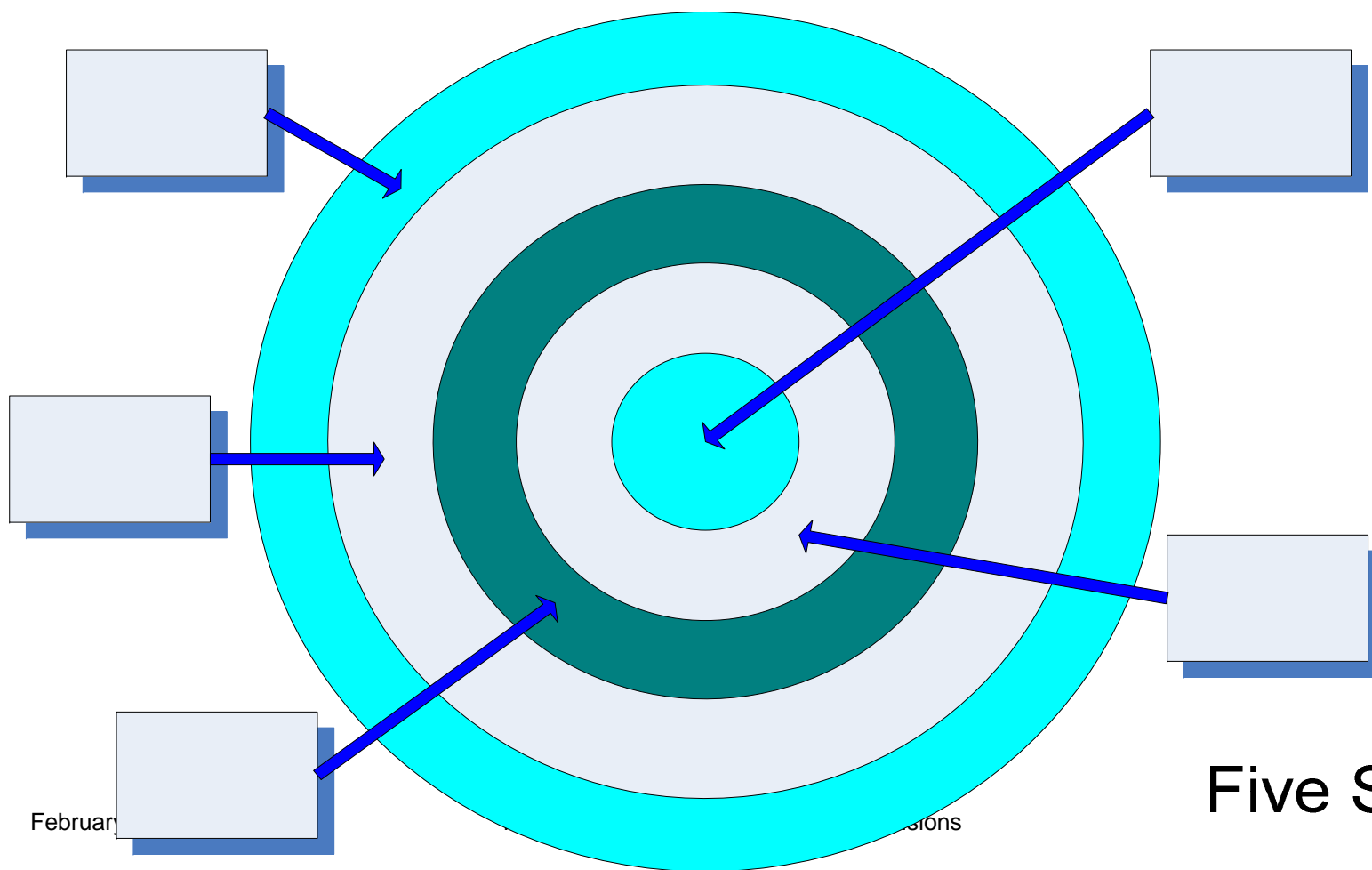
- Linear array of steps – beginning to end
- Moving from big picture to specific actions – homing in
- Circular process – action steps with formal feedback loop

The Linear Approach

BASIC DECISION MAKING STEPS

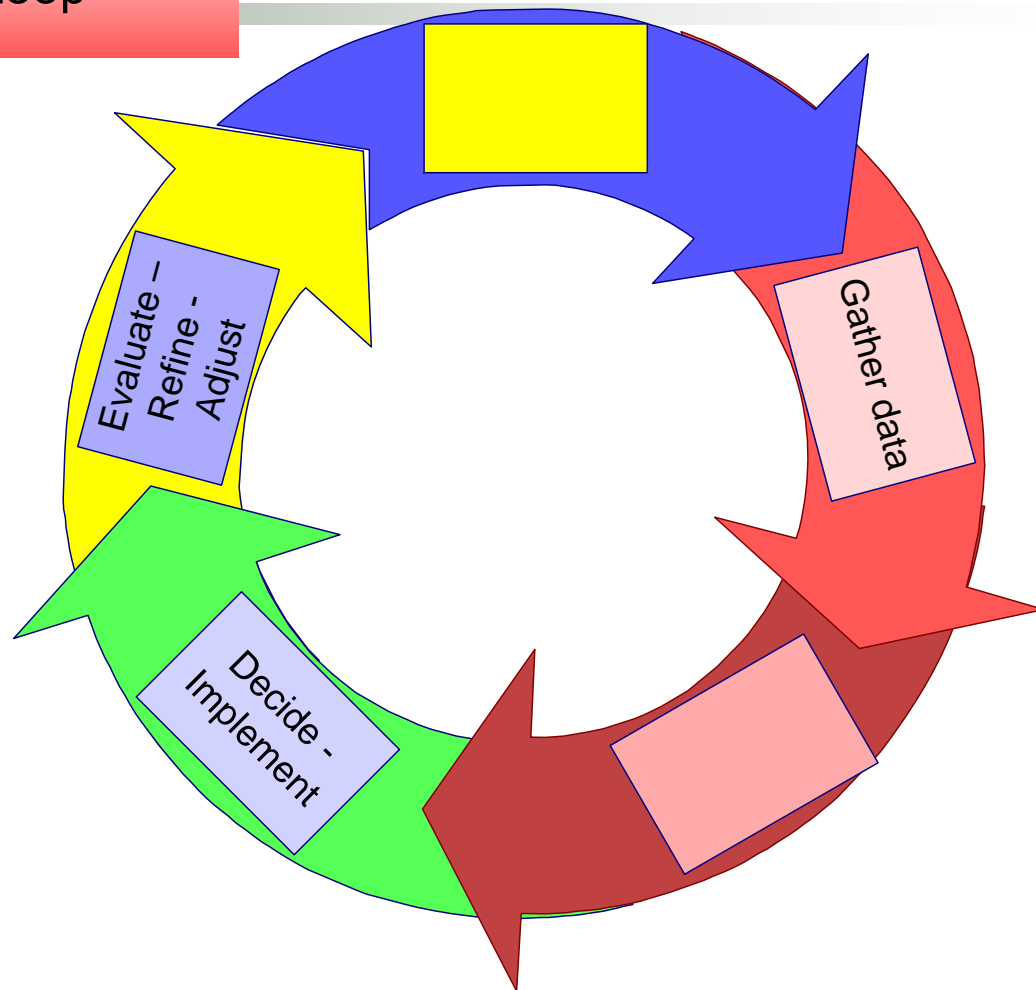


Big Picture to Specific Action



Five Steps to C

Circular Process with Feedback Loop



A decorative graphic consisting of a teal circle on the left, a dark brown bracket on the left, and a teal bracket on the right, all framing a horizontal bar with a green-to-white gradient. The text 'Self Assessment' is centered within this bar.

Self Assessment

15 minutes to assess your organization's asset management staffing and systems

Table Discussion – 15 minutes

- In which areas are you doing well?
- Where may you need to improve?
- What are some challenges to improving these areas?
- Do you see similarities across organizations?

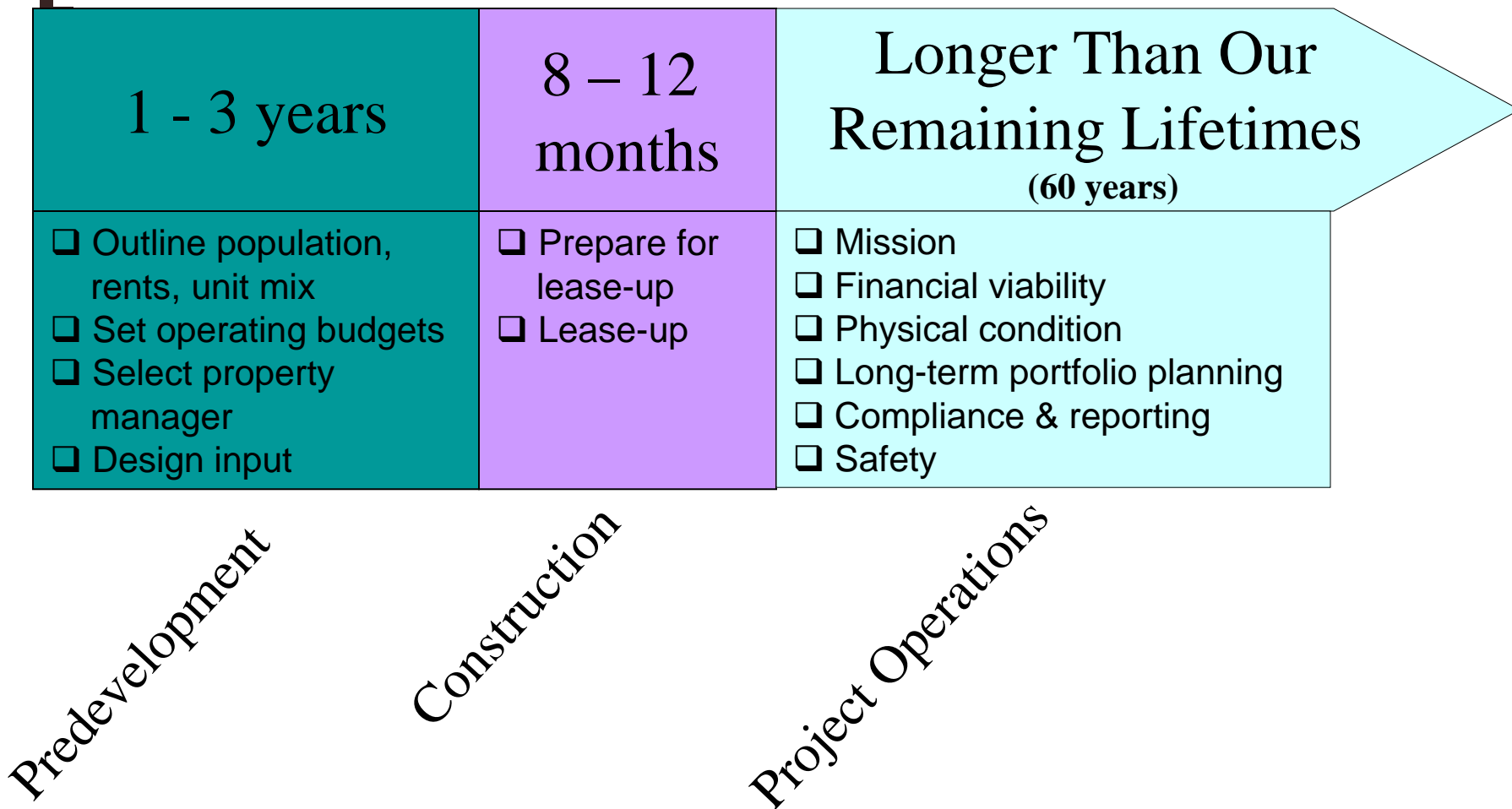
Decisions in the Life of a Project for an Asset Manager

- Frame and draw impact of development decisions on long-term operations
- Impact of asset management on future projects/development decisions

A decorative graphic consisting of a teal circle on the left, a dark brown bracket on the left, a teal bracket on the right, and a horizontal bar with a green-to-white gradient background. The text 'The Development Stage' is centered within the bar.

The Development Stage

Stages in an Affordable Housing Project – Role of Asset Manager



Development Phases Overview

- Concept
- Feasibility
- Predevelopment
- Construction
- Lease Up

Concept Phase

- Determine need (Market Study)
- Determine target population (% Area Median Income - AMI)
 - Affects number of units by BR size
- Acquisition/Rehab versus new construction
- Find site
 - Appropriate for target population
 - Zoning codes
 - Land use planning requirements
- Estimate total project costs
- Project and site schematic to determine # of units

Role of Asset Manager in Concept Phase

- Inform analysis of need based on current demand in other projects
 - Intended population
 - Bedroom sizes
- Provide input regarding appropriateness of target population on site, design, and location

Feasibility Phase

- Architectural designs
- Surveys (Topo, Boundary)
- Phase I Environmental
- Geotechnical study
- Identify potential funding sources and meet with funders
- Provide more details to development proforma
- Create preliminary operating proforma
- Secure predevelopment funding

Steps to Create an Operating Proforma

1. Identify income sources:
 - Rents, rent assistance (Section 8), laundry income, interest on accounts
2. Estimate operating expense:
 - Operating costs, management fees, annual reserve contributions

2. Estimating Operating Expenses for Hard to House/ Special Needs

Standard

Enhanced Property Management



Variables:

- Size of units
- New construction/acquisition
- Site area/ number of building
- Property taxes
- Utilities by owner or tenant
- Resident services included

Additional Factors:

- Security (24-hr desk or guards)
- Additional maintenance for some populations
- Resident services

Steps to Create an Operating Proforma, cont.

3. Determine annual debt service (loan payments)
 - Treat separately from other expenses
4. Apply inflation factor to income (2%) and expenses (3%), carry out over 15-30 years
 - Inflation factor for expenses should be greater than for income
 - Assumes annual rent increases

Steps to Create an Operating Proforma, cont.

5. Include industry standard annual replacement reserve contribution (\$250-350 per unit per year, increasing by 3-4%/year)

■ Developer's Perspective:

- Include industry standard of annual replacement reserve contributions

■ Asset Manager's Perspective:

- Determine expected life of major building components
- Determine cost of replacement
- Determine how much annual replacement reserve would need to be to cover these future costs
- Disregard – You can't afford it, go back to developer's perspective

Role of Asset Manager in Feasibility Phase

- Assist in development of the initial operating proforma
 - Provide three years of actual operating expenses to developer for operating proforma
 - Provide explanation of unusual line items
 - Research rent levels in similar projects
 - Approve the rent assumptions proposed by developer (*theoretically speaking*)
- Review developer's proposed initial operating proforma, which may evolve throughout development process

Predevelopment Phase

- Architectural designs:
 - Design development
 - Construction documents
- Meet with funders and apply for funding
- Secure lender commitments
- Select general contractor
- Construction estimates
- Fill funding gap through multiple methods:
 - Value engineering (VE)
 - Solicit additional grants
 - Increase permanent loan(s):
 - Increase rent calculations
 - Reduce operating expenses

Predevelopment Phase

- Solicit construction bids
- Market study
- Appraisal
- Submit for building permits
- Negotiate loan and limited partnership documents
- Solicit, negotiate and finalize property management contract
- Finalize resident services and property management plans
- **CLOSE CONSTRUCTION AND PERMANENT LOANS and LIMITED PARTNERSHIP AGREEMENT**

Role of Asset Manager in Predevelopment Phase

- Review architectural plans:
 - Materials (flooring, lighting, counter tops, cabinets, paint, heating and cooling systems)
 - Size of living spaces
 - Location of phone, internet and cable outlets
 - Garbage and recycling systems and placement
 - Determine who pays for utilities (sub-metering)
 - Landscaping
 - Common areas (community space, maintenance and janitorial spaces)
 - Security (key access)

Role of Asset Manager in Predevelopment Phase, cont.

- Help decide number of set-asides
 - E.g. permanent supportive housing, HOME, special needs)
- Help fill funding gap
 - Work with developer on any revisions to proforma and decisions regarding VE
 - Provide input on “below the line” fees
- Construct lease up schedule (% of units leased per month) to determine:
 - Length of construction loan
 - Interest costs on construction loan
 - Tax credit delivery and price

Role of Asset Manager in Predevelopment Phase, cont.

- Select property management company or determine internal staffing structure
 - Issue request for proposals
 - Negotiate contract:
 - Selection and dismissal of on-site manager
 - Management fee
 - Connection to resident services
- Develop property management plan and get approval from investor, permanent lender, OHCS, and possibly local funder
- Work with resident services coordinator to develop resident services plan

Construction Phase

- Preconstruction meeting (take a picture—it's the last time everyone will be smiling)
- Ground-breaking
- Construction period:
 - Inspections, draw requests, additional design decisions, construction disputes, tax credit basis
- Substantial completion, notice of completion
- Implement marketing plan
- Grand opening
- 75-day lien period, release of retainage
- 1-year warranty inspection

Role of Asset Manager in Construction Phase

- Help make VE, design change and construction add-back decisions
- Begin marketing to potential tenants
- Ensure that leasing office is open near construction completion


Lease Up Phase

- Marketing of units
- Staff or oversee staffing of leasing office
- Lease-up per lease-up schedule to meet credit delivery requirements and conversion to permanent loan timeline
- Provide operating statements to demonstrate occupancy and operating expenses to meet conversion requirements

Role of Asset Manager in Lease Up Phase

- All aspects of marketing and lease up
- The responsibility of the project transfers from the developer to the asset manager at the end of the lease up period at conversion



A decorative graphic consisting of a teal circle on the left, a horizontal bar with a teal-to-white gradient on the right, and two large teal brackets on the left and right sides. The text 'Conversion - Knowing Your Deal' is centered within the bar.

Conversion - Knowing Your Deal

Knowing Your Deal – Types of Permanent Loans

- Private Lenders/Banks
- RD Section 514 (Farm Labor Housing)
- RD Section 515 (General MF Housing)
- Federal Home Loan Bank-Community Investment Program
- HOME (in some counties or states)
- CDBG (in some communities)
- State Housing Finance Agency or Community Development Agency
- RCAC

Knowing Your Deal – Where to Find Your Lender Obligations

■ Loan Documents

- Letter of Interest
- Commitment Letter
- Loan Agreement
- Promissory Note
- Trust Deed
- Assignment of Rents
- UCC Statements

■ Related Documents

- Borrower's Opinion Letter
- Loan Resolution
- Subordinations
- Closing Instructions

Knowing Your Deal – Loan Issues

- Environmental representations
- Due on sale or transfer, assignability
- Prepayment penalties
- Insurance requirements
- Builder requirements
- Default provisions
- Required lien position
- Debt service coverage (debt cov. ratio)
- Conditions to close permanent loan

Knowing Your Deal – Types of Grants and Equity

■ Grants:

- HOME
- CDBG
- RD Section 516 (Farm Labor Housing)
- FHLB- Affordable Housing Program
- Foundations

■ Equity:

- Sponsor's own funds
- Low Income Housing Tax Credits
- State Tax Credit Programs

Knowing Your Deal – Typical Grant Restrictions

- Funder restrictions (nothing's free) during operations
 - Terms of the agreement, # of units affected
 - Term of affordability
 - Income and rent restrictions
 - Lease/eviction requirements (e.g. good cause)
 - Reporting and record-keeping requirements
 - Matching fund requirements

Knowing Your Deal – Grant Documents

- Award letters (first step)
- Grant agreements
- Declaration of land use restrictive covenants
- Project use agreements

Knowing Your Deal – LIHTCs

- CFC Application
- Award letter
- Reservation and extended use agreement
- Carry forward
- 8609 application and forms
- Restrictive covenant
- Partnership agreement between limited partner and general partner

A decorative graphic consisting of a teal circle on the left, a horizontal teal bar with a white-to-teal gradient, and a teal bracket on the right. A dark brown bracket is on the left side of the bar.

Operations

Property versus Asset Management

- Property Management- day to day operations of the property; performed by contracted firm or by agency staff
- Asset Management- long term owner oversight to ensure that property meets its financial goals, is well maintained and serves the needs of residents, community.

Role of Asset Manager in Operations

- Asset Management Plan - Define staff and board roles
- Approve annual budget - including rent increases, needed reserve deposits
- Review project financial statements
- Review and approve annual audit

Role of Asset Manager in Operations, cont.

- Review insurance requirements-insure insurance property taxes paid
- Understand reporting requirements
- Insure that periodic inspection program is in place
- Integrate asset management activities with other organizational activities- housing development, finance, resident/community relations, fundraising

Role of Asset Manager in Operations

- Mitigate Risks:
 - Assess risks and develop risk management plan
 - Develop emergency plans
 - Train staff and tenants
 - Have adequate insurance coverage
 - Get regular reports on project operations and financial performance

A decorative graphic consisting of a teal circle on the left, a dark brown bracket on the left, a teal bracket on the right, and a horizontal bar with a gradient from dark green to light grey in the center. The text 'Major Milestones' is centered within the bar.

Major Milestones

Role of Asset Manager in Major Milestones

- Make an annual evaluation of your refinancing options based on current interest rates and the overall benefits over a ten-year period to the property's financial status
 - Don't forget to include the fees associated with refinancing
- Determine when to recapitalize project when replacement reserves no longer are sufficient for major capital improvements

Role of Asset Manager in Year 15

- Work with your accountant, Executive Director, and other relevant staff to exit the limited Partnership:
 - Know your documents
 - Know your deal – expected return, actual return, estimate exit tax obligation, reserves available
 - Know your investor – how have they handled exit taxes in the past, what is your overall relationship
- Everything is a negotiation
 - Start at Year 10 – there are ways to minimize exit tax
 - Be ready to exit December 31st of 15th Year (Year 1 is first year credits are taken)

A decorative graphic consisting of a teal circle on the left, a dark brown bracket on the left, a teal bracket on the right, and a horizontal bar with a green-to-white gradient that spans across the middle of the page.

Disposition

Some Circumstances for Disposing of a Property*

- The building consistently loses money over a three-year period
- A certain percentage of the units is consistently unoccupied
- All opportunities to refinance or restructure funding have been tried
- The owner's subsidization of the property has reached a maximum percentage of the building's budget
- Your particular niche of housing has experienced a reduction in the market that does not appear to be reversing itself

* From AIDS Housing of Washington, 2002

More Reasons for Disposition

- Obsolete Housing Type (single family, SRO, group homes don't meet some needs)
- Rehab Condition – cost to maintain, repair
- Changes in Mission – location, type of housing
- Need to Recapitalize to Strengthen Portfolio

Role of Asset Manager in Disposition

- Disposition decisions are planned for and informed by mission, financial impact and risk/ benefit analysis
- Determine your loan to value ratio to see if there is the financial gain outweighs the costs and the impact on the tenants
- Research extended use agreements to see how long affordability periods are attached to the property
 - Will affect market value of the property
 - Most loans/grants will have penalties if you did not meet your affordability periods
- Hire a realtor
- If unit affordability is at risk, assist with tenant relocation

A decorative graphic consisting of a teal circle on the left, a horizontal bar with a teal-to-white gradient, and a teal bracket on the right. The text 'Asset Management Outcomes and Indicators' is centered within the bar.

Asset Management Outcomes and Indicators

Intended Population/Providing Services

Outcome:

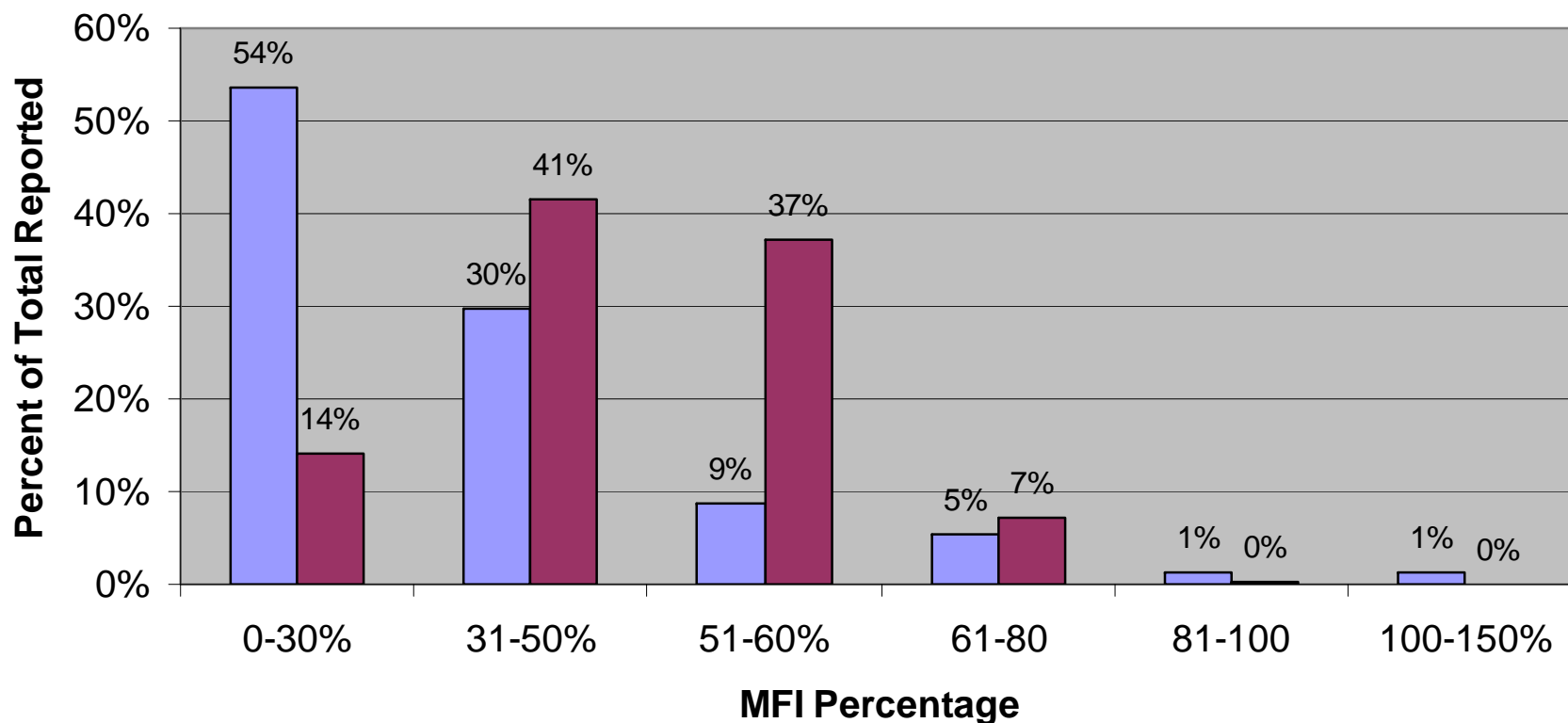
- Our portfolio is achieving the mission of providing affordable housing for (identify population)

Indicators:

- $\geq 95\%$ physical occupancy
- Tenant population mix is inclusive target population
- Balance of income from properties and rent burdens is concurrent with organizational goals

MFI% Rent Restrictions in Comparison to Whom We Actually Serve

2005 Income vs Regulated MFI



■ MFI Income of Households
 ■ MFI Per Regulatory Agreement

Property Management Oversight*

■ ***Net profit per unit:***

- Total operating expenses
- Budget to actual expenses
- Capital reserve contribution per unit
- Collection rates
- Tenant receivables per unit
- Subsidy receivables per unit
- Accounts payable per unit

■ ***Occupancy Rate:***

- Average unit turnaround time
- Turnover rate
- Families on wait list
- Average unit preparation time
- Work order backlog
- Average work order completion time
- Percentage of units in arrears

**From Track-It! Asset Management Software
Instruction Guide,
Local Initiatives Support Corporation, 1998.*

Sustaining Financial Viability

Outcomes:

- Achieve target rental income that covers operating expenses and lender requirements
- Net revenues from projects meet organization's budget

Industry Standard Indicators:

- \$400/unit in net cash flow
- >95% economic occupancy
- 98% collection rate
- Debt coverage per Loan Requirements (typically greater than 1.1 DCR)
- Fees and cashflow from projects meet or exceed what was in organizational budget

Maintaining Physical Condition

Outcomes:

- Properties have good curb appeal
- Properties meet habitability codes
- Property condition competitive for project's market

Indicators:

- Monthly walk through/ inspection of properties = clean site
- No maintenance or security issues
- Inspections by funders have no major findings

Compliance and Reporting

Outcomes:

- All properties operating within tax credit regulations
- Properties meet HOME and other funder's regulations

Indicators:

- Reports to investors are accurate and timely
- Zero 8823 findings
- No credit adjustors or IRS penalties

Long-term Portfolio Planning

Outcomes:

- Major financial events are planned for
- Capital improvements are planned for and completed as needed

Indicators:

- Expiration of loan terms, refinancing opportunities are planned for
- Year 15 project exit taxes are monitored and transition plans implemented
- Buy/ sell decisions are planned for and informed by mission, financial impact and risk/ benefit analysis

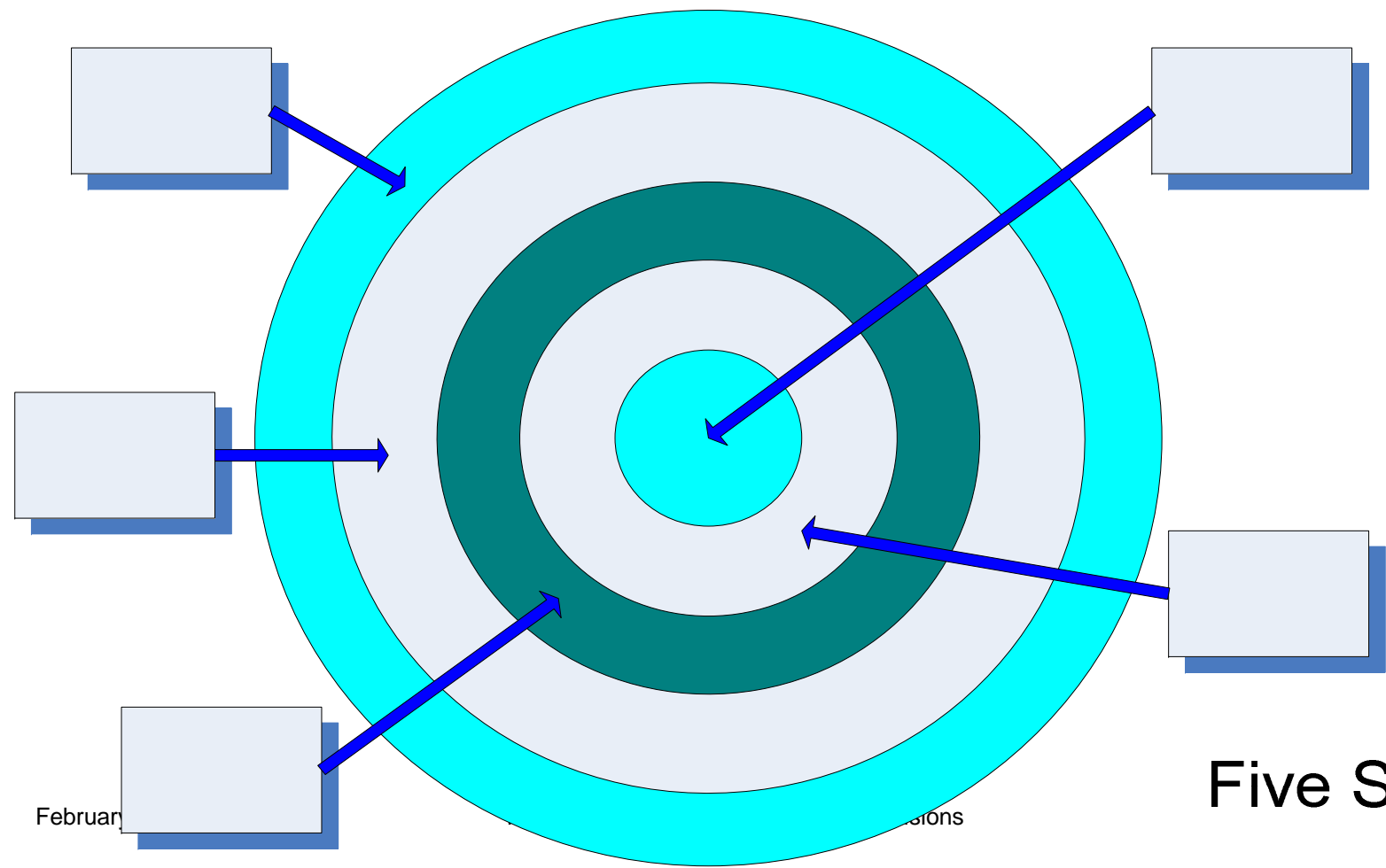
A decorative graphic consisting of a light teal circle on the left, a horizontal bar with a gradient from dark green to light grey in the center, and a teal bracket on the right. The text 'Techniques to Manage Your Information' is centered within the bar.

Techniques to Manage Your Information

Tools to Help you Manage Your Asset Management Information

- Glossary of Terms
- Asset Management Data Map
- Summary of most restrictive requirements
- Tickler system (calendar) of reporting requirements
- Compliance chart

Decision Making Steps



Februar

sions

Five Steps to C

Steps to Manage Your Information

1. ASSESS –
2. IDENTIFY REQUIREMENTS
3. RESEARCH OPTIONS
4. COMPARE AND CONTRAST OPTIONS
5. MAKE A DECISION - IMPLEMENT

ASSESSING YOUR NEEDS

- Many ways to do this, but basic questions are:
 - How many people are involved in the processes?
 - What or who are the information sources?
 - Where is information stored?
 - What are the steps in the process [es]?

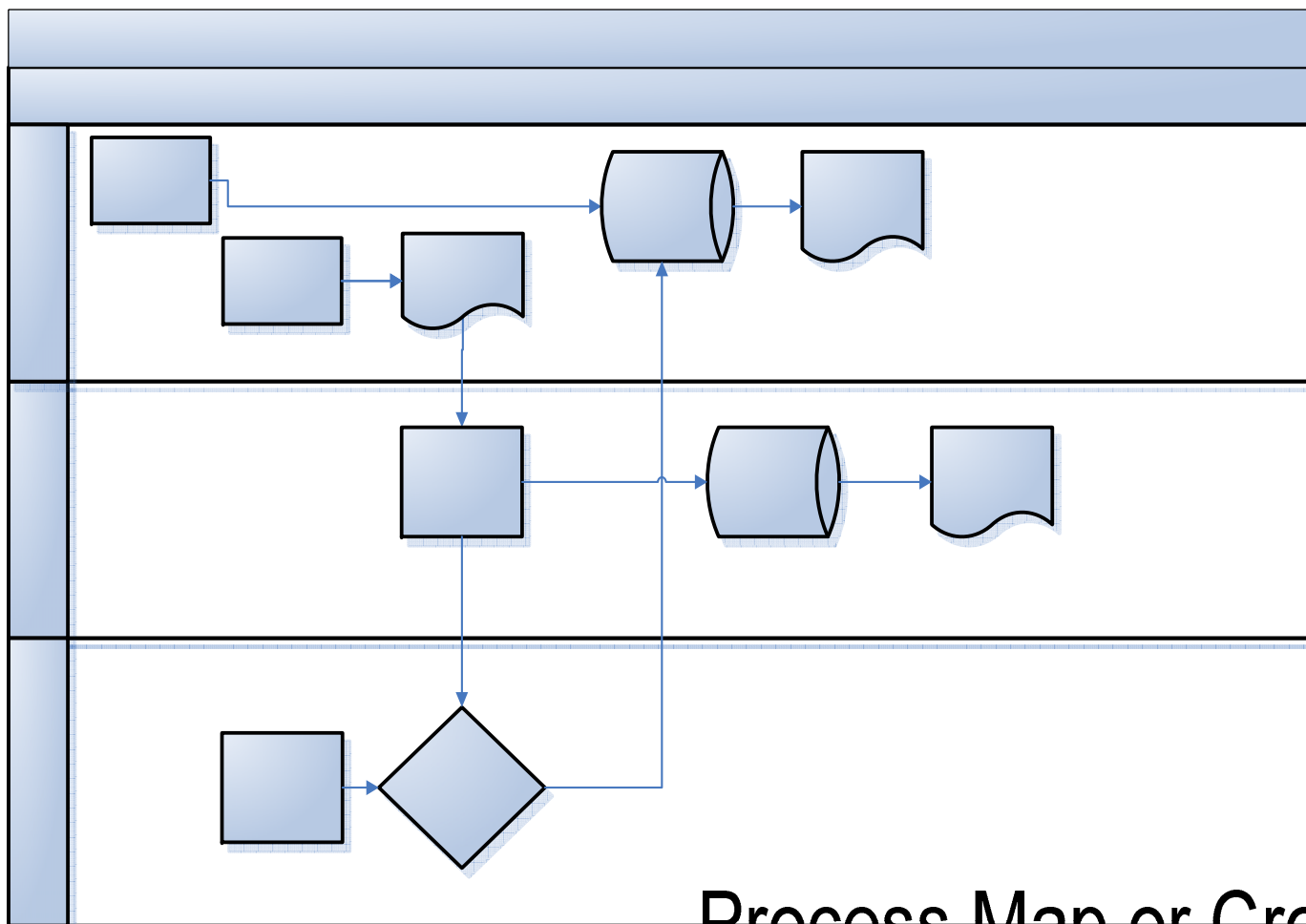
ASSESSING YOUR NEEDS

- Questions, continued:
 - Are there existing software applications? What works? What doesn't?
 - How is existing technology maintained?
 - What is the technology aptitude of staff using/managing information?

Assessment Tools

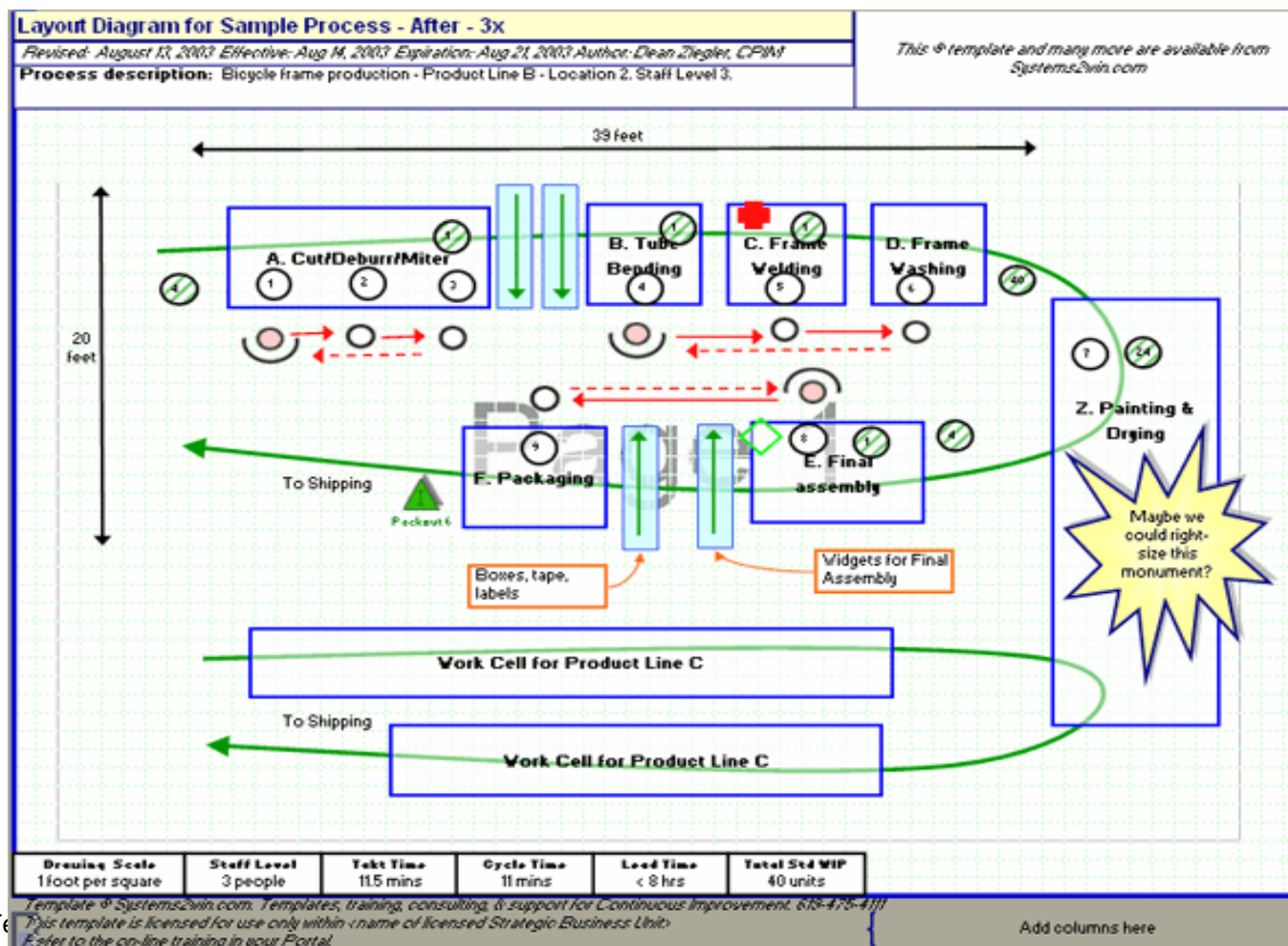
- Flowcharts or process maps
- Process tables
- Spaghetti maps
- Value Stream Maps

CREATING A PROCESS MAP



Process Map or Cross functional

Kaizen – Spaghetti Map



F

Step 2 - Requirements

- List your functional requirements
- Establish priorities:
 - Ideal
 - Must have
 - Nice to have
 - Not needed
- Requirements = decision criteria

FUNCTIONAL REQUIREMENTS

GENERAL REQUIREMENTS

FUNCTIONAL REQUIREMENT	DESCRIPTION	NEEDED?
Compatible with existing operating system		
Remote access		
Able to maintain with existing tech staff		

SPECIFIC REQUIREMENTS - DEPARTMENT Accounting

FUNCTIONAL REQUIREMENT	DESCRIPTION	NEEDED?
Integration with accounting system		

Step 3: Id & Research Options

- Identify solutions
- Demos and on-site visits
- Background vendors
 - Financial viability
 - Customer satisfaction
 - Experience with product
- Look at multi year costs

Step 4: Compare Options

- Have multiple users involved
- Set up evaluation “tool” using your requirements
- Narrow down options in preparation for negotiating
- Have a plan b option

Step 5: Decide - Implement

- Careful negotiations
- The contract terms are critical
 - Key milestones
 - Clear acceptance criteria
 - Match payment cycle to deliverables
 - Hold back percentage to insure satisfactory completion

Other Implementation Issues

- Authority of project manager
- Keeping expectations clear and communication consistent
- Manage the scope
- Training
- Support
- On-going costs

Group Exercise – 15 minutes

- Follow handout to come up with a decision regarding your property management staffing

A decorative graphic consisting of a teal circle on the left, a teal bracket on the right, and a horizontal bar with a gradient from dark green to light green in the center. The text 'Evaluating your Software Needs' is centered within the bar.

Evaluating your Software Needs

A decorative graphic consisting of a light green horizontal bar with a gradient from left to right. A teal circle is partially visible behind the bar on the left side. A dark brown bracket is on the left side of the bar, and a teal bracket is on the right side of the bar.

YARDI Demonstration

A large decorative graphic consisting of a horizontal bar with a green-to-white gradient. The bar is flanked by large, stylized brackets: a dark brown one on the left and a teal one on the right. A thin teal circle is partially visible behind the left side of the bar.

THANK YOU!

Housing Development Center
847 NE 19th Avenue
Suite 150
Portland, OR 97202
www.hdc1.org
503-335-3668

TACS
1001 SE Water Avenue
Suite 490
Portland, OR 97214
www.tacs.org
503-239-4001