

**NeighborWorks Multi-family Initiative
Summarized by Housing Development Center**

June 5, 2008

NeighborWorks America (NW) is a national leader working to improve affordable housing asset and property management performance. NW's Multi-family Initiative is working with a group of NW member organizations (over 46,000 units nationally) to improve the performance of their portfolios. As part of this initiative, NW has developed a quarterly report on property performance, and has established benchmarks for performance. NeighborWorks information is included below in regular font, in black print. HDC has added some comments in blue italics to provide local information or other comments.

DEFINITIONS/ DESCRIPTIONS

No. of Months Reported: Number of months in the period. Note, some NOW's will report three months activity for a period, others will report six or nine, depending on their fiscal year end. In general, all numbers should be year to date (YTD).

Gross Potential Rent: Year-to-date Gross Potential Rent for reporting period; includes only rental income on residential units.

Total Income: Total Income for the property. Includes Gross Potential Rent, Commercial Income, Other Income (laundry revenue, parking fees), Financial Income, Replacement Reserve/ Operating Reserve Withdrawals.

Concessions/ Bad Debt: Concessions or other similar reductions to gross potential rent for the period reported, often used as incentives when marketing vacant units.

Loss to lease is used by some groups in their budgeting process. If you have a budgeted Gross Potential Rent amount and rent an apartment for less than that budgeted amount, this loss would be carried as a loss to lease and should be included in this category.

Collection Loss: Current collection loss, bad debt and receivables expected to be written off as a bad debt (receivables greater than 90 days).

Vacancy Loss: Gross Potential Rent of a vacant units for portion of period reported which units were vacant. Enter a positive number.

Total Operating Expenses: Total Operating Expenses (admins, utilities, maintenance, tax and insurance) for the Property for the period reported.

Note: NW Multifamily Initiative reports do not include: replacement reserve contributions, operating reserve contributions, financial expenses (mortgage, mortgage insurance), capital expenses, developer fees or other payments to owners, or oversight or asset management fees in operating expenses. They do include social services expenses if paid from

Operating Expenses. Locally, we generally include replacement reserve contributions and asset management fees as part of our operating expenses, but do not include depreciation or interest costs.

NeighborWorks Tracks these expenses separately:

Replacement Reserve Deposit: Actual deposits made to the replacement reserve account during the period reported.

Resident Service Expense: Paid, but not included as Operating Expense above.

Operating Reserve Deposit: Paid, but not included as Operating Expense above.

Capital Expenditures: Paid from rental income, but not included as an Operating Expense above. *Note that on some financial reports from local property managers, these are shown under categories such as “major capital items”. In Oregon, these generally are shown below net cash flow, and are either reimbursed from reserves at the end of the year, or come out of the net cashflow to owner.*

Asset Management Fee: If Property pays an Asset Management Fee from available cash flow, enter that amount here, sometimes referred to as Incentive Management Fee. (Also sometimes referred to as General Partner Fee for limited partnerships.)

Other: Other non-operational expenses paid by the property during the period described below.

Hard Debt Service: The cost of all scheduled debt service payments for the period. Do not include payments made from cash flow (if any). Include the total amount of required payments (principal, interest and mortgage insurance) even if they were not made.

NeighborWorks also tracks the following information to evaluate performance in the areas of rent collection, turnover rates, and turnover time:

Uncollected Current Rent: This field is used to calculate an estimated current collection rate; it is not part of the property’s cash flow calculation. Please enter all tenant receivables less than 30 days (usually available on a Delinquency, past due or Tenant Receivables / Aged Receivables report). Do not offset these receivables with pre-paid rents; collection rate should not exceed 100%. HUD receivables should not be included.

Move Outs: The number of move outs/ apartments vacated during the period, not the turnover percentage. *(Divided by total units give the turnover rate for the period.)*

Average Days Vacant: Enter the average number of days vacant for properties that were re-occupied during the period, reported or are still vacant at the end of the period reported. If unit is still vacant at end of period, calculate days vacant from day of move-out through last day of period reporting. You may calculate your ADV by downloading the ADV calculator, but will need to input the calculated number in the data entry screen. If you are reporting YTD operating

data for multiple quarters and ADV for a single quarter, check the Single Quarter box at the bottom of the data entry screen.

Single Quarter: If applicable, select the check box to indicate that you've quarterly, NOT YTD, figures for your ADV and Move-outs. All of your other data should be YTD, regardless of how you report ADV and Move-Outs. If you use the calculator, the data will be calculated as YTD.

CALCULATIONS OF FINANCIAL INDICES, AND PERFORMANCE BENCHMARKS

GPR/ PUM – Gross Potential Rent Per Unit Per Month:

(Gross Potential Rent/ # of Months Reported (e.g. YTD))

Validation Rule: GPR/PUM between \$100 and \$1,400

HDC Note: This is based on the lesser of market rents, maximum allowable rents (per regulatory agreements) which we refer to as Maximum Achievable). Rents below Maximum Achievable should be carefully evaluated for long term impact on property and organization.

Collection Rate:

Amount Collected for 1 Month/ Amount Billed for 1 Month

$$\frac{((\text{GPR} - \text{Vacancy} - \text{Loss to Lease}) / \# \text{ Months}) - \text{Uncollected Rent}}{(\text{GPR} - \text{Vacancy} - \text{Loss to Lease}) / \# \text{ Months}}$$

Collection Rate > 99.9%	Bin 1
Collection Rate 97 – 99.9%	Bin 2
Collection Rate 93 – 96.9%	Bin 3
Collection Rate < 93%	Bin 4

HDC Note: We think these benchmarks are high. You need to include the projected collection loss in your budgets – either adding to projected vacancy or as a bad debt expense.

Vacancy as a Percentage of Gross Potential Rent:

Vacancy Loss / Gross Potential Rent

Validation Rule: Vacancy Loss between 0% and 10%

Vacancy Loss < 1%	Bin 1
Vacancy Loss 1.0 – 2.5%	Bin 2
Vacancy Loss 2.6 – 5%	Bin 3

Estimated Vacancy Loss:

$$\frac{\text{Rents Per Day} \times \text{Average Days Vacant} \times \text{Turnover, Annualized}}{\text{GPR, Annualized}}$$

$$\frac{(\text{GPR} / \text{PUM} / 30) \times \text{ADV} \times (\text{Move Outs} / \# \text{Months}) * 12}{(\text{GPR} / \# \text{Months}) * 12}$$
Concessions / Bad Debt:

Validation Rule: If \$0, receive a validation pop-up box asking to confirm.

HDC Note: May show as expense in income statement.

Operating Expense as % of Gross Potential Rent less Debt Service:

Total Expenses / GPR – Hard Debt Service

Validation Rule: Operating Expenses less than 100% of GPR

HDC Note: Sometimes referred to in private sector as Efficiency Ratio. See HDC information on impact of Efficiency Ratios on Net Cashflow over time. HDC feels this is a significant risk indicator for non- rent subsidized projects.

NOI (Net Operating Income):

Total Income:
 Less Concessions/ Bad Debt
 Less Collection Loss
 Less Vacancy Loss
Less Operating Expenses
 = Net Operating Income

Total Non-Operating Expenses:

Sum of:
 Replacement Reserve Deposits
 Resident Services Expenses
 Operating Reserve Deposits
 Capital Expenditures
 Asset Management Fee
 Other

Approximate DSC (Debt Service Coverage) (Also = DCR – Debt Coverage Ratio)

NOI/ Hard Debt Service

Validation Rule: DSC between 1.0 and 2.5

DSC > 2.0	Bin 1
DSC 1.4 – 1.9	Bin 2
DSC 1.1 – 1.39	Bin 3
DSC < 1.1	Bin 4

HDC Note: DCR is less valid for projects serving lowest income units – 1.15 of very little debt payment (typical of very low income projects) = very little net cashflow per unit.

NCF (Net Cash Flow)

Net Operating Income (NOI)
Less Total Non-Operating Expenses
Less Hard Debt Payments
Net Cash flow

NCF as % of GPI (Gross Potential Income)

Net Cash Flow
Total Income – Vacancy Loss – Collection Loss – Concessions/ Bad Debt

Net Cash flow > 10% GPI	Bin 1
Net Cash flow 5 – 10% GPI	Bin 2
Net Cash flow 0 – 4.9%	Bin 3
Net Cash flow = negative	Bin 4

HDC Note: We look at net cash flow as percent of EGI, and net cash flow as percent of operating expenses. Generally, we recommend that net cash flow = between 8 – 15% of operating expenses.

Turnover, Annualized:

(Move Outs/ # Months) * 12

Validation Rule: Turnover (Annualized between 0% and 150%)

Turnover < 10%	Bin 1
Turnover 10 – 20%	Bin 2
Turnover 21 – 50%	Bin 3
Turnover > 50%	Bin 4

Average Days Vacant:

HDC Note: Unit Days Vacant/ Total Unit Days per Turnover.

Average Days Vacant 10 days
Average Days Vacant 10 – 20 days
Average Days Vacant 21 – 30 days
Average Days Vacant > 30 days