



Put Your House in Order

Securing Your Supportive Housing
Program's Future through Effective
Asset Management

AIDS HOUSING
OF WASHINGTON

SEATTLE 2002

DO IT RIGHT THE FIRST TIME



ASSET MANAGEMENT STARTS IN THE DESIGN PHASE

To a great extent, the financial status of your housing program is predetermined. The design and development phase of nonprofit real estate is the best opportunity an organization will get to influence a building's long-term outlook. Supportive housing groups who consider long-term asset management during this stage will have the advantage over groups who piece their deal together by any means necessary.

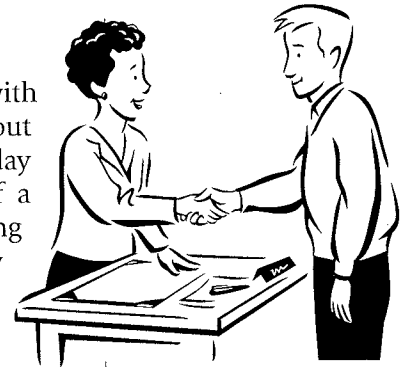
In creating supportive housing, a lack of long-term cash flow should be anticipated. This means the property needs to be highly durable and its components long lasting. Such an approach amounts to higher costs at the front end, knowing that it will be a greater challenge to replace components of the building as it ages. Additional wise choices, from the level of insurance purchased to the type of neighborhood where the building is located, will increase the long-term viability of the housing program.

Tips for Starting Asset Management in the Design Phase

- a. Create as many building improvements and updates as possible before occupancy.
 - b. Buy only highly durable and sophisticated building components.
 - c. Purchase building components that can be maintained by any party rather than those linked to a maintenance contract with one vendor.
 - d. Invest money on exterior appearances, such as perennial shrub plantings and a gardening irrigation system.
 - e. Upgrade old housing stock to the highest possible standard.
 - f. Look for moderate- to large-scale projects, as the smaller the scale of your property, the more expensive it will be to manage. If your property is small, try to group its management with other sites.
 - g. Purchase property that has a good reputation in the community. If your building has a troubled history, make concentrated steps to reverse its reputation.
 - h. Start reserve accounts when you begin budgeting.
 - i. If you choose a property in a declined neighborhood, prioritize security and durability in exterior elements such as fencing, alarms, etc.
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EVALUATE YOUR PROPERTY MANAGER

Reevaluate your current arrangements for property management with the asset management approach. Whether to self-manage or contract out property management is a key decision. This is because bad day-to-day management situations can be damaging to the long-term status of a property. You may assume that as an organization's portfolio of housing grows, property management is typically moved inside. However, many nonprofit housing groups have not followed this evolution.¹⁶ There are no definitive rules.



Property Management Options

- a. Manage property internally within your organization.
- b. Hire a consultant to help with setting up an internal property management team and systems such that you can self-manage your property.
- c. Hire a private company to be your ongoing property manager.
- d. Hire another nonprofit organization specializing in affordable housing to be your property manager.

Communication with your property manager is key. Ideally, whether in-house or contracted out, the relationship between asset management and property management should be close and organized by a system of anticipated reports, site visits, and meetings. Problems occur when in-house property managers are micromanaged by administrators. Instead of overinvolvement in the minutiae of property management activities, administrators should use information provided by the property manager to gain a perspective on the bigger picture of the property's performance and the agency's goals.

If you choose to self-manage, do so with realistic expectations. Don't do self-management primarily as a cost-savings strategy. Furthermore, don't assume you will get better results. Nationally, there is no conclusive evidence that housing groups have better success, or even lower costs, with inside, rather than with contracted management. However, there is a good argument for self-management: to be more familiar with your residents' lives. If you follow the self-management route, be sure to use benchmarks (discussed in the next section) that will help you keep spending on desired services within limits that your program establishes.

¹⁶ Bratt, p. 75.

“You are not simply a community group dabbling in housing and desperate to find someone to solve management problems.”¹⁸

Criteria for Deciding Between Inside and Outside Property Management¹⁷

- a. Availability of outside management agents, including other housing nonprofits or housing authorities in your area
- b. Private managers’ willingness to work with a nonprofit client
- c. Pressure from your financing agents to “go outside” for management services
- d. Your interest in staying close to your residents’ day-to-day lives

IF YOU CONTRACT OUT PROPERTY MANAGEMENT

Those who contract out property management have special concerns. If you follow this route, make sure that your organization does not divorce itself from the property so much that you lose track of information needed for asset management. In addition, think through the criteria by which you will evaluate your property manager. Expect more than the minimum yard work, painting, exterminating, etc. Communicate that you want the property manager to contribute value to your asset.

The selection and contracting process sets the tone for your relationship with your property manager. Try to come across as professional and knowledgeable. A formal process to choose your vendor will help give this impression.

Recommended Steps for Choosing a Property Manager¹⁹

- a. Do outreach to property management firms.
- b. Prepare a formal request for proposal.
- c. Review and evaluate the proposals with a ranking sheet.
- d. Check references.
- e. Look for experience with the U.S. Department of Housing and Urban Development housing programs.
- f. Review their presentation of financial data for other projects.
- g. Compare administrative fees among management firms.
- h. Negotiate a deal to suit your specific project and goals.
- i. Educate your property manager about the particular needs of the residents you house.
- j. Outline the criteria on which the property manager will be evaluated.

Be vigilant in your checks and balances of property management vendors. As an industry, property management suffers from a reputation of illegal activities such as kickbacks. Plan on verifying the property manager’s work by visiting the site and checking with residents on a regular basis.

¹⁷ Ibid.

¹⁸ Joan Wallstein, “Selecting a Management Firm: A Workbook and Sample Forms,” Occasional Paper Series, Local Initiatives Support Corporation, Organizational Development Initiative, 1996, p. 11.

¹⁹ Ibid., p. 5.

GET ORGANIZED

Asset management involves tracking indicators and monitoring trends in the property's performance. Gathering these data in a timely, organized, and efficient fashion is key. Designing your system for data keeping may bring the kind of satisfaction one gets from a well-organized basement. Every piece of information has its place and is easily located. To get there, you will need different kinds of forms. Some will record daily information such as move-ins/move-outs and work orders. It is also useful to have forms that summarize information such as capital improvements that will be necessary over the next ten years.

Well-designed forms are essential for managing data about your property. Supportive housing providers often use simple systems such as entering all their data into an Excel spreadsheet. Switching to more carefully crafted schedules and forms may produce more organized and thorough information from which to make your analysis. For example, poorly structured rent schedules are a common problem in supportive housing that can be easily fixed with the right format.

A number of ready-made prototype forms have been developed specifically for nonprofit housing groups to use. They save time and offer a variety of ideas about how to collect information. See Best Picks at the back of this guide for a list of publications and software you can purchase that come with ready-made forms both in hard copy format and on diskette. Among the many useful forms available is one for creating a Monthly Asset Management Report, available with Track-It! software. You can also create your own with contents similar to those outlined below.



NO OTHER WAY OUT: DISPOSITION

Selling your building should not occur in crisis mode. If your property is troubled today or runs into trouble in the future, it is important to have a framework developed ahead of time for deciding under what circumstances you would sell. A panicked process for disposing of your property could hurt your organization's bottom line and your reputation with funders and community members.

Before you sell, hunt for external solutions. If debt is a problem, call a meeting with your lender to work out better terms on your loan. If the financial responsibilities of the property are just too great, look for community partners who might assume ownership and enter into a collaboration with you. Remember, affordable housing of any kind is an increasingly scarce resource, so one should fight hard to preserve it.

Planning the criteria for the potential disposition of your property is key. Each property is unique and the circumstances under which one property will be disposed of will differ from the next. Once you have arrived at circumstances for your property's disposition, make sure to inform the property manager and other parties involved with monitoring your building.

Some Circumstances for Disposing of a Property

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

Tips for a Successful Sale³⁹

- a. Keep your building looking its best while trying to sell.
- b. Hire a broker with a track record of selling property in your neighborhood.
- c. Make clear in the marketing plans what is expected of your broker. Follow up by looking for advertisements for your property in local real estate sections of newspapers, etc.
- d. Come to the bargaining table prepared to negotiate your price but with a clear picture of your bottom line.