

Agenda

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|-------------------------|--|
| 8:30 – 9:00 AM | 1. Introductions |
| 9:00 – 9:30 AM | 2. Decisions Making Models |
| 9:30 – 10:15 AM | 3. Self Assessment |
| 10:15 – 10:30 AM | <i>Morning Break – 15 Minutes</i> |
| 10:30 – 11:45 AM | 4. Decisions in the Life of a Project |
| 11:45 – 12:45 PM | <i>Lunch – 1 Hour</i> |
| 12:45 – 1:15 PM | 5. Asset Management Outcomes and Indicators |
| 1:15 – 3:15 PM | 6. Managing Your Information |
| 3:15 – 3:30 PM | <i>Afternoon Break – 15 Minutes</i> |
| 3:30 – 4:30 PM | 7. Yardi Demonstration |

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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

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Introductions

Agenda

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

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Decision Making Models

Steps in Any Decision Making Process

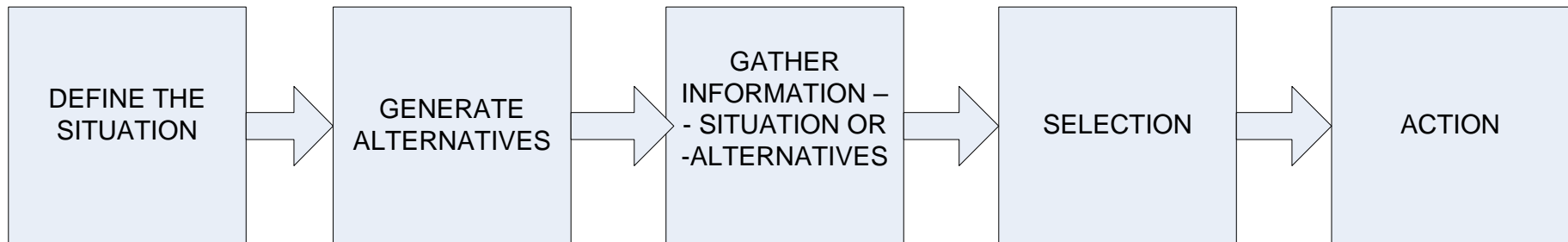
- Being clear about what you are addressing
- Understanding what is important in the decision
- Gathering sufficient data to help refine your thinking
- Evaluating options
- Making the decision and moving forward

Different ways to look at decision making process

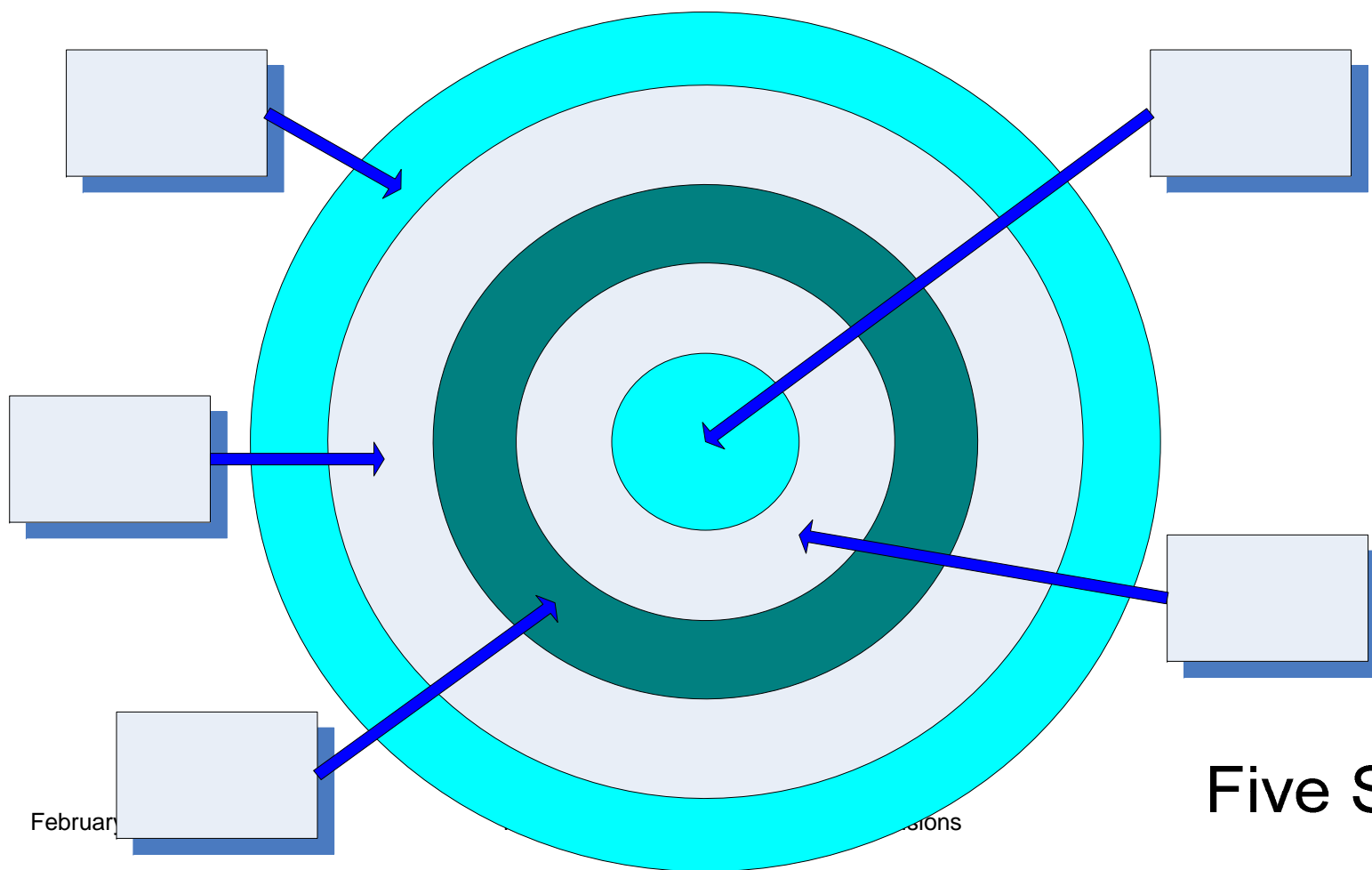
- Linear array of steps – beginning to end
- Moving from big picture to specific actions – homing in
- Circular process – action steps with formal feedback loop

The Linear Approach

BASIC DECISION MAKING STEPS



Big Picture to Specific Action

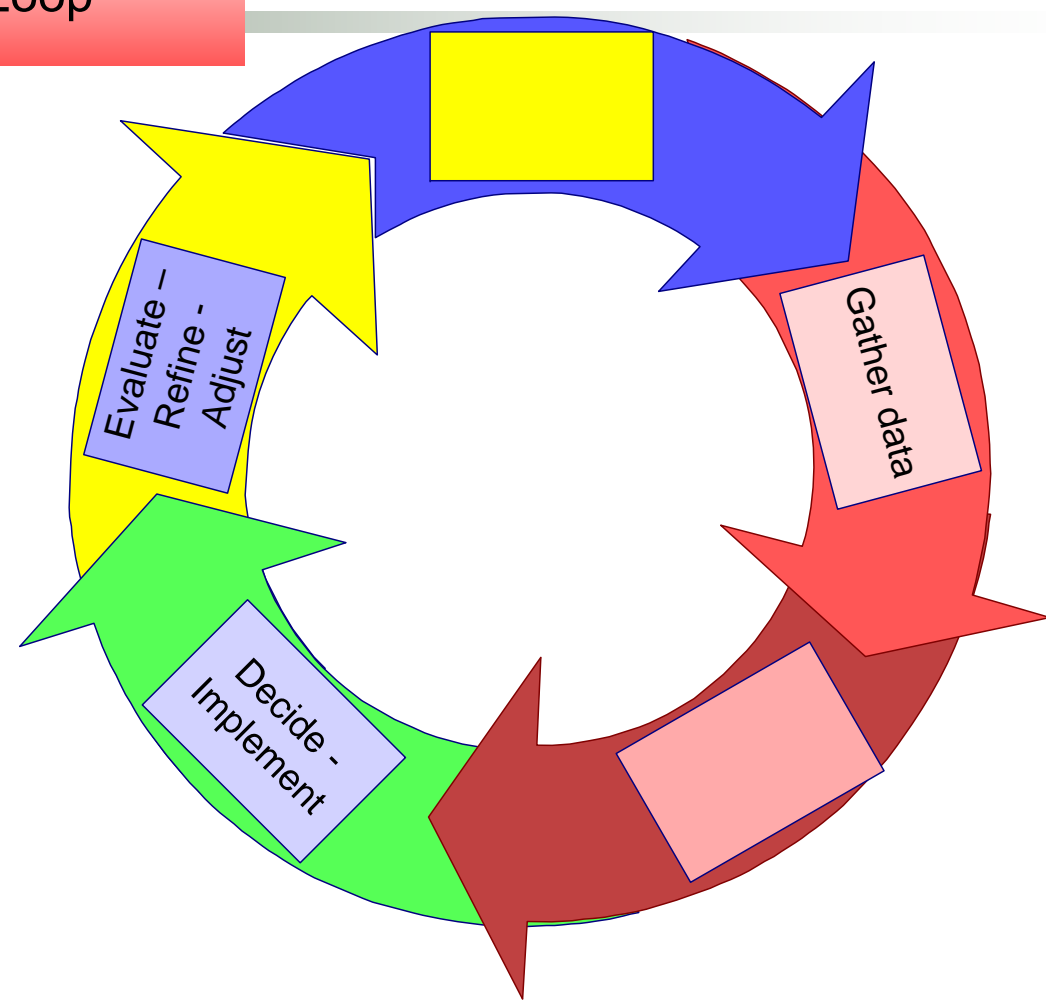


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Circular Process with Feedback Loop



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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?

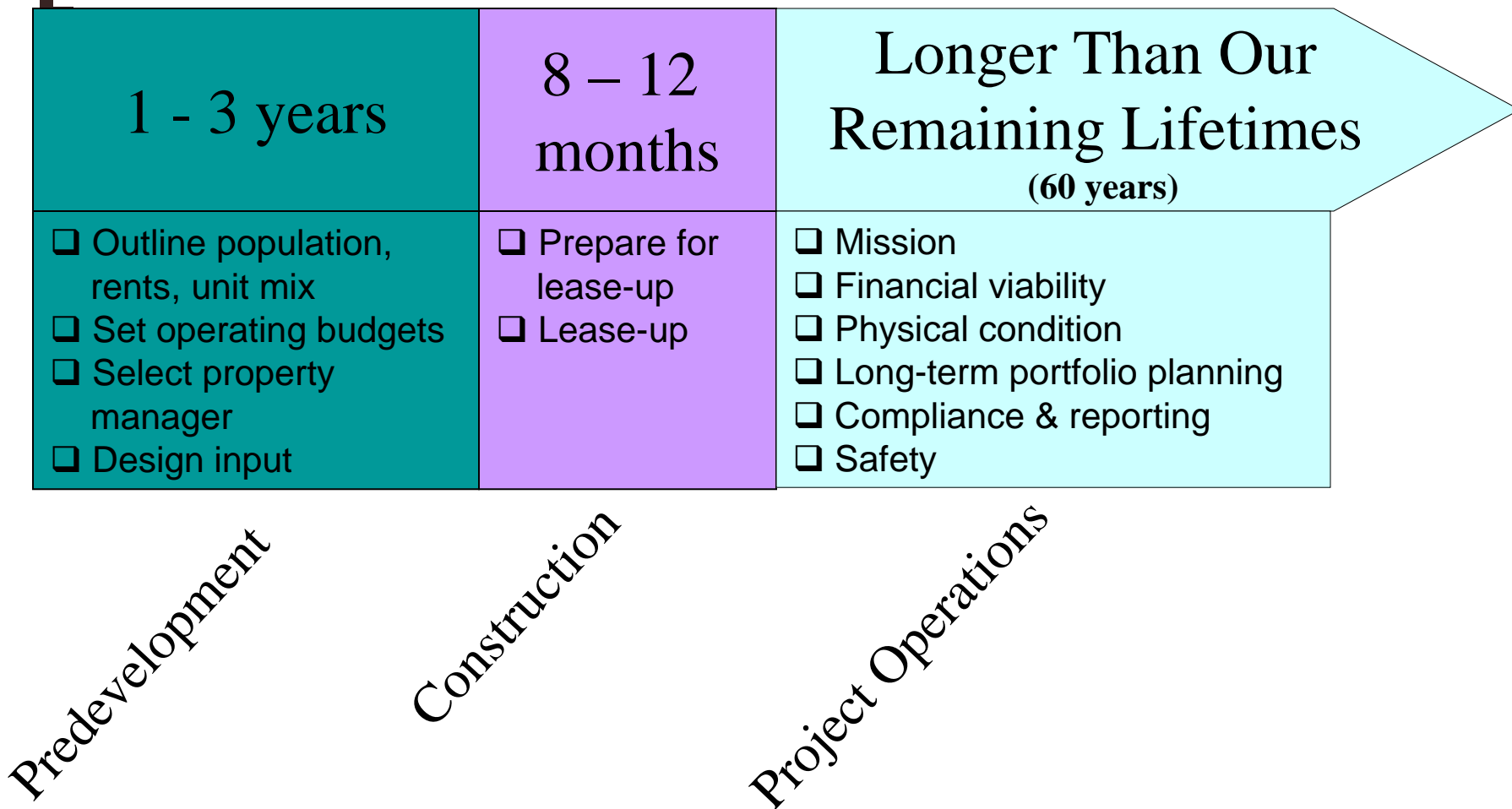
Decisions in the Life of a Project for an Asset Manager

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

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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



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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

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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

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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)

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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

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Asset Management Outcomes and Indicators

Intended Population/Providing Services

Outcome:

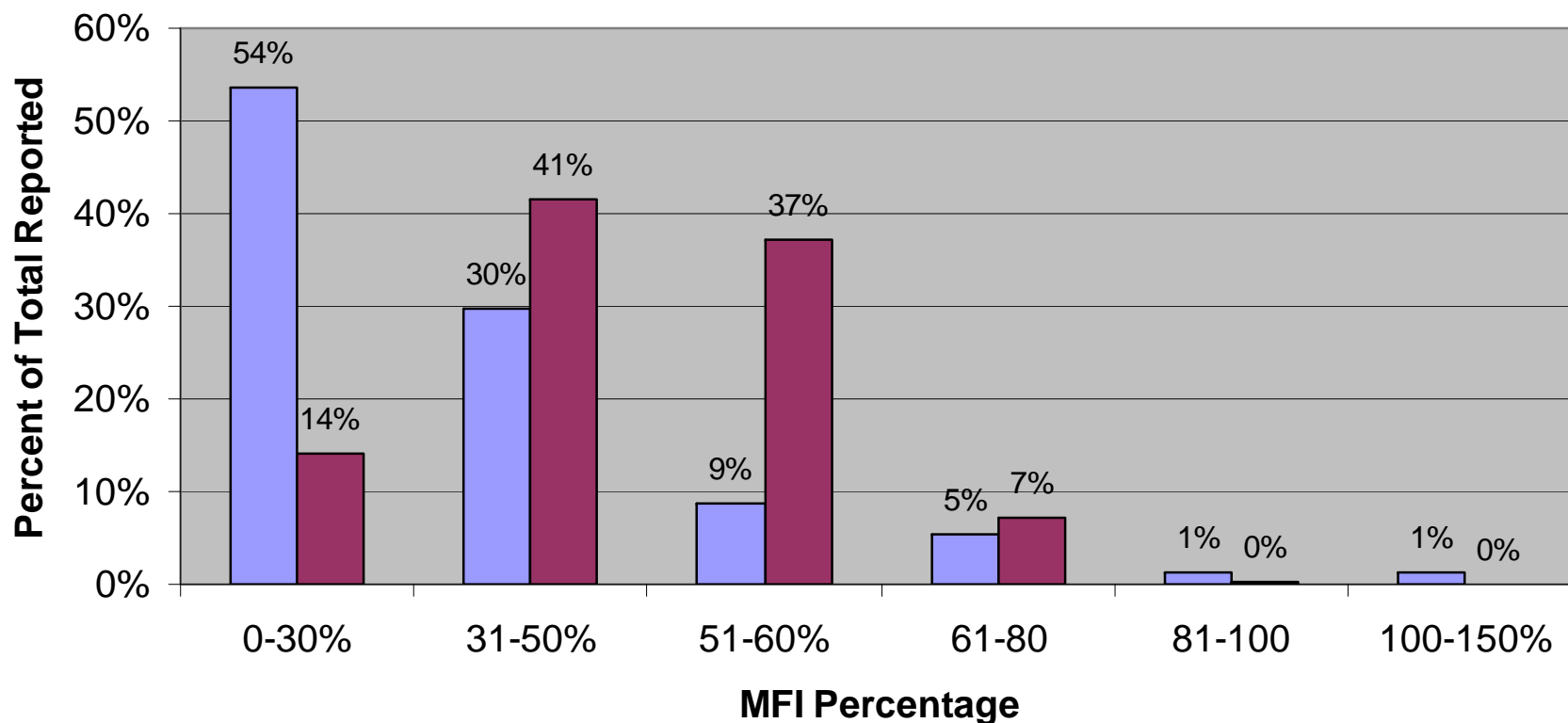
- Our portfolio is achieving the mission of providing affordable housing for (identify population)

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

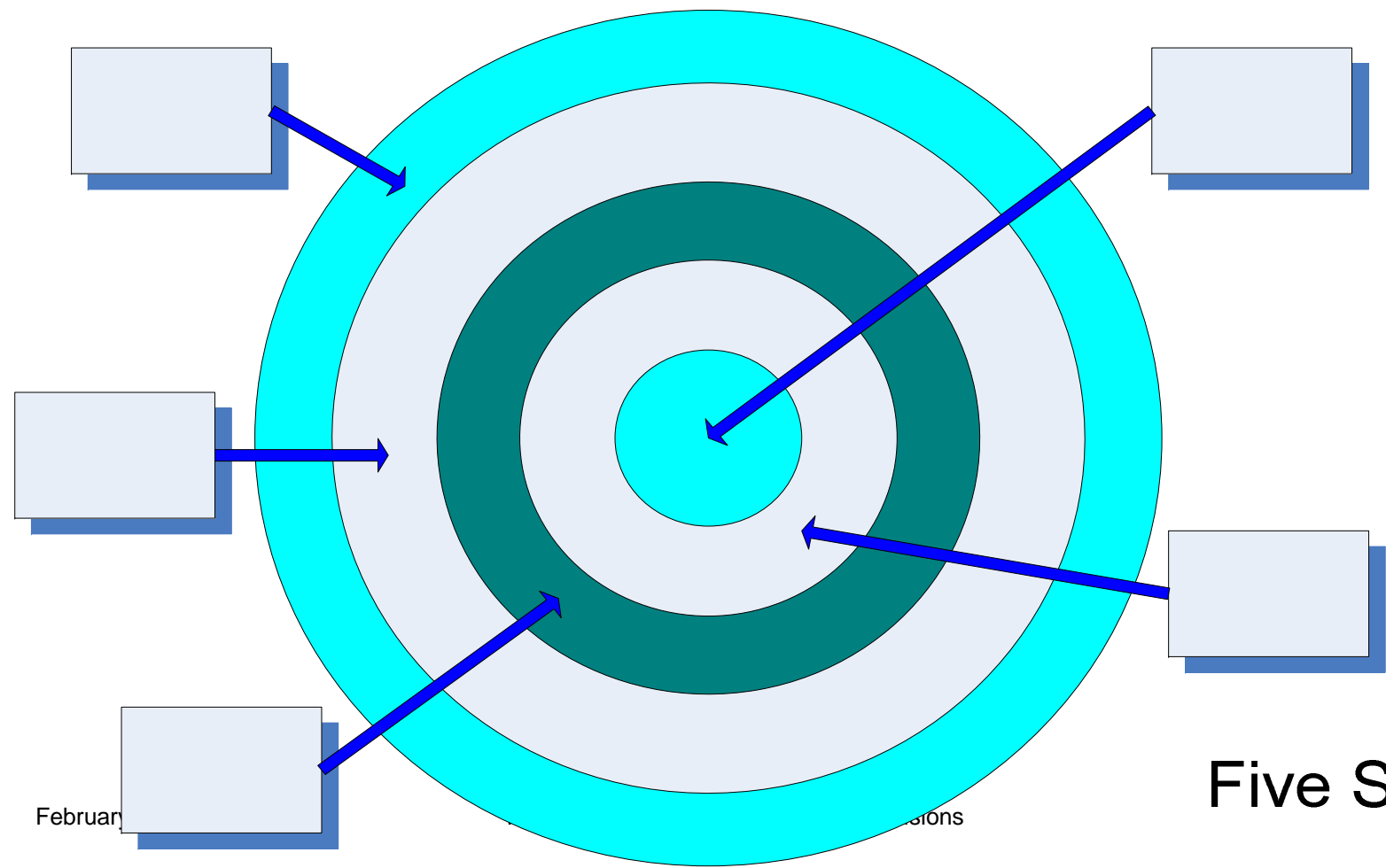
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Techniques to Manage Your Information

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



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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]?

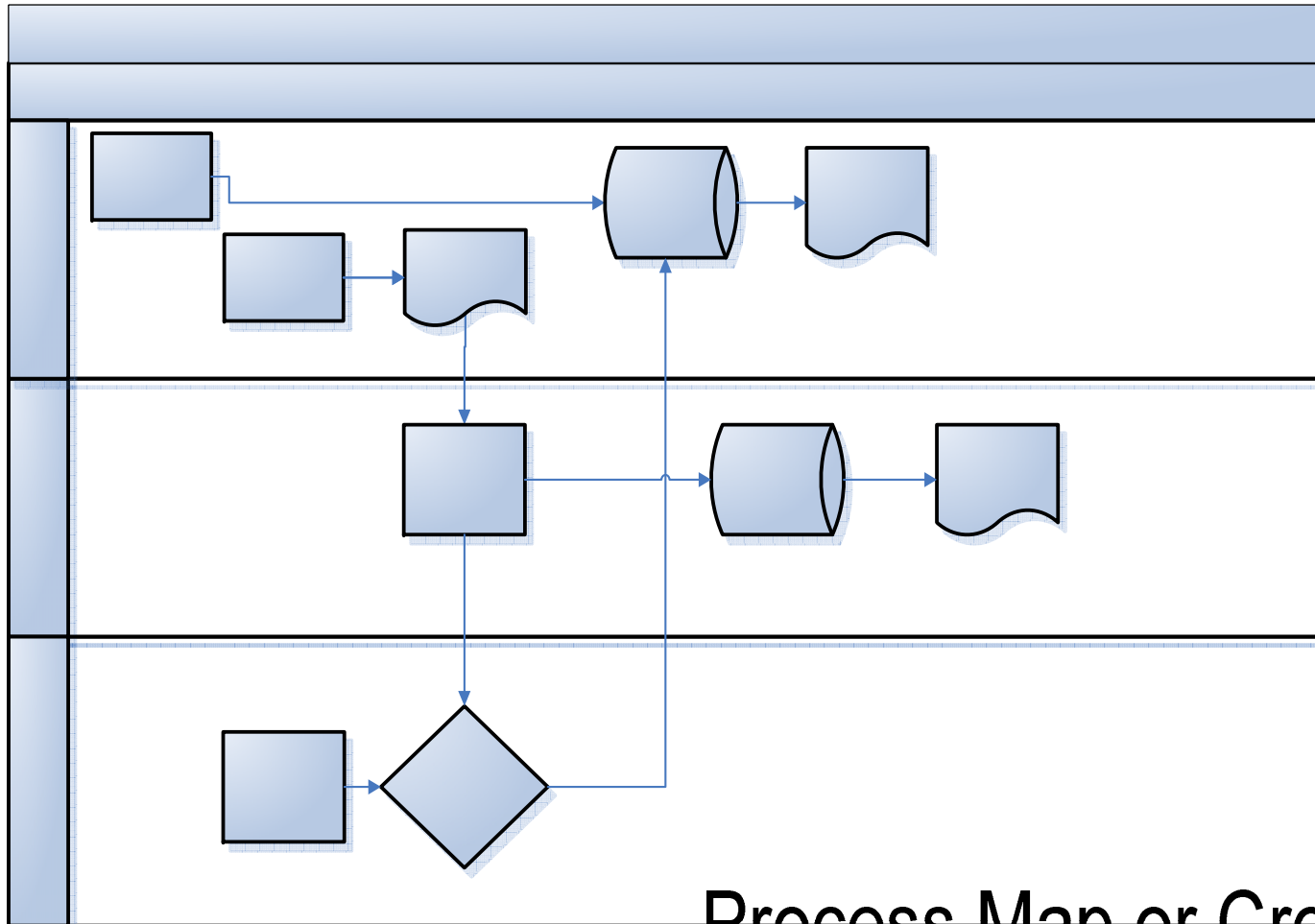
ASSESSING YOUR NEEDS

- 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

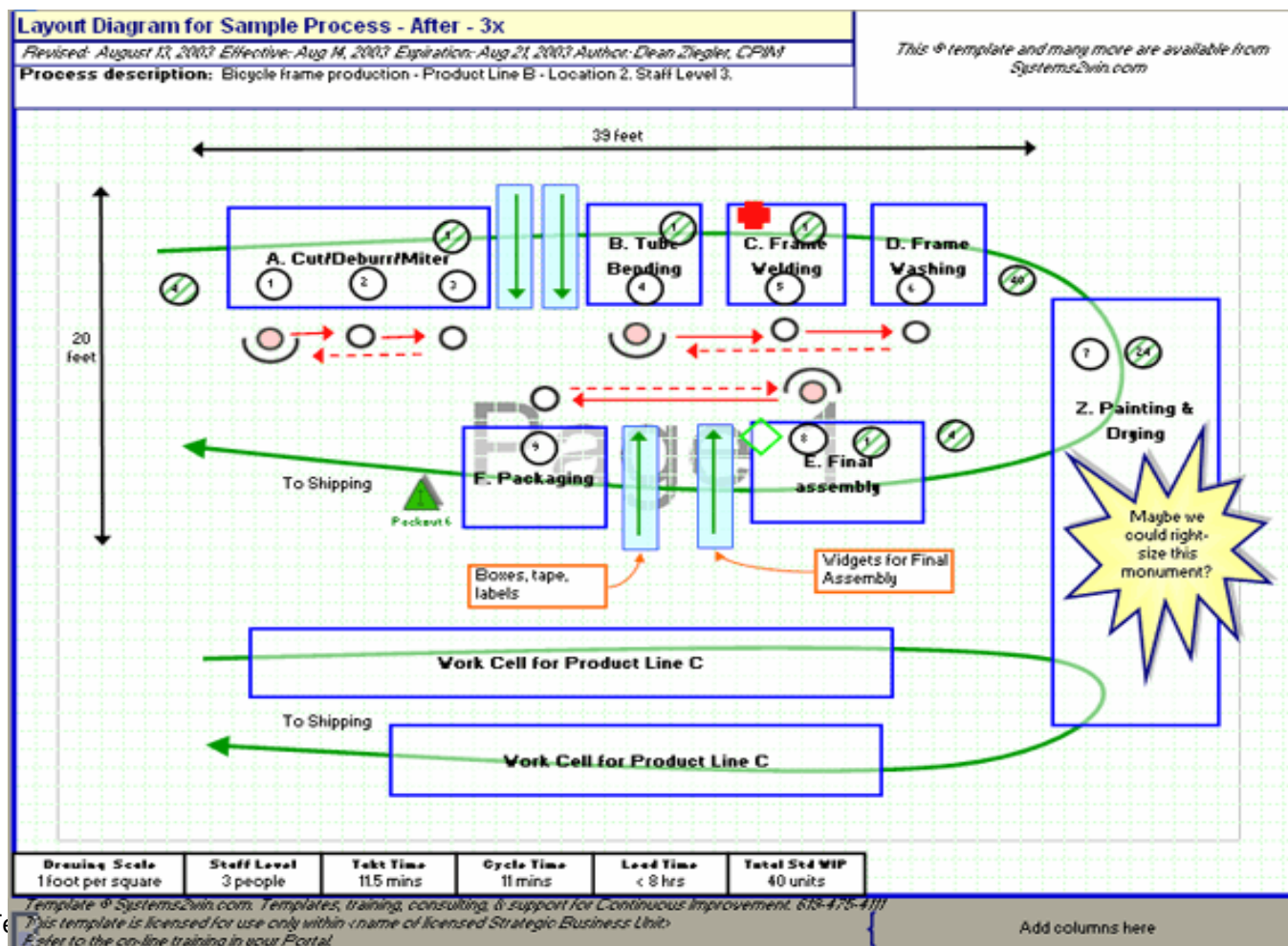
- Flowcharts or process maps
- Process tables
- Spaghetti maps
- Value Stream Maps

CREATING A PROCESS MAP



Process Map or Cross functional

Kaizen – Spaghetti Map



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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

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Evaluating your Software Needs

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YARDI Demonstration

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THANK YOU!

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