

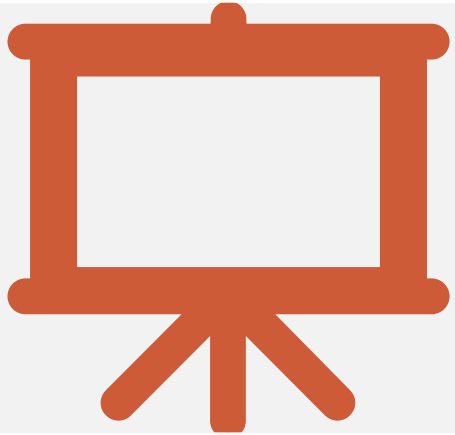


Rural Rental Housing Preservation Academy

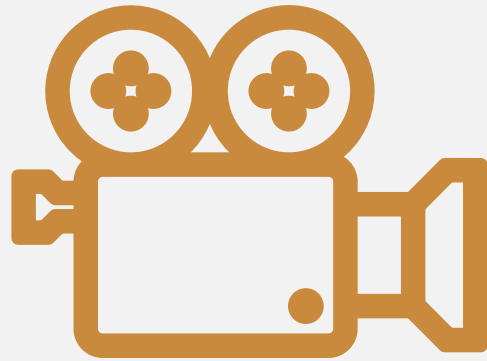
October 4, 2023



Housekeeping



All registered attendees will receive the slides via email



This session is being recorded. You will receive a copy and it will be posted on the Enterprise website



We will answer questions throughout the presentation. Please submit them using the Q&A, chat or raise hand function



The link to register for upcoming sessions will be shared

MISSION AND VISION

Enterprise Community Partners

OUR VISION

A country where home and community are steppingstones to more.

OUR MISSION

To make home and community places of pride, power and belonging, and platforms for resilience and upward mobility for all. We focus on three pillars:

- Increase Housing Supply
- Advance Racial Equity
- Build Resilience and Upward Mobility

Unmatched **breadth, scale and expertise** across the entire spectrum of affordable housing...



...creating a positive feedback loop that does it **all under one Enterprise roof.**

2023 Rural Rental Housing Preservation Academy

What to expect

Overview and Introduction to Rural Rental Housing Preservation

- Introduction to Rural Development 515 Transfer Process
- Strategies for 515 Preservation: Case Studies
- Capital Needs Assessment and Operating Budget

Basic Deal Structuring

- Understanding Tax Implications of a Transfer
- Pro forma development
- National Policy Conversation-521 Rental Assistance and Decoupling
- Funding Beyond RD: LIHTC, Bonds and Third-Party Lenders/ Connecting Buyers and Sellers

Property Management/Community Engagement–2 sessions, including

- Property Stewardship: Resident Services and Asset Management

Our Partner



Fannie Mae®

Roles of Property Management and Asset Management

Property Management greatest impact in resident experience

- Manage Day to Day Operations – can have long-term implications
- Deliver programs and services
- Build community & quality of life
- Work efficiently and effectively to make homes available quickly

Asset Management impact in long-term strategic planning and risk management

- Benchmarks performance for sustainability
- Measures reserves for long-term capital planning
- Monitors and responds to risk in the portfolio

Asset Management & Property Management

- Many organizations conflate the responsibilities of property management and asset management. While these roles complement one another, they are not the same.
- Asset Management roles that extend beyond property management include
 - financial and budget analysis,
 - analysis of key performance metrics (i.e., vacancy rates, time to turn a unit),
 - capital planning
 - and understanding of options for refinance and recapitalization.

Viability Issues | Key Performance Indicators for Property Management



Identify problems early by establishing portfolio expectations through key performance indicators.



Asset Management works with Property Management to establish KPIs relevant for the portfolio during the budgets.

Viability Issues | Key Performance Indicators for Property Management

Part 2

Routine Check-ups – “symptoms”

- Staff vacancy
- Percentage of Rent Collection
- Percentage of On-time Resident Income Certifications
- Days to Rent Ready
- Days to fill unit vacancy
- Time to complete Work Orders
- Incident Reports/ Insurance Claims
- Negative Cash Flow



Breaking Down Property Management Vitals

Dashboard

OPERATING VITALS RISK CRITERIA (Monthly)					
Score	Turnover Times (Days)	Certification Status	Budget Variance	A/R Collection	Cash Flow YTD
1	<30	100%	<(5,000)	>95%	>0
2	<60	>90	<(10,000)	<94.9%	> - 5000
3	>60	>80	>(15,000)	<90% Future Goal <95%- 96.9%	>-10,000
4	>90	<79	>(20,000)	<80% Future Goal <90%	>-25,000

ASSET MANAGEMENT APPROACH

Asset Management Is a Critical Component of Successful Preservation

- By neglecting asset management, owners of affordable housing risk the long-term sustainability of the specific project and of the portfolio as a whole.
- Asset management is essential to preserve the tax benefits and protect the quality of the underlying assets over the life of the property.
- Asset management provides an understanding of the capital needs at the property and determines the asset's ability to fund those capital needs.



Being a known and trusted operator can open doors to a state HFA or other regulator asking an organization to take over any troubled or 'orphan' assets. In a case like that, it's important to do the math and figure out whether you're going to need an additional infusion of resources (or other changes!) in order to sustainably take it on, and really negotiate for what you need if you believe you can do a good job turning the asset around.

— Alicia Hoppers Catholic Housing Services of Western Washington (CHS)

Asset Management can be put into three distinct categories



Transactional Asset Management

recapitalization, transfer, acquisition



Portfolio Performance and Analytics

this involves review of the entire portfolio and Schedule of Real Estate Owned (REO)



Traditional Asset Management

reviewing performance, working with lenders and syndicators, reviewing operating budgets and management plans

Asset Management Responsibilities Span Across the Organization

- Small rural organization may or may not have someone on staff with the title of Asset Manager, but Asset management responsibilities should never rest solely on one staff member.
- Asset Management objectives are only met through effective, ongoing monitoring and analysis of property performance and benefit delivery, including
 - fiscal and operating statement reviews,
 - regular site visits,
 - and discussions with the developers, general partners, and property managers.
- Often these conversations and reviews require participation of not just the asset or property management team, but also the financial team, senior leadership, and board members.

RESOURCES REQUIRED TO MANAGE ASSETS

Basic Building Blocks for effective Asset Management

List of assets and their purpose

System for monitoring operating vitals and identify issues early

- Benchmarking

Forecasting on cash flow (at each budget year)

Forecasting on replacement reserves (ability to meet capital needs over time)

Schedule of debt service

- Terms
- Maturity
- Rate
- Balloon Payments

For Tax Credit Projects, schedule of investor exits

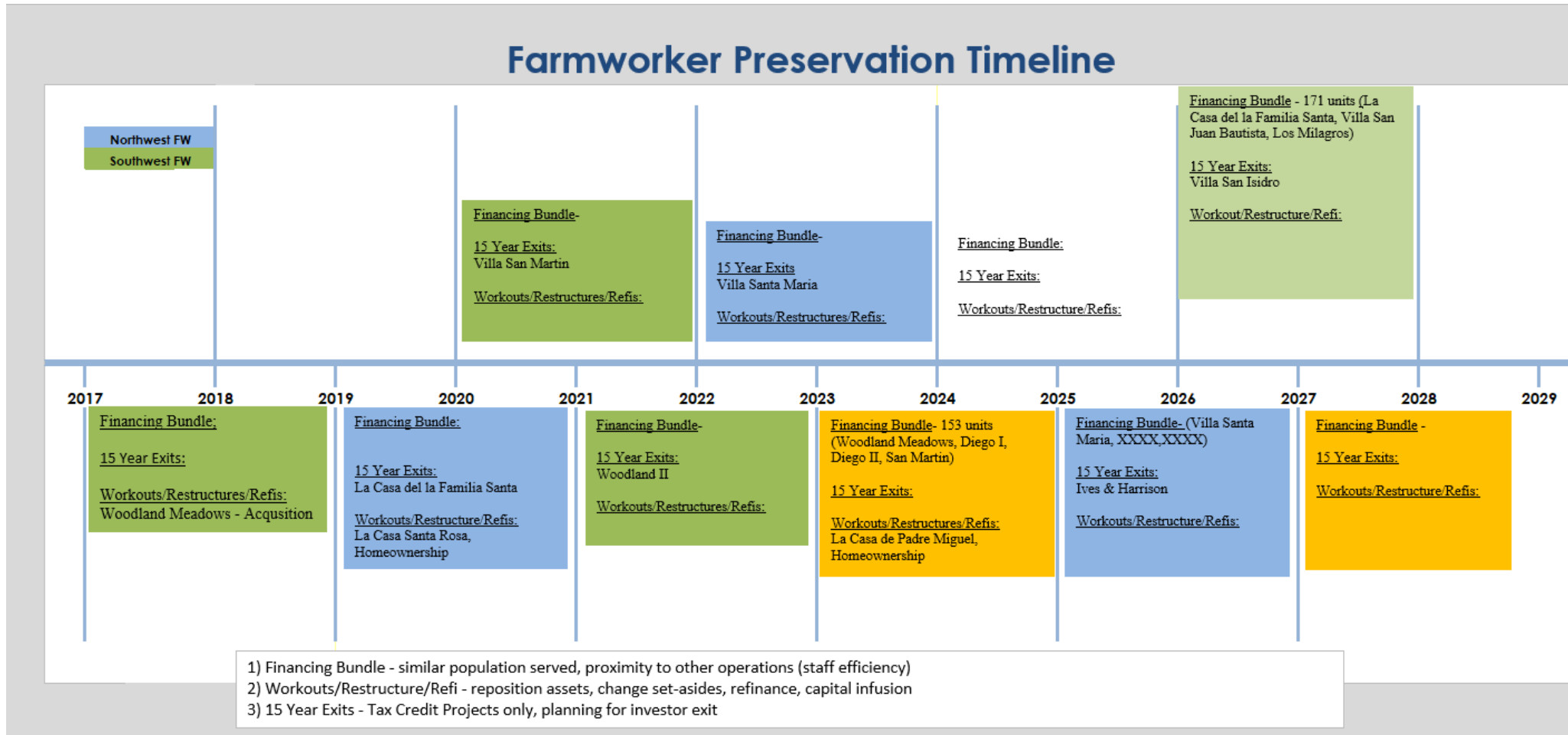
Regulatory Compliance

Schedule of Real Estate Owned (REO)

- Having a complete record of what assets an organization owns is vital to managing them.
- A schedule of real estate owned lists all properties that an organization has full or partial ownership of, and it includes the corresponding debt and compliance obligations.
- An REO schedule should include data that reflects each property's approximate
 - net value,
 - depreciation expense,
 - maintenance and repair costs,
 - operational costs,
 - replacement costs and reserves.

Breaking Down the REO visually for the Board

Example



Experienced Personnel

Some key areas where personnel may need additional training:

- Understanding the capital stack and restrictions associated with each source of funding
- Identifying and resolving compliance problems
- Initiating third-party reviews of leasing procedures and file maintenance
- Properly calculating qualified and eligible basis
- Preparing cost certifications accurately and on time.
- Davis Bacon and state prevailing wage monitoring (for projects under construction)
- Robust analysis of Real Estate Owned (REO)

Technology (software)

- A robust asset management/property program can certainly be key to an organization's ability, but it will only work well if the data entered in is complete and consistent.
- Property management and asset management staff will need substantial training to ensure the software adoption and costs incurred to get it up and running and maintain it really result in more comprehensive asset management of an organization's portfolio.
- Software can support not only asset management budgeting and forecasting, but property accounting, building maintenance and tenant and lease tracking.

Low-turnover or Staying Power

- New development and rehab projects typically extend for 2 to 4+ years, including final stabilization of the property.
- Asset management extends for the life of the property. Even organizations with relatively low turnover will inevitably see significant staffing changes over the lifetime of a property.
- Without a centralized source of real-time information (this could be justification for a robust software platform), and a true plan in place to cross train staff and store information, organizations risk losing key project data with the transition of staff.

ASSET MANAGEMENT CHALLENGES

Common mistakes in management of affordable housing assets

- Generating revenue can take precedence over portfolio and asset management.
- Personnel assigned to these front-end tasks may not retain full responsibility for the asset beyond the closing.
- Focusing too much on new development and developer fees. The challenge of effectively managing that portfolio can quickly overwhelm a development-oriented team.

High Turnover

- Risk to the long-term viability of the portfolio, with teams scrambling to fill knowledge gaps and keep everything running smoothly.
- Securing trained staff (experience personnel) is key, as is staff retention. Since many small rural organizations cannot pay as much as larger, urban, or statewide groups retention is a big challenge for rural organizations.

Lack of/or inconsistently utilized systems

- Key project info is stored on individual computers or resides only inside the head of individual team members. For this reason, turnover of any type can create challenges for asset management.
- Even for groups that have robust software programs, if they are not used to store and track data related to the asset itself (as opposed to tenant files and maintenance tickets), they will not truly support an organization's ability to remain in compliance and avoid financial pitfalls.

Lack of Training

- No consistent trainings offered to small organizations who are interested in enhancing their asset management practices.
 - It would be good if each person who plays a role in asset management, all took part in some type of regular training on asset management.
- Groups should consider training the board on their role in asset management and having members of the board participate in more robust training.

Training is offered through a variety of organizations including

- the National Development Council,
- the National Affordable Housing Management Association (NAHMA)
- and the Consortium for Housing & Asset Management (CHAM).

The benefits (and challenges) of third-party asset management

- Outsourcing some or all such management responsibilities to professional asset management firms.
- Third-party asset manager can provide cost-effective oversight of the construction, lease-up, financial, operational and compliance needs of a property.
- Organization leadership (both on the staff and board level) need to have a solid understanding of the compliance requirements of each property.