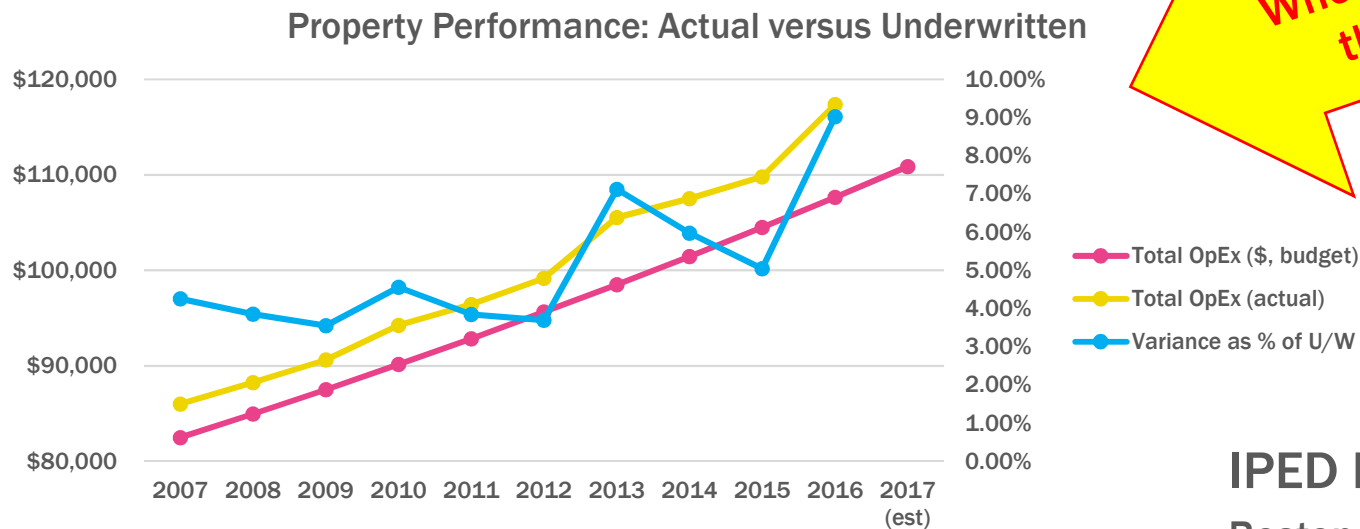


# Introduction to Asset Management



**Who underwrote this deal?!**

**IPED LIHTC 101**

**Boston, MA**

**April 5, 2019**

Elaine Magil, TCAM

# What is Asset Management...

- Asset Management is the long-term oversight and guidance of an investment “asset”
- Investments in apartment buildings constructed or acquired using the LIHTC
- An ongoing, iterative process whereby the performance, direction, and value of a property are continually evaluated
- Takes a view of the property investment that is focused on long-term goals and objectives

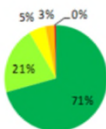


## ...versus Property Management?

- **PM** concerns the day-to-day operations
- **AM** concerns the long-term strategic view
- Why have BOTH?
- Because daily operations are hard – PM requires 100% focus
- Oversight, and a long-term perspective, help mitigate risk and improve decision making

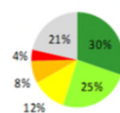
Type 1 Risk Summary

■ A ■ B ■ C ■ D ■ E ■ F

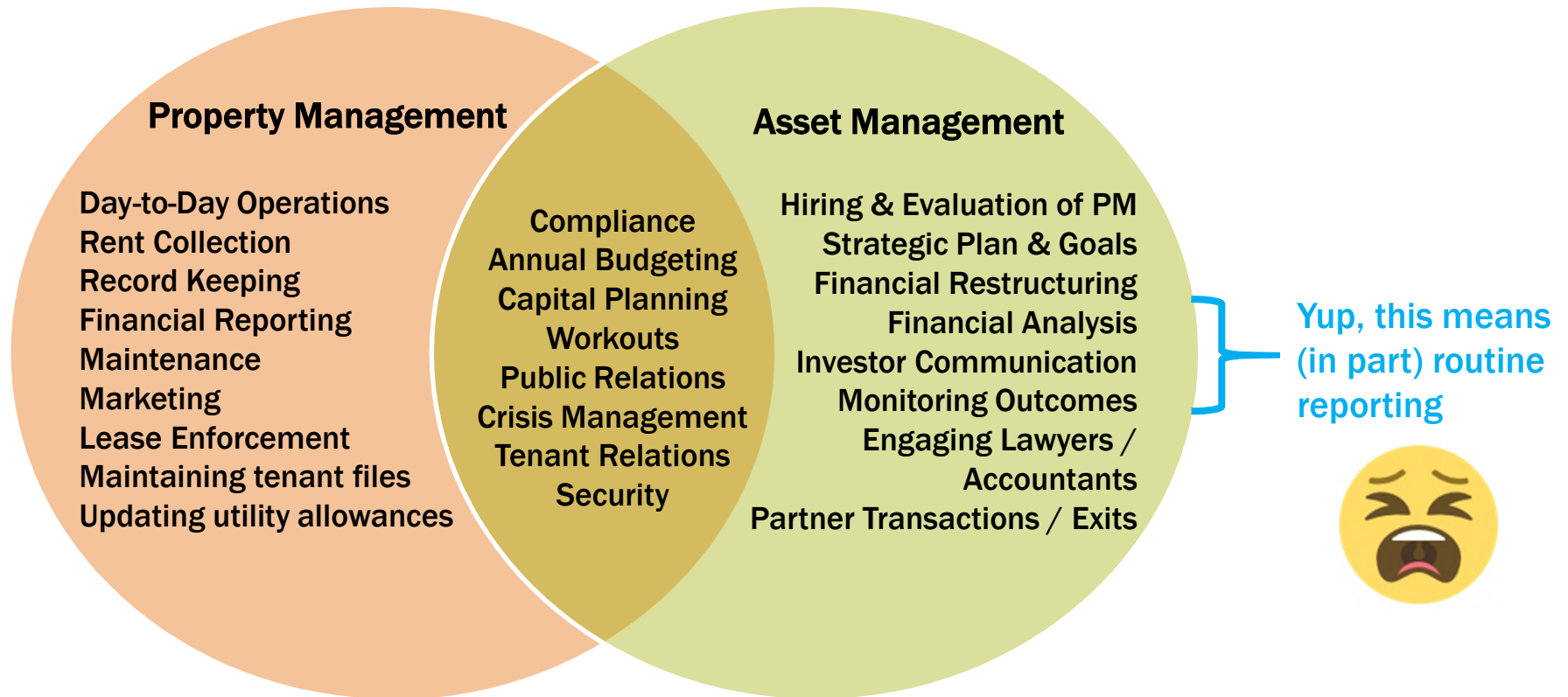


Type 1 DSCR

■ >1.2 ■ 1.1-1.2 ■ 1.0-1.1  
■ 0.0-1.0 ■ <0 ■ N/A



# Asset Management vs Property Management



# Why Asset Management Matters

- Reduces risk by **identifying and addressing small problems before they become big problems**
- Identifies opportunities that improve performance, which leads to **happier residents and increased value**
- Provides the information and wisdom to **prepare for and make decisions** when the time comes
- Provides **feedback on operational and program effectiveness**

*“...active monitoring and risk mitigation...”*



Collect Data	Analyze	Identify Risk	Mitigate
Ask the right questions	Know the desired result	Identify unexpected results	Communicate with stakeholders
Be smart with effective data capture	Build efficient systems	Gauge relative risk of deficiency	Develop action plans
Set appropriate frequency	Filter data to identify exceptions	Ask questions to verify results	Fix the problem!

Source: Ohio Capital Corporation For Housing

# Asset Management is ACTUAL not theoretical information

- Can't run business on 'expected' income – are you **actually seeing the income** you projected?
- Developer proformas attempt to predict the future – AM is where you **test and verify those predictions**
- AM can tell you what's working and what's NOT working
  - So if we expected things like:
    - Energy savings after a rehab
    - No more than 7% vacancy
    - Construction completion by 12/31
    - Lease-up within 8 months
    - Per-unit OpEx of \$4,500
    - 3% annual expense increases
    - Max LIHTC rents

Is that what actually happened?  
If not, what's the financial / compliance /  
physical impact?  
What can we do about it?

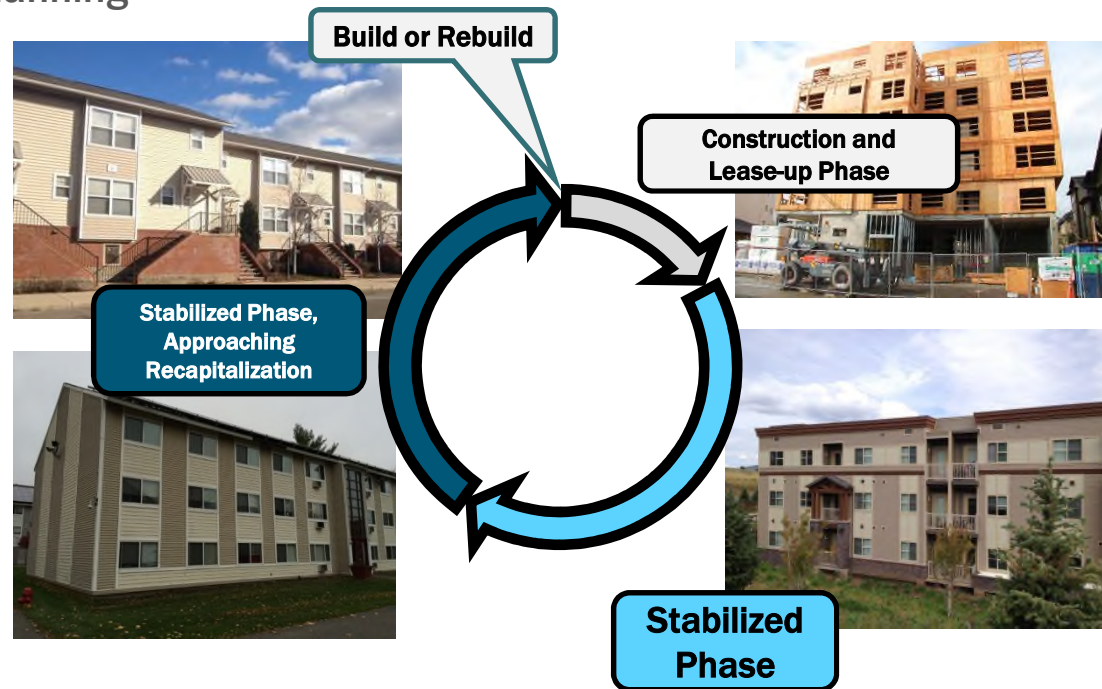
In life, reality rarely goes as planned...

Asset Management incorporates all sorts of **information from the real world** to give a **more accurate picture** and allow for **better response**.

# Asset Cycle & Asset Management types

**Transactional AM**  
Financial restructuring  
Y15 planning

**Pre-Stabilized AM**  
Focus on timely completion, credit delivery, and conversion to permanent financing



**Stabilized / On-Going AM**  
Maximize NOI / minimize risks  
Monitor for compliance and performance  
Identify opportunities

# Pre-Stabilized Asset Management: Key Activities

- Monitoring of construction progress against plan
- Construction draw review and equity release approval
- Monitoring of initial marketing plan and rental rate achievement throughout lease-up
- Completion and lease-up projection monitoring to ensure projected benefits delivered
- Initial compliance monitoring
- Adjuster calculations
- Monitor progress towards permanent debt conversions and receipt of 8609's



# Operational Asset Management: Key Activities

- Review and analysis of monthly or quarterly financial statements
- Site visits & inspections
- Compliance and insurance monitoring
- Risk rating and watch list management
- Annual audit and tax return review
- Problem resolution
- Collection of fees and distributions
- Review and analysis of proposed transactions or investment changes
- Communication with partners and other stakeholders





# Asset Management means different things to different stakeholders

- Various levels of risk and involvement in a property
- Owners are **“closest to the asset”**
  - Greatest liability in event of underperformance
  - Biggest potential upside if strong residual value and/or cash flow
  - Need greatest intensity of focus in asset management



# Owner Asset Management

- **PROPERTY OPERATIONS AND CONDITION**
  - Balancing priorities of a double- or triple-bottom line
- Delivery of Tax Benefits
  - Tax credits
  - Tax losses
- Guarantees
  - Construction completion
  - Operating deficit
  - Tax credit shortfall
- Managing the affairs of the partnership
  - Communicating with lenders, investors and other stakeholders
  - Tracking & fulfilling commitments
- Compliance
  - Ensuring compliance with LURA / Restrictive Covenant / etc
- Monitoring for adherence to loan covenants
  - Criteria for stabilized operations
  - Debt coverage ratio
  - Replacement Reserve obligations

Subordinate  
Lenders

1<sup>st</sup> Mortgage  
Lender

LIHTC Equity  
Investor

Owner/  
Developer



# Investor Asset Management

- Delivery of Tax Benefits
  - Tax credits
  - Tax losses
- Property Operations and Condition
  - Site Visits
- Compliance
  - 8823s / Agency Reviews
  - Tenant file compliance
    - First Year
    - Ongoing
- Partnership Distributions
- Enforcing Guarantees
- Monitoring for adherence to loan covenants
  - Criteria for stabilized operations
  - Replacement Reserve obligation

Subordinate  
Lenders

1<sup>st</sup> Mortgage  
Lender

**LIHTC Equity  
Investor**

Owner/  
Developer



# Lender Asset Management

- Debt Service Coverage Ratio (DSCR)
- Property condition
- Partner and lender distributions
- Timely and accurate repayment
  - Calculation of cash-flow-dependent payment(s) based on formula specific to each loan agreement
- Monitoring for adherence to loan covenants
  - Criteria for stabilized operations
  - Debt coverage ratio
  - Loan-to-value ratio
  - Replacement Reserve obligations
- Meeting obligations of Loan Regulatory Agreement



# Key Information to Monitor

“...different things to different stakeholders...” – BUT some common metrics:

Type 1 Portfolio Information	
Number of Properties	209
Number of Units	7,404
Average Physical Occupancy	92.59%
# of Watchlist Assets	\$38
Type 1 Portfolio DSCR	1.21

Type 2 Portfolio Information	
Number of Properties	636
Number of Units	20,351
Average Physical Occupancy	91.01%
# of Non-Compliant Assets	18
Type 2 Portfolio DSCR	1.17

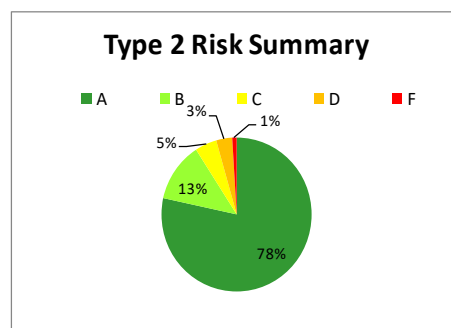
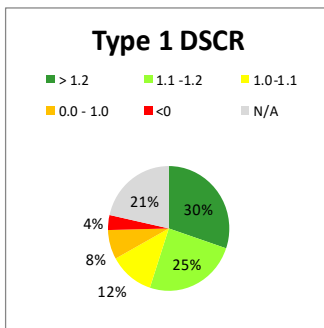
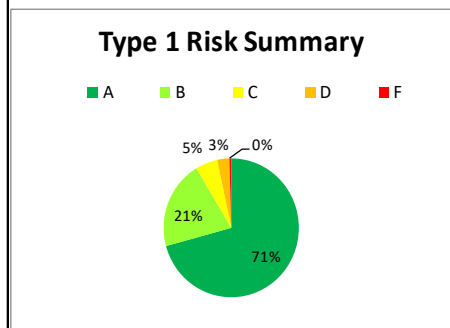
Type 1 Risk Rating Summary		
Risk Rating	# of Properties	% of Type 1 Portfolio
A	148	70.81%
B	43	20.57%
C	11	5.26%
D	6	2.87%
F	1	0.48%
Total	209	

Type 1 DSCR Summary		
DSCR	# of Properties	% of Type 1 Portfolio
> 1.2	63	30.14%
1.1 - 1.2	52	24.88%
1.0 - 1.1	25	11.96%
0.0 - 1.0	16	7.66%
<0	8	3.83%
N/A	45	21.53%
Total	209	

Type 2 Risk Rating Summary		
Risk Rating	# of Properties	% of Type 2 Portfolio
A	501	78.40%
B	80	12.52%
C	30	4.69%
D	22	3.44%
F	6	0.94%
Total	639	

Key metrics (especially for an owner):

- Physical & Economic Occupancy
- Cash Flow & DSCR
- Variance to budget
- Actual & projected NOI
- Compliance status
- A/R balance & aging
- A/P balance & aging
- Turnover volume & speed
- Work order volume & response time



# Transactional Asset Management: Relatively Common Events

Equity releases: Verification that benchmarks are achieved (construction completion, cost certification, receipt of 8609s, stabilization tests, debt service coverage tests)

Equity adjusters

Operating deficit escrow releases, withdrawals

Replacement reserve withdrawals

Determination of cash distributions

Debt modifications

Property management changes

## Transactional Asset Management: Less Common Events

Workouts/restructurings

New or replacement General Partners/Managing Members

Mortgage refinancings

Releases of guarantees, letters of credit or other security

Sale of easement or other assets of the partnership

Settlement of litigation






Change in auditor

Change in subsidy

Sale of property

LP/Investor Member exit

# Asset Management Best Practices

- **ORGANIZATION, CONSISTENCY, and COMPREHENSION** are essential
  - Boring  ...but true
  - Without an organized process and an understanding of the documents, resolving problems and creating opportunity becomes much more difficult
- Risk-Based Targeting
  - Most properties are not uniform
  - **Spend less time and fewer resources on the least risky properties**
    - Good performers in strong markets, seasoned management teams  
    - Stable performers where market rents < LIHTC max rents
  - Spend more time on the properties that do need it
    - Low-margin performers with rents at max
    - Struggling properties or inexperienced management teams  
    - Complicated / multi-layered compliance requirements



# Asset Management Best Practices: Investors

- Consistent process and complete information are critical!
- Risk-based targeting
  - Good properties need light touch; focus attention on the struggling properties → this is your greatest source of risk
  - Are risky assets obscured in ocean of B-rated properties? **B > B ?**
- Requests from owners/sponsors are valuable opportunities
  - When something needs to be approved (e.g. revision to docs, refinancing, major capital), don't just evaluate that decision – take a comprehensive look at the whole deal
  - Are there things the LP wants resolved? Time to negotiate exit?



- Audits – they are not infallible!
  - Scrutinize audits → auditors and GPs make mistakes

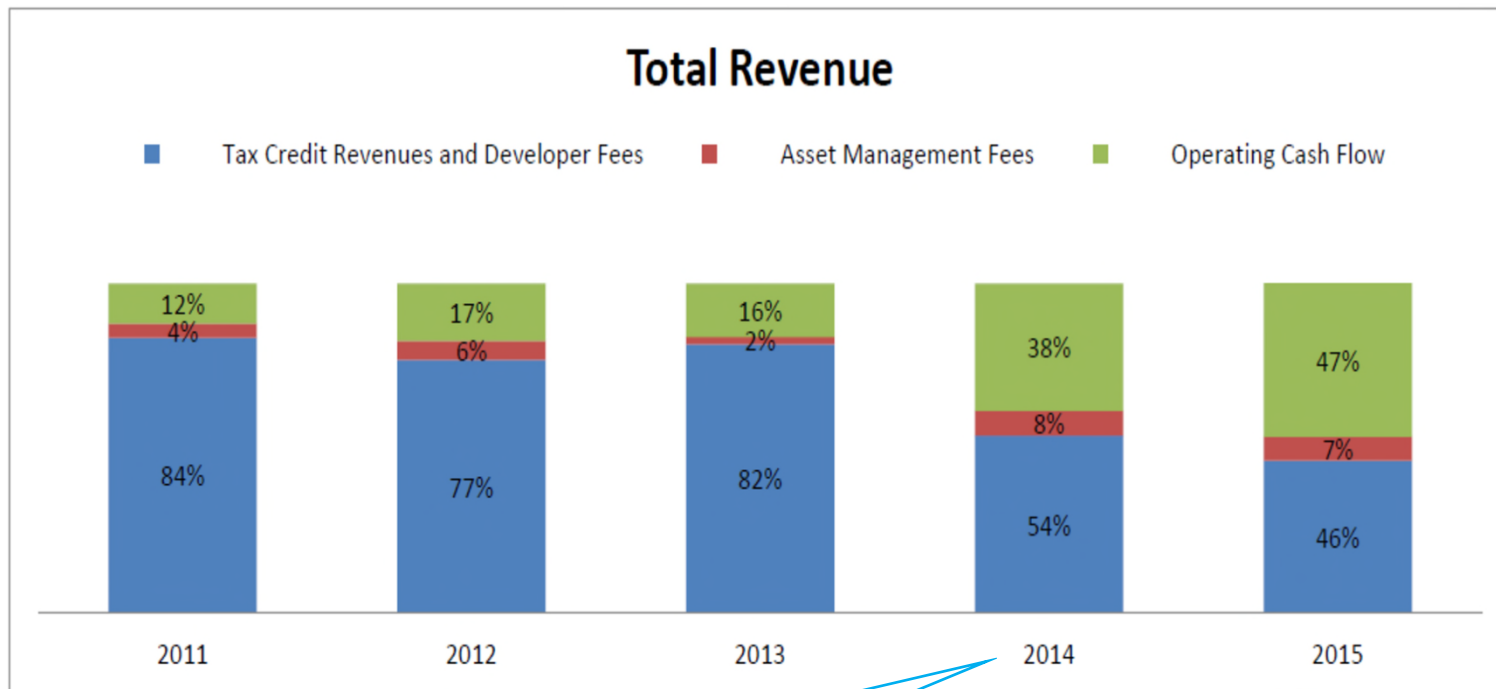
Current Assets	
Cash	19,865
Accounts Receivable - Related Party	176,811
Loans Receivable - Related Party	331,893
<b>Total Current Assets</b>	<b>528,569</b>

- Times are **GOOD** now, but in a downturn **PROBLEMS** won't come knocking on your door
  - Signs will be in audits, in other properties, unusual requests from GP/sponsor, etc.
  - Keep GP/sponsor health in mind: even if your property is OK, problems in portfolio may distract their attention

# Asset Management = Opportunities!

Ask yourself, “**what does my organization DO?**”

If you think of yourself as a **development organization** running on **developer fees**, you may miss a real opportunity



Source: NHP Foundation Presentation, AHF Live 2014

“What gets measured get done”

# Asset Management Best Practices: Owners

- Be aware of opportunities!
  - Make sure asset managers have a consistent focus on income opportunities
  - Rents are maximized (when appropriate)
  - Optimal usage of subsidy: Sec 8 vouchers in lowest set-aside units
  - Ensure UAs are not too high (without losing sight of downside risk!)
- Update rents and UAs on time → build it into the budget process!
  - Create easy-reference schedules:



		LIHTC Rent					Subordinate Lender Rent			Most Restrictive Rent		
Unit Type	State Agency AMI Restriction	Income					Income			Income		
		Units	Restriction	Gross Rent	U/A	Net Rent	Units	Restriction	Rent	Units	Restriction	Rent
1BR	50%	3	50%	\$750	\$35	\$715	3	30%	\$420	3	30%	\$420
1BR	50%	2	50%	\$750	\$35	\$715				2	50%	\$715
2BR	30%	5	30%	\$550	\$50	\$500				5	30%	\$500
2BR	50%	20	50%	\$775	\$50	\$725	20	40%	\$650	20	40%	\$650
2BR	50%	5	50%	\$775	\$50	\$725				5	50%	\$725
2BR	60%	15	60%	\$975	\$50	\$925	15	50%	\$725	15	50%	\$725
2BR	60%	15	60%	\$975	\$50	\$925				15	60%	\$925
3BR	30%	8	30%	\$650	\$70	\$580				8	30%	\$580
3BR	50%	4	50%	\$1,000	\$70	\$930	4	40%	\$840	4	40%	\$840
3BR	50%	12	50%	\$1,000	\$70	\$930				12	50%	\$930
3BR	50%	6	50%	\$1,000	\$70	\$930	6	60%	\$1,150	6	50%	\$930

- Ensure market studies are updated and rent strategy is thought-out

# What's really worth spending Asset Management time on?

## BUDGETS

- Establish portfolio-wide goals, then translate them into project budgets
- Look at historical, comparable, and market data when projecting for the coming year
- Balance input from central office and site management
- Getting budgeting wrong will undermine a lot of other processes

## CAPITAL PLANNING

- If you were a manufacturer, your properties would be your factory – take care of your physical plant!
- Replacement reserve deposits are **almost never sufficient** after 15 years
- Balance input from central office and site management
  - Get experts when needed
  - Managing bids is time consuming

## Some Thoughts on Compliance

- Compliance can be complicated and is ALWAYS time-consuming – especially in multiple-subsidy properties
  - In large or complex portfolios, a separate Compliance team may be warranted
  - Some owners have designated a whole FTE just to manage a complicated schedule of permissible rents
- More time/\$\$ spent on compliance → Less time/\$\$ spent on housing and residents
- Steps to lessen compliance burden without undermining program can be beneficial

## Quick Quiz: Is my organization doing AM?

- Do we have an REO schedule?
  - ✓ Is there a regular process for updating it, and do I know whose job that is?
  
- Do we have someone whose job is Compliance?
  - ✓ Does that person have a certification (HCCP, C3P, etc.)?
  
- Do we have a Watchlist?
  - ✓ Are there clear, consistent, objective criteria for it?
  
- Do we incorporate historical information into the annual budgeting process?
  - ✓ Could we answer if asked, “what is our actual expense growth rate?”
  
- Do we track variance from budget in our unaudited financials?
  - ✓ Do we track variance from initial underwriting?
  
- Do we have a rent schedule for each property or the whole portfolio?
  - ✓ Is there a rationale for rent increases?

## Bonus Points: Is my organization doing AM?

- Do we know our total monthly debt service?
- Is anyone outside Development expected to read and understand all the regulatory agreements?
- Do we know our exposure to each lender and syndicator?
- How much have we paid in adjusters? Any patterns?
- Do we have an AM data system of some kind? Is it working for us?
  - ✓ Does everyone trust the data that comes out of our analyses?
- Is there a long-term capital plan for each asset?
  - ✓ Are we strategizing for the disposition (Y15) transaction?
- Is there a clear Single Point of Contact for each property?
  - ✓ Who fields questions from tenants? Investors? Regulators? Lenders?

# Q & A

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