Washington State 2016 Housing Conference

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CHAM
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CHAM

The Consortium of Housing and Asset Management

- Enterprise Community Partners
- LISC
- NeighborWorks America

Founded in 1994

Two Certificate Programs:

Asset Management Specialist (AMS)

Certified Housing Asset Manager (CHAM)

Overall Arching Issues

What AM is and what AMs do

- Gathering and Interpreting Key Information
- Participating in Development and Workouts/Dispositions
- Portfolio and Project Review
- PM Review and Performance Standards
- Evaluating New Projects
- Reading and Using the Audit

Overarching (Cont.)

- Working with partners
- Financial Analysis
- AM Plans
  - Maximize Revenues
  - Maximize asset value
  - Manage risk
  - Manage mission

CHAM Certification

Certified Housing Asset Manager

- AM 121: Nuts & Bolts of Asset Management
- AM 290 Asset Management Specialist- Fundamentals
- AM 291 Asset Management Specialist-Introduction to Financial Tools
- AH 102 The Basic Steps of Affordable Housing Development Process – or AM224 and AM225
- AH 211 How to Maintain Compliance in LIHTC Proj.
- AM 321 Advanced Financial Tools for Asset Managers
- AM 351 Advanced Housing Asset Management

AM121

- Life Stages of AH Property
- AM vs PM
- Performance Standards
- Revenue Measurements and Standards
- Expense Measurements and Standards
- Finance Measurements and Standards
- Tracking and Reporting
- Case Study

AM 290

Course Description

- This three--day course is designed to further acquaint the affordable housing practitioner with the concepts and strategies of sound asset management.

Course Objective

- By the end of this course, participants will be able to perform fundamental tasks of affordable housing asset management and will be ready to take AM291: *Financial Fundamentals of Asset Management*.

AM290 (cont)

- **<u>Core Competencies</u>**
- Participants will be able to:
  - ***Distinguish*** between property management and the asset management role;
  - ***Link*** an owner's triple bottom line goals to property performance outcomes;
  - ***Summarize*** key elements of documents that are central to managing the manager (management plan, marketing plan, management agreement);
  - ***Analyze*** the links between a property pro forma, management plan and actual performance, examining and calculating fundamental asset management performance measures such as GPR, vacancy rate, collection rate, DSCR, reserve balances;
  - ***Identify and interpret*** key property financial documents and audit elements (pro formas, operating statements, balance sheets, statements of cash flows, notes);
  - ***Analyze and understand*** the importance of trends and comparability;

AM290 (cont.)

- ***Examine*** how to add value as an asset manager;
- ***Review*** how the six key areas of asset management responsibility are assigned and make recommendations to maximize effectiveness;
- ***Identify*** key asset management planning strategies for the organization, for a property and for a portfolio including elements of an asset manager's "tool box" (deal extracts, watch lists, board reports, reserve and green strategies);
- ***Explain*** the basics about how an affordable housing deal is structured;
- ***Summarize*** the responsibilities of ownership of a low income housing tax credit deal, including the roles of the different partners and the key elements and conditions of underlying documents such as the partnership and regulatory agreements;
- ***Examine*** the costs and benefits/impact of resident services on improving property operations and furthering the owner's social goals;
- ***Review and evaluate*** other important asset management activities including regulatory compliance, monitoring and reporting; risk management and capital planning; key contracts, real estate tax appeals/abatements; capital needs assessments; adopting green strategies throughout the life cycle of a property.

AM291

Course Description

- This two--day class is an introduction to real estate finance, exploring analytical concepts that are critical for the professional asset manager. The class will cover basic tools for analyzing properties' financial health, for determining their market value, and for developing multi--year financial projections.

Course Objective

- By the end of the course, participants will master the basics of real estate financial analysis. They will be able to analyze the current financial status of a multifamily property and identify options for improving the property's financial performance.

AM 291 (cont.)

Core Competencies

Participants will be able to:

- **Analyze** the main drivers of property cash flow, and develop strategies to improve performance
- **Calculate** a property's supportable debt and evaluate the impact of debt refinance
- **Calculate** the difference between cash flow and taxable income
- **Estimate a property's value** using the economic valuation/cap rate method; and
- **Prepare** multi--year financial projections.

AM321

Course Description

- This three-day class covers a range of advanced topics in affordable housing finance of particular interest to asset managers. The class will cover measures of property profitability and time value of money concepts (including NPV and IRR analysis), debt calculations and debt sizing considerations, and Low-Income Housing Tax Credit (LIHTC) topics including development financing with 9% and 4% tax credits, investor return calculations, adjusters, recapture, and Year 15 options.

Course Objective

- By the end of this course, participants will master a range of techniques to measure the profitability of multifamily real estate. They will be able to evaluate options for refinancing a property's debt, and they will be able to calculate debt service payments based on a given set of terms, as well as calculating the maximum debt a property can support. Participants will gain familiarity with a range of asset management issues involving LIHTC properties, including investor return, adjusters, recapture, and Year 15 disposition analysis.

AM321 (cont.)

Core Competencies

Participants will be able to:

- **Perform analysis of multifamily property** with a range of techniques, including ROI, ROE, NPV and IRR
- **Calculate the financial impact of debt refinancing** on a multifamily property
- **Analyze options for debt restructure**, and understand the process for implementing the refinance of a property
- **Understand the elements of financial return to investors** in a LIHTC project
- **Estimate the impact of tax credit adjusters and recapture penalties**
- **Evaluate Year 15 options for LIHTC properties**, and calculate exit tax liability for sponsors exercising purchase options or first refusal rights.

AM351

Course Description

- Advanced Housing Asset Management (AHAM) is the final course in the Certified Housing Asset Manager (CHAM) series. It is designed for participants who have completed or tested out of all of the other courses in the series (see the CHAM curriculum for details). This class will bring together all of the aspects of management covered through the CHAM curriculum. In the first three days of the class, students will explore techniques for analyzing and managing portfolios of properties, through exercises involving both case studies and analysis of their own organizations' portfolios. In the last two days of the class, students will prepare an asset management plan for one of their properties, analyzed and presented in the context of their property portfolio. Participants will benefit both from one-on-one coaching from the instructors, and from the feedback and insights of their peers, as they develop asset management strategies for their properties. By the end of the session, students will be prepared or nearly prepared to submit their CHAM project for review, the final stage in securing the CHAM designation.

AM 351 (cont.)

Course Objective

- By the end of the course, participants will have honed the full range of their asset management skills, analyzing each aspect of performance of portfolios and individual properties. They will demonstrate the ability to develop solid asset management plans at both the portfolio and property levels.

Core Competencies

Participants will be able to:

- **Evaluate portfolios** of properties in a range of ways, including scattergrams, analytical spreadsheets, and watchlists
- **Analyze the core elements** of a property's financial structure, market position, capital needs and property management capacity by the examination of source documents including audits, capital needs studies, regulatory agreements, partnership agreements, and loan documents, among others
- **Develop constructive and well-reasoned asset management plans** for individual properties, including long-range financial projections showing the outcomes of the proposed plan
- **Formulate portfolio-level asset management programs** to optimize the contribution of the real estate to the owner's goals (both financial and mission goals)

Other Classes

- AM101 – IREM ARM class
- AM103 – The Board and Senior Management – Stewards of the Assets and Org
- AM121 el – Nuts and Bolts online
- AM210vc – Building a deal Book
- AM224 - AM Case Study
- AM225 – AH Workshop for Asset Managers

Other Classes (cont.)

- AM240 – Asset Managing Your Risk – holistic approach to managing your properties' and organization's financial and physical risk
- AM252 - Delivering Successful Resident Services Programs
- AM261 – AH Leasing, Mktg and Customer Service Bootcamp
- AM280 – Creating a Sustainable MF Portfolio and Building your org AM Culture
- Clinics

From the Field: Identifying Opportunities

Jeffrey Reed, CFO for Community Housing Partners of Christianburg, Virginia and a CHAMpion offers:

- *So many times, our focus is on our high watch list – We spend our time, money and resources trying to keep problem properties afloat.*
- *Often, more focus on our good properties can generate more money than our bad properties are losing.*

Lets look at Sea Haven Apartments:

Sea Haven Apartments, Virginia Beach

- 26 unit family property with some Section 8 Vouchers
- No restrictions on distributions
- Flowing $50K per year (over $2K per unit), no debt
- 4 blocks from the beach, C quality Apartments
- Brick Construction, high energy costs, high maintenance costs
- Low watch property

We should not spend time on this property and focus on high watch properties, Right?

Wrong!

- ✓ We applied for Weatherization funds which provided new heat pumps, roofs and energy efficient appliances
- ✓ We invested an additional $5K/unit ($130K)to upgrade the kitchens, baths, flooring and exteriors which brought the property up to a B quality
- ✓ Now, two years later with rent increases and reduced maintenance costs, we are flowing $143K per year ($5.5K/unit)

CHP's High Watch List

- Community Housing Partners has 11 properties in its High Watch List
- One is Lynnhaven Landing and it cash flowed $165K through September 2011
- One is The Crossings of Leesburg and it lost $235K.
- The other 9 properties on the high watch list had negative cash flow of $114K through September.
- Where should I focus my time?
- How about Lynnhaven?

Lynnhaven Landing

Year	Cash Flow	Occupancy	Maintenance Costs
2005	280,000	98%	503,737
2006	595,938	97%	407,458
2007	483,000	95%	388,587
2008	700,000	93%	405,989
2009	593,000	93%	404,182
2010	601,651	92%	353,572
2011	475,000	88%	416,421

- What do you see here? Good cash flow…sporadic maintenance costs… and decreasing occupancy
- What story could this be telling?
  Actually… Our occupancy was slipping because our asset was aging and our marketing was not as strong as it could have been, and…
- Property management was trying to defer maintenance to give me the cash flow I said I wanted

What happened?

- We did a market survey –concluded rents were good for this age product but we could get $100/unit/month more for an updated unit
- We shopped our leasing agents and found our leasing office was closed during key times
- We did a ‘CNA and it identified immediate and long term capital needs
- We brought in our Architecture and Construction departments to recommend upgrades needed

Lynnhaven Outcome

- Began a $1 million rehab focusing on upgrading 110 of the total 252 units. So far, 50 units have been completed (and rented) and they are, in fact, bringing $100 more
- We improved our leasing techniques and changed our office hours
- We have almost achieved our budgeted vacancy of 93%, up from 88% which will, alone, net a $135K cash flow improvement….

Eclipsing the $114K loss at the other 9 high watch properties!

2015 Asset Management Plan

[illegible]

Original Construction: 1969

LIHTC Round I (4% Bond Deal): 1997

LIHTC Round II (9% TCs, add'tl subsidies): 2006

84 MFR units (mix of 1-, 2-, & 3-BR units) in 5 buildings surrounding the central Community Building (with Community Room, Computer lab, Office & Swimming Pool)

Strategic Partnership: Community Action of Washington County (modified screening criteria for clients)

PRIMARY CONCERNS:

1) Capital Needs: Roof System, Water Issues (plumbing & water intrusion), Aging Unit Components (flooring, appliances, cabinetry)
2) Property Management: Management team stability, Preventive Maintenance and Resource Conservation Attention, Community Partners Agreements (MOUs & Contracts)

ACTION PLAN:

1) Reserve/Capital Analysis (Target Metrics: Building Systems, Property Accounts)
2) Update Community Action MOU (Target Metrics: A/R & Costly turnovers)
3) Implementation of Preventive Maintenance Reporting & Performance-based Incentive Program

PEOPLE: Strong emphasis on Resident Services activities for residents, other properties & the surrounding community. Established partnerships with community resources (e.g. Food Bank, local environmental groups & family support organizations)

PLANET: implement green design strategies throughout the portfolio, although these features are not 'shiny' at Greenburg (e.g. low-flow fixtures, but old appliances)

PROFIT: Greenburg is a marginal property with healthy replacement reserves balances (for now). Accounts Receivables are an ongoing (and growing) concern

A. Roof Repair, Phase I – 2015 ($5,700, Building #2)

B. Roof Replacement: Phase 2 – 2016 ($6K per bldg)

C. Water-related Insurance claims – 2015 ($76K of damages, $15K in deductibles)

D. Targeted CNA – Water Intrusion & Ventilation

C. Establish Consistent Unit Components for phased replacements

Current Replacement Reserves Balance: $131,500

* Increase in reserve contributions needed in coming years – linked to Management Strategies

A. Preventive Maintenance Tracking & Performance-based Incentive Program (water/energy emphasis)

B. Community Action – update MOU to reflect support needs for hardest-to-house residents

C. Resource Conservation Pilot Project with the City of Tigard and TVWD

Targeted Impacts:

1) Reduction in emergency maintenance repairs

2) Water/Energy savings (potential **policy impact**)

3) Reduced A/R & Turnover Expenses

Description	ACTUALS 2013	ACTUALS 2014	BUDGET 2015	YTD (Annualized) 2015
Operating Income:				
Gross Rental Income	721,912	761,065	776,405	
Less: Vacancy	(29,982)	(22,984)	(31,056)	(35,416)
Less: Bad Debt	(7,052)	(10,154)	(12,960)	(82,600)
Other Income	48,834	120,235	38,596	
Total Effective Income:	733,712	848,162	770,985	701,345
Operating Expenses:				
Administrative	122,903	139,045	138,158	
Utilities	99,123	106,775	109,764	117,412
Maintenance & Operating	175,233	111,187	96,423	85,128
Taxes & Insurance	12,932	12,084	18,610	
Total Operating Expenses	410,191	369,091	362,955	370,603
Interest expense	184,938	178,372	177,830	
Asset Management fee - GP	3,167	3,262	3,360	
Replacement Reserve (Mandatory)	24,350	24,350	24,350	
Total All Expenses	622,646	575,075	568,495	576,143
Expense per Unit	7,412	6,846	6,768	6,859

A. Capital Needs – still waiting for my robot to report back on the *unanticipated* systems issues

B. Budget to Actuals – unanticipated expenditures (specifically A/R, emergency maintenance and utility rates) increase financial stress for property

C. Community Partners Engagement – specifically related to water policy and the potential resource conservation pilot project

A. Improved Financial Stability – Getting ahead of largest capital needs, improving A/R & reducing unplanned expenditures

B. Improved existing community relationships and establishment of new partnerships

D. Improved Community Perception and Support of Property and broader Affordable Housing Industry