

# Affordable Housing Portfolio Viability – Trends & Practices

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# 30 Years of Affordable Housing Success

- 2.8 million LIHTC units financed
- Continued strong performance – In 2014, 97.5% occupancy across all geographies and sectors (per Reznick study)
- Extremely low foreclosure rate
- High rate of delivering investor benefits and leveraging private capital

# Key Trends in Asset Management

- Public dollars for affordable housing becoming more scarce
  - ❖ Owners looking to their own portfolios for housing resources
- Data systems helping organizations maximize efficiency of data gathering and analysis
- Many capital providers planning ahead, really scrutinizing capital budgets and resources
  - ❖ Getting ready to refinance or redevelop before Year 15
  - ❖ Some public agencies also focused on aging assets and preservation

# The Portfolio as a Source of Revenue

## Sources of Owner Revenue:

- Developer Fees
- Operating Fees
  - Incentive Management Fees
  - Property Management Fees
- **Cash flow**

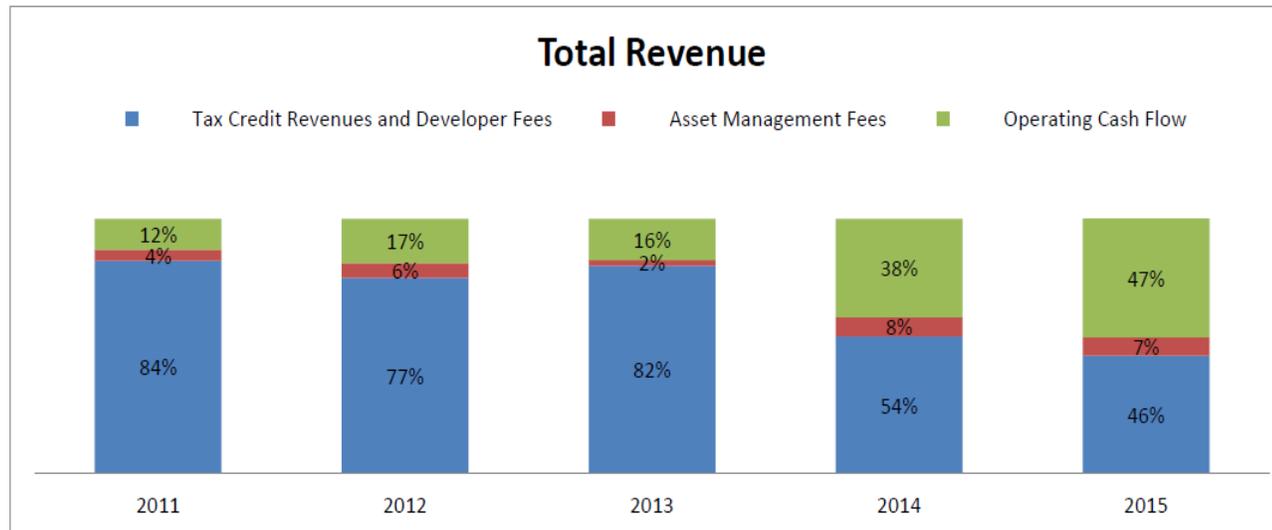
## SO...what did you do upfront to structure the deal?

- Negotiate your fees
- Use realistic/supportable underwriting assumptions

***Then, as asset managers, ensure provision of quality housing,  
monitor risk and maximize value.***

# Case Study: Non-Profit Owner Maximizing Cash Flow

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

# Case Study: Keys to Maximizing Cash Flow

- Monitoring actual vs. budgeted revenue and expenses
- Maximizing rents and occupancy
- Analyzing cash flow due to the owner
- Monitoring physical health and capital planning
- Planning for the long-term (financing and redevelopment)

## *Other Keys:*

- Budgeting against pro forma
- Mitigating risk (risk rating system, if necessary)

# Data Management is Critical to Asset Management

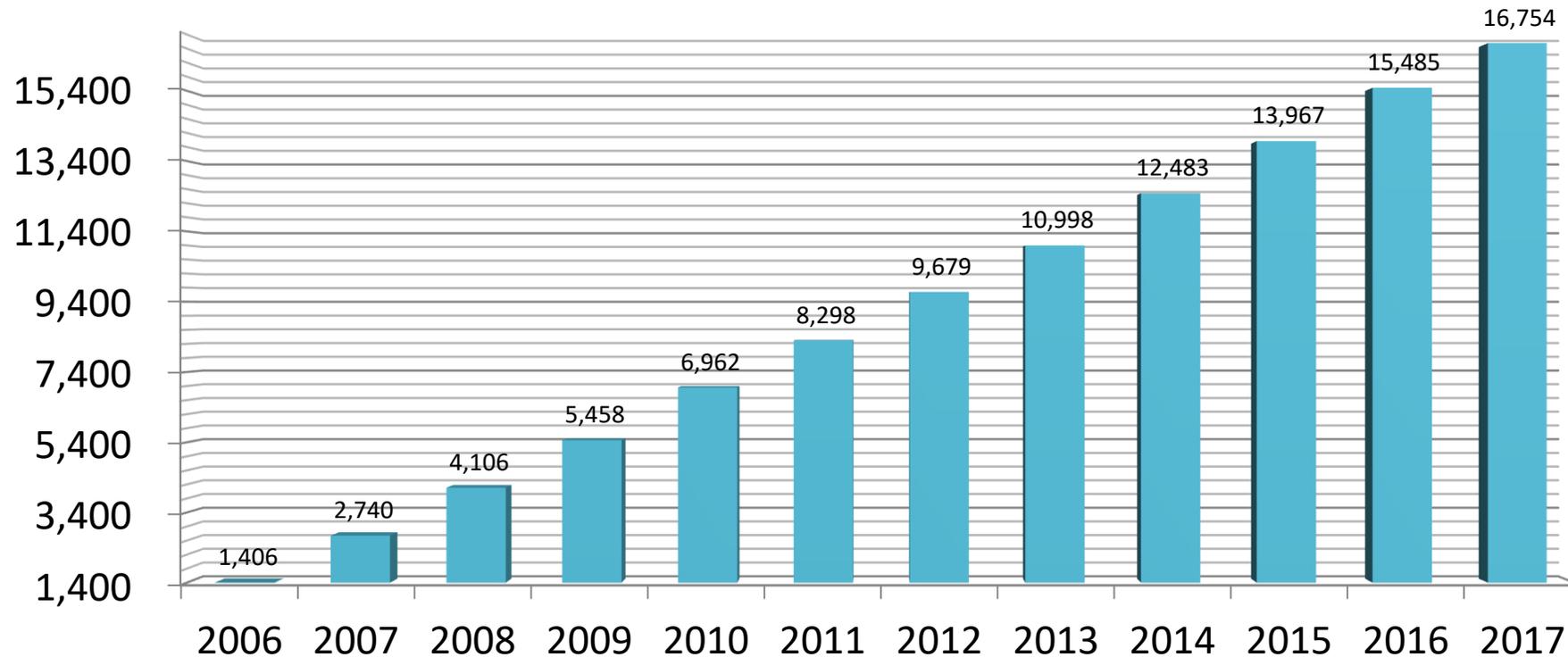
- Organizations cannot make good decisions without good data
- Regardless of the system used, or not used, to manage data, need to determine:
  - What information is really needed, and how frequently;
  - What data you may need in the future; and
  - What process you will use internally for vetting data received.

# Finding the Right Platform

- Once the portfolio is over a certain size, a database becomes essential
  - ❖ Even for smaller portfolios, it can help keep everyone organized
- Asset management systems allow users to access, work with, and combine for analysis three major sets of data:
  - ❖ Static and historic information about properties and investment entities, such as property size and features
  - ❖ Periodic financial data
  - ❖ Workflow data such as due dates and receipt of various documents
- Most asset management groups have found that processing systems, such as property management accounting systems, are insufficient for asset management

# Growing Yr 15 Needs Throughout the Industry

**Number of properties beyond 10-year credit period**



# Asset Management & Aging Assets

- AM at many public agencies – heavily focused on compliance but many have adopted operational AM (albeit light on preservation)
- Preservation often an important goal but few have created explicit set of policies for AM
- Some HFAs have taken steps to encourage action including incentives or set-asides in QAPs
- Many rely on 4% LIHTC and the market to take care of properties “aging out”
- How owner/developers deal with aging assets (e.g. Year 15) varies widely:
  - ❖ Large and seasoned owners – generally well-equipped
  - ❖ Smaller organizations with few assets relying on outside experts and learning as they go

# Asset Management & Aging Assets (Cont'd)

- Other observations:
  - ❖ Public agencies generally doing a good job making sure properties stay in responsible ownership
  - ❖ Transition to next stage – generally gone well but much of it due to favorable capital market environment conditions and demand for MF investments
  - ❖ Public agencies generally taking advantage of the Y15 transitions to get back money they have in deals (potential resource for future deals)

# Asset Solutions

- Different solutions for different situations
  - ❖ Three basic scenarios:
    - 1) Property in a hot area and too expensive to keep affordable
    - 2) Naturally affordable even without restrictions but is falling down
    - 3) Most common – property’s unrestricted rents will be higher but not much higher than restricted rents
  - ❖ In all cases, introduce new incentives before Year 30
- Develop policies and tools to help prioritize preservation needs and figure out how to use limited dollars

# Organizational Solutions

Operational AM	Transactional AM
<ul style="list-style-type: none"><li>-Financial reviews</li><li>-Audit reviews</li><li>-Budget reviews</li><li>-Risk rating</li><li>-Watchlist monitoring</li><li>-Compliance Monitoring</li><li>-Physical inspections</li></ul>	<ul style="list-style-type: none"><li>-Workouts</li><li>-Refinancings</li><li>-Recapitalizations</li><li>-Dispositions</li><li>-Preservation</li></ul>

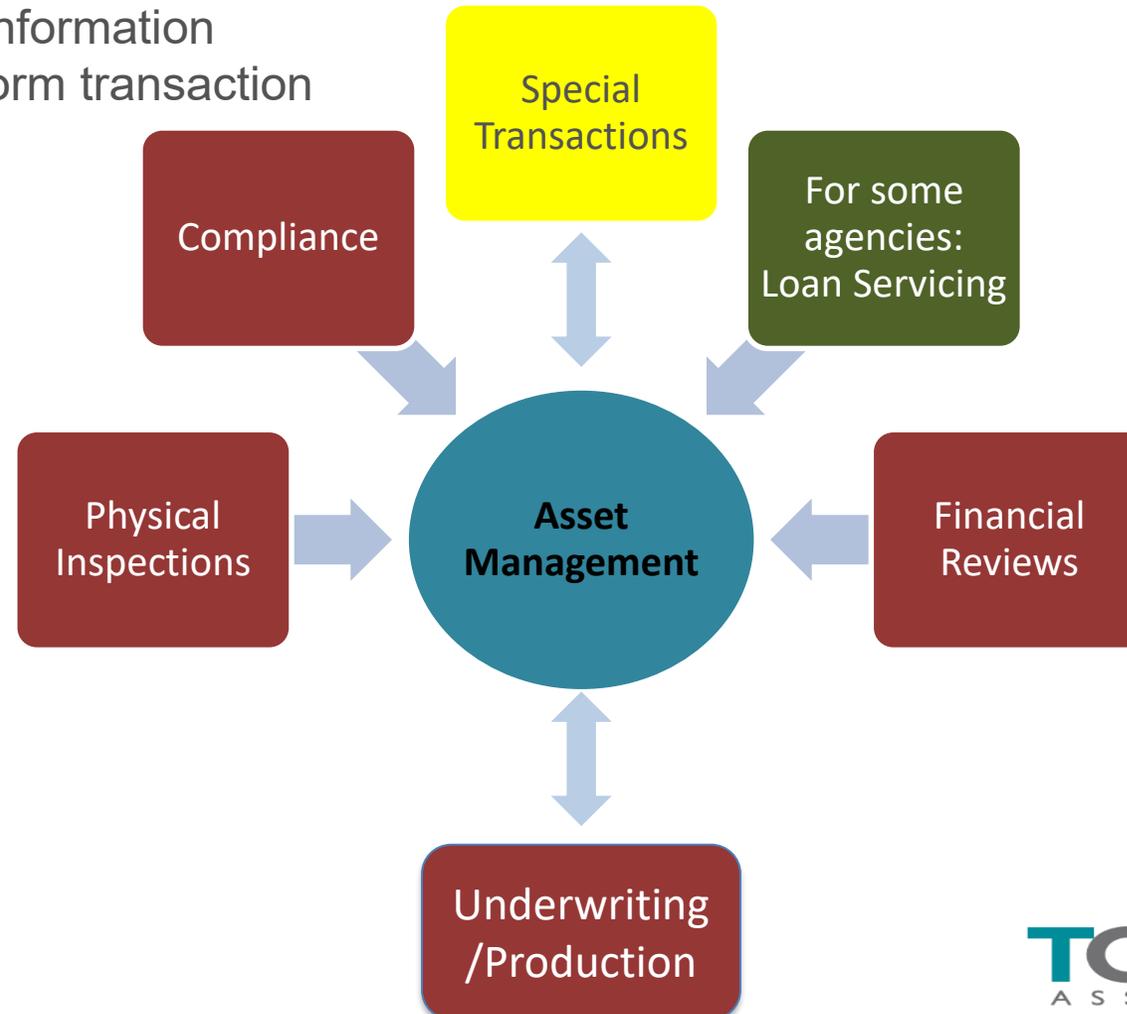
- Different areas require different skillsets and commitments

# Organizational Solutions: Public Agencies

Compliance Monitoring	Operational AM	Transactional AM
<ul style="list-style-type: none"><li>-Tenant file reviews</li><li>-Physical inspections</li></ul>	<ul style="list-style-type: none"><li>-Financial reviews</li><li>-Audit reviews</li><li>-Budget reviews</li><li>-Risk rating</li><li>-Watchlist monitoring</li></ul>	<ul style="list-style-type: none"><li>-Workouts</li><li>-Refinancings</li><li>-Recapitalizations</li><li>-Dispositions</li><li>-Preservation</li></ul>

# Analytical Support for Information Aggregators

Asset managers or “information aggregators” who inform transaction specialists



# Conclusions

- Owners: Maximize resources from existing portfolio where you can
  - ❖ Dearth of soft financing and rising levels of “hard” debt
- All housing stakeholders: Establish the right org structure, policies and tools to proactively address aging assets
- Public agencies: In the face of real constraints, agencies can help convene key stakeholders

*Important to act while you can → recent low inflation has led to a false sense of security about operating expenses*

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