



Development Seminar Series

Workshop 6: Ongoing Management & Survival

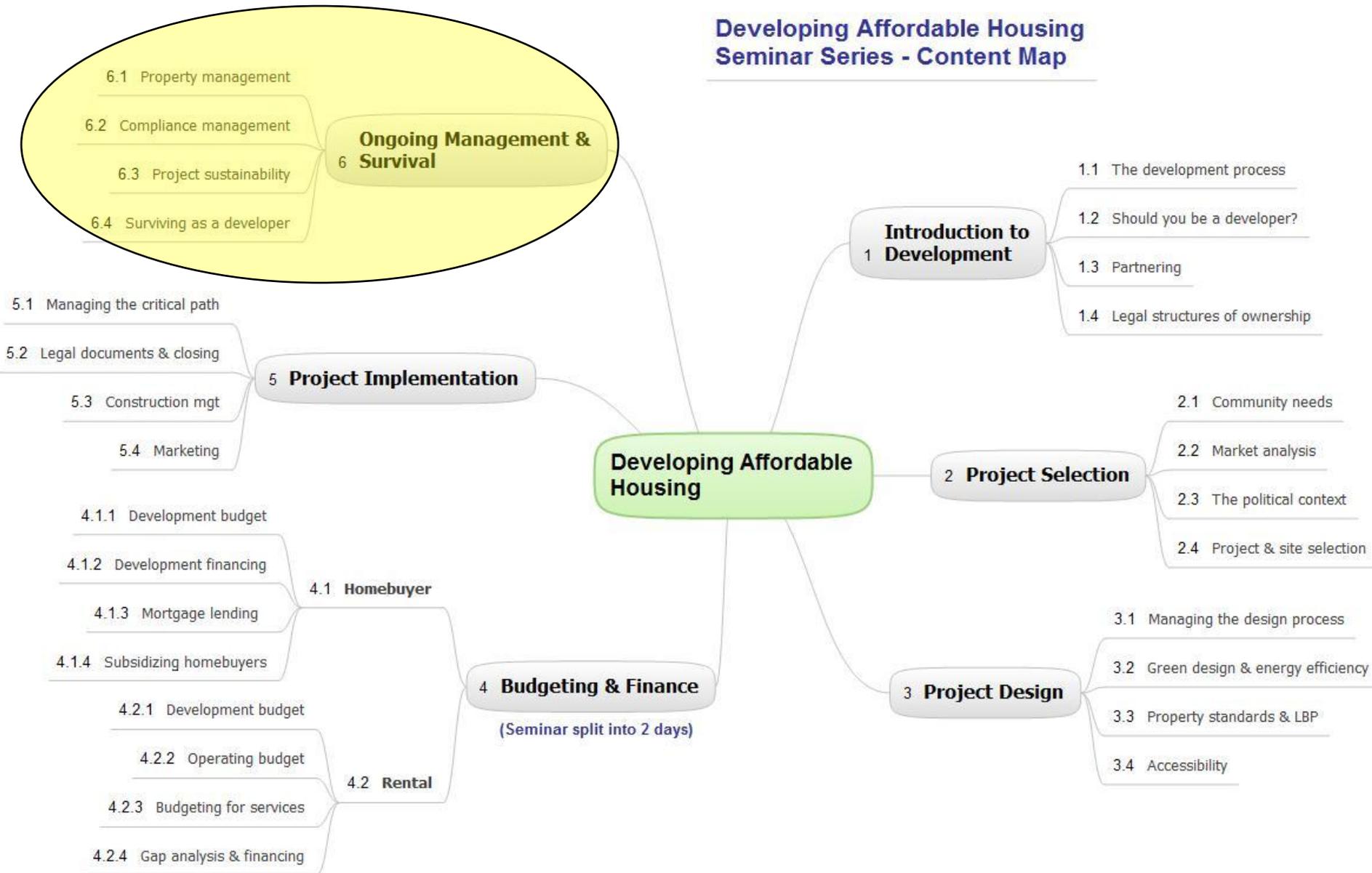
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under contract to NY DHCR/HTFC



Overview of the Seminar Series

- 6 workshops:
 - Introduction to Development – May
 - Project Selection – June
 - Project Design – July
 - Project Finance – September
 - Project Implementation - October
 - Ongoing Management & Org Survival

Developing Affordable Housing Seminar Series - Content Map





LPA Mini-Series

- Working with Homebuyers - June
- Lead Based Paint Overview – July/August
- Managing Housing Rehab Programs - October

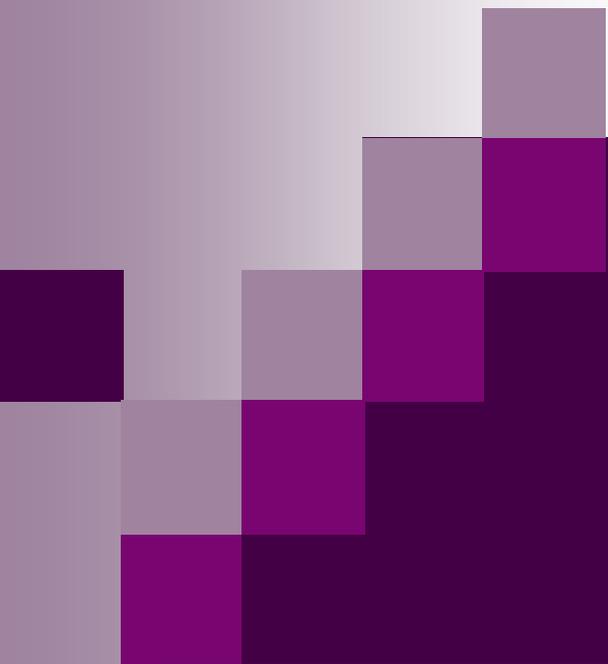
Materials

- Reference manual
 - Supplemental discussions of institute topics
 - For review outside of class
- Each seminar, add:
 - Overheads for note-taking
 - Tools for project planning



Seminar 6 Topics

- Planning for property management
- Occupancy management
- Keys to long-term survival
- Bringing it all together



Planning for Property Management

The Goals of Property Management

Safeguard the physical asset	Physical facility management
Maximize cash flow	Occupancy management
Manage cash flow & expenses	Financial management
Comply with laws & regulations	Compliance



Management Options

1. Hire professional mgt firm
 - Minimum size, cost relative to rents
2. Hire management staff
 - Portfolio/revenue to support position
 - Training
 - Retaining competent mgt staff
3. Self management
 - Are you ready/able (skills, time, inclination)?

If You Are Hiring Mgt Firm?

- List of mgt services provided
- Staff assigned
 - Background checks?
- Financial mgt systems
 - Separate client accounts
 - Budgeting & reporting
- Property maintenance systems
 - 24-hr call
 - Volume purchasing
 - Avoid self-dealing

Hiring a Mgt Firm, cont.

- Insurance:
 - gen liab, auto, workers comp, prof liab,
 - fidelity bond (if rent collections)
- Professional accreditations: staff & firm
- Experience with public program compliance
- References
- Fee structure: % collections or fixed \$; direct staff costs; additional services

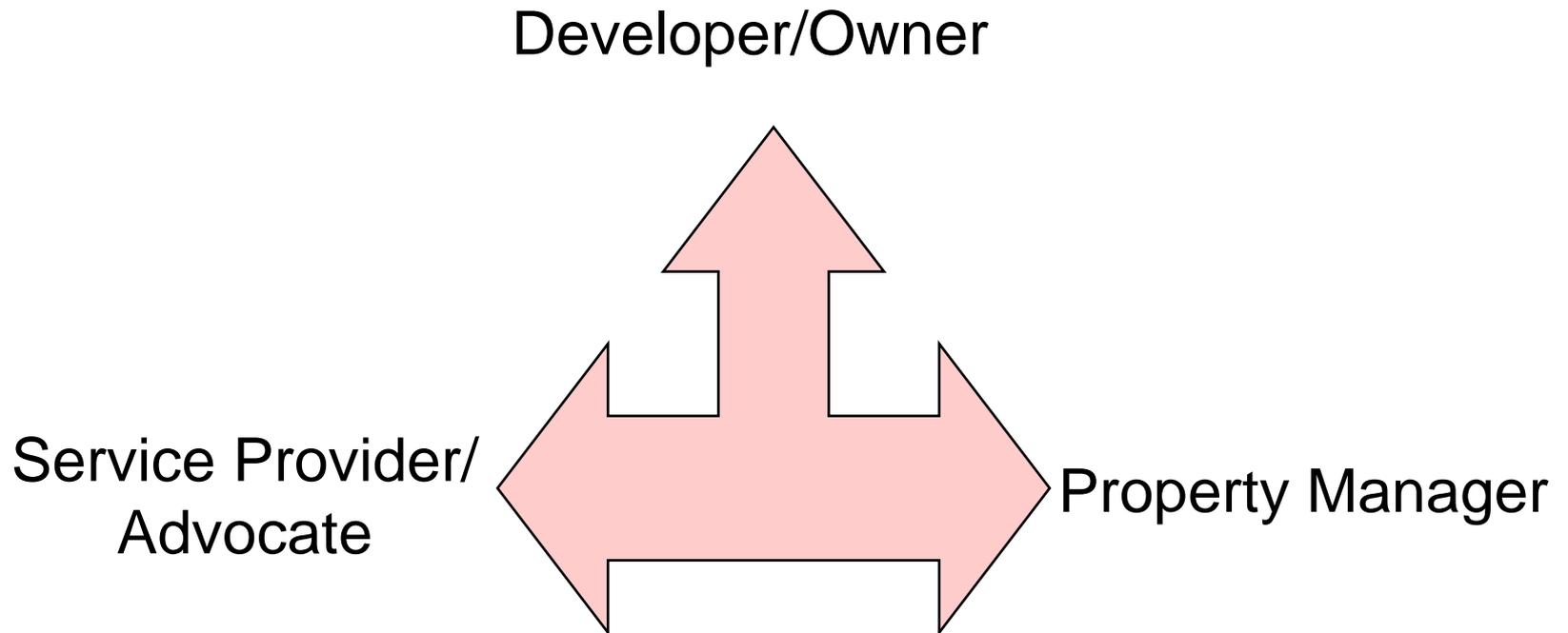
If You Are Hiring Mgt Staff?

- Experienced mgr v. basic skills
- Questions: Are/can you:
 - A people person?
 - Adept at multi-tasking/tracking details?
 - Familiar with bldg structure/ systems?
 - Develop & read a budget?
 - Willing to evict a tenant?
 - Experienced supervising contractors?
- Career ladder/growth

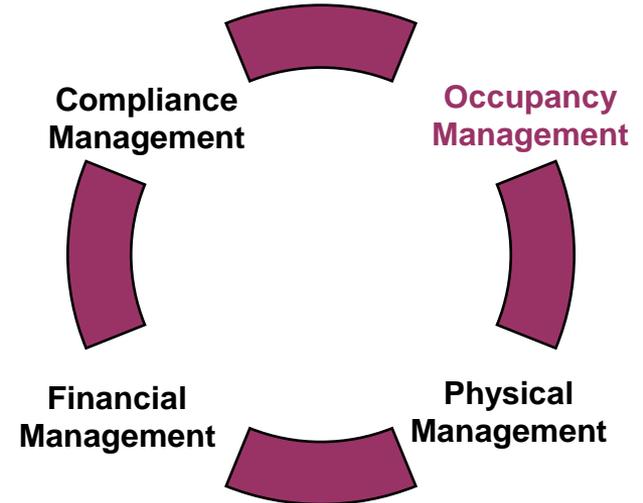
Self-Management: Are You Ready?

- Do/can you have:
 - Available/dedicated staff time
 - On-site presence
 - Accounting capacity
 - Internal controls to handle cash
 - Readiness to enforce rules & evict tenants
 - 24-7 response
- What is the opportunity cost?
- Will it conflict with your other roles?

Competing/Conflicting Roles



Occupancy Management





Occupancy Management

- Tenants
- Rents
- Lease Execution
- Documentation
- Turnover



What's A Good Tenant?

- Financially responsible
- Respects property
- Complies with rules
- Good neighbor
- Stable, long-term occupant
- Leaves unit in good condition



How Do You Keep a Good Tenant?

- Timely & effective communication
- Respect for privacy
- Responsiveness to repair needs & maintenance of property
- Maintain safety & security
- Fair/consistent enforcement of house rules (dealing with problems)
- Fair rents & predictable, reasonable increases

Managing Ongoing Intake

- Maintaining waiting lists
- Maintaining updated income limits & rent limits
- Other screening
 - Financial: min income, cash, credit
 - Rental history: would you rent to this person again?
 - Verify identity; all occupants; residency



Occupancy Management

- Reasonable accommodations & modifications (504)
- Lease execution
 - Lease, rules, unit walkthrough (inspection)
 - Disclosures (LBP, etc.)
- Tenant communications
- House rules enforcement
- Lease renewals/re-certification
 - Tickler system
- Service coordination



Leases

- Must have lease
- Must reflect tenant protections
 - Fed law prohibits tenant waiver of protections (see 92.253)
- HOME: must have 30-day termination clause



Managing Tenant Relations

- Welcome
- Do timely repairs
- Communicate:
 - Take time to talk
 - Make contact with nothing is wrong
 - Forewarn them re: repairs, other activities
 - Work out problems
- Encourage tenant participation?
- Address security issues

Rents & Rent Adjustments

- HOME/LIHTC: Maximum rents published by HUD
 - Based on % of maximum income (& Sect 8 FMRs for HOME)
 - Adjust for tenant paid utilities
 - LIHTC limits tenant contribution; no limit on rent assistance
 - HOME: Can't exceed except for PBA VLI units
 - CDBG: "reasonable"
- Adjustments:
 - Published annually by HUD
 - Adjust at recert/lease renewal
 - Danger: don't assume annual increases

Occupancy Change: Maintain the Mix

OI	V
VLI > LI	LI
LI	LI
LI	VLI
LI	LI > VLI



Occupancy Recordkeeping

- Rent roll
- Lease renewal “tickler” system
- Tenant files:
 - Application & verifications/certifications
 - Move-in/move-out inspection checklist
 - Leases
 - Legal notices (LBP, etc.)
 - Work orders
 - Correspondence



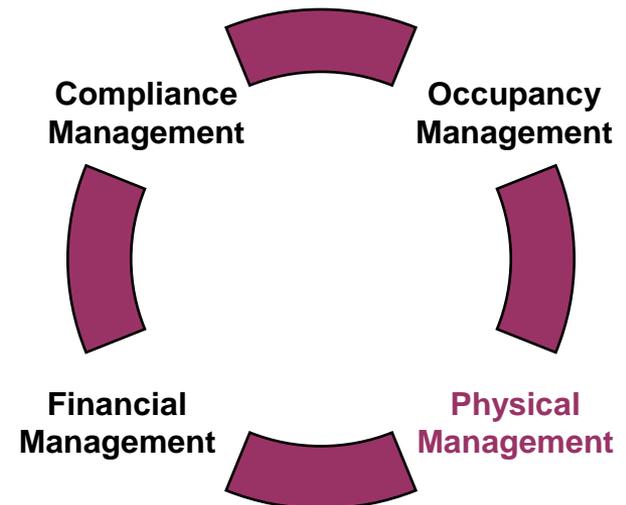
Project Team Discussion

- What changes should you consider for your marketing and occupancy management plans?

Final Thoughts: Occupancy Mgt

- Ensure fair and equal access
 - Create procedures manual
- Seek good tenants (beyond eligibility)
- Focus on tenant relations/communication
- Track the “mix”
- Be ready to fill vacancies
- Watch for reappearance of NIMBY
 - Be a good neighbor: deliver what you promised.

Physical Management



Property Maintenance

■ Goals:

- Protect the physical asset
- Maximize occupant safety
- Minimize “emergency” repairs
- Control maintenance effort & cost

■ Planned maintenance focus

- Inspections, prev maintenance & seasonal activities
- Service contracts
- Replacement plan/schedule (coordinated with reserve)

Maintenance Activities

- Custodial maintenance
- Preventive maintenance
 - Inspection program
 - Seasonal bldg/system activities
- Work order system
 - Response goals & tracking
- Emergency repairs – 24-7 response
- Cosmetic maintenance: upgrades



Maintenance: Financial Issues

- Rehab scope: replacement decisions
 - Impact on capital budget v. operating budget
 - Useful life v. compliance period
- Operating budget
 - Staff v. contract services
 - Service contracts
- Replacement reserves
 - Capitalized v. op budget contributions
 - Estimating capital needs



Physical Maintenance

- Preventive maintenance
- Annual inspections
- Work order system
- Emergency call
- Unit turnaround
- Repair or replace
- Capital projects



Unit Turnaround

- Goal: < 2 weeks
- Activities:
 - Cleaning
 - Systems/appliances testing/service/repair
 - Painting
 - Carpet/flooring cleaning
- Staff/contractors
- Coordination for re-occupancy



Preventive Maintenance Activity

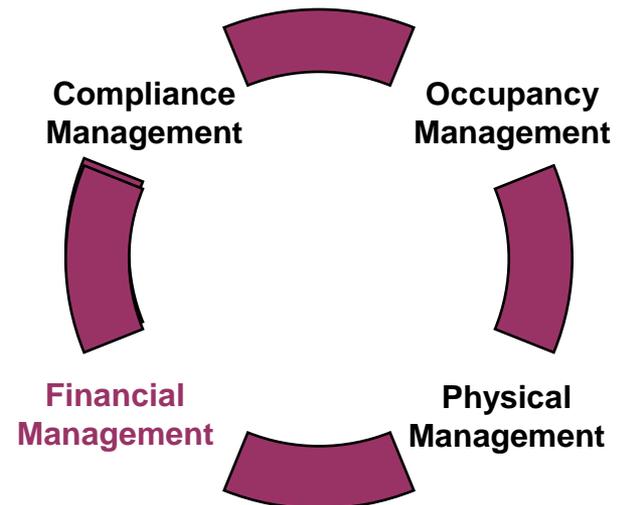
- List activities that should be on your preventive maintenance list (note task and frequency)



Final Thoughts: Physical Mgt.

- Think planned (preventive) maintenance
- Do annual unit inspections
- Develop emergency response
- Focus on unit turnarounds
- Create maintenance procedures manual

Financial Management



Financial Management

■ Goals:

- Safeguard cash
- Manage revenues & expenses
- Assess profitability & project future
- Pay the full cost of management



Financial Management Activities

- Budgeting
- Cash receipts & disbursements
- Accounting/recordkeeping/reporting
- Analysis, projections & planning



Budgets

- Cash basis or accrual
- Uses
 - To set rents
 - To set benchmark for monitoring actual revenues/expenses



Collections & Disbursements

- Rent collection procedures
 - Payment & enforcement
 - Cash handling
 - Internal controls: separation of receipt & deposit
- Expense controls
 - Procurement policy
 - Invoice payment
 - Internal controls: separation of requisition & disbursement

Financial Reports

■ Reports:

□ Income & expense

- MI&E; Monthly budget v. actual

□ Balance Sheet

- Capital expenditure or current expense
- Depreciation

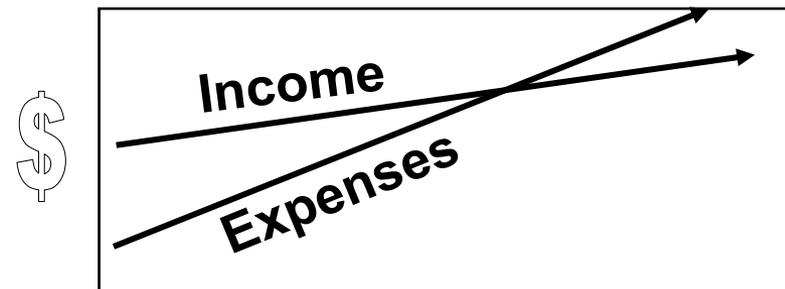
■ Board/executive use of reports

Assessing Profitability

- Profitability: requires project-based:
 - Budgeting
 - Accounting
 - Reporting (MI&E, annual audit/review)
- Full management cost:
 - Time accounting (staff allocated across properties/between prop mgt & other)
 - Overhead cost allocation

Long-Term Operating Projection

- Trends: 1–2% rents; 3–4% expenses
 - Update for current budget & actuals
- Uses:
 - Plan/implement rent increases
 - Small ann. increases v. single big change
 - Anticipate changes (e.g., debt service)
 - Crossover point < 5 yrs

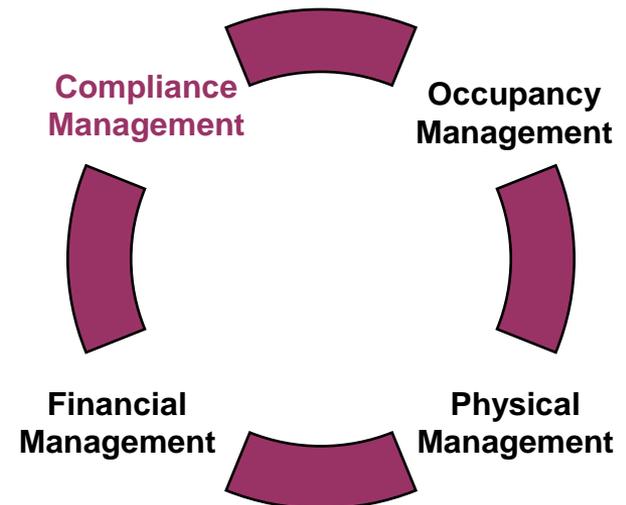




Final Thoughts: Financial Mgt

- Establish internal controls; separate duties
- Monitor I&E monthly: budget v. actual
- Pay reserves and mgt fees like 3rd party expenses
- Maintain financial projections
- Plan reasonable regular rent increases
- Document financial mgt procedures

Compliance Management





Comply With What?

- Funding program requirements
 - Did you promise more in your application?
- Legal documents:
 - Written agreement
 - Note/mortgage
 - Deed covenant/restriction
- Other
 - State and local health/safety & building codes
 - Zoning ordinances & use restrictions



Multi-Program Compliance

- Generally:
 - Programs don't defer to other programs
 - Must comply with all rules
 - Usually, comply with most stringent requirement
- However, sometimes rules conflict
 - E.g., HOME & Tax Credits

Cross - Program Compliance

- LIHTC: strict enforcement of occupancy, rents, property standards, reporting for 15 -30 yrs.
- HOME: strict standards for occupancy, rents, prop standards for 5 – 20 yrs
- CDBG: income limits, reasonable rents, no regulatory requirements for ongoing compliance
- MRBs: compliance & asset management for loan term

Ongoing Rental Monitoring

- HOME & LIHTC regulations require compliance period monitoring
 - HOME: 5 – 20 years min; based on proj type & inv/unit
 - LIHTC: 15 yr. minimum; 30 yr. extended use
 - CDBG: up to jurisdiction
- Report: owners must provide info annually
- On-site file review & inspections
 - Every 1- 3 yrs HOME; “sufficient sample”
 - Annually for LIHTC; 20% sample

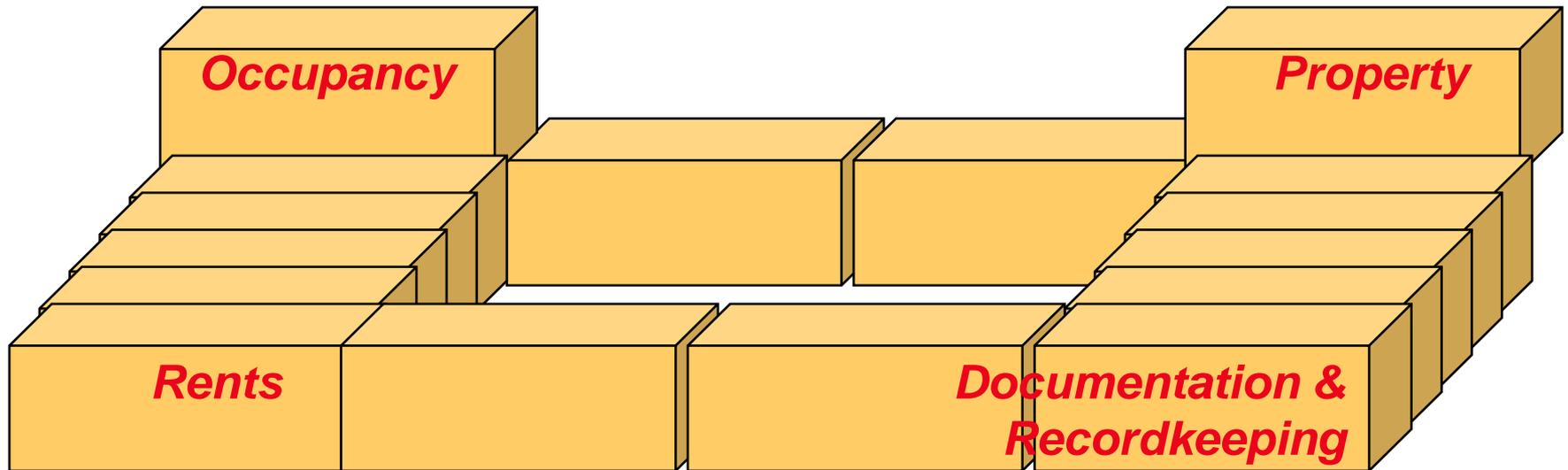


Compliance Goals

- Ensure provision of housing:
 - For the right people
 - In the right units
 - At the right rents
 - For the right period of time

- The Compliance Foundation:
 - 4 cornerstones

The Foundation for Compliance





Cornerstone 1: Occupancy

■ People and Units

- Income eligibility and certification
- Turnover
- Recertification
- Fair housing
- Legal residency
- Required mix: income levels
 - Designating assisted units

Income Eligibility

- Timing of eligibility determination
 - Within 6 months of occupancy
 - Annually during compliance period
- Calculation of Income
 - Section 8 (used by ADOH, HUD)
 - IRS 1040
- Source documentation
- References:
 - Technical Guide for Determining Income & Allowances
 - HUD Handbook 4350.3



Income Certification

- Next 12 months' income
- All adult household members
- Includes:
 - Earned income
 - Unearned income
 - Income from assets
 - Actual and imputed
- No adjustments

Recertification

- Annual recertification of income
 - Annual documentation?
- What happens if they go over income?
 - State Housing Fund
 - Tenant loses rent protection
 - pays 30% adjusted income or street rent
 - Next available unit rented to income eligible tenant
 - Fixed or floating?
 - LIHTC or LIHTC/HOME
 - Rent limit still applies

Unit Mix

- Assisted (VLI/LI) & unassisted
 - Mix in your regulatory agreement
 - Assisted units must comply with all standards
 - Unassisted units not subject to all standards
 - Property standards apply
- Fixed v. floating units (HOME/SHF)
- Annual report during compliance period



Cornerstone 2: Rents

- **Maximum rents or affordable rents**
 - Limits/standards published by program
 - Usually adjusted for tenant-paid utilities
 - May or may not be affordable to tenant
- **Adjustments:**
 - Limit changes published annually by program
 - Adjust at recertification/lease renewal

Cornerstone 3: Property

- Applies to entire property
 - Inside and Outside
 - Assisted and Unassisted
- Standards:
 - HOME: local codes or Sect 8 HQS (state)
 - LIHTC: HUD Uniform Physical Condition Standards
- Inspections:
 - prior to occupancy
 - during the compliance period
- Lead-based paint: pre-78 HUD assisted
 - If LBP present, annual visual assessment, paint stabilization & clearance
 - Disclosure to all new tenants





Cornerstone 4: Documentation

- If you can't document it, it didn't happen
- Requirements are in your agreement
 - Incorporate in property management agreement
- Use:
 - Standard documents & forms
 - File checklists
- Seek training

What to Document

- People
 - Eligibility determination
 - Recertification
- Units
 - Designation/mix
 - Rent
 - Inspections
 - Repairs
- Development
 - Marketing (incl. affirmative marketing & fair housing)

Record Retention

- Time period varies by program:
 - CDBG: 3 yrs
 - LIHTC: life of compliance period
 - HOME
 - Development records: 5 yrs after project completion
 - Occupancy records: most recent 5 yrs during affordability period
 - State Law: 3 years after closeout of contract



10 Things to Remember About Compliance

1. Don't do anything without environmental clearance
2. Get the occupancy mix right and keep it right
3. Reach out to those least likely to apply (Affirmative Marketing)
4. Follow approved methods of determining and documenting income eligibility
5. Stay within the rent limits; adjust for utilities



10 Things to Remember, cont.

6. Start with rents low enough to ensure viability and allow for some increases
7. Maintain property to code; do regular inspections
8. Keep records: evidence of compliance
9. Train new staff; provide career opportunities
10. Compliance is also about viability.

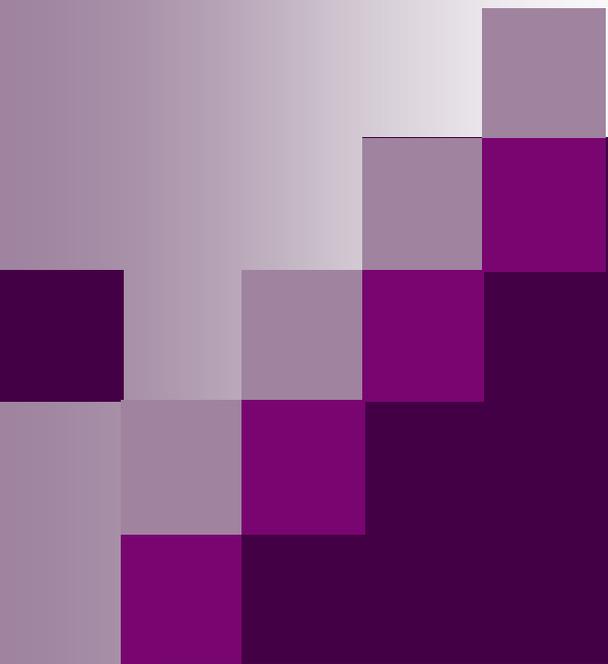
Implementation Wrap Up

- Getting the project to closing is only the beginning
- Construction management:
 - Trust but verify; keep pressure on; golden rule
- Marketing:
 - Focus on target households & fair process
 - Get started early
- Property management:
 - Occupancy, financial, maintenance & compliance
 - It's about compliance & viability



Team Assignment

- Prepare to present your project tomorrow morning to the trainers and ADOH risk assessment staff
- Things to focus on:
 - Your target market: demand, competitive advantage
 - Your team's skills and capabilities to deliver the project
 - Your project budget: what you know about sources and uses
 - Rents, vacancy/collection loss, NOI/ability to carry debt
 - Project features that will ensure viability/sustainability



Keys To Long-Term Organizational Survival



Keys to Organizational Success

- Development pipeline
- Working capital
- Portfolios that pay back
- Conflict of interest policy
- Board & staff development

Build a Pipeline

- Developer v. “dabbler”
- Lead time: ½ - 1+ yr; need to overlap projects
 - When construction starts, focus on next one
- Look at multiple opportunities:
 - Follow selection guidelines
 - Find optimal project (meets community & org needs)
- Follow up on more than one:
 - You can't predict/control the timing of a project
- Diversify project types (& funding)

Build Liquidity

- Working capital, lines of credit, pre-dev loans
 - Pre-dev costs & capital advances
 - Aim for 5 – 10% of typical project cost
 - Growth companies create working capital fund
- Replenish the working capital fund
 - Return capital advance reimbursements + extra developer fees (after expenses) to fund. Don't spend it!



Build Your Portfolio

- Housing projects should support you, not vice versa
 - Revenue should support mgt costs & generate cash flow
 - Project-based budgets & reports
- Mortgage portfolios: think payback
 - Ongoing revenues for your organization
 - Maybe HH's can't pay back immediately...but maybe later
 - Don't forgive loans at the end of compliance period
 - "Pass it on"

Avoid Conflict of Interest

- Quickest way to damage your reputation
 - Perceived v. real conflict
 - “What would your worst enemy suspect?”
- HOME: presumed conflict & prior “exception”
 - Contracts for services/goods & occupancy of units
 - Covered: PJ & CHDO boards, staff & family/partners
 - CHDOs: covers rental occupancy only
- Expand your C of I policy
 - See expanded policy in Tool 9

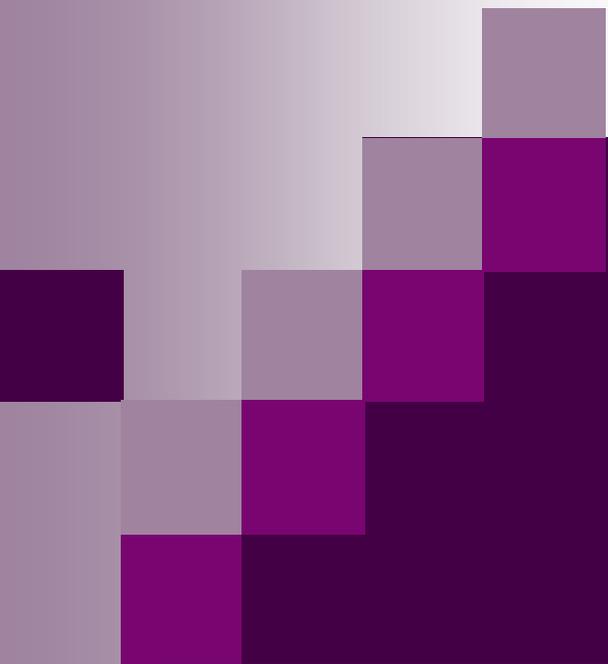
Develop Your Board & Staff

Staff

- Succession planning
 - Oversight, apprenticing
- Institutionalize memory: create the paper trail
- Staff training
 - Org diversification, redundancy & personal growth

Board

- Recruit board members w/ development skills
- Train board in development
- Use committee or subsidiary to oversee
- Evaluate completed projects & portfolios



Bringing It All Together



Seminar 1: Intro to Development

- Developer's job: manage team & multi-task project
- Self-assessment:
 - Do you have what it takes to be a developer (or a partner)?
 - You can't help anyone if you can't survive
- If partnering, think win-win
 - Balance control, risk/liability & rewards
- Choose appropriate legal structure
 - Funding/project requirements & risk management

Seminar 2: Project Selection

- It's not need; it's demand: analyze your market 1st
- Select good (and appropriate) projects:
 - Don't be developer of last resort
 - Select sites suitable for market-rate housing & suitable for you
 - Evaluate sites based on "shovel ready" condition
 - Evaluate NIMBY
 - Be prepared to walk away



Seminar 3: Project Design

- Hire the right architect
 - Communicate
 - Good design & cost control
- Consider energy efficiency & operating costs
- Accessibility
- Property standards ensure decent units

Seminar 4: Budgets & Finance

- Budgets are (professional) guesses
 - It's an iterative process
 - Be complete and honest
 - Build in contingencies
- The gap
 - Feasibility and viability/sustainability
- You have only this chance to get it right
- There are many ways to fill the gap
 - Don't over-complicate the financing
 - Multiple stages of financing (pre-dev, construction, perm)
- Think like a lender & communicate
 - Address market, borrower and project risks

Seminar 5: Implementation

- Getting funded is only the start
 - You have to make it happen & make it last
- Contractor selection: don't assume anything
 - Bidding: keep it competitive
 - Supervision: Hire an owner's rep to watch construction
- Start marketing early; keep focus on target HHs
- Plan for sales or long-term operations
- Think compliance: maintain documentation

Seminar 6: Management & Survival

- 4 components of management:
 - Occupancy
 - Physical
 - Financial
 - Compliance
- Plan for organizational survival



Final Thoughts – 10 of them!

1. You haven't helped anyone until you deliver a completed and occupied unit.
2. You can't help anyone if you can't survive.
3. Lack of liquidity will slow you down...and you can't afford it.
4. Calculate the opportunity cost of projects.
5. Pick the right project; don't let it pick you.

Final Thoughts, cont.

6. You can't afford a bad project. It's your brick and mortar legacy.
7. It's not enough to get it built; it needs to last.
8. In development, time is money. Keep it simple and get it done!
9. Save your reputation: avoid conflicts of interest.
10. Be a developer, not a dabbler: think "pipeline" & "portfolio".



Wrap Up

- Evaluation
- Certificates of completion
- Future training