

Asset Management vs. Property Management: There is a Difference



Best Practices of Asset Management

Presented by: David Fromm,
NeighborWorks® America

Different Types of Real Estate Management

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- **Property Management**

- Day-to-day, one at a time
- Achieve owner/stakeholder goals

- **Asset Management**

- Acquisition to disposition: long term, one at a time
- Achieve owner/stakeholder goals



- **Portfolio Management**

- Properties combined
- Link owner/stakeholder goals with organizational goals;

Creating Value as an Asset Manager

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- The top ten asset management tasks
- Top ten indicators valued by asset managers
- Most common problems in affordable housing
- Most valued partnerships and why
- How to get the most from your property management firm
- How to participate in pre-development as well as workout/disposition strategies

Asset Management Takes The Lead:

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- **Creating, Overseeing, Monitoring Tickler file of AM Responsibilities**
 - Key dates
 - Reporting
 - Operating & Capital Budgets
 - Audits
 - Capital Needs & Reserve Fund Management
 - Real Estate agreements & Taxes
 - Year-15 Issues
- **Creating deal books**
- **Overseeing Management Agent**
- **Monitoring Economic & Operating Performance of all Properties**
- **Monitoring Owner Fees**
- **Internal & External Stakeholder Relationships**
 - Regulators
 - Investors
 - Board of Directors
- **Property Work-Outs, Disposition**

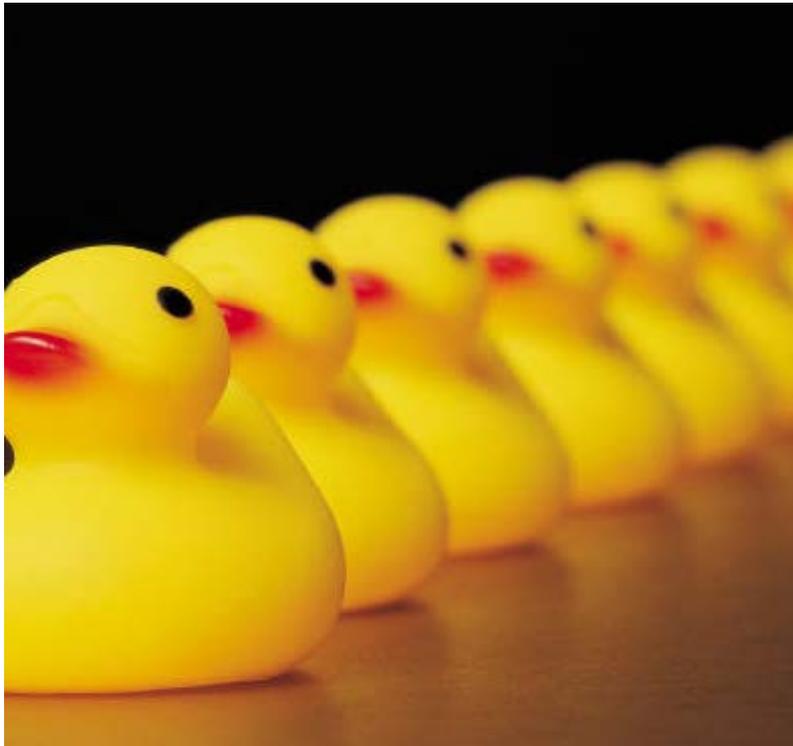
Top Ten Monthly Tasks

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1. Tickler File/Planning Schedule
2. Operating Budget Variance Review
3. Balance Sheet Review
4. Portfolio Review
5. Property Manager Review
6. Staffing the Board's Asset Management Function
7. Evaluate New Projects
8. Monitor Owner Fees and Incentives
9. Gather and Interpret Key Data
10. Initiate Work Out Plans

1. Tickler File/ Planning Calendar

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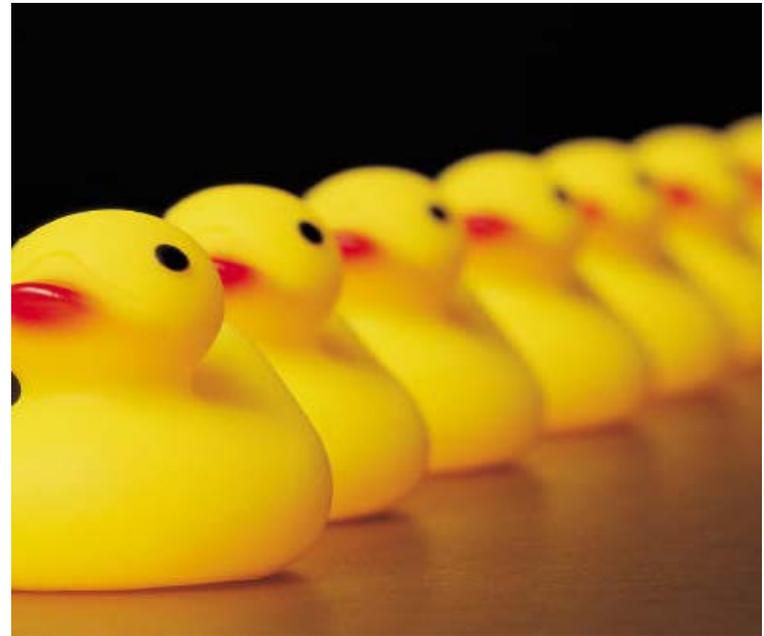


- Annual Budget
- Reports
- Annual Audit
- Tax Returns
- Real Estate Tax Agreements
- Owner obligations/loan requirements/warranties

1. Tickler File/ Planning Calendar

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- **Capital Plan**
- **Income Certifications**
- **Property Inspections**
- **Corp. report to Secretary of State**
- **Contracts**



2. Operating Budget: Variance Review

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- Evaluate performance against benchmarks
 - Revenues
 - Expenses
- Make recommendations in MAJOR revenue and cost drivers

3. Balance Sheet Review

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- **Changes/size of**
 - Cash balances
 - Accounts receivable
 - Accounts payable
 - Reserve Balances
- **Ratios**
 - Working capital
 - Current ratio
 - Owner's equity
 - Debt to equity



4. Portfolio Review

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- **Pick ways to analyze**
 - PUPY, PUM, PBR, %
 - Type, Location, Size
- **Monitor for compliance (debt service coverage ratios, cash flow)**
- **Analyze trends**
- **Link mission, obligations and opportunities**

5. Property Manager Review

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- Evaluate based on annual management plan and budget
- Meet formally, monthly or quarterly
- Specific areas:
 - Financial
 - Compliance
 - Physical
 - Social (“double bottom line”)



6. Staff the Board's Asset Management Function

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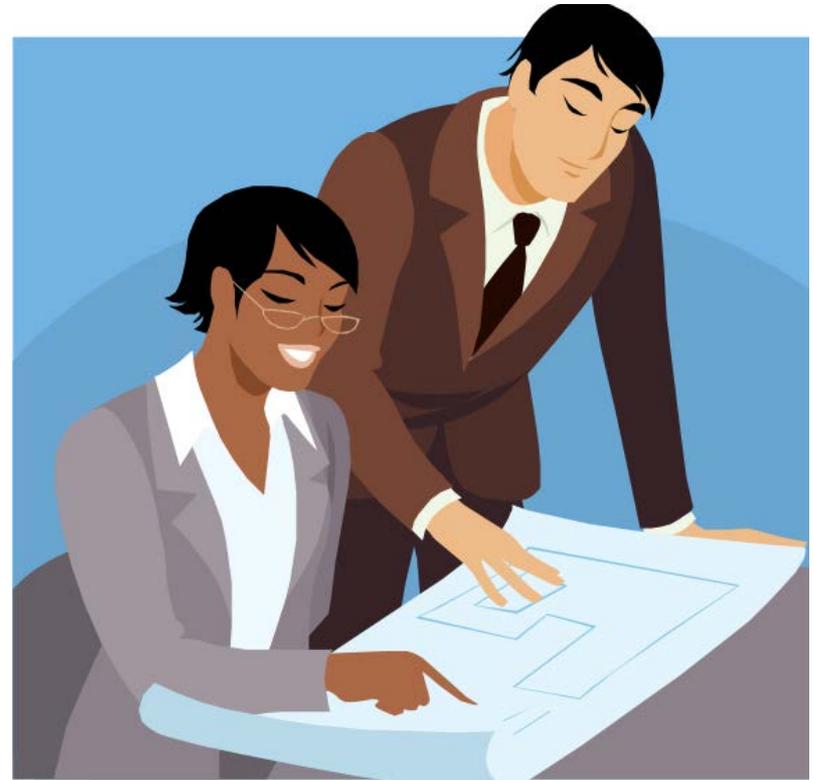


- Property and portfolio performance against Board's goals
- Economic performance of properties
- Impact of properties on organization: \$ + ❤️
- Overall performance of property manager
- Current trends effecting properties

7. Evaluate New Projects

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- Realistic operating assumptions: NOI
- Design
- Reserve requirements
- Cash flow expectations
- Debt structure
- Reporting and compliance requirements
- Market conditions
- Service programming
- Fees: prop and asset mgmt
- Staffing



8. Monitor Owner Fees and Incentives

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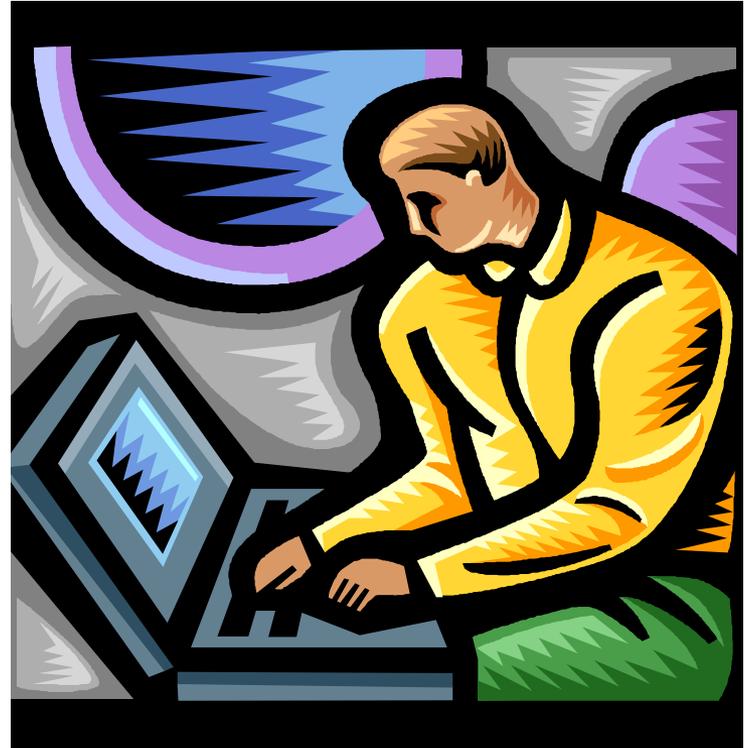


- **Asset management function often covered by these fees**
- **Communicate expectations clearly to property manager**
- **Alert ED and Board to any change in projections**

9. Gather and Interpret Key Data

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- Public laws
- Regulations and programs
- Real estate market conditions and opportunities (refi opportunities)
- Adequacy of insurance



10. Initiate Workout Plans

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- Identify key players
- Create plan
- Identify “workout team”
- Select workout leader
- Monitor progress

Most Common Problems In Affordable Housing

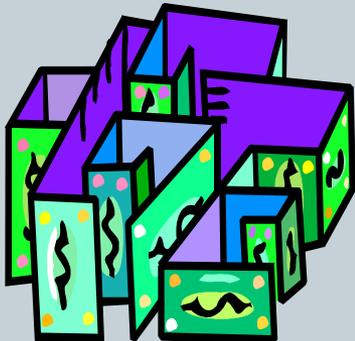
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The Market

- Property not competitive



The Financing



- Overleveraged
- Subsidy and/or other restrictions

The Management



- Unresponsive
- Combative
- Not skilled enough

Physical Condition

- Functionally obsolete
- Hazardous
- Deferred maintenance



Most Valued Asset Management Partnerships

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- **Property Manager**

- Has most impact on a day-to-day basis
- Affects portfolio capacity of the asset manager
 - ✦ If asset manager can not handle 15 - 20 properties because of property management demands, consider doing your own management unless there's an independent resource to pay for asset management.

- **Lenders & Investors**

- Best financial terms don't always make the best partner; evaluate long term compliance and oversight relationship & costs
- Have significant influence on your reputation (pro and con)

Most Valued Asset Management Partnerships

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- **Board of Directors**

- Set property goals
- Evaluate disposition strategies

- **Finance Managers**

- Negotiate property vs organizational financial needs

- **Housing Development Staff**

- Influence new project design, budget, staffing plan, resident mix, marketability

- **Other**

Getting the Most from Your Property Management Firm

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- Understand what it costs to operate a property management firm to better evaluate whether or not you're getting your money's worth. 63% to 75% of fee revenue goes to support non-site staffing, including supervisory and accounting.
- Understand that a management company seeks long term relationships. A management company loses money in the first year, breaks even in the second and begins to make some money in the third year of a contract.

Getting the Most from Your Property Management Firm

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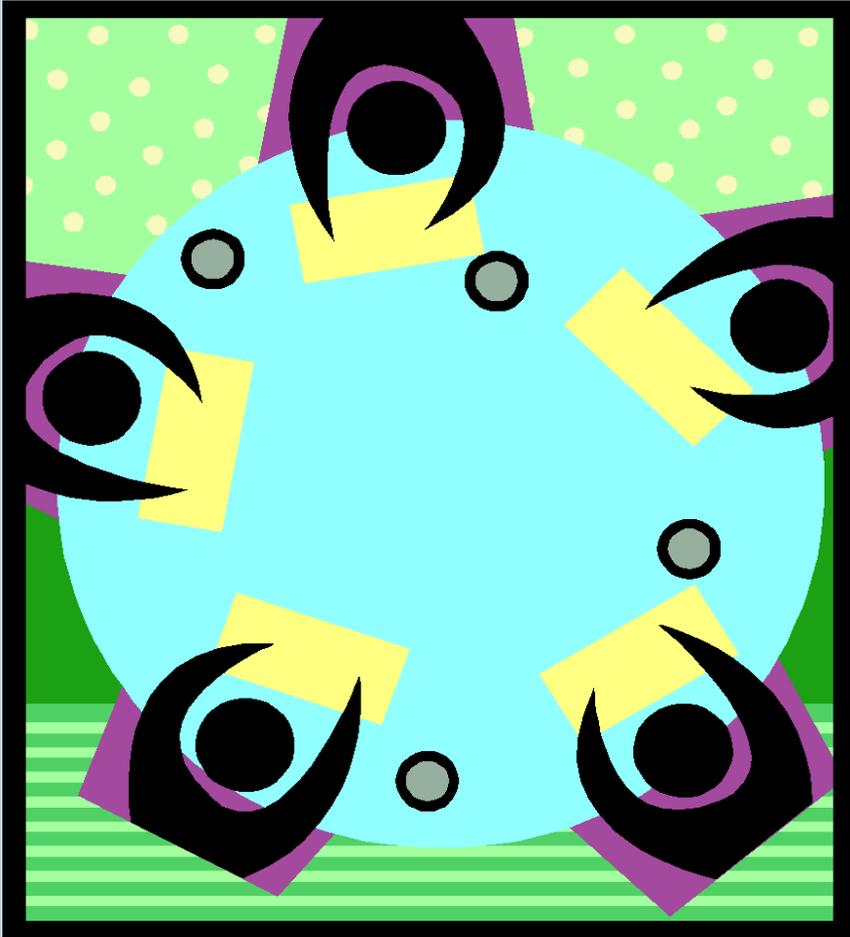
- The Management Contract should detail expectations of management company re:
 - meetings,
 - overseeing capital projects,
 - reporting, staffing.
 - If you want reports different than standard reports, specify. If you want a say in who the staff is, specify.

- Dealing with residents: clarify how resident complaints will be handled.



Getting the Most from Your Property Management Firm

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- Meet monthly and have a standing agenda that includes
 - budget variance review,
 - resident issues,
 - capital projects,
 - upcoming compliance/inspection activities.
 - Walk the property and look at all vacant unit

Getting the Most from Your Property Management Firm

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- Test early and often for redundancies of effort by property and asset managers.
- Appreciate that this is very hard work and it is very easy to fail.
- Cultivate a long term relationship(s). The more you shop around and make management company changes, the fewer “good” managers will want to work with you.
- Communicate, communicate, communicate.



How to Participate in New Developments

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- **Help develop “standards” for new or redeveloped developments based on portfolio experiences and best practices:**
 - Number of units
 - Management and other fees (bookkeeping, asset mgmt)
 - Number of bedrooms/unit
 - Operating costs (per unit and as a percentage of revenues)
 - Geography (property without a site office must be within a 30 to 45 minute drive of another property)

How to Participate in New Developments

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- **Help develop “design standards” for new/redeveloped properties**
 - Site office location and size
 - Unit mix (what works in the market)
 - Materials used (durability)
 - Maximizing energy efficiency
 - Safety
 - Parking and trash removal (two major problems hard to cure if you don't get it right the first time)

The End Game

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- **Be pro-active: have an asset management plan for each development**
 - Know Thy Deal
 - Trend and re-project the pro forma every few years
 - Perform Capital Needs Assessments every 5 years
 - Monitor/manage investor capital accounts – they do!
 - Demonstrate to stakeholders that you are planning for the future
 - Leave plenty of time to assemble the work-out team and necessary resources

Ways to Create Portfolios

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- By Activity

- In development
- Stabilized
- Troubled

- By Use

- Residential
 - ✦ Family
 - ✦ Elderly/Disabled
 - ✦ SRO
 - ✦ Special Needs
- Office
- Retail
- Industrial



- By Location

- By Size

- By Ownership

- Self-Managed/Third Party

- Those With Cliffs/Debt Maturities

Ways to Analyze Portfolios

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- Trends

- Identify trouble or potential trouble

- Operating Indicators

- Scattergram

- Benchmarks

- Comparables

- Balance Sheets

- Ratios

- Reserves

- Cash balances

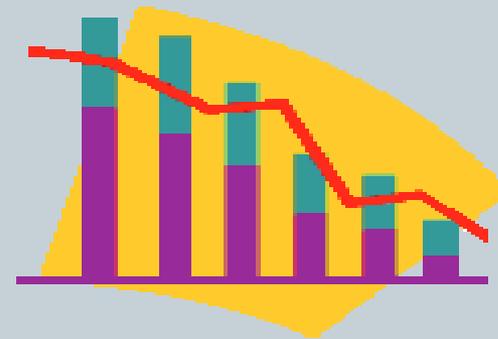
- Accounts receivable and payable



What is a Watch List?

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- It is a portfolio of properties that are under scrutiny based on their performance in one or more identifiable indicators
- Different stakeholders are likely to focus on different indicators
- Being on a watch list can trigger events or consequences that pose difficulties for a property or an organization



Gathering Data

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- **Key Determinants**

- Location
- Age
- Bedroom mix

- **Key Indicators**

- Financial
- Occupancy

- **Other Indicators**

- CNAs
- Stakeholder Report Cards
- Risk Management
- Staff Performance
- Resident Satisfaction
- Board/Owner Involvement

Key Determinant of Cost #1: Location, Location, Location

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- ***What It Is***

- Census tract in which the project is located.



- ***What It Tells Us***

- Operating costs are influenced by their location in the country, state, city, neighborhood.
- The higher the rate of poverty in the census tract, the higher the operating costs relative to nearby neighborhoods.
- Poorer neighborhoods tend to have higher rates of vandalism, crime, turnover – all of which contribute to higher operating costs.

Key Determinant of Cost #2: Age of the Property

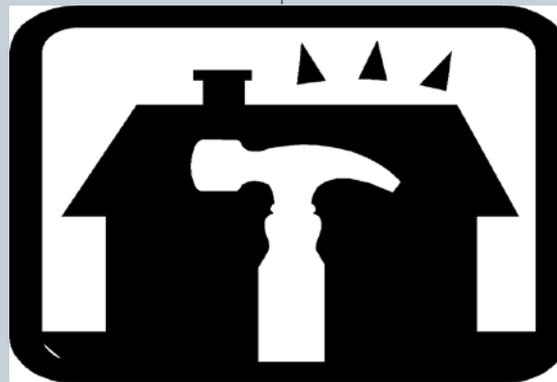
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- ***What It Is***

- Date project was built/
first occupied, OR
- Date project was fully
renovated

- ***What It Tells Us***

- The older the property and its
systems, the more it costs to
maintain. Thus operating costs
are often higher in older
projects.



Key Determinant of Cost #3

Average Bedroom Size

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- ***What It Is***

Formula:

$$\frac{\text{Total Number of BRs}}{\text{Total Number of Units}}$$



- ***What It Tells Us***

- Higher the average bedroom size, higher the anticipated operating expenses
- Average BR size over 1.5 = family property
- Some SROs with low average BR size may be costly to operate
- Often very difficult/costly to operate properties with bedroom density over 2.0

Other Performance Indicator #1: Capital Needs Assessment (CNA)

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- ***What It Is***

- ❑ Long range forecast of physical needs of a property
- ❑ Prepared comprehensively periodically (every 5 years)
- ❑ Updated annually
- ❑ Often required by lender

- ***What It Tells Us***

- ❑ Identifies capital items that will need to be replaced based on their anticipated useful life
- ❑ Quantifies anticipated costs of non-routine replacements
- ❑ Helps owners size replacement accounts



Other Performance Indicator #2: Stakeholder Report Card

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- ***What It Is***

- Formal or informal rating of performance of a property in one or several areas

Examples: REAC physical inspection; HFA property management review; LIHTC compliance monitoring audit; meeting established Owner goals; MFI Portfolio Report; local health department inspection; insurance company review of safety status

- ***What It Tells Us***

- How a property is performing
- How an owner and/or manager is performing
- How imminent a stakeholder action is



Other Performance Indicator #3: Risk Management Program

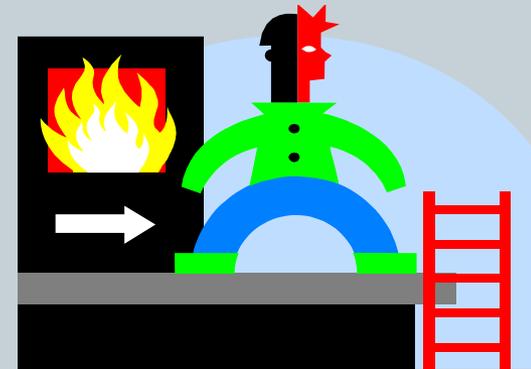
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- ***What It Is***

- Identification of risks involved in owning and/or managing real estate
- Description of how to manage risks (e.g. types and levels of insurance coverage; plans for emergencies; contingencies)
- Trends in schedule of debt – debt recourse – mix of hard/soft debt

- ***What It Tells Us***

- How we evaluate and prioritize risks
- How well prepared we are to address unknown events



Other Performance Indicator #4: Staff Performance Evaluation

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- ***What It Is***

- ❑ Objective measure of staff's contribution to a property or portfolio meeting its stated goals
(e.g. turnover time is reduced from 15 to 7 days; collection losses are reduced from 3% of GPR to 1% of GPR - both require staff involvement to meet goals)

- ***What It Tells Us***

- ❑ Helps identify training needs
- ❑ Helps determine if staff are part of the problem or part of the solution



Other Performance Indicator #5: Resident Satisfaction

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- ***What It Is***

- Measure of satisfaction residents report in key factors effecting their residency
- Examples:
 - ✦ Timeliness and quality of work order completion
 - ✦ Responsiveness of staff to inquiries, problem solving
 - ✦ Availability of amenities, resources – on site, nearby
 - ✦ Neighborhood

- ***What It Tells Us***

- How well we are delivering management services
- Likelihood of retention



Other Performance Indicator #6: Board/Owner Involvement

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- ***What It Is***

- Level at which the Board/Owner is engaged in establishing property, portfolio and organizational goals and routinely measuring performance against those goals

- ***What It Tells Us***

- Likelihood that problems will/will not be addressed timely and strategically



Stakeholder Watch Lists

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What measurements are likely to be on these stakeholders' watch lists?

- Board of Directors
- Lender
- Investor
- Regulator
- Board of Directors
- Property Manager
- Residents



How Do We Monitor Sustainability?

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NeighborWorks America has initiated a Green Organization Program for its NWOs. It provides guidance to NWOs committed to implementing and sustaining “green” practices. It encourages the establishment of a Green Asset Management Plan that measures performance in:

- Energy Efficiency
- Water Conservation
- Healthy Indoor Environments
- Recycling and Waste Reduction
- Accessibility and Walkability
- Environmentally Friendly Landscapes
- Sustainable Materials and Products
- Durability
- Lifecycle Approach

How Do We Monitor the Impact of Resident Services?

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- Anecdotal evidence has suggested for years that resident services in affordable family housing helps reduce operating costs.



- Studies* are beginning to confirm these observations in specific areas:
 - Vacancy Loss
 - Bad Debt
 - Legal Fees (eviction prevention)
- Rent loss (vacancies plus bad debt) is a common performance measure.

* NW and Community Housing Partners study

The Asset Manager's Watch List

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- First, identify the key indicators for your portfolio
 - Be certain they tie back to the Board's goals for the properties
 - Secondly, establish the criteria you will use to evaluate each indicator
 - Lastly, decide on a ranking system
- Make the criteria SMART
 - Specific
 - Measurable
 - Attainable
 - Realistic
 - Timely