Asset Management and Business Planning

Meeting Mission and Market in the 21st Century

PHAs can meet their mission by wisely entering the marketplace.
Asset Management and Business Planning equip PHAs with the tools for success.

Public Housing Agencies (PHAs are facing special and exciting challenges in the 21st century. As housing markets evolve, demographics change and economic patterns become more complex, the challenge of meeting housing needs is considerable. How can PHAs…

- ✓ Refine mission?
- ✓ Assess markets?
- ✓ Use assets?

as they define and refine organizational strategies.

Paradigm Shift

The **Housing-Solutions**SM Asset Management and Business Planning process is a paradigm shift for the typical PHA because…

Organizational mission is achieved by success in the real estate marketplace.

Capital programs serve portfolio re-tooling, with investments no longer limited by conventional public housing notions. Program options — Flat Rents, Project-Based Assistance, Section 8 Homeownership and others — are mixed and matched to enhance affordable housing purposes. What matters is yield — target-market households well and affordably housed.

How does this occur?

First there is a fundamental commitment to providing quality, affordable housing resources of various kinds consistent with desired housing in the community. The goal is to provide “housing of choice”, attractive to the entire range of economic groupings. Achieving this objective slowly but surely transitions the PHA out of the “projects” and into the housing business.

The process typically includes some or all of the following components:

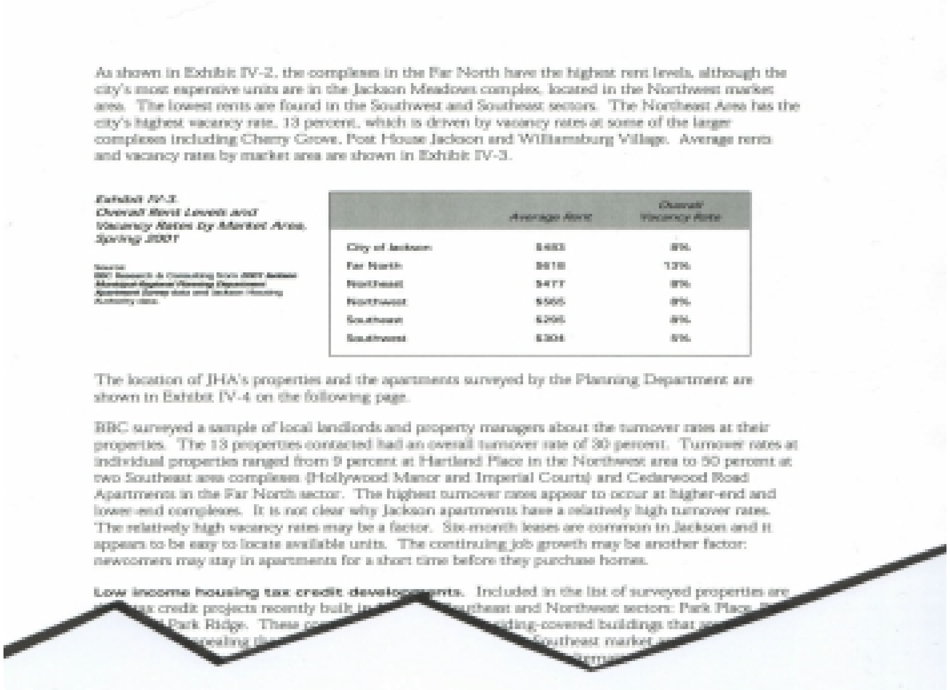
- **Strategic Reconnaissance**
- **Market Study**
- **Property-specific 20-Year Capital Plans**
- **Asset Management Plan**
- **Business Plan**

Strategic Reconnaissance involves a site visit yielding a compendium of all the assets upon which the organization can draw. The focus is strategic use of existing and potential resources, typically include…

- The *real estate assets* of the PHA, as represented by its owned portfolio under Annual Contributions Contract (ACC) and other owned property. These are typically classified as strong, medium or marginal performers.
- The *financial assets* of the PHA, as represented by its actual and potential flow of Operating Fund and Capital Fund subsidies and its cash and reserve levels
- The *institutional assets* of the organization, including its ability to create non-profit subsidiaries, issue bonds, form non-profit or for-profit business units
- The *strategic assets* of the PHA, most especially the ability to creatively deploy in a coordinated fashion the many recent policy and financial tools made available to PHAs. In addition to Flat Rents, Project-Based Assistance and the Section 8 Homeownership Option, these new tools include Replacement Housing Factor, Mixed-Finance, Voluntary and Required Conversion, the ability to borrow on future flow of Capital Funds, and more.
- Other entities involved in development or supportive activities, ranging from community development corporations (CDCs) to educational institutions to government agencies, civic groups, and service providers

The reconnaissance is firmly set in the context of local economic and demographic dynamics.

A base-line professional **market study** is completed (*excerpt at right*), to be updated annually by site staff, and professionally at least every five (5) years. This steps recognizes that in order to succeed in the marketplace and attract families with a choice in housing, the organization must obtain a thorough working knowledge of the local real estate market. The market study suggests potential niche markets for the organization (e.g., under-served groups) as well as possible candidate properties for acquisition using a variety of financing and subsidy methods. It positions existing owned properties in the market and in relation to the "competition", establishing a basis for portfolio re-structuring. An additional outcome of this process is a set of "imputed rents" for existing owned complexes, e.g., the rents they could obtain in the marketplace were there no subsidies involved. PHAs can easily adapt this information to become its schedule of property-specific Flat Rents.



As shown in Exhibit IV-2, the complexes in the Far North have the highest rent levels, although the city's most expensive units are in the Jackson Meadows complex, located in the Northwest market area. The lowest rents are found in the Southwest and Southeast sectors. The Northeast Area has the city's highest vacancy rate, 13 percent, which is driven by vacancy rates at some of the larger complexes including Cherry Grove, Post House Jackson and Williamsburg Village. Average rents and vacancy rates by market area are shown in Exhibit IV-3.

Exhibit IV-3.
Overall Rent Levels and Vacancy Rates by Market Area, Spring 2001

	Average Rent	Overall Vacancy Rate
City of Jackson	$483	8%
Far North	$618	13%
Northeast	$477	8%
Northwest	$505	8%
Southeast	$295	8%
Southwest	$304	5%

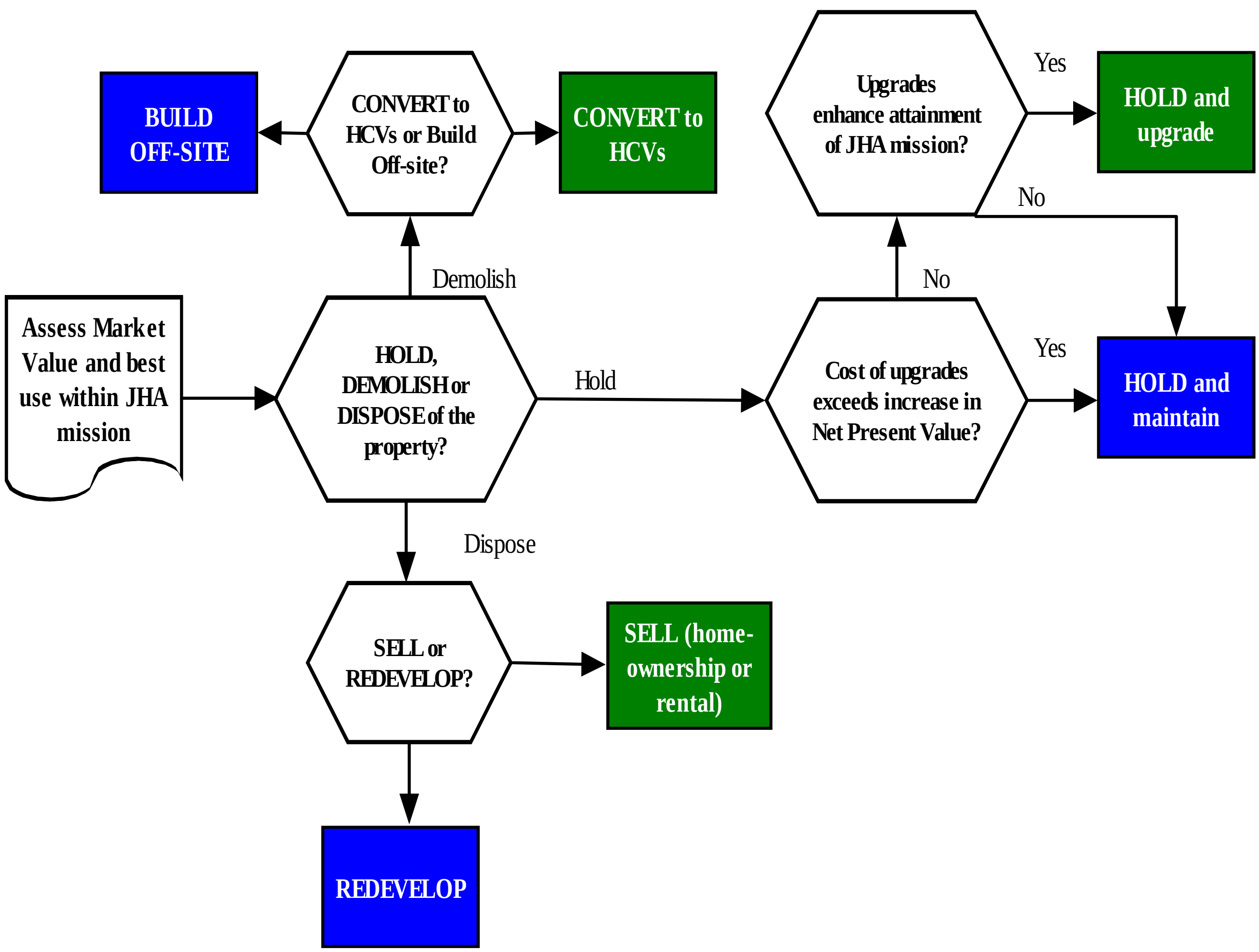
The location of JHA's properties and the apartments surveyed by the Planning Department are shown in Exhibit IV-4 on the following page.

BBC surveyed a sample of local landlords and property managers about the turnover rates at their properties. The 13 properties contacted had an overall turnover rate of 30 percent. Turnover rates at individual properties ranged from 9 percent at Hartland Place in the Northwest area to 50 percent at two Southeast area complexes (Hollywood Manor and Imperial Courts) and Cedarwood Road Apartments in the Far North sector. The highest turnover rates appear to occur at higher-end and lower-end complexes. It is not clear why Jackson apartments have a relatively high turnover rates. The relatively high vacancy rates may be a factor. Six-month leases are common in Jackson and it appears to be easy to locate available units. The continuing job growth may be another factor: newcomers may stay in apartments for a short time before they purchase homes.

Low income housing tax credit developments. Included in the list of surveyed properties are

Capital Plans are a real estate "best practice". A long-range capital needs and implementation plan indicates, year-by-year and system-by-system, replacement needs and costs. In the case of PHAs, a vacuum of sorts was created when the Quality Housing and Work Responsibility Act (QHWRA) created the Capital Fund Program but eliminated the requirement for a Physical Needs Assessment (PNA). Too often a PHA will attempt to formulate its annual and five-year capital budgets without knowing the full extent and timing of the capital needs of each of its holdings. This begs the question of what work to do where and when. More importantly, the absence of capital planning facilitates a process of spending blindly instead of making timely, strategically-sound, system-specific and market-responsive decisions, including adding to and deleting from the current portfolio. For those PHAs that seek to reduce their reliance on the vagaries of the Capital Fund Program with its inexact formulae and Congressional wrangling, the property-specific Capital Plan informs a process of creating self-funding Replacement Reserves. It is also possible to complete a Capital Plan on a single property separate from the Asset Management/Business Plan process.

An **Asset Management Plan** draws on each component of the overall process. It provides both general guidance as to how to evaluate property from year to year (see excerpt below) as well as specific information and recommendations for each property within the existing portfolio. As appropriate, other strategies are suggested and explored, such as conversion, acquisition and/or new construction. The potential for *mixed-finance development* (with or without entering the annual HOPE VI lottery) is evaluated. Even more important, potential and generally available financing sources are analyzed, including private debt, Low Income Housing Tax Credits (LIHTC), Federal Home Loan Bank, HOME, and Community Development Block Grants (CDBG).



The following two pages constitute the Strategic Assessment of an actual conventional public housing development, excerpted from an Asset Management Plan for a PHA in the Southeast U.S. The excerpt illustrates how to “tell the story” using pictures, numbers and words.

The property analyzed is known as *Allenton Heights*. The top row of the first page of the sheet includes a map, photo, and summary of the property including bedroom mix. Immediately below the map and photo is a flowchart setting forth three potential strategies for the property. The immediate recommendation (in this case, “Hold and Maintain”) is shown in green. The recommendation is based on the conclusion that the property does contribute to fulfillment of the agency mission, and any further upgrading (beyond adherence to the property’s 20-year Capital Plan) would not increase the potential market rent and net present value of the property. In short, “fix-as-is” is the best way to go for the foreseeable future. The flowchart does prompt the PHA to monitor market value over time, and to re-evaluate, each year, whether upgrades are warranted or whether the market value has risen to a point where the asset is best leveraged by disposition. For PHAs, the question of “disposition” can include spinning a property off to a non-profit subsidiary, which can (as part of a private owner entity) seek Low Income Housing Tax Credits, accept Section 8 Existing vouchers as Project-Based Assistance, borrow funds, and enjoy the resulting cash flow as well as a variety of fees potentially including asset management, bond issuance, and developer fees.

Below the flowchart, the capital costs associated with each potential action are presented in five-year increments for the 20-year horizon reflected in the property-specific Capital Plans. The Asset Management Plan also typically includes a textual analysis and an explanation of the recommendations for each property (see page 7.)

ALLENTON HEIGHTS

Built 1941, rehab 1984. Brick townhouses. Recent work includes new roofs and doors (1997) and DHW tanks (1999). Located adjacent to JHA central office, several blocks to the east of Highland Avenue (SE). Surrounded by older SFDs.

Buildings	#	1 BR	2 BR	3 BR	TOTAL
Duplex/Triplex					
Townhouse	14	32	50	18	100
Non-Residential	2	NA	NA	NA	NA
TOTAL	16	32	50	18	100

Hold and maintain

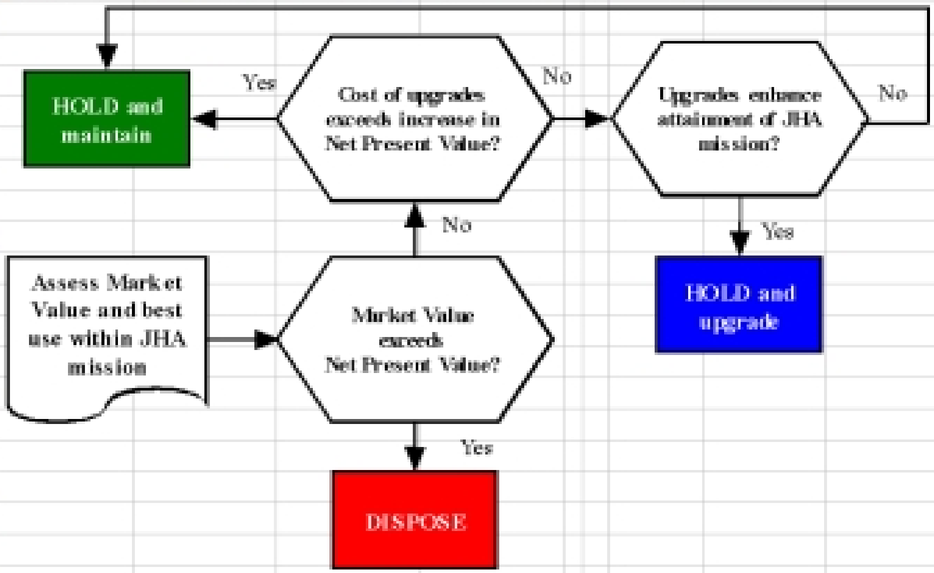
The property is maintained in accordance with the 20-year Capital Plan

Hold and upgrade

The property is upgraded to include:
- -Exterior differentiation
- -Individual yard differentiation
- -Dishwashers
- -Carpeting

Dispose

The property is sold and the proceeds used elsewhere in furtherance of the JHA mission



Vital Statistics

Year 2000 Vacancy Rate:

JHA family site average	6.2%
This property's average	5.0%

Year 2000 Turnover Rate:

JHA family site average	41.9%
This property's average	62.0%

Existing Present Value ($328,462)

Potential Present Value $96,154

Estimated Increase $424,616

Projected Flow of Funds	Years 1 - 5 CFP	Years 1 - 5 Other	Years 6 - 10 CFP	Years 6 - 10 Other	Years 11 - 15 CFP	Years 11 - 15 Other	Years 16 - 20 CFP	Years 16 - 20 Other	Total CFP	Total Other
Hold and maintain	$1,869,851	$0	$357,839	$0	$576,917	$0	$82,611	$0	$2,887,218	$0
Hold and upgrade	$2,415,573	$0	$357,839	$0	$576,917	$0	$82,611	$0	$3,432,940	$0
Dispose	$2,415,573	($2,500,000)	$0	$0	$0	$0	$0	$0	$2,415,573	($2,500,000)

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Allenton Heights is a 100-unit development of two-story residential buildings, originally constructed in 1941 with major rehab in 1984. The property is in Southeast Jackson, just to the east of N. Highland, Jackson's major east/west divider, and adjacent to the Jackson Housing Authority central office. The 1984 rehabilitation did not change the distribution of units by size, or alter configuration from the 1941 plan. The capital needs for the property are significant, with almost $1.9 million estimated within two years, simply to keep the property operating "as is", but with contemporary standard equipment.

Mission: Allenton Heights is one of JHA's earliest developments. It serves a family population, with some of the 1BR flats having senior occupants.

Analysis and Recommendation: Allenton Heights has a 62% turnover rate, much higher than the 41.9% average for JHA family sites which in turn is a bit higher than Jackson generally. This is partially attributed to a recent infusion of Section 8 Housing Choice Vouchers (HCVs), many of which went to former Allenton Heights residents. Despite this "blip" and despite its age and appearance similar to Lincoln Courts and Parkview Courts (both of which have negative reputations), Allenton Heights is viewed rather positively among available "affordable housing" options. It has a vacancy rate right at 5%, which is regarded as "full" by industry standards. Thus even with a relatively high cost to rehab, it is possible to make a sound argument for a **YES** on a *Hold and Maintain* strategy. A **NO** on a *Dispose* (sell) strategy is the sensible current choice.

Table 1

Existing Estimated Market Rents and Value:

The following rents are based on estimates of what Allenton Heights could obtain in the marketplace based on an analysis of comparable privately-owned properties. This assumes the "Hold and Maintain" strategy, consistent with the CNAs. Based on these rents and estimated operating expenses, an estimated (or "Imputed") Cash Flow (ICF) can be calculated. The Net Present Value of the ICF, based on a 10% capitalization rate, is then determined.

	BR Size	1-BR	2-BR	3-BR	4-BR	5-BR	*Total*
1	Mkt. Rents	$240	$320	$380			
2	# Units	32	50	18			100
3	Annual Rev.	$92,160	$192,000	$82,080			$366,240
4	Sq. ft./Unit	550	750	862			706
5	Rent/Sq.ft.	$0.44	$0.43	$0.44			$0.43
6	Less: Estimated Expenses						$400,400
7	Equals: Imputed Cash Flow (ICF)						($34,160)
8	Net Present Value of ICF Based on Cap Rate of					10.0%	($328,462)

Table 2

Potential Estimated Market Rents and Value:

The following rents are based on estimates of what Allenton Heights could obtain in the marketplace if the "Hold and Upgrade" strategy is adopted. The Potential Estimated Market Rents are calculations of what effects if any the upgrades would have on the marketability of the property and the resulting new Imputed Cash Flow (ICF). The new ICF translates into a revised estimate of Net Present Value and therefore of estimated market value.

	BR Size	1-BR	2-BR	3-BR	4-BR	5-BR	*Total*
1	Mkt. Rents	$270	$360	$420			
2	# Units	32	50	18			100
3	Annual Rev.	$103,680	$216,000	$90,720			$410,400
4	Sq. ft./Unit	550	750	862			706
5	Rent/Sq.ft.	$0.49	$0.48	$0.49			$0.48
6	Less: Estimated Expenses						$400,400
7	Equals: Imputed Cash Flow (ICF)						$10,000
8	Net Present Value of ICF Based on Cap Rate of					10.0%	$96,154

The question of whether to continue to Hold *or to* Dispose *at some future point depends on market position of the property. A* Dispose *decision would be made if the property could be leveraged in some fashion for rental housing. (Given location, the prospects of sales housing here are plausible but not considered likely in the near term). One potential scenario for leveraging would be to dispose to an entity which then seeks Low-Income Housing Tax Credits on all units. If the entity agrees to operate some units as public housing, it qualifies JHA to receive the maximum in Replacement Housing Factor (RHF) funds. (RHF is triggered by the loss of public housing units through demolition or disposition). If the new owner entity also agrees to let JHA attach Housing Choice Vouchers as Project Based Assistance for up to 25% of the units, this could make a redeveloped Allenton Heights a strong performer in its niche of the rental housing market in Jackson.*

*The final component in the Asset Management and Business Planning process is the formulation of a **Business Plan** to guide implementation of the Asset Management Plan. The Business Plan is a primer for the organization to use in acquiring critical knowledge about the real estate development process.*

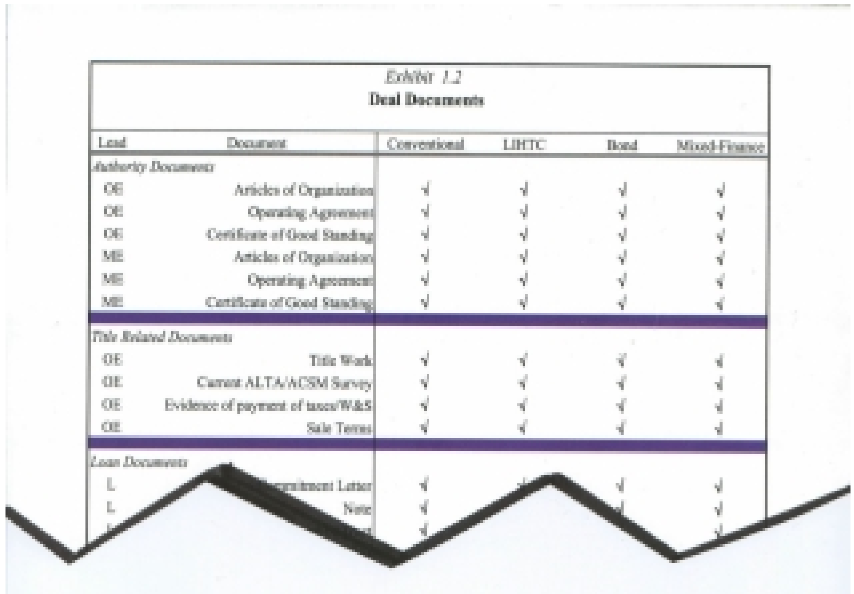

Exhibit 1.2
Deal Documents

Lead	Document	Conventional	LIHTC	Bond	Mixed-Finance
Authority Documents					
OE	Articles of Organization	√	√	√	√
OE	Operating Agreement	√	√	√	√
OE	Certificate of Good Standing	√	√	√	√
ME	Articles of Organization	√	√	√	√
ME	Operating Agreement	√	√	√	√
ME	Certificate of Good Standing	√	√	√	√
Title Related Documents					
OE	Title Work	√	√	√	√
OE	Current ALTA/ACSM Survey	√	√	√	√
OE	Evidence of payment of taxes/W&S	√	√	√	√
OE	Sale Terms	√	√	√	√
Loan Documents					
L	[illegible] Letter	√	[illegible]	√	√
L	Note	√	[illegible]	[illegible]	√

Typically, the Business Plan includes:

- *Deal Structuring*, including the deal documents required in various kinds of transactions. (Excerpt shown at tight).
- *Service Needs*, e.g., the kinds of specialized services which the organization will need to procure for its transaction(s), including development, finance, legal, architectural, market research, environmental, and construction
- *Financing strategies*, including sample proformas and budgets for one or two prototypical transactions such as property disposition or acquisition;
- *Analysis of Financial Impact*, on the non-profit subsidiary as appropriate and on the parent organization. If the parent is a PHA, this analysis examines losses in subsidies and costs and gains in fees and cash flow; and
- *Implementation Steps and Schedule* for one or two prototypical transactions.

A considerable portion of the Business Plan deals with the various kinds of organizational entities required by various kinds of transactions. This is illustrated by the graphic on last page.

A Word About Housing-Solutions^{SM}

Housing-Solutions^{SM} is a consortium of six (6) housing professionals from across the country, each operating an independent small business enterprise. The group includes planners, a professional engineer, and public/private development and finance experts, and has amassed over sixty (60) years of experience in working with PHAs and other affordable housing organizations. The team augments itself in other skill areas as needed, including market research, legal, and real estate accounting.

Since the group's formation in the mid-1990s, assignments have included Asset Management Plans, Capital Plans, HOPE VI applications, portfolio analyses, development and delivery of professional development seminars, and software development related to innovative real estate transactions involving affordable housing organizations.

For further information
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TYPICAL HOUSING DEAL -- ORGANIZATIONAL DIAGRAM

% Ownership based on 100% Low-Income Housing Tax Credit deal