

March 21-22, 2024 | InterContinental, Boston MA

After the Closing: Avoiding Pitfalls During the Compliance Period

IPED's Learn the Basics: Housing Tax Credits 101



Our Speakers

After the Closing: Avoiding Pitfalls During the Compliance Period



Claire Alexander
Nixon Peabody LLP
Moderator



Jen Brewerton
Dominium



Allen Feliz
MRI Real Estate Software



Stephanie Naquin
Novogradac

Learn the Basics: Housing Tax Credits 101

After the Closing: Avoiding Pitfalls During the Compliance Period

March 24, 2023



Allen Feliz

Vice President, U.S. Affordable Housing
Allen.Feliz@mrisoftware.com



Contents

1. Asset Management Overview
2. What is Asset Management?
 - The Problem
 - The Opportunity
 - How to Make it Happen



Asset Management Overview



What is Asset Management?

- Asset Management is the long-term, strategic oversight and guidance of an investment “asset”
- An ongoing, iterative process whereby the performance, direction, and value of a property are continually evaluated
- Takes a view of the property investment that is focused on long-term goals and objectives

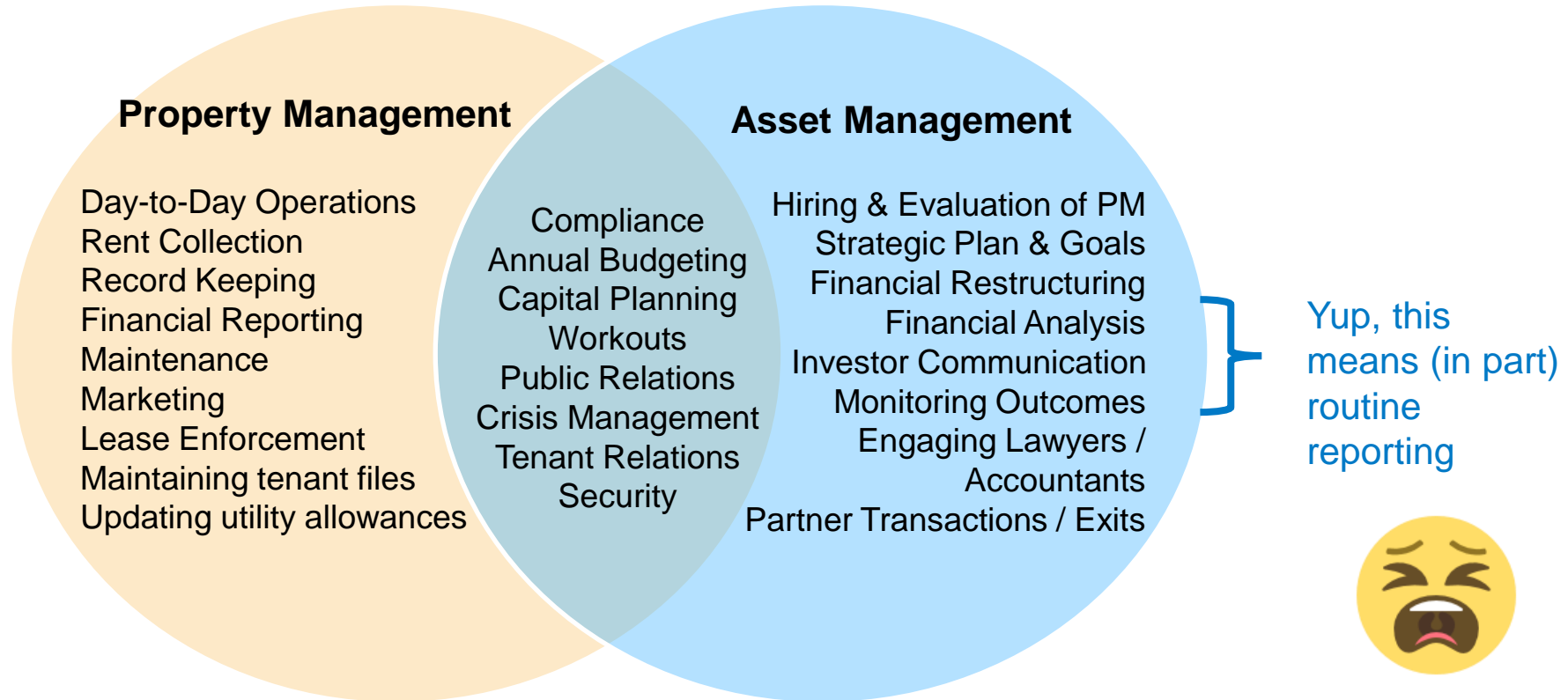
...versus Property Management?

PM concerns the day-to-day operations

Why have BOTH?

- Because daily operations are hard—PM requires 100% focus
- Oversight, and a long-term perspective, help mitigate risk and improve decision making

Asset Management vs Property Management



Why Asset Management Matters

- Reduces risk by **identifying and addressing small problems before they become big problems**
- Identifies opportunities that improve performance, which leads to **happier residents** and **increased value**
- Provides the information and wisdom to **prepare for and make decisions** when the time comes
- Provides **feedback on operational and program effectiveness**

“...active monitoring and risk mitigation...”



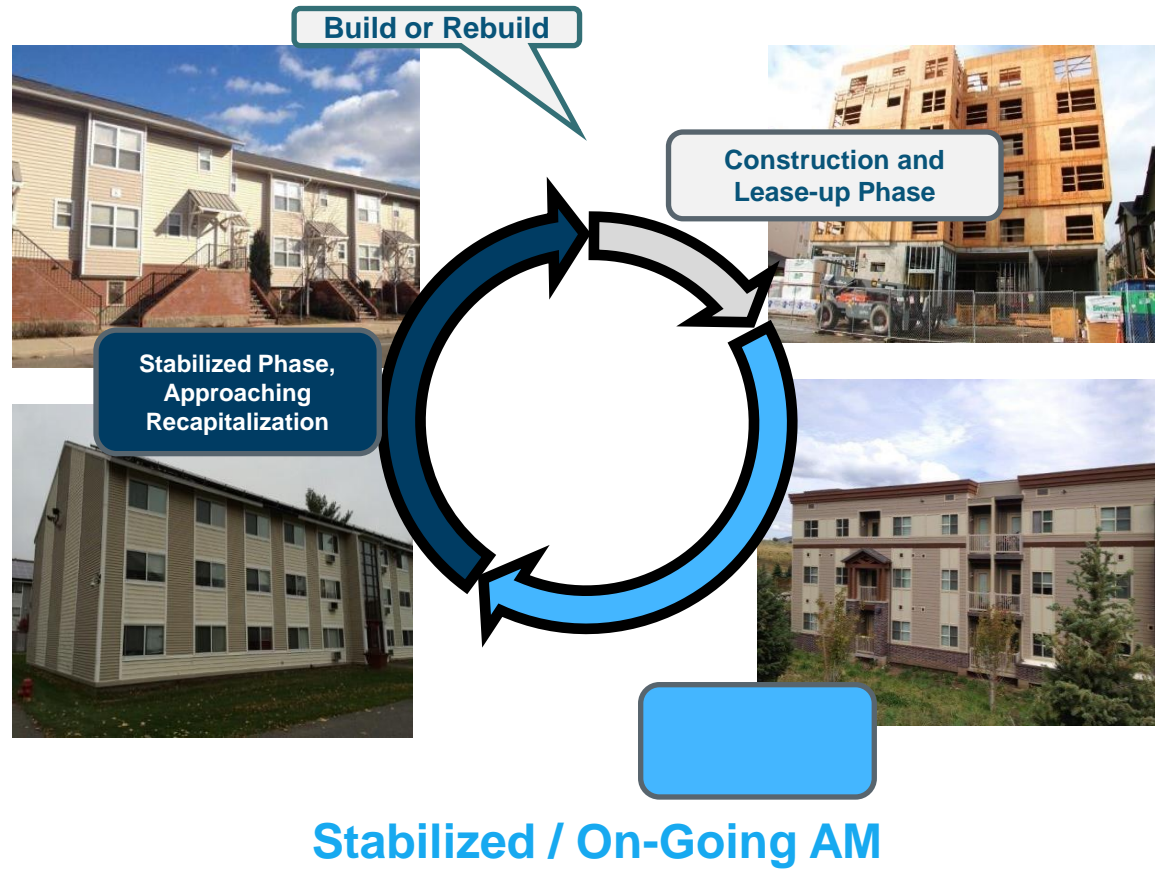
Collect Data	Analyze	Identify Risk	Mitigate
Ask the right questions	Know the desired result	Identify unexpected results	Communicate with stakeholders
Be smart with effective data capture	Build efficient systems	Gauge relative risk of deficiency	Develop action plans
Set appropriate frequency	Filter data to identify exceptions	Ask questions to verify results	Fix the problem!

Source: Ohio Capital Corporation For Housing

Asset Cycle & Asset Management types

Transactional AM

Pre-Stabilized AM



Pre-Stabilized Asset Management: Key Activities

- Monitoring of construction progress against plan
- Construction draw review and equity release approval
- Monitoring of initial marketing plan and rental rate achievement throughout lease-up
- Completion and lease-up projection monitoring to ensure projected benefits delivered
- Initial compliance monitoring
- Adjuster calculations
- Monitor progress towards permanent debt conversions and receipt of 8609's



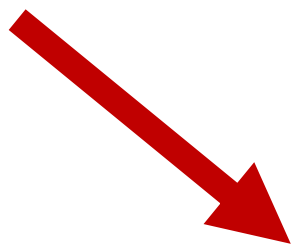
Stabilized/Operational Asset Management: Key Activities

- Review and analysis of monthly or quarterly financial statements
- Site visits & inspections
- Compliance and insurance monitoring
- Risk rating and watch list management
- Annual audit and tax return review
- Problem resolution
- Collection of fees and distributions
- Review and analysis of proposed transactions or investment changes
- Communication with partners and other stakeholders



Asset Management means different things to different stakeholders

- Various levels of risk and involvement in a property
- Owners are **“closest to the asset”**
 - Greatest liability in event of underperformance
 - Biggest potential upside if strong residual value and/or cash flow
 - Need greatest intensity of focus in asset management



Subordinate Lenders

1st Mortgage Lender

LIHTC Equity Investor

Owner/ Developer



Owner Asset Management

- **PROPERTY OPERATIONS AND CONDITION**
 - Balancing priorities of a double- or triple-bottom line
- Delivery of Tax Benefits
 - Tax credits
 - Tax losses
- Guarantees
 - Construction completion
 - Operating deficit
 - Tax credit shortfall
- Managing the affairs of the partnership
 - Communicating with lenders, investors and other stakeholders
 - Tracking & fulfilling commitments
- Compliance
 - Ensuring compliance with LURA / Restrictive Covenant / etc
- Monitoring for adherence to loan covenants
 - Criteria for stabilized operations
 - Debt coverage ratio
 - Replacement Reserve obligations

Subordinate
Lenders

1st Mortgage
Lender

LIHTC Equity
Investor

Owner/
Developer



Investor Asset Management

- Delivery of Tax Benefits
 - Tax credits
 - Tax losses
- Property Operations and Condition
 - Site Visits
- Compliance
 - 8823s / Agency Reviews
 - Tenant file compliance
 - First Year
 - Ongoing
- Partnership Distributions
- Enforcing Guarantees
- Monitoring for Adherence to Loan Covenants
 - Criteria for stabilized operations
 - Replacement Reserve obligation

Subordinate
Lenders

1st Mortgage
Lender

**LIHTC Equity
Investor**

Owner/
Developer



Asset Management Best Practices

- ORGANIZATION, CONSISTENCY, and COMPREHENSION are essential
- Typically, 80% of your time is spent on 20% of your properties
- Risk-based targeting: spend less time and fewer resources on the least risky properties; spend more time on the properties that need it
- Understand your portfolio overall by risk-rating your properties
- Document management is important; stay organized!
- Understanding your governing documents, audits, and financials is important
- Seize opportunities: Rents are maximized, when appropriate
- Use software to streamline your processes and save time

What's really worth spending Asset Management time on?

BUDGETS

- Establish portfolio-wide goals, then translate them into project budgets
- Look at historical, comparable, and market data when projecting for the coming year
- Balance input from central office and site management
- Getting budgeting wrong will undermine a lot of other processes

CAPITAL PLANNING

- If you were a manufacturer, your properties would be your factory – take care of your physical plant!
- Replacement reserve deposits are **almost never sufficient** after 15 years
- Balance input from central office and site management
 - Get experts when needed
 - Managing bids is time consuming

What is Asset Management?



The Problem

Difficult and demanding portfolios, and too much to do



Drowning in Detail

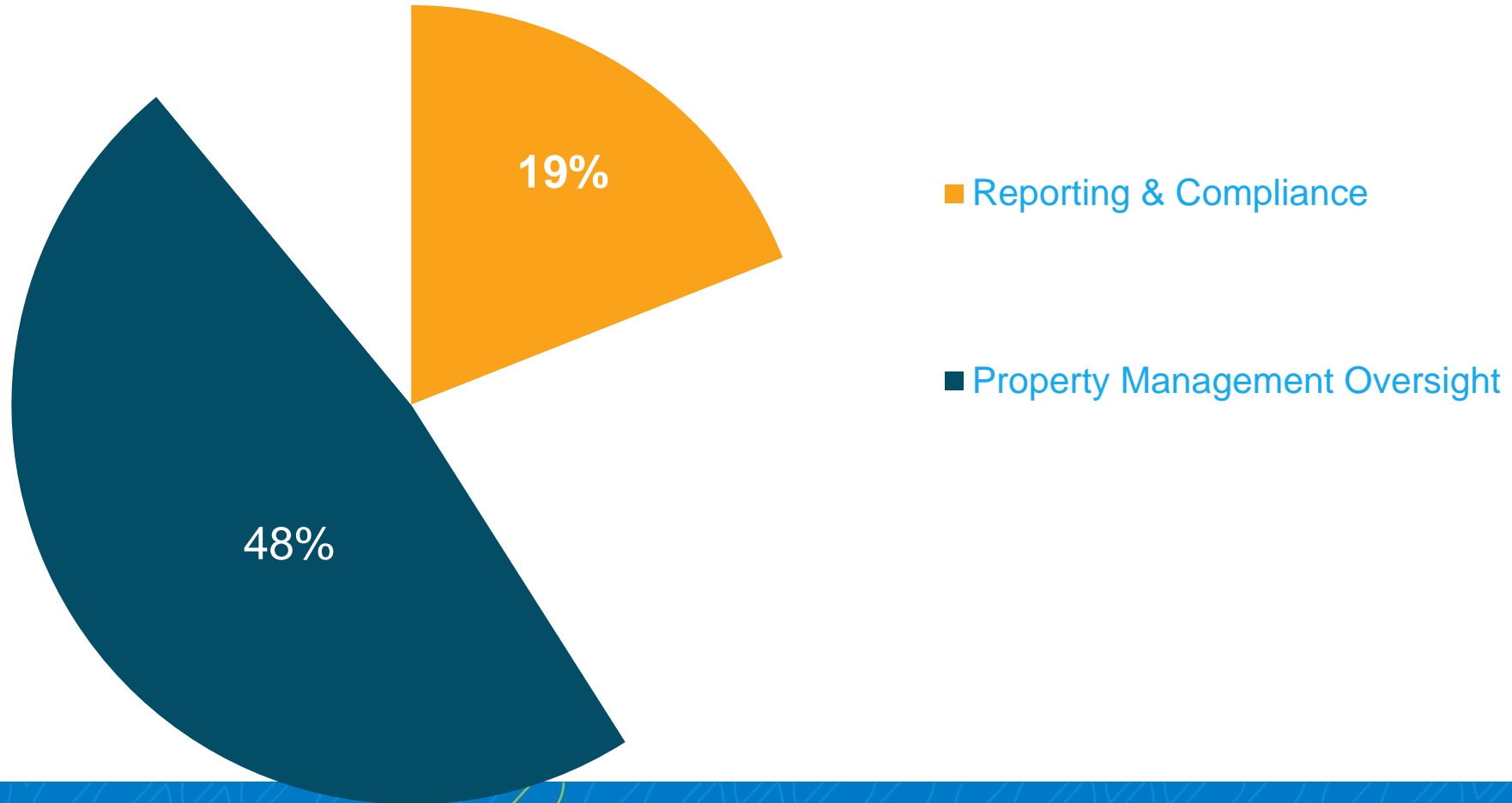
- Affordable properties underwritten to operate on the edge
- Lots of day-to-day issues and problems at the properties
- Multiple stakeholders and regulatory requirements
- Lots of reporting, questions, inspections
- Easy to lose the plot



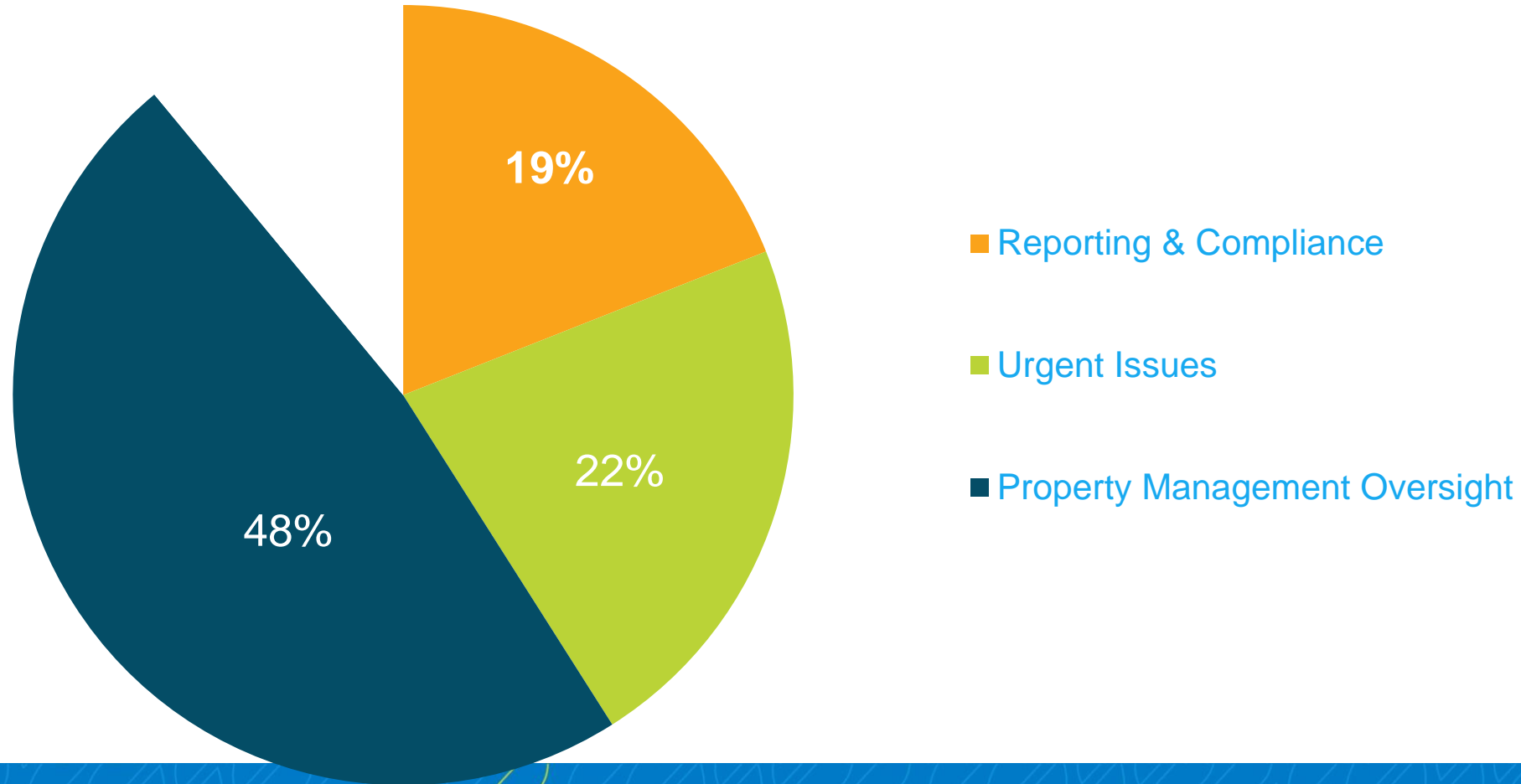
How Asset Managers Spend Their Time



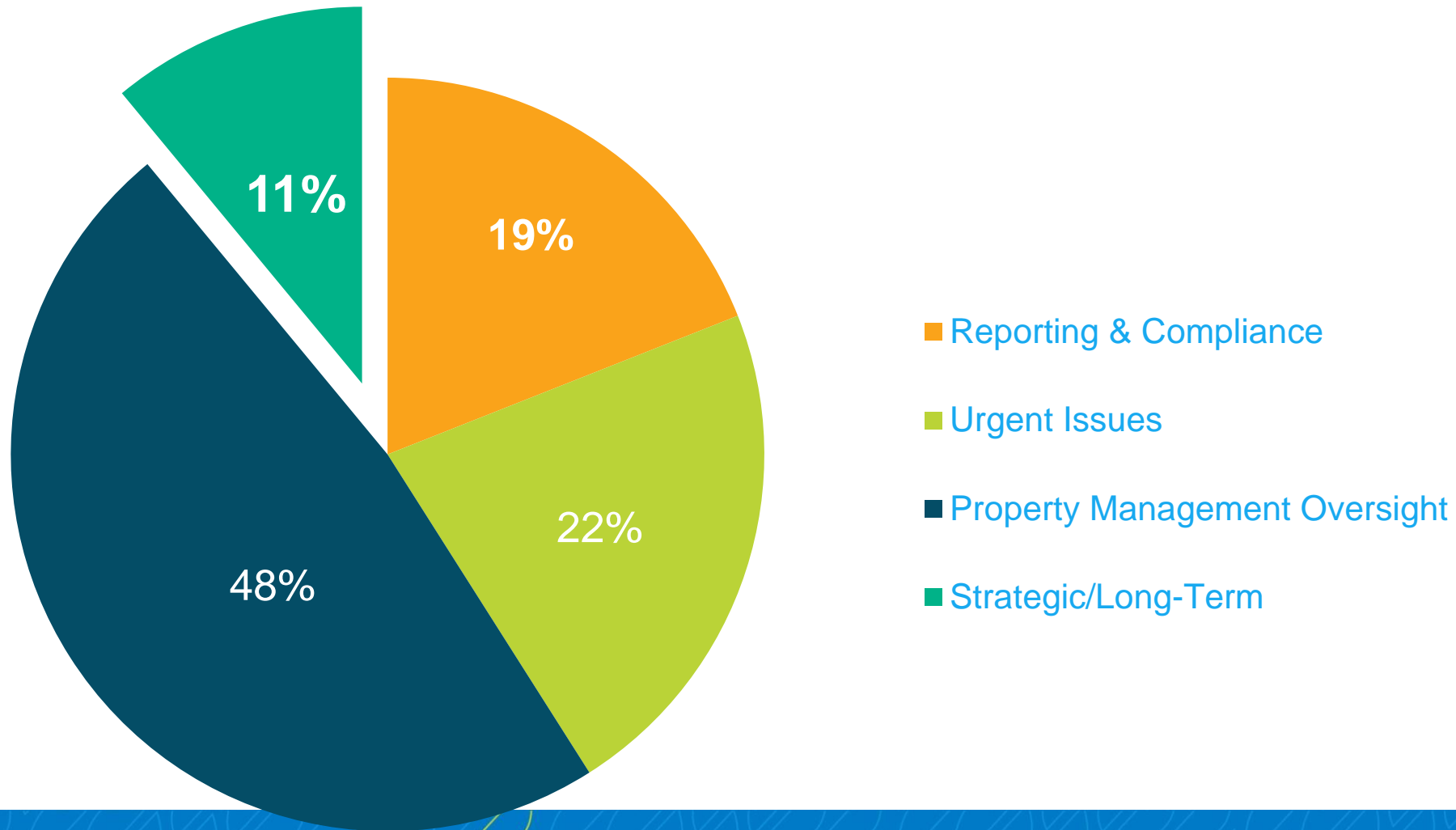
How Asset Managers Spend Their Time



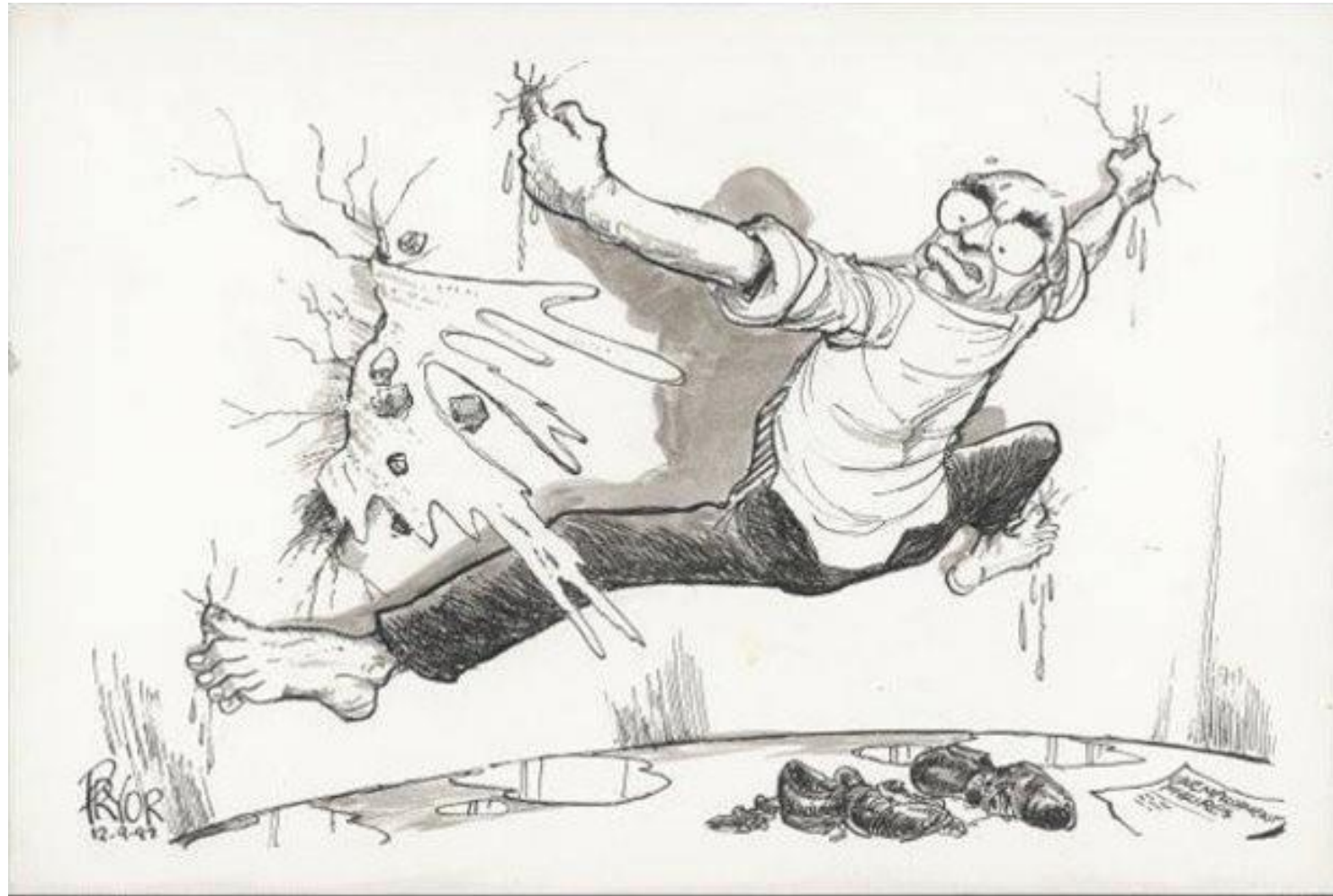
How Asset Managers Spend Their Time



Very Little Time For the Big Picture



Asset Managers In Fix-it Mode



The Opportunity

Unlocking Value



Unlocking Value

Asset managers adding \$\$\$ to the bottom line – and better results for residents

- Better and more profitable property operations
- Improved financial structure
- Real planning for capital needs
- Wisdom for the next round of deals



Capital and Financial Planning

- Maximizing occupancy ⇔ Minimizing turnover time
- Maximizing rent levels and collections
- Tackling the big expenses
- Strong preventive maintenance

Better – and More Profitable – Property Operations

- **Long-term real assets** – how they age will determine value
- **Financial structure** – debt and equity also drives value
- **Capital needs and financial structure** – must be managed together
- **Long-term planning** will maximize value



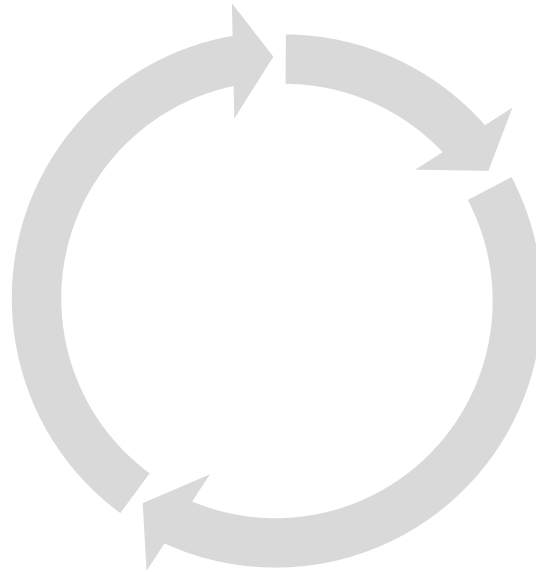
The Asset Cycle



Approaching Recapitalization



Build or
Rebuild?



Construction & Lease Up



Stabilized

Wisdom For Decision-Making

- Setting priorities for the organization's portfolio
- Providing feedback on what works and what doesn't work
- Underwriting new deals
- Determining what types of markets and deals to pursue
- Fine-tuning documentation



High-Functioning Asset Management

- Increases cash flow
- Improves quality of housing provided
- Increases property value → more resources
- Insight to make better decisions on current and future deal

How do you get there?

How to Make It Happen

Best Practices



5 BEST PRACTICES

#5: Know Your Goals

What is your organization trying to achieve? How do you measure success?



#4: Take the Time To Plan

One word: Budget



Budget

Annual operating and capital budget essential

The roadmap for achieving the goals – property level and portfolio level

Get input from those on the ground as well as those in the lead

Know your deals – issues, partners, requirements, documents, milestones, financing

Each year is part of a longer term plan

#3: Pick Your Focus Areas

There will never be enough time to do it all



Rate risk and opportunity
- not all assets benefit
from the same level of
attention



Ask:
How big is it?



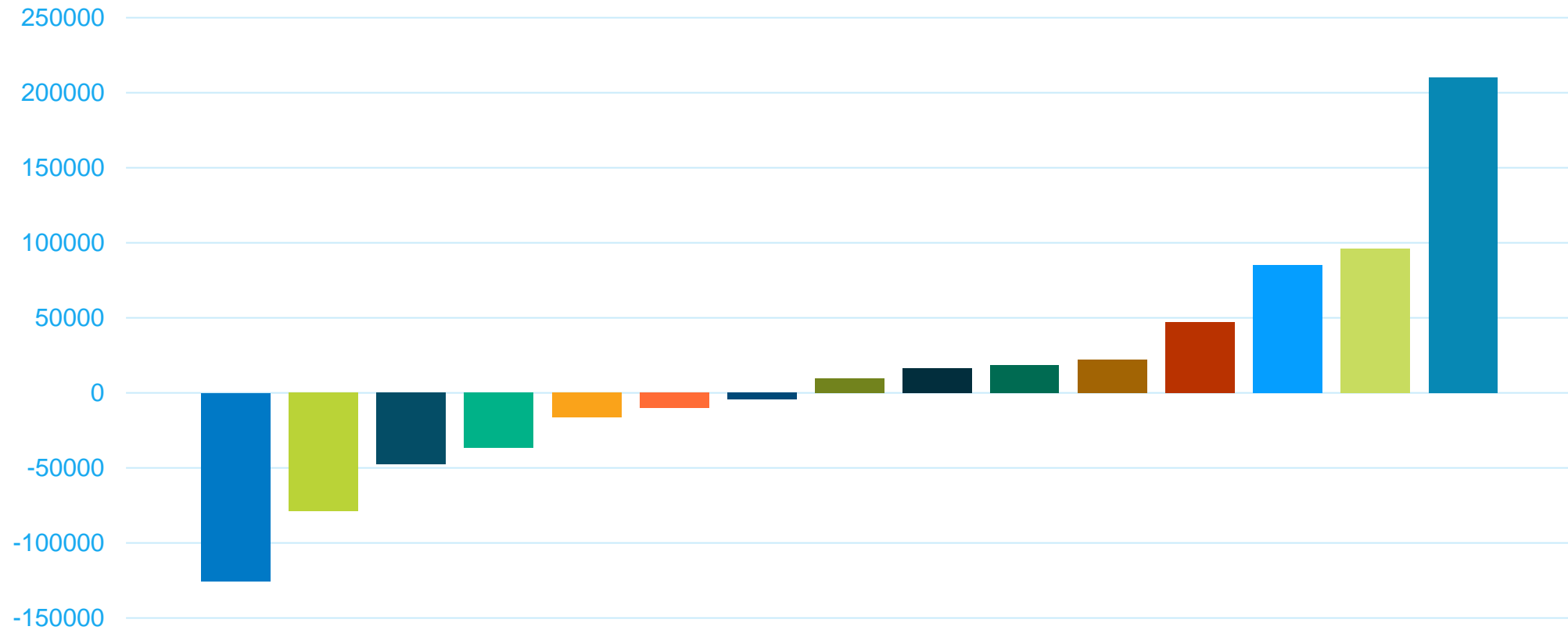
What tasks lead most
directly to your goals,
short-term or
long-term?



What reports help you
and senior staff
manage the business
and make decisions?

The 80/20 Rule

Net Cash Flow by Property



#2: Don't Get Mired in Minutiae



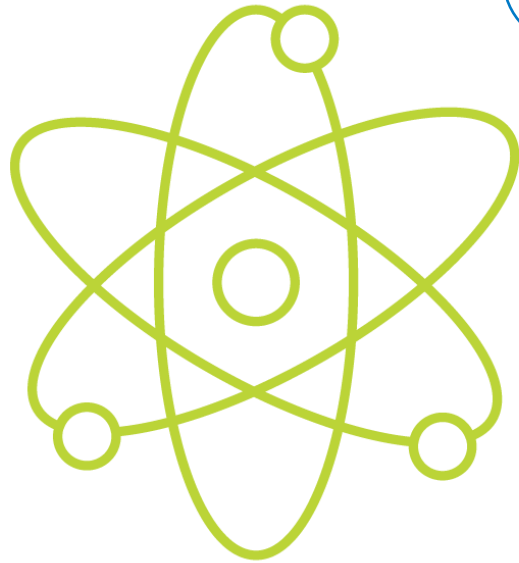
ASSET MANAGEMENT



PROPERTY MANAGEMENT

#1: Manage the Data

Don't let the data manage you



- Know what you're measuring – and why
- Be selective
- Collect and measure consistently
- Keep the data clean
- Reporting: less is more

Asset Management As An Opportunity

5 Know
Your
Goals

4 Take the
Time to
Plan

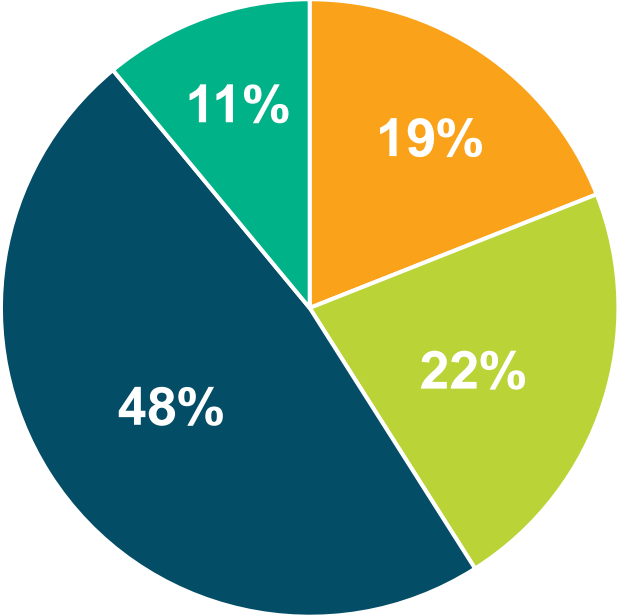
3 Pick
Your
Spots

2 Don't Get
Mired in
Minutiae

1 Manage
the
Data

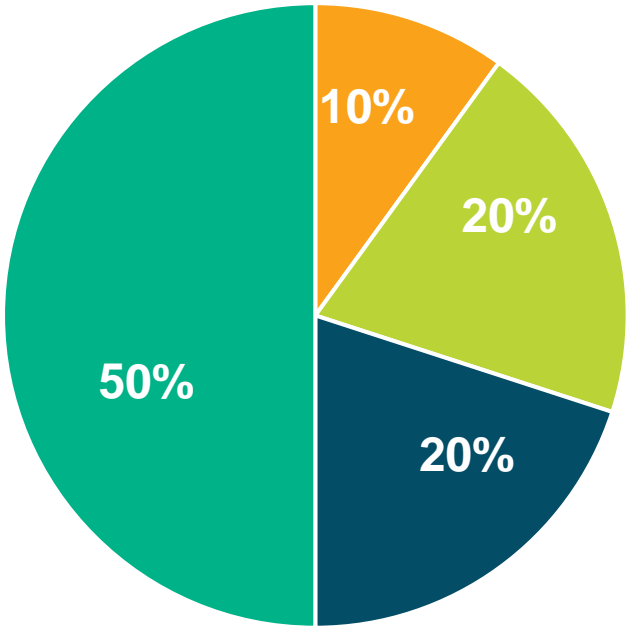
More Time on High-Impact Activities

Typical Time Allocation



- Reporting & Compliance
- Urgent Issues
- PM Oversight
- Strategic/Long-Term

The Goal



- Reporting & Compliance
- Urgent Issues
- PM Oversight
- Strategic/Long-Term

Learn the Basics: Housing Tax Credits 101

After the Closing: Avoiding Pitfalls During the Compliance Period

March 24, 2023



Allen Feliz

Vice President, U.S. Affordable Housing

Allen.Feliz@mrisoftware.com

