

National Housing & Rehabilitation Association

Asset Management Conference

June 11-12, 2018 Bethesda, MD



Managing Troubled Deals

Bobby Custer, Director of Asset Management
National Foundation for Affordable Housing Solutions

Josh Ghena, Director, Special Assets
Cinnaire

Todd Sears, Executive Vice President
Herman & Kittle Properties

Vinnie Viola, Principal
Birch Island Real Estate Consulting, LLC

Sponsors:

Bank of America
Merrill Lynch

Marcus & Millichap



Panel Objectives

- Understand One Method Syndicators Use to Risk Rate LIHTC Projects – Affordable Housing Investors Council (AHIC) Risk Rate Guidelines
- Describe the Difference Between Routine Asset Management vs ‘Special Asset’ Designation
- Understand ILP and GP Perspectives on Monitoring LIHTC Projects against Budget and Underwriting., and the sometimes inherent tension between the partners.
- Understand Importance of Communication Among Partners, in Particular, with Projects on Watch List Status



Asset Management as Risk Management

The LIHTC Investor Perspective

NH&RA Asset Management Conference

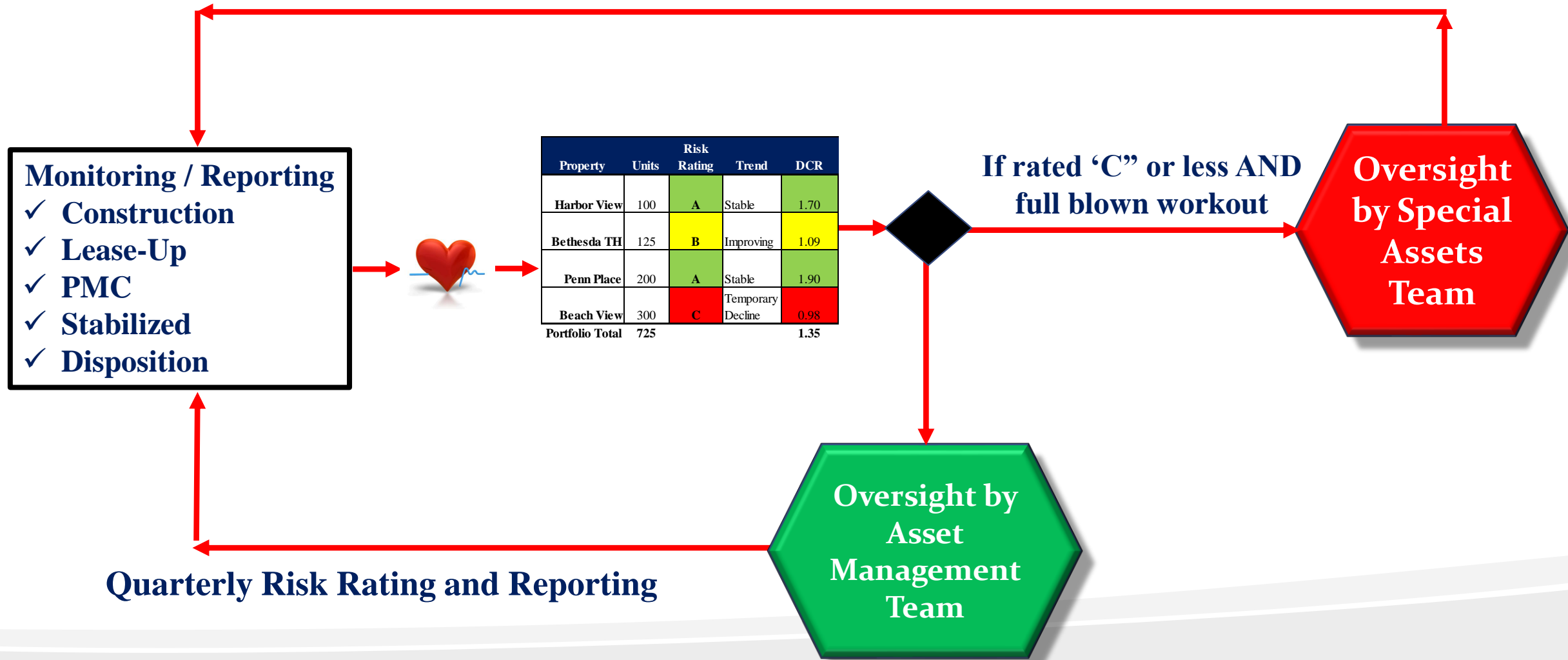
Asset Management of Multifamily Housing in Pictures



Property	Units	Risk Rating	Trend	DCR
Harbor View	100	A	Stable	1.70
Bethesda TH	125	B	Improving	1.09
Penn Place	200	A	Stable	1.90
Beach View	300	C	Temporary Decline	0.98
Portfolio Total	725			1.35

Syndicator Asset Management...in a Nutshell

Intense Monitoring, Quarterly Rating



Risk Ratings Multifamily Projects



High Risk




Special Asset
(workout)

Watch List Asset

Stable Asset
(routine monitoring & reporting)

Low Risk

AHIC Stabilized Phase Risk Rating Criteria

- 
1. Debt Coverage Ratio
 2. Expense Coverage Ratio
 3. Economic Occupancy
 4. Reserves
 5. Physical Condition
 6. GP / Sponsor / Developer / Management
 7. Program Compliance
 8. Insurance / Taxes
 9. Reporting
 10. Recapture Foreclosure

* Asset manager's quarterly analysis typically includes review of the partnership's income statement (budget to actual) and balance sheet, and year-end analysis of the audit to underwriting; watchlist assets require more intense oversight.

AHIC Overall Risk Rating

A - Excellent

Performing as projected

B - Average

Stable, slightly underperforming vs original projection

C - Weak

a) Unlikely to meet original projections; with two or more risk rate issues... b) Any one issue, DSC, Occupancy, Compliance, Recapture or Construction/Lease-Up may be sufficient to warrant 'C', watch list

D – Moderate Risk

Credits are at risk with significant risk of recapture;...exhibits three or more risk issues...requires intense oversight

F - Significant Risk

Recapture is imminent

AHIC Overall Risk Rating

‘Overall’ defaults to lowest rating among criteria

Stabilized Phase Criteria	A	B	C	D	F
Overall				X	
DSC				X	
Occupancy			X		
Reserves	X				
Physical		X			
GP / Sponsor/ Management	X				
Program Compliance	X				
Insurance & Taxes	X				
Reporting			X		
Recapture	X				



AHIC Ratings

Debt Coverage Ratio

A DCR ≥ 1.20 or project performs as underwritten

B $1.20 > \text{DCR} \geq 1.00$

C $1.00 > \text{DCR} \geq 0.85$ and project current on must-pay debt

D a) $0.85 > \text{DCR} > 0.50$ or significant cash deficits*. b) Delinquent on must-pay debt

F a) Project is in default on must-pay debt. b) Default notice issued



AHIC Rating

Economic Occupancy (EO)

A

$EO \geq 95\%$

B

$95\% > EO \geq 90\%$

C

$90\% > EO \geq 80\%$

D

$EO < 80\%$

F

$EO < 70\%$

**Transition of a LIHTC Project from
'A' Rating to 'Special Asset' Status
The Case of Harbor View Apartment, LP**



About Harbor View Apartments, LP

Property

- New construction PIS 2014
- 100 1-, 2, and 3-BR Units for Families
- 9% LIHTC with Conventional Loan
- 40-60 AMI Side-Aside, 100% LIHTC

Property Operating Trends 2014 - 2016

- Strong rental market, minimal vacancy loss
- Debt Coverage Ratio of 1.35 or greater
- Overall AHIC Risk Rating: 'A'

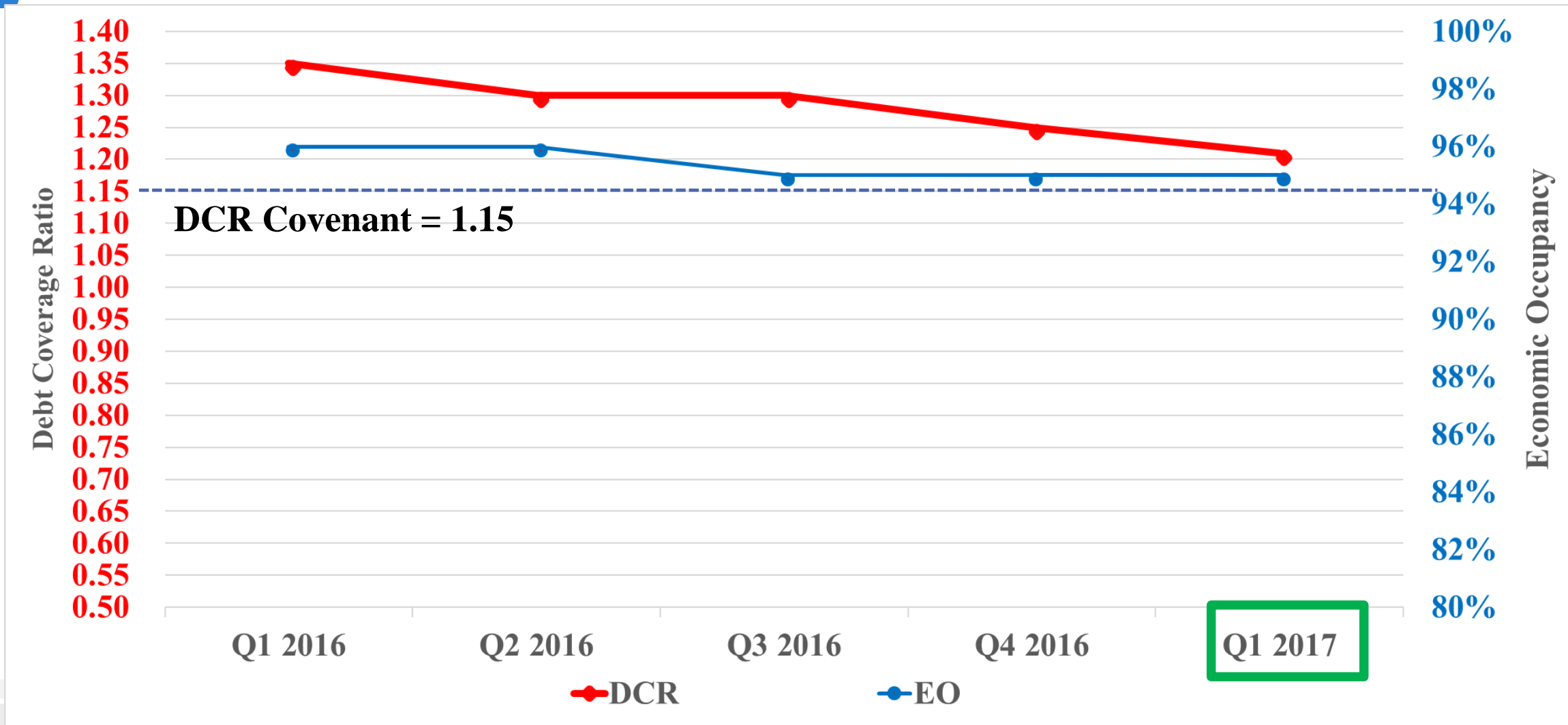
Let's see how Harbor View performs quarter-over-quarter Q1 2017 to Q1 2018

Harbor View Apts, LP

1st Quarter 2017 (3/31/2017)

AHIC = A

AHIC = A

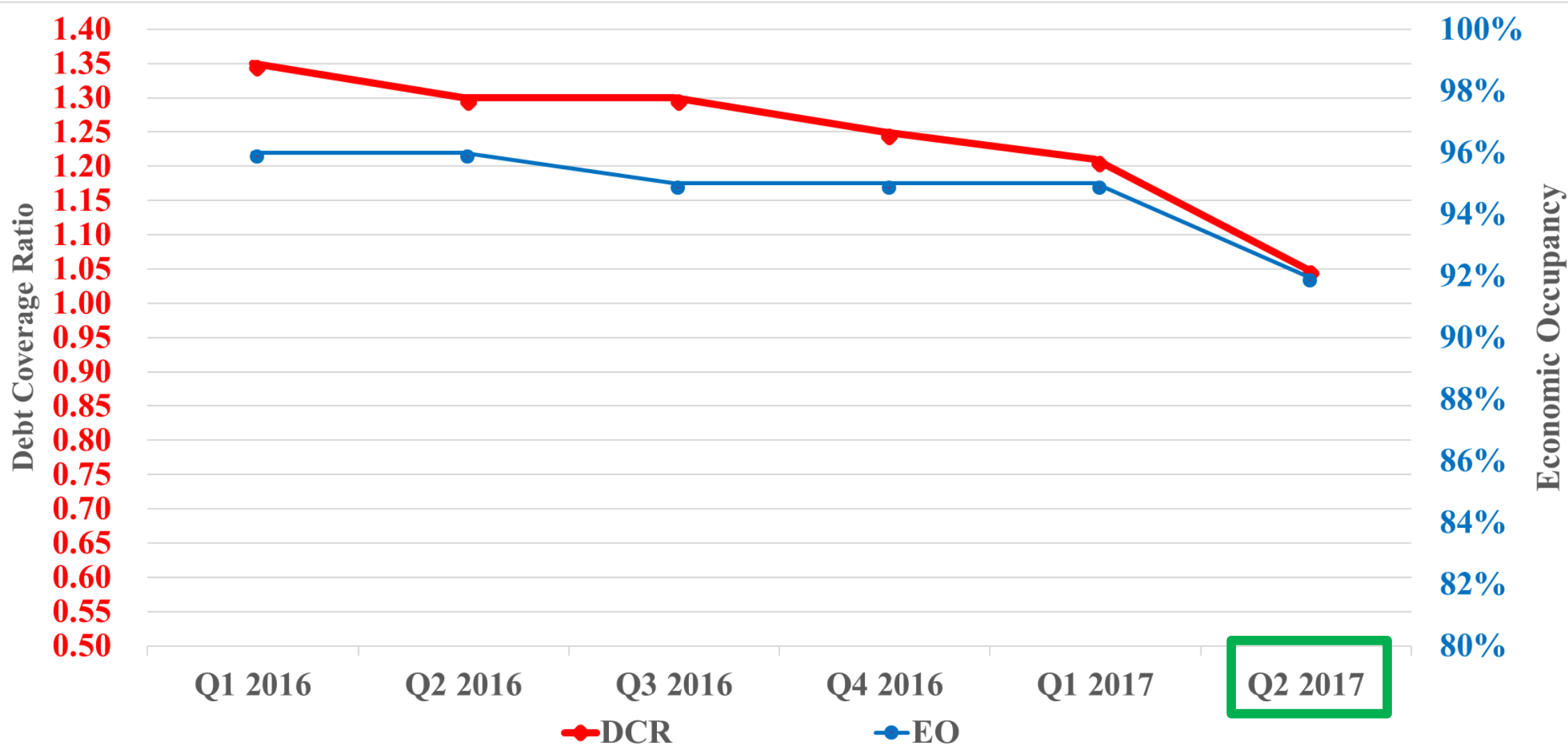


Harbor View Apts, LP

2nd Quarter 2017 (6/30/2017)

AHIC = B

AHIC = B

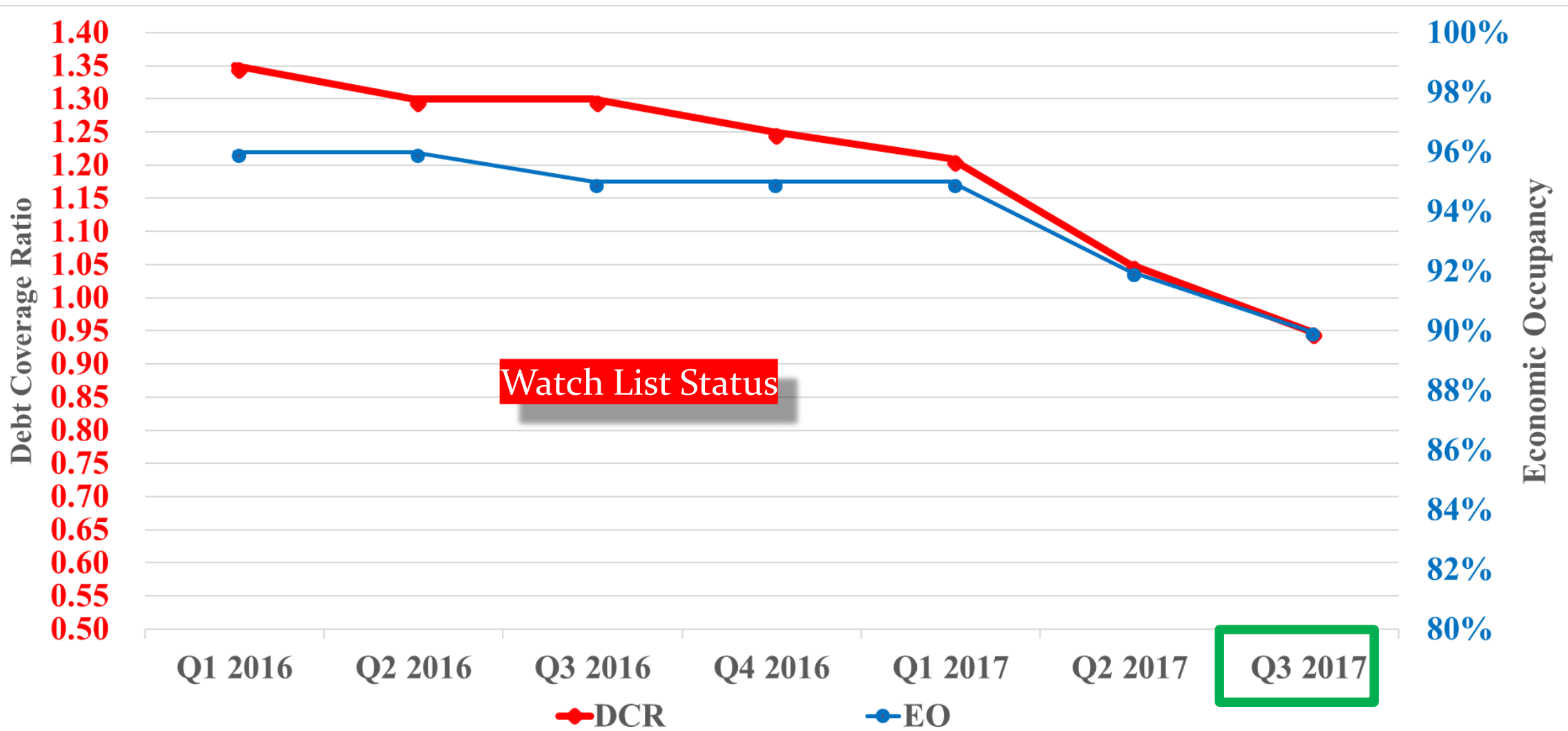


Harbor View Apts, LP

3rd Quarter 2017 (9/30/2017)

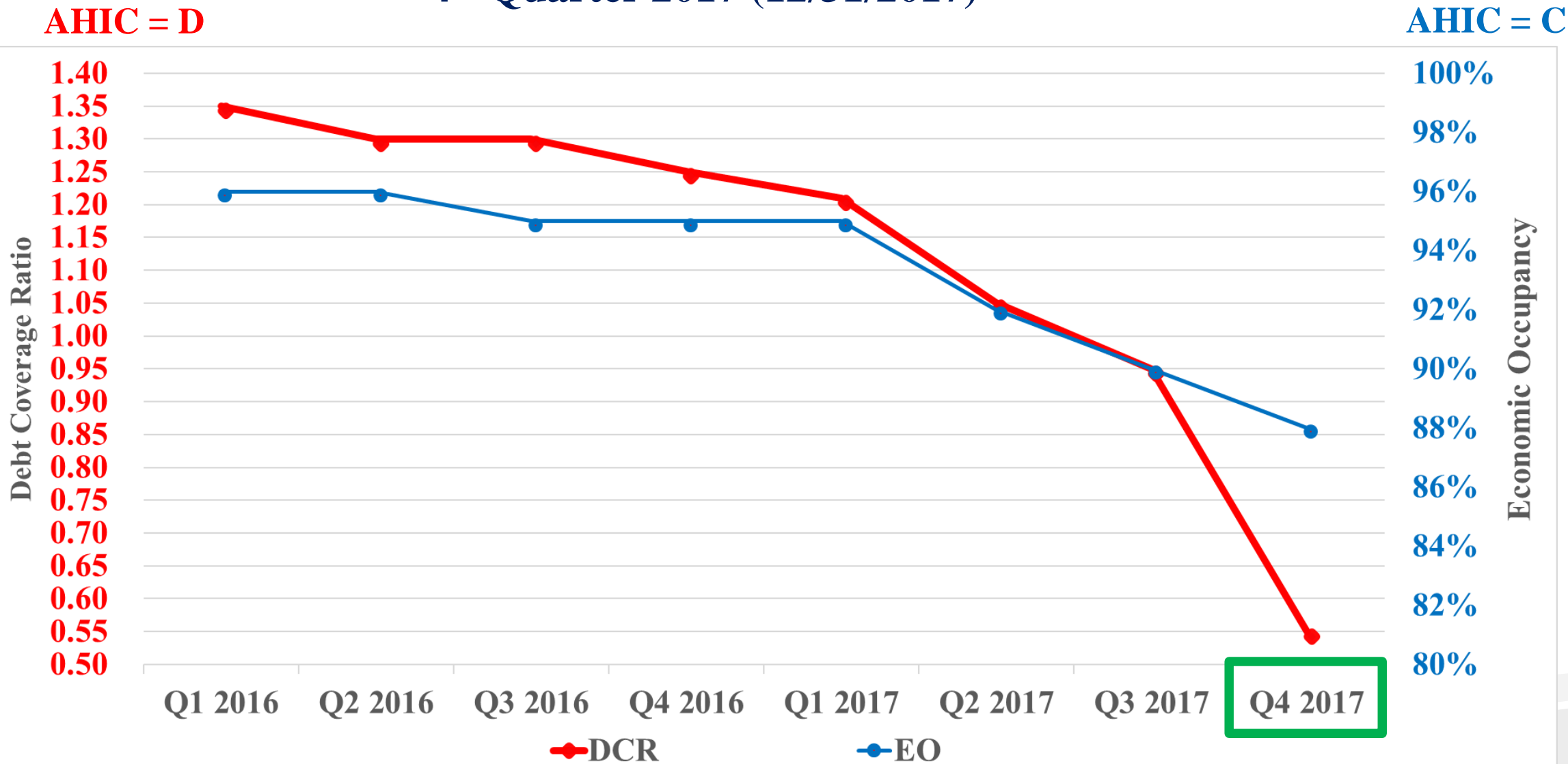
AHIC = C

AHIC = B



Harbor View Apts, LP

4th Quarter 2017 (12/31/2017)

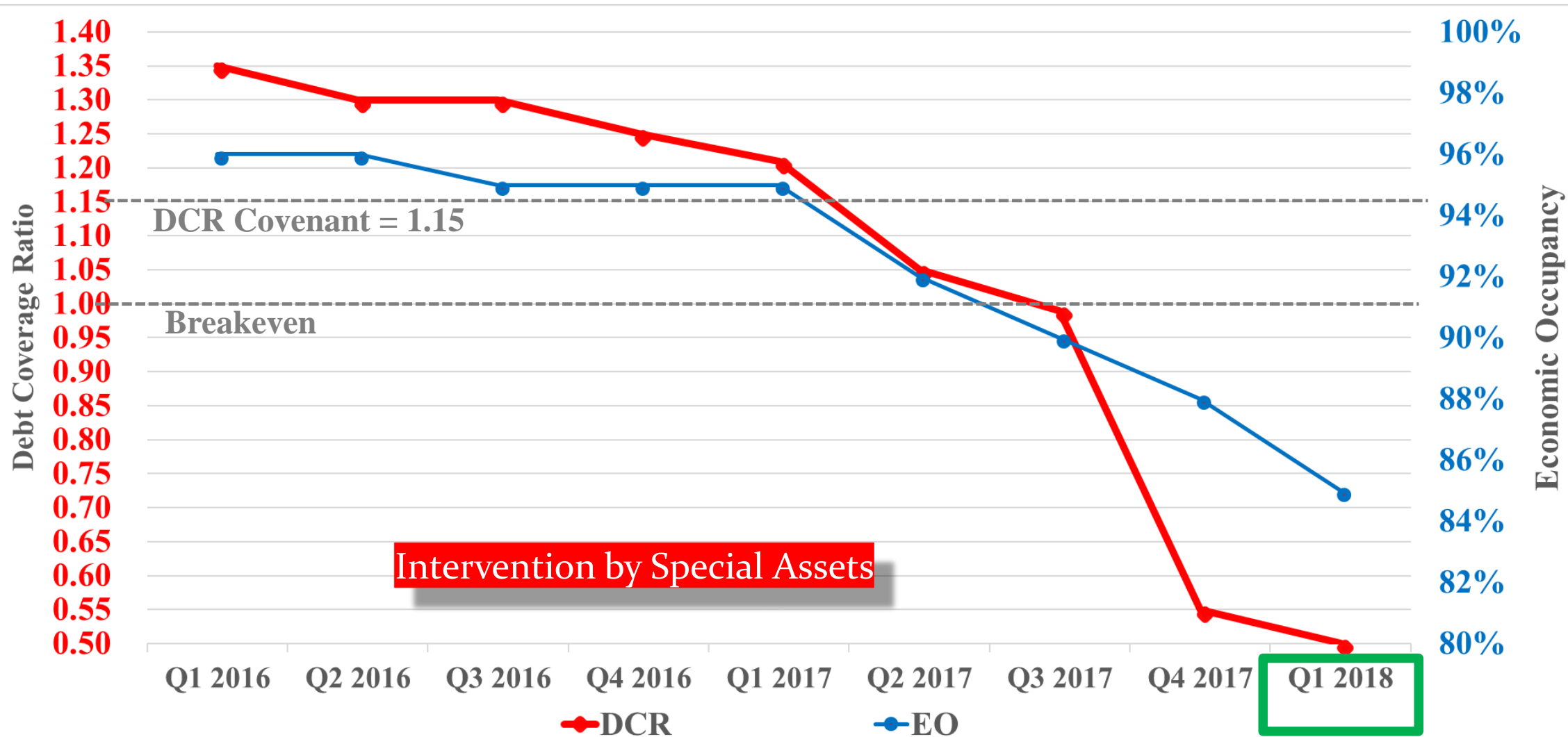


Harbor View Apts, LP

1st Quarter 2017 (3/31/2018)

AHIC = D

AHIC = C



Harbor View Apts, LP

Transition from 'A-Rated Project to 'D' Special Asset

\$70,000 swing in Net Cash Flow from Q4 '16 to Q4 '17

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018
Net Operating Income	\$ 38,750	\$ 75,000	\$112,500	\$145,000	\$ 35,250	\$ 62,500	\$ 86,250	\$ 75,000	\$ 17,500
Debt Service (P + I + RR)	\$ 30,000	\$ 60,000	\$ 90,000	\$ 120,000	\$ 30,000	\$ 60,000	\$ 90,000	\$ 120,000	\$ 30,000
Debt Coverage Ratio	1.35	1.30	1.30	1.25	1.21	1.05	0.95	0.55	0.50
Net Cash Flow from Operations	8,750	15,000	22,500	25,000	5,250	2,500	(3,750)	(45,000)	(12,500)
Economic Occupancy	96%	96%	96%	96%	95%	92%	90%	88%	85%
Overall Risk Rating	A	A	A	A	A	B	C	D	D



Managing Troubled Assets

What Really Matters



NH&RA Asset Management Conference

Tax Credit Projects and GP – ILP Relationship

- ❑ Ongoing Monitoring & Reporting (typically, quarterly unless watchlist status)
- ❑ Timely and Ongoing Communication Among Stakeholders
- ❑ Early Identification of Problems by Partners
- ❑ Implementation of Solutions by GP
- ❑ Delivery of Anticipated Benefits to the Partners
- ❑ Long-Term Preservation of the Asset



Questions

