

# **PART II: AM DATA IN UNDERWRITING**

# WE'LL ASSUME YOU'VE GOT A HANDLE ON:



## Big-Picture AM Functions

- Monitoring performance, compliance, and physical condition
  - Occupancy
  - DSCR
  - OpEx
- Tracking and mitigating risk
- Investor relations and partnership management

## Less-Routine Task Areas

- Capital planning
- Pre-stabilized AM
  - Lease-ups
  - Equity milestones
- Year 15 dispositions

**Rating Criteria Details**  
Record 14 Updated 10/23/2017 By jgordon

Project Code:  Project Name:   
Status:

**Scores**

Run Calculations

Category:  Overall Rating:

Description	Calc	Rating	Notes	Criteria +/-
DCR	1.27	A		

Risk Rating	A	B	C	D	F
DCR	<input checked="" type="checkbox"/> DCR is at or above 1.20x or as underwritten	<input type="checkbox"/> DCR is between 1.0x and 1.20x	<input type="checkbox"/> DCR is below 1.0x but greater than 0.85x <input type="checkbox"/> Loan is current on must pay debt	<input type="checkbox"/> DCR is between .5x and .85x OR significant cash deficits <input type="checkbox"/> Loan is delinquent on must pay debt	<input type="checkbox"/> Loan is in default on must pay debt <input type="checkbox"/> Notice of Default issued

**EXECUTIVE SUMMARY**

**Budget Comparison**

Description	Unaudited 2011	Budget 2011	Variance (Unfav)
Total Revenue	\$2,133,391	\$2,059,422	\$73,969
Op. Expenses + RR	\$1,621,659	\$1,527,703	(\$93,956)
Net Operating Income	\$511,732	\$531,719	(\$19,987)
Debt Service	\$426,846	\$426,360	(\$486)

**Operations**

Description	Current Month	Description	YTD Annualized
Accounts Payable	\$0	Revenue per Unit	\$7,512
A/P per Unit	\$0	Op. Expenses per Unit	\$5,710
Accounts Receivable	\$63,879	Payroll & Maint per Unit	\$1,743
A/R per Unit	\$225	Exp as % EGI	76.01%
Operating Cash	\$49,755	Management Fee as % EGI	4.0%

B/E Economic Occupancy: 85.93%

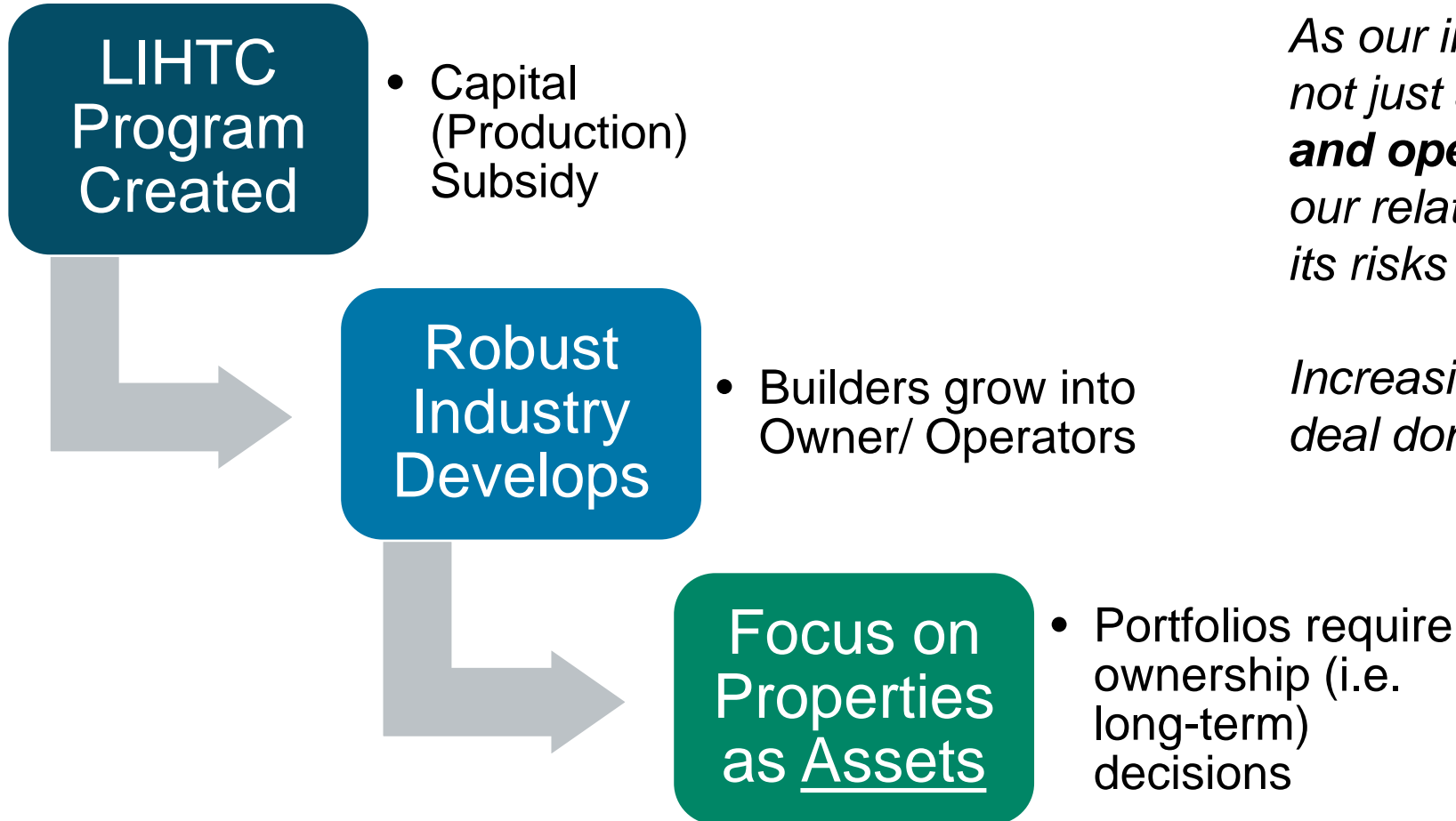
# WHAT DO WE SEE AMONG THE HIGHEST PERFORMERS?



## *Close the Loop:* Understanding AM's role in front-end transactions

1. Combat silos of information
  - Development (capital and operating budgets, layouts, amenities) doesn't happen in a vacuum
  - AM can act as 'translator' between Development and PM
    - Really strong AMs are able to speak two languages: capital stacks AND ongoing operations/compliance
2. Allocate resources across the property life-cycle
  - Don't put all the money (salaries), attention, and institutional power at the front end
  - Think beyond the buyout: plan for the ***'then what?'***

# A NEW ERA FOR THE LIHTC PROGRAM



*As our industry increasingly sees itself not just as developers but also **owners and operators** of affordable properties, our relationship to the portfolio – and to its risks – also changes.*

*Increasing reluctance to just ‘get the deal done’*

# CREATING DEVELOPMENT & OPERATING BUDGETS

## The Developer's View

- What do you focus on?
- What is the trickiest part?
- What are you balancing?
- What are your constraints and degrees of freedom?
- Which amounts are estimates?
- Why so many versions?
- What stresses you out?
- Why do you do the things you do?

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Gross Potential Base Rent	\$4,239,060	\$4,323,841	\$4,410,318	\$4,498,524	\$4,588,495	\$4,680,265
Super's Unit / Model Unit	\$0	\$0	\$0	\$0	\$0	\$0
Vacancy Loss	(\$211,953)	(\$216,192)	(\$220,516)	(\$224,926)	(\$229,425)	(\$234,013)
Concessions	\$0	\$0	\$0	\$0	\$0	\$0
Bad Debt	\$0	\$0	\$0	\$0	\$0	\$0
<b>Net Effective Rental Revenue</b>	<b>\$4,027,107</b>	<b>\$4,107,649</b>	<b>\$4,189,802</b>	<b>\$4,273,598</b>	<b>\$4,359,070</b>	<b>\$4,446,252</b>
Expenses						
Parking	\$0	\$0	\$0	\$0	\$0	\$0
Laundry & Vending	\$70,885	\$72,303	\$73,749	\$75,224	\$76,728	\$78,263
Legal Fees, Other Income	\$317,285	\$323,631	\$330,104	\$336,706	\$343,440	\$350,309
Commercial Income	\$0	\$0	\$0	\$0	\$0	\$0
Other Income	\$388,171	\$395,934	\$403,853	\$411,930	\$420,168	\$428,572
<b>Total Other Revenue</b>	<b>\$4,415,278</b>	<b>\$4,503,583</b>	<b>\$4,593,655</b>	<b>\$4,685,528</b>	<b>\$4,779,238</b>	<b>\$4,874,823</b>
Payroll/Benefits	\$426,962	\$439,771	\$452,964	\$466,553	\$480,550	\$494,997
General & Admin	\$112,697	\$116,078	\$119,560	\$123,147	\$126,842	\$130,642
Advertising & Marketing	\$2,950	\$3,039	\$3,130	\$3,224	\$3,321	\$3,421
Repairs & Maintenance	\$313,442	\$322,845	\$332,531	\$342,506	\$352,782	\$363,559
Total	\$1,258,051	\$1,291,723	\$1,328,185	\$1,368,430	\$1,412,695	\$1,461,121
<b>Total Revenue</b>	<b>\$5,673,326</b>	<b>\$5,797,166</b>	<b>\$5,911,810</b>	<b>\$6,027,058</b>	<b>\$6,141,933</b>	<b>\$6,256,675</b>

		1	2	3	4	5	6
ASSUMPTIONS:							
Rent Increase:	2.00%						
Expenses Increase:	3.00%						
Voucher 1	4 units	\$38,592	\$39,364	\$40,151	\$40,954	\$41,773	\$42,607
Voucher 2	16 units	\$147,120	\$150,062	\$153,064	\$156,125	\$159,247	\$162,431
PBV	60 units	\$3,000	\$3,060	\$3,121	\$3,184	\$3,249	\$3,316
Laundry		\$34,315	\$35,001	\$35,701	\$36,415	\$37,143	\$37,885
Vacancy Loss	4.5%	\$728,237	\$742,802	\$757,658	\$772,811	\$788,267	\$804,033
<b>EFFECTIVE GROSS INCOME</b>		<b>\$660,894</b>	<b>\$680,721</b>	<b>\$701,142</b>	<b>\$722,177</b>	<b>\$743,842</b>	<b>\$766,157</b>
<b>TOTAL EXPENSES</b>							
Payroll/Benefits		\$67,343	\$62,081	\$56,515	\$50,634	\$44,425	\$37,875
General & Admin		\$24,999	\$24,999	\$24,999	\$24,999	\$24,999	\$24,999
Advertising & Marketing		\$34,492	\$34,492	\$34,492	\$34,492	\$34,492	\$34,492
Repairs & Maintenance		\$34,492	\$34,492	\$34,492	\$34,492	\$34,492	\$34,492
Total		\$161,326	\$155,064	\$148,000	\$140,617	\$132,408	\$123,867
<b>NET OPERATING INCOME</b>		<b>\$499,568</b>	<b>\$525,657</b>	<b>\$553,142</b>	<b>\$581,560</b>	<b>\$611,434</b>	<b>\$642,290</b>
Debt Service - MHP fee		\$34,492	\$34,492	\$34,492	\$34,492	\$34,492	\$34,492
Reserves		\$7,852	\$2,590	\$2,976	\$8,857	\$15,066	\$21,616
<b>NET INCOME AVAILABLE</b>		<b>\$457,224</b>	<b>\$488,575</b>	<b>\$515,674</b>	<b>\$538,221</b>	<b>\$561,886</b>	<b>\$585,182</b>

Description	Total Amount
Purchase Price	\$25,050,000
Acquisition Costs	\$20,000
Construction	\$25,070,000
Furnishings and Equipment	\$12,616,000
Hard Cost Contingency	50,000
<b>subtotal</b>	<b>630,800</b>
Due Diligence Costs	
Permits and Fees	\$60,000
Interim Loan Interest/Fees	20,300
Bond Cost of Issuance	167,500
Permanent Loan Fees/Costs	333,707
Legal	378,875
Appraisal/Market Study	75,000
Marketing/Lease-up	10,000
Title/Audit/Cost Certification	10,000
Insurance/Property Taxes	65,000
Relocation (Est.)	48,157
Soft Cost Contingency and Reserves	0
<b>subtotal</b>	<b>671,785</b>
Syndication Costs	\$1,790,988
Acquisition Fee	\$239,732
<b>TOTAL ACQUISITION COSTS</b>	<b>\$2,148,641</b>
<b>subtotal</b>	<b>\$4,874,823</b>

# WHAT AM I CAN BRING TO THE CONVERSATION



## ESPECIALLY (ONLY!) WITH ACCESS TO GOOD DATA

- Do I know that we've **never** achieved 2% rent growth in this market?
  - Or that utilities and RE taxes have grown 5%+ every year for a decade?
- Are the projected rents in line with what we're getting in this market?
  - Are these unit types in demand?
- What are the strings attached to each soft source?
  - What is the compliance or reporting burden?
  - How is payment calculated?
  - Is there sufficient demand in any targeted population?
- What supports the assumed cost savings of any efficiency upgrades?
- Do I see that OpEx is \$200 PUPY lower than anything we operate?
- If we're housing people on fixed or assistance-based incomes, are we trending such that we'll be squeezing them over time?
  - How much squeeze (burden) can we tolerate?
- If we're assuming any operating subsidy, how certain and how timely do I expect it to be?

# WHAT AM BRINGS TO THE FRONT END

## AFFECTING THE BOTTOM LINE



- Recent CapEx / deferred capital needs
- OpEx and rent trending comp data
- Back-end staff burden
  - Complex deals are also harder to oversee
- Anticipate and prevent compliance incompatibility
  - Targeted populations
  - What needs to be tracked
  - Over-income units
- Market knowledge
  - Demand by unit type
  - Crime / need for security
  - Rent achievability
- Design input
- Counterparty / entity strength

Every  
portfolio has  
at least one  
horror story!

# MAKING THE CASE INTERNALLY



AM – like underwriting – is about matching expectations with actual performance.

**The better your AM data the better you can be at this**

**AM needs a seat at the Investment Committee table**

- Investors almost universally do this. Developers, much less so.
- Weigh in on anything that AM has reason to believe **will not bear out as intended.**

**Smart developers include AM and PM input long before Investment Committee**

- By IC, inertia + sunk cost mean there's often no real chance to delay, reject, or even substantively change a deal.
- Here's the trick: **listen to what the back-end people say** even when it's not good news.



# YES, BUT...



Some of this decision-making rests with the HFA!

- OpEx limits, trending, permissible TDC/unit
- Types of projects / units prioritized in 9% allocations

True. So....

1. Participate in the QAP process
  - Even better: **bring performance data** to back up your objections
  - Similar feedback from multiple GPs means more
  - Relationships matter
2. HFA are really worried about preservation
  - A non-viable deal at Y16 is **not good for them either**