LIHTC ASSET MANAGEMENT

AN OVERVIEW

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ABOUT THE ARTICLE

Originally published in the Tax Credit Advisor, *Low-Income Housing Tax Credit Asset Management*, provides an overview of asset management in the LIHTC industry, describes key services that asset managers provide, and outlines how asset management is done effectively. For timeless fundamentals on LIHTC asset management, read excerpts of this article below.

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TCAM ASSET MANAGEMENT

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"LIHTC Asset Management is the process of overseeing a property's financial performance, physical condition and compliance with applicable regulations…"

AN OVERVIEW

LIHTC Asset Management in a nutshell, is the process of overseeing a property's financial performance, physical condition and compliance with applicable regulations to help investors, lenders, state agencies and other capital providers receive expected benefits and manage their risks. The process usually begins once the project has achieved closing of financing and is ready to start construction. Construction monitoring entails a month-to-month management of costs and timing of development by the construction asset manager.

"An effective construction monitor will help the project achieve completion on time and on budget…"

BEST PRACTICES

DRAW REVIEW

LEASE-UP OVERSIGHT

DEBT CONVERSION

INITIAL COMPLIANCE

RECOMMENDATIONS

CONSTRUCTION PHASE

There are various risks inherent in this phase, especially the potential for divergence from the originally underwritten tax benefit schedule or final determination of the tax credit amount. An effective construction monitor will help the project achieve completion on time and on budget, which will not only help investors obtain the economic benefits owed to them but will also help developers obtain their full development fee.

In addition to monitoring the schedule and the construction budget to ensure sources and uses are in balance, the manager's work includes the following duties:

- Construction draw review and equity release approval
- Oversight of lease-up
- Guidance towards permanent debt conversion and receipt of 8609s
- Initial compliance monitoring
- Presenting and/or implementing recommendations aimed at resolving any issues.

"The strength of the asset manager depends in large part on experience, data systems and management procedures."

CONSTRUCTION PHASE

The strength of the asset manager depends in large part on experience, data systems and management procedures. The absence of either deep expertise in real estate finance, tax credits or multi-family engineering limits the asset manager's ability to analyze construction progress and operational performance, and to detect issues early and address them appropriately. Poor asset management, for instance, could be demonstrated by an asset manager's lack of understanding of LIHTC placed-in-service rules resulting in a project's loss of or delay in receipt of tax credits; or, a failure or inability to detect leasing problems that eventually lead to deficits that threaten the viability of the investment.

The provision of asset management involves delivering timely and accurate information to investors, and identifying small issues before they become major problems. Firms armed with state-of-the-art data collection, management systems and experienced staff can efficiently collect, analyze and report on monthly, quarterly and annual information from general partners and property managers. Coupled with comprehensive risk management systems that help to track the health indicators of an asset, advanced data systems allow asset managers the appropriate time and resources to focus on issues and problems that need the most attention.

"The main objective during stabilization is ensuring the properties perform according to initially underwritten operating and tax benefit projections."

STABILIZED PHASE

A sustained level of occupancy and debt service coverage (e.g. through three (3) consecutive months) and receipt of 8609s, followed by permanent mortgage conversion, trigger the start of the stabilized period. The stabilized period typically begins with permanent mortgage conversion and ends when the property reaches the end of the 15-year tax credit compliance period or when the investor disposes of its interests in the asset. An effective asset manager ensures that the property's value is preserved throughout the compliance period through diligent and periodic oversight and providing and implementing recommendations for underperforming assets. The main objective during stabilization is ensuring the properties perform according to initially underwritten operating and tax benefit projections.

BEST PRACTICES

REVIEW OF FINANCIAL STATEMENTS

COMPLIANCE MONITORING

SITE VISITS

GP ECONOMIC HEALTH

This requires a comprehensive set of procedures designed, and with the investor's approval, implemented by the asset manager including the following:

- A monthly or quarterly review of operating statement including an annual review of audited financial statements
- Compliance monitoring to ensure the property's continued compliance with tax credit regulations
- Site visits which allow examination of the project's physical condition and on-site management
- Review of general partner economic health.

LIHTC asset managers typically work for the benefit of investors or other capital providers and report to them monthly or quarterly. The reports summarize the current and expected operational performance and physical condition of the properties, and their compliance with tax credit rules and other regulations.

"A seasoned staff and up-to-date systems in turn help preserve property values and prevent costly scenarios."

STABLIZED PHASE

Effective asset management during the stabilized phase, as during the construction period, depends in part on strong data collection and risk management systems. A seasoned staff and up-to-date systems in turn help to preserve property values and prevent costly scenarios. For instance, many LIHTC properties operate with insufficient resources and marginal or negative cash flow. Although local general partners provide good ground-level attention, they often need more help. The LIHTC asset manager understands how to provide that assistance, mainly in overseeing or addressing issues related to every major operational aspect of the properties including the market, tenant, and physical issues. LIHTC properties with good asset managers, therefore, are more likely to experience strong operational performance, which not only benefits equity investors, lenders and general partners, but also the communities that they serve.

LIHTC asset managers perform a variety of other related services:

Workouts

Recapitalizations

Dispositions

OTHER PERTINENT SERVICES

LIHTC asset managers perform a variety of other related services where necessary or requested including workouts, recapitalizations and dispositions. Workouts demand an extraordinary level of management due to the severity of the issues involved and the complex financial structuring of many tax credit transactions. Additionally, asset managers with expertise in dispositions perform a thorough analysis of all relevant financial information and partnership documents in order to assist the investor in negotiating dispositions terms. With respect to workouts, refinancings and dispositions, there is no substitute for extensive and direct experience. Maximizing residual value or improving troubled deals are services best provided by firms that understand the unique aspects of each transaction and have experience working with a variety of general partners and management agents, lenders, and regulatory agencies and employing practical and innovative solutions.

For properties that are closed and managed by syndication firms, LIHTC asset management is usually performed by the syndicator for the benefit of the investors. In the absence of a syndicator (i.e. direct investment) the investor may have asset management personnel that handle this responsibility internally. However, direct investors may choose to hire third-party asset managers to limit costs and headcount.

"Asset managers with efficient data systems and well-targeted use of resources, as well as economies of scale are able to keep costs low without detracting from effective asset oversight."

OTHER PERTINENT SERVICES

Syndicator or third-party asset managers are paid by the investor, through reserves established during the initial investment and/or from revenue from the properties. The deals can be initially structured to pay asset management fees either from available cash flow or as an operating expense.

OPTIONS FOR PROVISION

Cost is perhaps the most important factor for determining how to provide asset management. The size of portfolios, geographic concentration and the number of general partners spread across the deals are other important criteria. Additionally, since underperforming deals require more time and resources to monitor, the operational performance of assets ought to be examined as well when deciding how to handle asset management. Asset managers with efficient data systems and well-targeted use of resources, as well as economies of scale are able to keep costs low without detracting from effective asset oversight.

IN CONCLUSION

LIHTC asset management is essential not only for the preservation of asset value and investor risk management but also for the long-term success of the Low-Income Housing Tax Credit program and the health of our communities. Effective asset oversight is ultimately a function of expertise, efficiency and focus. Regardless of what asset management option capital providers elect, it is well worth the cost in problems avoided and value maintained.

ABOUT TCAM

TCAM is an independent investment manager, providing asset management, advisory and consulting services to owners and funders of affordable housing and renewable energy. TCAM's clients include owners, lenders, investors, guarantors and syndicators. They are banks, investment banks, insurance companies, corporations, foundations, state allocating agencies, housing finance agencies and authorities, syndicators, investment funds and developers.

OUR SERVICES

ASSET MONITORING
OWNER'S REPRESENTATION
RISK MITIGATION WORKOUT
SUPPORT CONSULTING
SERVICES