

Not the Easiest Job

Effective Management of LIHTC Properties Requires Talented People, the Right Strategies



Walnut Square Apartments, 209-Unit LIHTC Property in New Orleans, La.
Photo courtesy of TCAM.

Low-income housing tax credit (LIHTC) properties in most places are generally fuller now than during the depth of the recession a few years ago.

According to compliance expert A. J. Johnson, president of A. J. Johnson Consulting Services, Inc., occupancies at LIHTC properties are generally “good. Most are running in the 93, 94, 95 percent range...And in a number of areas we’ve got full occupancy.”

At Royal American Management, a property management company based in Panama City, Fla., 95.4% is the average occupancy rate today in its LIHTC portfolio of 168 properties (14,421 units) spread through the Southeast. Wendi Le Mense, vice president of housing credit compliance/resident relations, says evictions and delinquencies are decreasing as well.

Yet the picture isn’t rosy everywhere. Johnson says LIHTC occupancy “is generally a regional issue.” While occupancy rates are high in many markets, particularly major urban



Wendi Le Mense

centers such as New York, Chicago, San Francisco, Dallas-Fort Worth, and Northern Virginia, a number of markets, such as St. Louis, Kansas City, parts of Atlanta, and some secondary cities, are still soft. Here occupancy rates for many LIHTC properties are less than ideal due to a weak economy, high unemployment, and stiff competition not just from other tax credit properties but also from conventional apartment communities that may have rents at or just a bit above tax credit rents. This underscores the importance of effective property management in LIHTC properties – to avoid tax credit compliance problems, keep residents happy, and assure the solid financial and physical performance of the assets desired by the owners, equity and debt providers, and state credit agencies.

The Extra Challenges

“A lot of folks feel that a tax credit property should sell itself because the rents are so cheap,” says Oke

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Johnson, an executive with Memphis, Tenn.-based LEDIC Management Group, which manages 201 affordable properties (20,000 units) in 13 states. "But the reality is that there are a lot of affordable properties in the country now." In addition, "in too many markets [prospective applicants] can go down the street [to a market-rate apartment property] and move in with one simple pay stub and they'll pay the same rent. And they don't have to go through the same hoops as in an affordable project."



Oke Johnson

Indeed, LIHTC site managers have a tough job as they try – simultaneously – to keep their community full, attract and retain good tenants, keep the rent checks coming in, maintain the asset, and assure continuous compliance with all of the rules of the LIHTC program and often also of other government funding programs.

A. J. Johnson, whose firm did site reviews of 280 tax credit properties in 2011, says the key to successful management of LIHTC properties starts with all of the traits and skills required for a market-rate apartment property: strong "curb appeal"; safety and security for the residents; good maintenance; prompt response to work order requests; and "relationship leasing, where your leasing people are skilled in closing deals and developing relationships with their applicants."

"Then we add on some levels with the tax credit," he continues. "The ability to properly screen applicants, the ability to qualify the applicants to make sure that they're eligible when they come in to determine their income, determining their student status...There's a level of management expertise that's not required for a conventional property. And for that reason it takes a much more skilled manager in many cases to successfully operate a tax credit property than it would a conventional property."



Jenny Netzer

Jenny Netzer, chief executive officer of TCAM, a Boston-based asset management company that oversees, on behalf of its clients, about 500 affordable properties nationwide,

roughly 95% LIHTC, says, "Frontline property management is probably one of the very hardest jobs in the industry, and probably the least appreciated. So the peo-

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ple who do it well are really much to be commended.”

LIHTC Compliance, Screening

The main challenge for LIHTC property managers, says A. J. Johnson, is “getting good qualified applicants.”

First, managers must verify whether applicants meet the eligibility requirements to live in a tax credit apartment, including meeting an annual household income that in no case can exceed 60% of the area median income. Solid screening systems and resident selection criteria also verify the applicant's employment and bank accounts and check their credit history and for any criminal record. Many companies also require a minimum income; a common standard is a monthly gross income at least 2.5 times the rent amount.

While most screening standards and LIHTC resident selection criteria are the same as ever, there have been a few changes recently at many properties.

Each property management company interviewed has a centralized compliance department to ensure that applicants are LIHTC-eligible prior to move-in. For instance, at The Lynd Company, which manages 7,500 affordable apartments in seven southern states, site managers take the initial LIHTC application for residency. But the paperwork is forwarded electronically and the company's centralized compliance office in San Antonio gives approvals for initial occupancy and handles all tenant income certifications, says Jason Espejo, executive vice president of operations.



Jason Espejo

Oscar Williams Photographer, LLC

While most screening standards and LIHTC resident selection criteria are the same as ever, there have been a few changes recently at many properties.

“We used to deny people who went into [home] foreclosure,” says Le Mense.

“Now we take those on a case-by-case basis and we don't automatically deny somebody for having a foreclosure... There's been so many of them and there are so many reasons for them.”

Another change is that more properties now allow pets, which broaden the potential renter pool, or allow larger pets than before.

An Attractive Product

Industry officials stress that it's critical to offer a good product: an apartment community with strong “curb appeal” that is well-maintained and has strong programs and activities for residents and the amenities expected in the local market. These might be community rooms, pools in southern markets, play spaces and equipment for family properties, and, increasingly at new developments, WiFi capability.

TCAM's Jenny Netzer says property managers need to understand their local rental market to do their job well. “For example, they have to understand what product type they've got that's competitive. For instance, their two-bedroom units may be more desirable than their one-bedrooms. And they have to understand what their competitors are offering in terms of specials and concessions.”

Some property managers utilize “rent optimization”

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software to obtain daily updated information on current rent levels and concessions at competing properties, so they can adjust their rents for vacant units – up or down – to the optimal level.



Brad Cather

Brad Cather, president of Nashville area-based Lighthouse Property Management Group, LLC, which manages about 45 LIHTC properties (4,000 units) in five states advocates “right pricing” of vacant units and avoiding

concessions whenever possible. “You might have to lower the rent a little bit to where you’ve got good traffic and it’s marketable, as opposed to keeping a higher rent and giving away a monthly recurring concession or something else. The effective rent ends up being the same.”

If concessions are offered, probably necessary if all competitors are doing so, Netzer advises structuring them in a smart way, such as offering the fourth or a later month’s rent free instead of the first. The latter plays into the hands of frequent movers.

Effective Marketing

Efficient, cost-effective marketing of LIHTC properties and vacant units is critically important, and must be multi-pronged. “You just can’t advertise in newspapers and expect residents to show up at your door,” says Michael Callahan, director of asset management at syndicator Boston Capital.

The best and least costly marketing tool is “word of mouth” referrals from existing residents.

“If you’ve got a resident that likes where they’re living and they’ve got a friend, neighbor, or family member [who wants to live there], that’s the easiest and best way to get good residents,” says Cather. His company rewards residents for referrals by writing them a check that is delivered personally by the site manager.

Another common approach is ads in print or online apartment guides – usually less costly than local newspaper ads.

Some of the management companies said they’ve established a Web “presence” for individual properties, such as a separate Web site. Some have established

Facebook pages for properties, and three of the companies advertise frequently on Craigslist.

Another low-cost method is printing up flyers and posting or leaving them wherever prospects visit or gather, such as churches, YMCAs, or local businesses (e.g., fast food restaurants, big box retailers, or veterinarian clinics if the property is pet-friendly). Many site managers also attend job fairs and other events and develop relationships with public agencies and social service agencies that can provide referrals.

A ‘Sense of Community’

High on the list of attractions are appealing services, programs, activities, and functions for tenants to develop a “sense of community.”

“Where we build a community, we see much less turnover,” says Oke Johnson.

“If somebody walks in the door and sees a room full of kids in an after-school tutoring program, a group playing bingo in the afternoon, or whatever it is, they see that there’s really a community that is building there.”

Community activities might be after-school programs, computer training, blood pressure screening, regular barbecues, financial counseling, or game nights.

A. J. Johnson favors “giving residents a stake in the property. In other words, making them feel like it’s their home by things as simple as allowing them to paint their units the colors that they want, allowing pets.” Johnson also advises considering policy changes such as these to boost occupancy rather than concessions or lowering tenant selection standards.

Revenue/Cost Management

Solid property management also means taking steps to assure timely rent payments by residents and exploring ways to control expenses.

LEDIC Management Group and The Lynd Company make it easier for residents to pay their rent by giving them the option to go online and pay by credit card or by automatic withdrawal from their bank account. The Lynd Company, which has a resident portal at each property, rolled out this program in 2011 and now has 45 to 50 percent resident participation, says Espejo.

High on the list of attractions are appealing services, programs, activities, and functions for tenants to develop a ‘sense of community.’

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A. J. Johnson recommends permitting tenants to pay their monthly rent in three installments, on the first three Fridays of each month. "A lot of the people who live in tax credit properties are paid on a weekly basis, and they can budget on a weekly basis."

Netzer says property managers should constantly monitor a property's expenses (e.g., maintenance, leasing), especially big ticket items such as real estate taxes and insurance, to determine if there are cost-saving opportunities. This could mean appealing the property tax bill where warranted, having an insurance broker shop for more favorable policies, or detecting and fixing issues such as water leaks that have been causing above-average water bills.

Some property management companies also seek approval from the state housing credit agency of a more favorable LIHTC utility allowance for more efficient properties.

The Right People, Proper Tools

Successful LIHTC property management also requires having the right people in place – at the corporate, regional, and especially site level. This means people with the rightskills, site managers who are "people" persons, and initial and ongoing training including in LIHTC compliance.

Boston Capital's Michael Callahan says effective management starts with good oversight at the corporate level of the property management company, and having good systems, reporting, and training. Then it's making sure that regional managers regularly visit each property and work with the site staff. Finally, he notes, it's the site staff interacting with residents and executing on the leasing, maintenance, and other plans that have been drawn up for the property.

Along with the right people, it's important to have the proper tools.

A. J. Johnson says most management companies use some type of software – much of it Web-based applications – for compliance and other functions (e.g. leasing, revenues/expenses) at LIHTC properties.

Developer/owners are also trying to improve efficiency in asset managing their LIHTC properties.

For instance, Pacific West Communities, Inc. has

decided to adopt the use of Fusion™ asset management software to better monitor and manage its existing properties and to develop new projects. The firm



Denise Carter

has about 100 self-developed LIHTC properties (roughly 6,000 units) spread across nine western states that are managed by about a dozen third-party property management companies.

"We haven't had a large portfolio up until about the last 18 months," says Denise Carter, vice president of asset management. "But now we're at the point where we need a software program that's going to allow us to better manage our properties from an asset management standpoint."

Until now, the company has monitored each of its properties – for income, expenses, occupancy, etc. – using Excel spreadsheets, compiling information from reports submitted in different formats by the property management companies, and then sending reports out to its tax credit investors. The use of Fusion™, a Web-based platform, will enable the company to streamline the collection and analysis of property financials, simplify reporting, and

track tax credit delivery.

Fusion™, a product offered by Lexington Solutions, a subsidiary of Boston Capital, is designed to meet the needs of developers, investors, and asset managers, and supports more than 2,500 properties so far. Pacific West Communities is the first developer client.

Brian Madden, Lexington Solutions' chief operating officer, noted, "More and more, we're seeing that developers are reaching a breaking point where Excel spreadsheets can no longer handle their data analysis needs. Developers in the LIHTC market need to know that there is an affordable and accessible single platform solution to better manage their portfolio and bring greater productivity to their asset management firms."



Brian Madden

He noted that Fusion can also help provide an early flag of LIHTC properties that are beginning to experience problems so that prompt remedial action can be taken. **TCA**

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