Local Initiatives Support Corporation

Scattered Site Single-Family Rental Property Management Guide

Credits

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PROPERTY MANAGEMENT GUIDE

A GUIDE FOR MANAGING SCATTERED SITE SINGLE-FAMILY RENTAL PROPERTIES

OVERVIEW

Over the last ten years, the nation has seen a significant shift and growth in single family rental housing. The foreclosure and economic crisis resulting in the loss of homeownership for many families coupled with flight from inner city neighborhoods left countless urban communities with large numbers of vacant, single family homes. While new multifamily construction was responsible for roughly a fifth of this increase, conversions of single-family homes from owner-occupancy to rental accounted for the lion share of growth. While always a sizable portion of the rental stock, the single-family share has increased dramatically since 2005, from 34 percent to 40 percent. In response to record growth in demand, the rental housing stock expanded by approximately 8.2 million units from 2005– 2015. [1]

Although cities and Community Development Corporations (CDCs) aspire to increase homeownership levels, it most likely will take many years for homeownership rates to return to pre-2000 levels. Cities are coming to the realization that just as neighborhoods need a homeownership strategy, single-family rental strategies are also needed to respond to market conditions and re-populate neighborhoods. There is also growing appreciation for renters and the benefits of renting. Rental housing is a viable option for families that previously lost their homes, for the growing number of residents that can no longer afford to purchase a home and for communities that need to address single family vacant properties.

During the peak foreclosure period, institutional investors took advantage of the market and purchased large portfolios of scattered-site properties at low prices. However, individual and small investors still own most of single-family rental homes. Institutional investors have learned difficult lessons trying to serve this tough market, especially from a distance. Increased housing prices has dampened interest which has slowed institutional investor growth in the single-family rental market. This leaves the challenge of developing, owning and managing single-family rental homes mostly to local governments, land banks, non-profit organizations and small investors. For Community Development Corporations (CDCs) and other nonprofits that are executing affordable rental strategies, property management poses unique challenges for scattered site portfolios.

Since the 1990s, low-income housing tax credits (LIHTCs) have been one of the most significant tools for developing single family rental housing in the Midwest. However, poor property management and the inability of inexperienced CDCs to provide proper oversight led to significant reduction in the use of LIHTCs for these scattered site projects. Many tax credit issuers are reluctant to award credits to new projects. If redevelopment of urban neighborhoods is to take place utilizing existing vacant housing units then it is important to demonstrate that tax credit single family rental can be a viable development strategy. In order to do so, the industry must build the capacity of non-profits and small investors to develop and sustain rental homes.

Effective property management of affordable single-family rental housing starts with gaining an understanding of the neighborhood, developing a relationship with the community and connecting to local service providers. Good project design, high quality construction and realistic financial projections have a positive impact on property management. A well conceived property management plan, selection of the right property management firm and oversight of the property manager are also essential. If managed properly over the long-term, successful property management can lead to homeownership opportunities for tenants or provide asset-building opportunities for indigenous small portfolio landlords. This guide provides advice to developers and owners serving this challenging but valuable component of the affordable housing market.

[1] America's Rental Housing, Expanding Options for Diverse and Growing Demand, Joint Center for Housing Studies of Harvard University, 2015

TYPES OF DEVELOPERS

It is critically important for developers of single family rental properties to carefully evaluate the ownership structure and its impact on property management prior to acquisition. Owners should also assess the impact that ownership will have on their internal operations. The most common ownership structures are detailed below.

- Community development corporations and for-profit developers continue to develop scattered site projects using tax credits and other forms of government subsidies. The non-profits percentage of ownership and role as general partner is negotiated with the limited partner. Generally, nonprofits are responsible for oversight of property management and the performance of the project through asset management.

- In weaker markets, Public Housing Authorities, community development corporations and sometimes cities are assuming responsibility for distressed single-family tax credit portfolios.

- Land Banks are using their tools to assist with repositioning and preserving affordable housing.

- Institutional investors taking advantage of low housing prices have purchased units in weaker markets, but negative experiences in owning single family rental has diminished their interest.

- Small investors tend to acquire and rehab properties in stronger markets. High rehab costs and low property values deter small investors in harder to serve areas. Smaller investors that want to tap into government subsidies may need to have or develop experience with affordable housing requirements such as income restrictions and extended use agreements.

LOW INCOME HOUSING TAX CREDIT PROJECTS

Owners, partners and investors should reach clarity regarding roles and responsibilities of property and asset management before finalizing agreements. Experience and knowledge is needed to understand tax credit compliance, documentation requirements and the myriad of rules and regulations that govern tax credit projects. Typically, tax credit investors require the use of an experienced third-party property manager.

Occasionally CDCs are lured into believing that the agency will benefit or profit from the additional fees that could be earned. General partners or non-profit sponsors should consider the impact of asset and property management on their internal operations and clearly understand the knowledge and internal capacity required to self-manage. It generally takes several hundred units to cover the full costs of managing a larger portfolio. Management of even thirty units can become overwhelming to a small CDC. CDCs are typically responsible for covering operating losses if reserves are exhausted. Several CDCs have suffered and in some cases had to close their doors under the strain of ownership when LIHTC projects fail. More discussion regarding third party management vs. self-management and how to select a property management firm is discussed later in the guide.

The owner should play an active role in “asset management” to safeguard the agency’s investment and protect the long-term viability of the organization itself. The general partner is encouraged to negotiate an asset management fee, even if the project is third-party managed, to receive compensation for this vital service. State agencies that award tax credits and tax credit investors may allow asset management fees to be paid from the project’s cash flow if requested.

> “Developing a multi-pronged housing strategy is key for stable, vibrant neighborhoods, and single-family rental and lease-purchase is one component. Successful long-term partners understand the varying needs of the project type throughout its life cycle and develop public and private sector relationships that ensure the needs of the projects and residents are supported.”
>
> ~Kim Cutcher, Executive Director Toledo LISC

PURCHASE OF DISTRESSED PORTFOLIOS

Single family scattered site housing development financed by tax credits in the late nineties and early 2000s offered a solution for many neighborhoods with growing numbers of demolished homes or vacant lots and a source of substantial developer fee income for non-profits. It has also been used as a tool to offer affordable, quality, healthy homes to the market as many neighborhoods suffer from a lack of investment and have landlords with poor housing conditions.

For-profit developers partnered with CDCs to build or rehab thousands of single family rental homes across the Midwest promising homeownership to tenants at the end of the tax credit period. Tax credit underwriters often used the same operating assumptions as those used for multi-family housing projects. This practice was later shown to significantly underestimate actual operating costs for scattered site single family projects. The property management infrastructure in place for larger scale multi-family did not exist for single family and firms serving this market struggled to deliver high quality services.

Over time, the combination of unqualified property managers, poor estimation of operating costs and lack of asset management oversight led to deferred maintenance, high vacancy rates and distressed portfolios. CDCs have defaulted on bank loans leaving the community with very few disposition options. Public Housing Authorities and stronger CDCs are being asked to assume ownership of these troubled units. Before taking on this responsibility, potential owners should:

1. Assess the current condition of the units and determine capital needs over the next 10-15 years
2. Evaluate the costs of operations and the cause of the distressed portfolio
3. Seek financial assistance from local government or tax credit investors to finance capital improvements
4. Negotiate debt assumptions or terms to ensure standard debt coverage ratios can be achieved under new ownership
5. Determine the property management structure, costs and stewardship before transfer of ownership
6. Review restrictive covenants, financial agreements, lien reports and utility expenses
7. Speak with residents and neighborhood stakeholders to understand issues that caused the project to fail

TOLEDO, OH

In Toledo, OH, 750 units of affordable single family homes were built by several neighborhood-based Community Development Corporation using LIHTCs. The CDCs turned neighborhoods dotted with unkempt vacant lots into desirable communities. The CDCs actively engaged residents to build a sense of community and pride and took steps to prepare tenants for homeownership. Over the years, most of the projects suffered under poor property management, lack of resources to maintain the units and the declining health of CDC sponsors. Today, the vacancy rate hovers at 50%. Many of the units are distressed or have been demolished. Several of the CDCs are now closed and defaulted on bank mortgages. The community has been challenged to develop solutions.

There are many factors that contributed to the failure of the tax credit projects. For-profit developers encouraged Toledo CDCs to partner on single-family tax credit projects. The developers offered a turnkey approach, a solution to the lack of quality affordable housing and disinvestment, a portion of the developer fees and homeownership opportunities to residents. Inexperienced CDCs did not fully understand the details of the project, the validity of the numbers, financial obligations and responsibilities long-term and did not control the quality of the construction. The CDCs hired unqualified property managers and did not provide proper oversight.

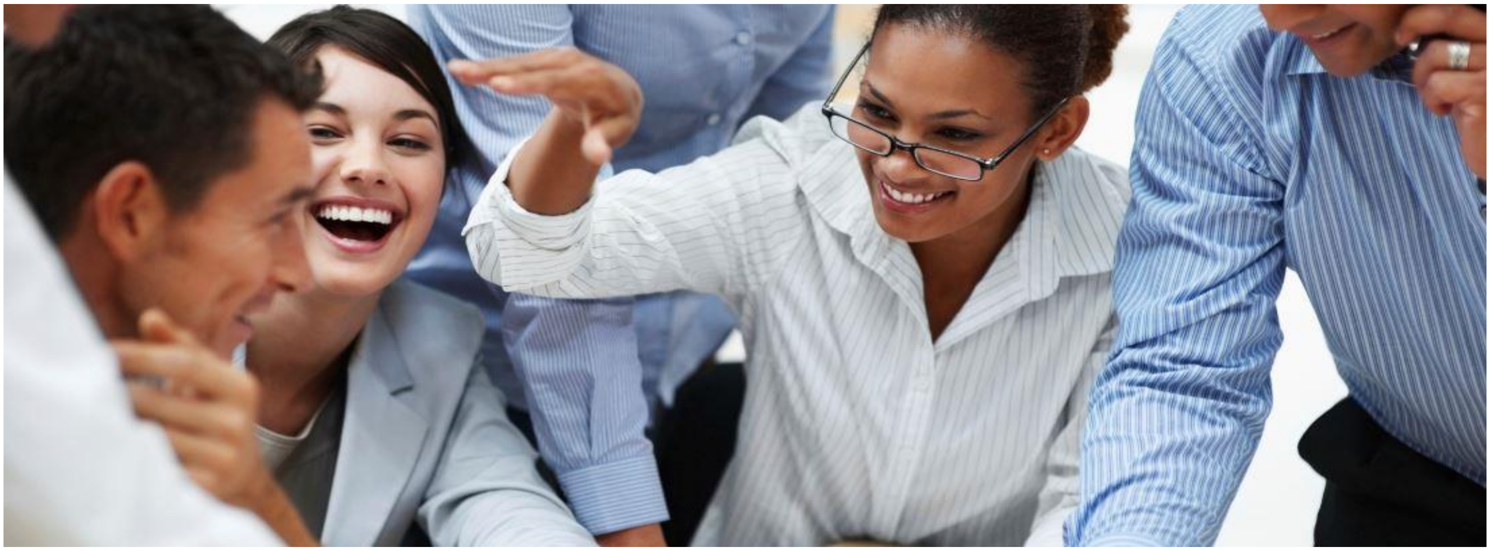
Operating and replacement reserves were not adequately funded. Financial institutions were unwilling to refinance high interest rates and investors did not step up when operating assumptions were found to be underestimated. The Lucas County Land Bank assisted with the disposition and transition process.

According to Aaron Laramore, former Executive Director of one the Toledo CDCs and now a Senior Program Officer at Indianapolis LISC, "Looking back, the CDCs in Toledo did not have the knowledge to deal with sophisticated developers and to protect the community and CDC's interest. This seemed like a great solution to our neighborhoods with broken teeth and need for in-fill housing. The developer's investment ended once the units were built, and the CDCs were left to deal with poorly constructed units, inexperienced property managers and inadequate resources to manage the units over time. Single family property management is difficult. Although tenants may be promised the opportunity to become homeowners, it is not a foregone conclusion that they will stick around for fifteen years. Consequently, rental ownership may be a permanent commitment and should be a consideration from the beginning."

The Lucas Metropolitan Housing Authority (LMHA) developed an investment strategy to capitalize on significant redevelopment efforts on an older public housing site that has two out of a five phase development complete and a third project that will begin construction in early 2018. LMHA is also developing new units near some of the foreclosed properties with a vested interest in the revitalization of the surrounding neighborhood. The Lucas County Revitalization Corporation (Land Bank) assisted with the transition of preserving 52 of the tax foreclosed units and vacant lots to LMHA. The City of Toledo took the lead with bringing housing stakeholders and advocates together to form the Year 16 group to develop solutions, resources, and policy recommendations to address the Toledo portfolio. LMHA financed over $1 million in repairs, sold 14 units to tenants, kept 15 occupied units as rental and plan to renovate and sell eight more. An additional ten face demolition. The LMHA secured resources from OHFA and the City of Toledo for a portion of the repairs but there are not enough resources to address the entire portfolio or build on the vacant land.

Katie Bond, LHMA Real Estate Director offered this advice before purchase

- Thoroughly evaluate the cost of renovations
- Gain an understanding of the current tenant population, length of tenure in the property and the expectations of tenants wanting to purchase
- Structure the budget and sales prices to cover project costs. Every effort should be made to honor the spirit of original sales prices, but adjustments may be needed to make the project viable
- Look for resources to develop the properties that are not income restricted to attract mixed income families to the neighborhood



SMALL INVESTORS

Not all scattered site rental projects are financed with tax credits. Land banks that own single family residences are partnering with small investors or CDCs to assume ownership for just a few units. A CDC might want to tackle small-scale single-family rental or lease/purchase strategy to keep a few vacant units from impacting the viability of the neighborhood or decrease surrounding property values. Taking on a few units may not present the property management challenges of a larger portfolio, but owners should carefully consider who would be responsible for attracting high quality tenants, collecting rents, dealing with delinquent payers and handling maintenance on a routine or emergency basis. These demands for just a few units can be time consuming.

Property management options should be thoroughly vetted before acquisition as the decision could impact the purchase price, mortgage financing decisions or subsidy levels required for the project to be financially feasible. Remember that acquisition decisions cannot be renegotiated after purchase, so understanding the full costs to develop and manage single family affordable housing is important to know up front. Similar to larger, more sophisticated projects, take the time to conduct a thorough capital needs assessment, forecast 20-year operating pro-forma and and investigate property management options. Good preparation at the beginning will help prevent trouble down the road.

CLEVELAND HOUSING NETWORK

CHN is a well-established organization that serves over 30,000 low-income households annually through an array of housing related services geared toward improving housing stability. Since 1981, more than 2,500 low-income families have achieved home ownership with assistance from CHP. Their partnership structure includes 15 constituent CDCs, a multi-cultural staff of 170 and a community based Board of Directors. CHN has been able to achieve large scale development through collaborations where partners are able to leverage their respective capacity and expertise.

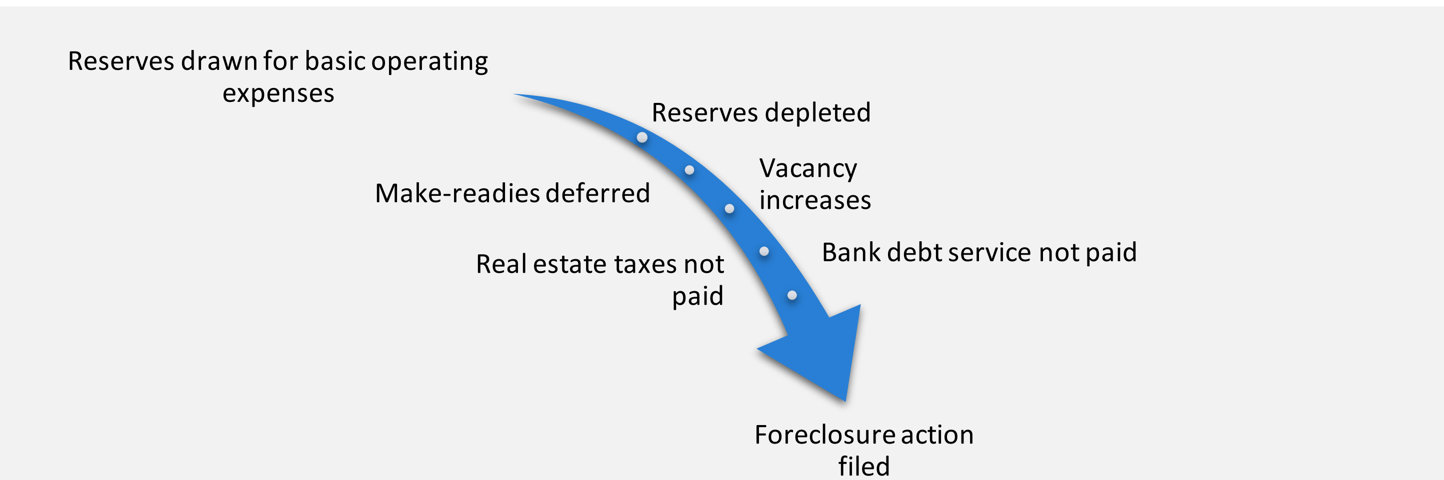
CHN has an excellent track record of high occupancy rates and tenure. The average tenancy is approximately seven years and one-third of families remain in their homes for the entire 15 years. Lease agreements require families to pay rent and utilities, perform basic yard and home maintenance. CHN pays for taxes, insurance, water/sewer and major capital repairs or improvements. CHN's extensive research and analysis clearly demonstrates that the cost to manage single family properties is substantially higher than multi-families. Having the family assume responsibility for routine maintenance, lowers property management costs.

CHN believes that families take better care of the property if they can assume ownership after the tax credit period expires and invests heavily in preparing tenants for ownership. Their Family Success Initiative is a five-year, deep touch program that includes financial counseling and education, workforce development coaching, helping families gain access to income supports and homeownership counseling.

According to CHN, the asset management role is critical. Owners should be proactive in monitoring rent increases, aggressively collecting rents and helping tenants secure Housing Choice Vouchers to maximize rents. It is also important to reduce turnover times, control expenses and make the necessary repairs when necessary to avoid deferred maintenance expenses that are not affordable in the latter years of the project.

CHN studies show that cash flows slowly decline over the fifteen year tax credit compliance period and may not cover expenses in years 14-16. Therefore it is extremely important to push for adequate operating and capital reserves at the onset of the project and budget to contribute to reserves in the early years. Owners that do not have the discipline to control expenses or preserve excess cash in the early years, may face what CHN Executive Director Rob Curry refers to as the "death spiral".

> "If a home is vandalized and allowed to sit unoccupied, it is only a matter of time before other homes suffer the same fate. When this occurs, the financial viability of the entire project erodes to the point that reserves are drained and must-pay obligations such as real estate taxes pile up in the accounts payable ledger. I call this the "death spiral"."
>
> ~Rob Curry, Executive Director CHN Partners



Graphic and advice provided by CHN

"THE DEATH SPIRAL"

- Recovery is more expensive and difficult with each stage in the spiral
- Without intervention and assistance, foreclosure is inevitable once the spiral has begun
- Despite this, early stages are often disregarded with an *unfounded* optimism that the future will get better
- Transparency about project challenges in early stages is crucial to recruit assistance

SCATTERED SITE DEVELOPMENT TYPES

The cost and methods to acquire and rehab or build new homes has a direct impact on property management.

ACQUISITION/REHAB

This is one of the most common methods of developing and managing scattered site single family housing – especially on a small scale. Contractors experienced in single family rehab are the preferred choice for the rehab work. More ambitious owners may choose to tackle the rehab to reduce costs.

- Rehab of older homes has higher property management risks since unforeseen maintenance problems could surface after the rehab is completed. Whether the rehab is done by the owner or by professional contractors, the home should be carefully evaluated to avoid costly property maintenance expenses in the future. Conduct a thorough capital needs assessment and ensure rehab specifications or reserves are funded to address major capital needs for the next 15 years.
- Hire reputable contractors that will guarantee their work and provide good references for similar projects. Look for contractors that care about neighborhoods and inclusive hiring practices.
- Retain a construction owner's representative to ensure the rehab work meets specifications and housing quality standards and to protect the interests of the owner.
- Use durable, standard materials and fixtures that can withstand normal wear and tear and easily replaced.

NEW CONSTRUCTION

This model is typically used in larger scale projects or in-fill housing. New construction is costlier on the front end, but property management costs are usually lower over the long-term. Choosing a good contractor and hiring an owner's representative to independently inspect the work helps to ensure the owner receives a well-built unit and minimizes future maintenance expenses.

PERMANENT RENTAL vs. LEASE-TO-OWN

Developers should decide whether the properties will remain rental in perpetuity or convert to homeownership at some point in the future. Single family tax credit projects often include an opportunity for tenants to purchase the home at the end of the tax credit period. This decision may drive the property maintenance responsibilities shared between the owner and tenant such as grass cutting or snow removal. Other funding sources like HOME or CDBG have stipulations on rental and/or lease purchase that a developer may need to be aware of as the type of project and funding sources triggers different requirements.

PEORIA, IL

Nearly twenty years ago, Peoria Citizens Committee for Economic Opportunity, a Community Action Agency in Peoria, IL, embarked on an ambitious journey and built 140 new single-family houses in a neighborhood that had not seen any new construction in over 40 years. PCCEO was the first non-profit in Illinois to use low-income housing tax credits to finance single family rental housing. Over the life of the project, PCCEO's portfolio averaged a 98% occupancy rate and units were well maintained. To date, ten of the original 60 tenants successfully purchased their home and eight more are in the process of becoming homeowners.

McFarland Bragg, Executive Director, PCCEO reflected on their tax credit investment. "We designed our project after the Cleveland Housing Network model. Our first tax credit application was with a for-profit developer but did not receive an award. We recognized the need to become more educated about real estate development before contemplating another deal. Our team received National Development Council Housing Finance certification which gave us the knowledge to select a developer of our own choosing and drive the next project that ultimately received tax credits. We have since turned down developers wanting to use our non-profit status to add points to their tax credit applications.

We met with homeowners to ask what they wanted for their neighborhood and took their suggestions in developing the criteria for tenant selection. Our tenant screening went beyond Illinois Housing Development Authority guidelines. Units were pre-leased during construction. We provided homeownership maintenance and financial counseling to our tenants. Having good tenants in our units that cared about the neighborhood reduced our property management costs, kept occupancy at levels high and delinquencies low.

We also maintained a proactive relationship with the property manager. The manager meets with a Board committee regularly to report on the portfolio's performance. During the fifteen year tax credit compliance period, PCCEO made two loans to the properties to cover cash shortfalls. Adjustments were made to contain costs or increase rents and the loans were repaid.

PCCEO remains steadfast in their commitment to tenants to become homeowners. Our Board is fully engaged in the success of our tenants and of our neighborhood. The best advice is to be a true owner and stay intimately involved from design to construction to lease-up and to fulfill the promise of homeownership."

DEVELOPMENT BUDGETS, FINANCING STRATEGIES AND OPERATING COSTS

Projecting accurate costs for development, lease-up, operations and property management can make or break the long-term success of a single family rental portfolio. How those costs are financed also impacts the ability to sustain the units over the long-term. The appendix includes a list of great guides and templates to forecast costs and financing options. Consideration should be given to the following best practices:

DEVELOPMENT BUDGETS

Owners should invest in a capital needs assessment, specs written by an experienced general contractor, builder, city staff or other professional and a realistic assessment of costs including adequate contingencies. Failure to accurately design a newly constructed unit or rehab an existing unit is often the cause of future property management headaches.

Hire a property manager…

"The property manager we hired was part of our development team and provided great advice on home specifications and materials that helped keep our maintenance costs under control".

Arthur Welch, Former Real Estate Development Director, PCCEO

LEASE-UP

Forecast and develop a plan to cover the costs of the property while units are vacant during lease-up. This will ensure the property is on solid financial footing from the beginning. Plan well ahead to lease-up units. Develop a marketing strategy, talk to neighbors and promote the property in community newsletters. Often referrals from existing neighbors glean the best tenants.

OPERATING BUDGETS

In the early years of using tax credits to finance single family rental, projects understated the costs of utilities, insurance or of managing a scattered site portfolio. Over the years, the industry has done a better job of forecasting operating expenses. A few due diligence tips were gleaned from interviews of scattered site property owners:

- Explore attraction of public vouchers to maximize rents and achieve higher collection rates. Public voucher administrators are often looking for single family homes for larger families.
- Consider whether the owner should include utilities in the rent or a utility allowance which requires the tenant to be responsible for paying utilities. Tenants directly responsible for paying utilities tend to more mindful of usage. Ensure utility companies notify the owner of impending disconnections as the shut-off of utilities for non-paying tenants can cause damage to the unit.. Remember that any water or sewer utility, if unpaid, constitutes a lien on the property and should remain the responsibility of the landlord.
- Talk to local utility companies and obtain quotes for insurance; discuss expectations for increases.
- Include operating and replacement reserves in the development budget and annual increases in operating budgets.

PROJECT FINANCING

Owners taking control of troubled tax credit or other publicly financed affordable housing units may be asked to assume the debt or affordability requirements associated with the project. Make sure that whatever debt or financing option is chosen, operating costs are evaluated over the life of any loan or regulatory agreement. For example, if the owner assumes a 30-year mortgage or extended affordability period, the operating budgets should forecast for that length of time, consider long-term capital replacement needs and adequately plan to maintain the asset over the life of any debt, contract or agreement.

- Take a hard look at the numbers and terms before assumption of any debt and negotiate aggressively to make sure the problems that led to the project's distress are not repeated. Owners should also talk to their local government agencies about access to HUD funding if capital improvements are needed.
- Sources of financing also impact property management decisions. Government funds require property managers to understand the rules and regulations that govern those programs. Reporting, especially for tax credit projects, is more complex and increases property management costs. The ability to have good property management rests greatly on the ability to pay for it. Owners that cut corners on development budgets and fail to conduct the due diligence up front may face property management problems further down the road.

Note: The toolkits listed in the Appendix include access to budgeting tools and templates.

THIRD PARTY MANAGEMENT vs. SELF-MANAGEMENT

Determining whether to hire a third-party property management firm or to self-manage is an important decision. Owners should consider the level of capacity required to self-manage even a single unit, much less a portfolio of single family properties before taking on the responsibility. Housing authorities and CDCs that own substantial numbers of units and have experience with property management should evaluate the costs and capacity to add single family units to their portfolio. For new owners, below are a few issues to consider:

1. Property management firms are expert and have the infrastructure in place to screen tenants, check credit scores and references and are incented to avoid potential bad tenants and associated eviction problems. Having to evict a tenant can take months and rental income is typically lost during the eviction process.
2. Property managers either perform routine maintenance with in-house staff or have a pool of vendors readily available to handle maintenance work. The property management firm is responsible for making sure the work is up to par. They also can purchase supplies and materials at a cheaper cost than individual owners.
3. Property managers handle the financial operations of the property, ensuring that rent is collected and that mortgages, taxes, insurance premiums, payroll, and maintenance bills are paid on time. Managers provide monthly accounting for the properties, report on the performance of the portfolio and remit any net income earned to the owner.
4. Property managers monitor the condition of the property and make sure tenants are taking care of the home.
5. More sophisticated property managers have dedicated staff and understand the intricacies of tax credit or federal funding compliance and reporting.

Good property management can lead to homeownership for tenants or wealth building for owners…

HIRING A PROPERTY MANAGEMENT FIRM

Selecting the right property manager for single-family housing is one of the most important decisions in rental ownership. A property manager can drive success or cause a portfolio to experience serious difficulties. Before hiring a firm, conduct good research, perform due diligence and compare firms. Below are a few tips to guide selection of a property management firm:

1. Seek referrals from other affordable housing owners, real estate agents, community based organizations or residents living in rental housing.
2. Conduct your own research for property managers using on-line tools, or websites that provide information or rate property management firms. Check out any reviews on social media, State Housing Finance Agency or the Better Business Bureau to see what kind of rating the company has and if any complaints have been filed against them.
3. Ask for a list of properties the firm manages and make a visit to determine if the properties are clean and well maintained. If possible, speak with tenants about their experience with the property manager.
4. Review sample reports provided to owners that track the property manager's performance such as vacancy rates, lease-up times, delinquency and turnover rates. Inquire about the firm's capacity to accept new units.
5. Interview several firms to compare service offerings, pricing, company values and personnel. Ask about their practices, policies, licenses, and certifications, experience managing site single family homes and working with low-income households.
6. Review their Management Agreement to ensure the same terms you discussed during the interview are included in the contract. Pay close attention to the sections on services provided, extra fees charged, responsibilities of the owner, compliance with fair housing laws, hold harmless and cancellation clauses.
7. Confirm the firm has adequate levels of insurance and that the property and owner will be named as additional insured.

According to a study by the Joint Center for Housing Studies at Harvard University, most property management firms will not accept contracts for fewer than 30 units. Since the foreclosure crisis, smaller property management firms focused on single family housing have emerged. For owners of very small portfolios, self-management may be the only option. There are other reasons that owners might consider self-management, especially community based non-profits:

- Non-profits are better connected to the neighborhood and resources available to support tenants
- Non-profits have relationships with local businesses that can perform maintenance or other property management tasks
- Non-profits can earn property management fees, but owners should perform due diligence of costs vs. fees to avoid financial difficulties down the road. If property management fees do not cover costs, the organization must identify other ways to subsidize the service

Asset Management

Asset management is the primary responsibility of the owner irrespective of the decision to outsource property management. Asset management is the long-term stewardship of rental properties ensuring that the properties are sustained over the life of the unit and the housing serves the tenants well. Owners should establish property management goals and metrics with third-party managers, closely monitor costs and ensure the property is contributing to reserves. Owners should regularly review rent levels and adjust as needed to keep up with costs. Firm policies and procedures should be in place to deal with delinquent rents. Non-profit owners should be careful to not shift the burden of affordability or nonpayment of rent due to hardship from tenants to themselves. Over the long-term, this is not sustainable for the property, tenant or non-profit.

For properties using a lease-to-own model, owners should develop the program plan, policies and agreements with tenants that govern the conversion. The agreements should clearly spell out the terms of purchase, responsibilities of the tenant and the owner and how the purchase price might be pro-rated based on length of tenancy. Owners should periodically touch base with tenants making sure they are credit worthy to receive a loan at time of purchase providing or referring tenants to financial coaching and homeownership counseling. For tax credit projects, conversion to homeownership takes at least fifteen years – a long time for tenants to wait for a home to buy. But for many tenants, homeownership would not be possible and the wait to purchase is worthwhile. For shorter-term lease-to-own programs, homeownership could be realized in just a few months or years.

NEIGHBORHOOD RELATIONSHIPS AND ENGAGEMENT

The challenges and desires of homeowners in urban and rural neighborhoods are the same for landlords. Maintaining safe, affordable housing occupied by responsible families is a shared value of investors, renters and homeowners. Establishing and maintaining good relationships with the community is an essential element to single family rental property management. Engagement with existing residents, homeowner associations, police and social service agencies results in better tenants, lower property management costs and higher levels of sustainability.

HOMEOWNER ASSOCIATION

Landlords and tenants are encouraged to join and participate in neighborhood associations although most are centered around homeowners. Surrounding homeowners are more likely to notify landlords of problems with tenants or property management concerns if a relationship exists. Over the long-term, this can help protect the owner's investments. Joining a homeowner's association shows that you care about the property, tenant and neighborhood.

COMMUNITY SAFETY

Most literature on this subject is targeted towards tenants' rights and holding landlords accountable for being a good steward of their properties. However, a responsible landlord is active in community safety recognizing that it helps not only with property maintenance, but a safe street in a safe neighborhood will attract and retain better tenants.

SOCIAL SERVICE AGENCIES

Supportive housing services can be included in tax credit or other project budgets to help disadvantaged families maintain their home or to prepare tenants for homeownership. Services are provided through contracts with social service agencies or by on-site staff. Owners can apply for tax credits using a supportive services model that provides resources to pay for these services. Financial counseling for prospective homebuyers should be included in operating budgets.

Even if projects do not have supportive services included in the operating budget, owners should seek to establish relationships with neighborhood social service providers that provide:

- Assistance with identifying good tenants. Many social service agencies know good families that are looking for affordable housing and may have access to public housing vouchers.
- Financial coaching for tenants that may experience a job loss, health problems or other issues that impact their ability to pay rent.
- Connecting tenants with neighborhood safety or other community building activities.
- Homeownership counseling to prepare tenants to purchase their rental home.
- Referrals to local contractors and vendors that can handle routine maintenance or emergency repairs.

SUMMARY

Single family rental housing is an important segment of the rental market and an important solution to neighborhoods with vacant homes and vacant land. Tax credits have been and must continue to be a financing tool available to single family developers. They can be successful, but only if managed well. Below are a few tips for non-profits, housing authorities or small investors considering serving this market segment:

1. Establish a great team at the early stages of project development to ensure the design can be built at reasonable costs, thorough rehab specifications for redevelopment projects and high quality construction. Having the property manager on the team at the beginning will prove to be useful in the selection of materials and home design. Great quality construction can translate to operating savings.

2. Site selection should emphasize clustering to achieve higher impact and reduce travel times to conduct property management activities. Ideally the project should support an overall housing strategy and complementary to a set of overall housing goals that improve the market for additional homeownership.

3. Budget for higher per unit development and operating costs:
   - Budget for far higher operating expenses than multi-family properties
   - Budget higher capitalization of operating and capital reserves
   - Budget higher per unit, per year contributions to replacement reserves and be disciplined about making the contributions when cash flow permits

4. Quality property and asset management are key to scattered site single family rentals’ ability to serve as a neighborhood asset. Be proactive in establishing tenant screening criteria and stay intimately involved with the property manager. Educate tenants on home maintenance and assist those interested to prepare for homeownership.

5. Be clear from very beginning whether this project is intended to be long term rental or will be expected to convert to homeownership after 15 year tax credit period. Even if homeownership is the goal, plan for some units to remain as permanent rental.

Appendix

Resources:

Property Management Interview and Evaluation Guide

Overview of the Rental Housing Market
http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/americas_rental_housing_2015_web.pdf

Single Family Rental Toolkit
https://www.hudexchange.info/resource/607/nsp-sample-scatteredsite-rental-housing-management-document-set/

Scattered Site Rental toolkit:
https://www.hudexchange.info/resource/759/scatteredsite-rental-toolkit/

Preparing tenants for homeownership:
http://www.chnnet.com/path-to-home-ownership.aspx

AFFORDABLE HOUSING PROPERTY MANAGER INTERVIEW GUIDE

Name of Firm: ____

1. How many properties and units are managed by the company/owner?

2. How is the property management operation organized? Who reports to whom? Ask for organizational chart.

3. What management functions are staffed in-house? How many people are employed? Are any residents employed? Do you utilize resident-managers? If so, how are they compensated?

4. Do you contract out for any management functions (maintenance, security, bookkeeping, social services)? Does management purchase goods and services from local businesses? How are routine or emergency maintenance requests handled? How often do you inspect units?

5. What is the turnover of property management staff? How often do you need to hire new maintenance people? Do you hire residents and if so, what has been your experience?

6. What background checks do you perform for new hires. What orientation or on-going training do you provide? What is the diversity of staff? Do you provide ongoing professional development training for staff, particularly in the areas of fair housing and cultural competency?

7. Is there a management contract? Please explain the terms, roles and responsibilities and fees? What extra fees are charged? How is the management fee set (based on rents, collected rents, per unit)?

8. What is your tenant screening and leasing process? What is the tenant turnover rate and the primary reason? How long does it take to re-lease the unit once vacated?

9. What is your vacancy rate? What is your collection rate? What is your rent delinquency rate? What is your eviction policy and process?

10. For properties of similar size, what is your per unit operating cost? Do you develop an annual budget? How do you monitor and adjust budgets throughout the year?

11. What is your experience managing properties occupied by low-to-moderate income families? Do you have experience managing properties financed by government funds? If so, which government programs are you familiar with? Do you have any unresolved monitoring or audit findings?

12. How does your firm handle security? What is your relationship with law enforcement?

13. Describe your relationship with the tenants? How do you enforce rules? How do you assist tenants that become delinquent or have other issues that may come to your attention?

14. Describe your relationship with neighbors and the community at large. Do you attend homeowner’s association meetings or neighborhood meetings?

15. How do you engage existing residents?

16. Do you have experience and/or relationship with the state housing financing agency, public housing authority, and local government?

17. What is the relationship with the owner? What are the owners' roles and responsibilities? What reports are provided to the owner? How often? How often is rent remitted to the owner?

18. What monthly and quarterly reports are available to the owner?

19. What housing and/or property management organizations do you belong to?

AFFORDABLE HOUSING PROPERTY MANAGER EVALUATION GUIDE

Property owners are encouraged to evaluate property managers, at least annually. Review the evaluation with the manager and establish improvement goals if needed.

1. Start by interviewing a few tenants to get their input into the property manager's performance?
   a. Do you know the property manager? What is your relationship with the management staff? Are they responsive to your requests? What types of requests are being asked of the property manager?
   b. On a scale of 1-5, rate the property manager's performance with 1 being the lowest and 5 being the highest?
   c. How could the property manager improve?
   d. Is the property maintained to your satisfaction? Are you experiencing any problems with your property? Are they responsive to your requests for service?
   e. Have you experienced any safety related issues on or near your property?

2. Compare the manager's performance against stated goals in the contract or annually?
   a. Vacancy rate
   b. Collection rate
   c. Delinquency rate
   d. Turnover rate
   e. Operating costs per unit

3. Were monthly reports received on time? Were they accurate? Were rents remitted on time?

4. Visually inspect the conditions of the property. Is the grass cut and outside premises maintained well? Are common interiors clean? Do you notice any glaring maintenance issues? Ask the property manager for their annual inspection reports.

5. Are maintenance and/or work orders signed off by tenants?