Stress Testing Your Portfolio: Asset Managers Coping with COVID-19

Tuesday, April 7, 2020
4:00 – 5:15 EDT

Contact:
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CHAM & its Partners’ Responses to COVID-19
Agenda

1. Introduction
2. What is Stress Testing
3. CFO View
4. Asset Manager View
5. Investor View
6. Federal Policy
7. Next Steps

Thank you to the LISC Institute for hosting the webinar!

Presenters

• Tony DiBlasi, Ohio Capital Corporation for Housing
• Katherine Fleming, BRIDGE Housing
• Peter Lawrence, Novogradac
• Valorie Schwarzmann, Homeport
• Dena Xifaras, Preservation of Affordable Housing

Moderator: Harold Nassau, CHAM, NeighborWorks America
Stress Testing

What is it?

- Scenario plan to look at range of outcomes
- Predict more and less likely outcomes
- Quantify exposure and liability
- Develop tool to look iteratively as new realities unfold

Stress Testing - Why?

- **Manage**
  - Set clear priorities
  - Allocate resources
  - Demonstrate possible future scenarios
  - Prepare for radical changes

- **Communicate**
  - Exposures to owners and Investors
  - Provide a data platform to frame and negotiate survival

6 Tips for Managing High Call Volumes During the COVID-19 Crisis
Three views

- Organizational – The CFO View
- Portfolio – The Asset Manager View
- Stakeholder – The Investor View

What are the variables?
What are the time frames?
What are the mitigators?

CFO View

CFO Stress-Tested Revenue Risks

<table>
<thead>
<tr>
<th></th>
<th>2020 Budget</th>
<th>Reliable at 4.5.2020</th>
<th>Amount at Risk</th>
<th>Possible Solutions to Address Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>$ 80,000</td>
<td>$ 25,000</td>
<td>$ 55,000</td>
<td></td>
</tr>
<tr>
<td>Annual Event Contributions</td>
<td>$ 550,000</td>
<td>$ 200,000</td>
<td>$ 350,000</td>
<td></td>
</tr>
<tr>
<td>Private Grants</td>
<td>$ 558,012</td>
<td>$ 450,000</td>
<td>$ 108,012</td>
<td></td>
</tr>
<tr>
<td>Public Grants</td>
<td>$ 636,500</td>
<td>$ 550,000</td>
<td>$ 86,500</td>
<td></td>
</tr>
<tr>
<td>Real Estate Development Fees</td>
<td>$ 1,394,417</td>
<td>$ 1,200,000</td>
<td>$ 194,417</td>
<td></td>
</tr>
<tr>
<td>Asset Management Income</td>
<td>$ 1,179,050</td>
<td>$ 650,000</td>
<td>$ 529,000</td>
<td>See Previous Slide</td>
</tr>
<tr>
<td>Service Coordination Fees</td>
<td>$ 271,547</td>
<td>$ 150,000</td>
<td>$ 121,547</td>
<td></td>
</tr>
<tr>
<td>Other Revenue</td>
<td>$ 334,324</td>
<td>$ 200,000</td>
<td>$ 134,324</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$ 5,003,850</td>
<td>$ 3,425,000</td>
<td>$ 1,578,850</td>
<td></td>
</tr>
</tbody>
</table>

2021 “Budget” Risk of Reduced Waterfall Cash Flow

<table>
<thead>
<tr>
<th></th>
<th>Amount at Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Management Income</td>
<td>$ 1,300,000</td>
</tr>
<tr>
<td>Service Coordination Fees</td>
<td>$ 300,000</td>
</tr>
</tbody>
</table>
CFO View

**Variables**
- Loss of cash flow to parent
- Loss of asset management fees
- Loss or delay in developer fees
- Reduction in property management fees (if self managed)

**Mitigators**
- Operating deficit guarantees
- Loan covenants
- Investor relationships

CFO View

**Explore and Implement Possible Solutions to Identified Risks**

**Expense Side**
- Lower interest rates...any properties to refinance? Possible debt service payment deferrals?
- SBA loan...application to cover property manager and maintenance personnel salaries?
- Business interruption insurance...check your policy; talk to your broker; follow cases being brought to court
- Waterfall distributions...analyze best use of funds: property versus parent
- Operating reserves...available? Replacement reserves...use strategically. Talk with investor
- Maintenance personnel use to replace times when would have used outside contractors

**Rent Revenue Replacement Side**
- Service coordinator role...assistance with unemployment applications; finding 3rd party rent assistance, etc.
- Tenant Rent Relief Fund...internal, community matches, investor funds, other
## Asset Manager View

- Owner needs
- Investor needs
- Resident needs
- Staff needs

## COVID-19 Stressors & Mitigators

**Stressors of Greatest Concern**
- Tenant Receivables/Delinquency
- Prolonged Vacancy
- Professional Cleaning Cost if Residents and/or Staff get COVID-19

**Mitigators Easy to Model**
- Postponement of 2020 Capital Projects
- Suspension of RR Deposits
- Utilization of Operating Reserves
- Utilization of Replacement Reserves
- Mortgage Forbearance
- Guarantee Relief
COVID-19 Stressors & Mitigators

Additional concerning impacts:
- Cleaning supplies & personal protective equipment
- Maintenance staff overtime
- Reduced management fees
- Suspension of rent increases on unsubsidized units
- Bad debt & legal
- Deferred maintenance
- Certification challenges
- Tenant holdover
- Inability to evict
- Market instability (interest rates, tax credit rates, construction pricing, vendor viability/availability, etc)

Additional mitigators to consider:
- Suspending 2019 surplus cash disbursement to subordinate lenders
- Fundraising
- Increasing RR withdrawal/reliance
- Moving around subsidy at property
- Creative leasing (homeless placements, COVID-19)
- Deferring utility, real estate tax or other payables
- Other property level or upper tier reserves, relief funds, hiring freezes / cost saving measures, etc
- Federal mitigation efforts...

Mitigators: Federal Policy

- Resident recovery rebate checks
- Resident unemployment insurance benefits
- SBA disaster loans commercial tenants
- SBA nonprofit loans
- HUD
- Mortgage forbearance
- Complete summary at:

https://www.novoco.com/covid-19
Modeling Decreases in Rent Collection

- What % decrease to model?
- Family versus senior
- Subsidized versus unsubsidized
- Geographic considerations
- Moratorium on evictions

<table>
<thead>
<tr>
<th>% Decrease in Rent (Family Unsubsidized Only)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
</tr>
<tr>
<td>--------</td>
</tr>
<tr>
<td>3 months</td>
</tr>
<tr>
<td>6 months</td>
</tr>
<tr>
<td>9 months</td>
</tr>
</tbody>
</table>

Building Excel tables particularly useful in scenario analysis as change % decrease or duration, see impact.

Modeling Prolonged Vacancy

- What % increase should we model?
- What should we apply it to?
  - Vacancy YTD annualized OR
  - Budgeted vacancy for rest of year
- For what duration?

<table>
<thead>
<tr>
<th>% Increase in Vacancy Expense (Family &amp; Senior Properties)</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Months</td>
</tr>
<tr>
<td>------------</td>
</tr>
<tr>
<td>3 (Apr-Jun)</td>
</tr>
<tr>
<td>6 (Apr-Sep)</td>
</tr>
<tr>
<td>9 (Apr-Dec)</td>
</tr>
</tbody>
</table>

Building Excel tables particularly useful in scenario analysis as can change % decrease or duration to see impact.
<table>
<thead>
<tr>
<th>Portfolio Description</th>
<th>2020 Budget</th>
<th>20% Reduction in Nonsubsidized Receipts</th>
<th>30% Reduction in Nonsubsidized Receipts</th>
<th>50% Reduction in Nonsubsidized Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Management Fees</td>
<td>Non-Cash Flow before Operating Revenue</td>
<td>Available Operating Revenue</td>
</tr>
<tr>
<td></td>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>826,006</td>
<td>96,347</td>
<td>304,008</td>
<td>417,659</td>
</tr>
<tr>
<td></td>
<td>826,006</td>
<td>132,947</td>
<td>304,008</td>
<td>417,659</td>
</tr>
<tr>
<td></td>
<td>826,006</td>
<td>189,547</td>
<td>304,008</td>
<td>417,659</td>
</tr>
</tbody>
</table>

**Mitigation Strategy: Capital Expense Deferral**

- What projects can be deferred to later this year or next year?
- What % of capital spending can we hold off on?
Mitigation Strategy: Suspense of RR Deposit

- How much relief would suspending RR deposits bring across your portfolio?
- Is it worth isolating by lender? Loan type? Deficit properties only?
- Will you be required to catch back up later?
- Whose approval is required?

<table>
<thead>
<tr>
<th>Impact of Suspension in RR Deposits</th>
<th># of Months</th>
<th>$ Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>$50,840</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>$152,520</td>
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<tr>
<td></td>
<td>6</td>
<td>$305,040</td>
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<tr>
<td></td>
<td>9</td>
<td>$457,560</td>
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</table>

Mitigation Strategy: Operating Reserves

- What assumptions to make about utilizing operating reserves?
  - Only to cover deficits?
  - Replenishment required?
  - Approvals required?
  - Interaction with waterfall considerations?
- How many months of operating deficit (under different scenarios) will operating reserves carry?
- Will partners let you use replacement or other reserves too?
Mitigation Strategy: Mortgage Forbearance

- What would mortgage forbearance look like?
- Who is allowing it? (Fannie, Freddie, FHA, Others?)
- Is there a requirement to prove hardship?
- How long permitting - 30, 60, 90 or more days? Interest only or all debt service?
- Required to restore payments retroactively?
- Suspension of debt service covenants or default provisions needed?

<table>
<thead>
<tr>
<th>Impact of Suspension in Debt Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Months</td>
</tr>
<tr>
<td>-------------</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>3</td>
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<tr>
<td>6</td>
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<tr>
<td>9</td>
</tr>
</tbody>
</table>

Example above assumes:
- 20% (Family) & 10% (Senior) reduced collection for 6 months
- 20% increase in vacancy expense for unsubsidized units through year end
- $38k in capital project savings
- $50k in operating reserve withdrawal
- 3 month suspension of replacement reserve deposits
To our Valued Stakeholders:

As you are a significant stakeholder in this property, BRIDGE Housing may need your approval to augment or replace income loss due to the incapacity of our residents to pay full and timely rent. At this time, BRIDGE will continue to request rent payments according to each tenant’s lease, fully expecting many tenants may experience difficulty paying rent. During this interim, no tenant shall be evicted due to inability to pay rent because of illness, job or income losses.

BRIDGE Housing will need your speedy approval to implement the following measures based on specific property needs as we evaluate the economic impact of reduced rent collection:

1. **Suspend Replacement Reserve Funding and Defer Reserve Replenishment Requirements**
2. **Suspend Operating Reserve Funding, Minimum Balance Requirements and Defer Reserve Replenishment Requirements**
3. **Eliminate Any Requirement to Defer Property Management Fees To Cover Deficits.**

We are not asking for forbearance of mortgage payments at this moment, but want to highlight that this may be a possibility over the next couple of months. One form we expect that can take is as follows:

a. Suspend required mortgage interest and/or principal payments for 3 months, beginning May 1, 2020.

b. Adjustments in amortization schedules or lengthening loan terms to temporarily reduce payments of interest and principal.

c. Suspension of debt service coverage covenants until rental income is stable.
Investor View: Portfolio Stress Testing

- Data analytics tools to enable portfolio-wide assessment
- Parameterized to allow for efficient sensitivity analysis
- Ability to evaluate different segments of 575+ project portfolio

Family Non-Subsidized Portfolio as of 2019 Q4
Green = Good
Red = Bad

Investor View: Portfolio Stress Testing

- Stress testing / scenario planning allows us to have an honest conversation early
  - Mission-focused syndicators will work with you
  - We are all in this together...
Investor View: Portfolio Stress Testing

• OCCH is collecting the NAHMA 4.0 XML file export for properties across our portfolio
• Provides significant information about each household
  • Sources of income
  • Who has tenant-based voucher
• This analysis will help us identify which households are without tenant-based vouchers and are most at risk from recent job loss

Investor View: Flood of Inquiries!

Week 1 (March 16)
• Operational adjustments?
• GP / management response?
• Are we communicating?

Week 2 (March 23)
• Impact of job loss?
• Stress testing of portfolio
• Calls for federal stimulus

Week 3 (March 30)
• Stress testing of partners
• Impact of CARES legislation?
• Increased focus / impact on construction and lease-up?

Week 4 (April 6)
• Rents DUE! Real data!
• Revisiting stress testing!
• Strategies to bridge shortfalls
A few thoughts to instill confidence with your investor/lender partners:

- Communicate regularly
- Build confidence with the quality of your analysis – data matters!
- Pursue mitigants that are commensurate with the size of the problem

Investor View: Key Themes

- Investors only have limited information about your company and your portfolio
- Investors are ‘triaging’ on their investments, attempting to identify the most significant risks
  - Delays with construction/leasing
  - Highly impacted properties
  - Vulnerable GPs and agents

Federal Stimulus Phase 4

What the Affordable Housing Community is asking from Congress:

- Appropriated resources for tenants and properties without rental assistance
- Extension of readiness deadlines in Section 42:
  - 10 Percent Test
  - Placed-In Service
  - Rehab Expenditures
- Minimum 4 percent rate for buildings placed in service as of January
- Lowering Financed by Test from 50 to 25 Percent on bond financed properties
Next Steps

- Engage investors, lenders and syndicators
- Monitor April & May collections
- Iterate sensitivity analysis to account for new stressors, mitigators and realities as they unfold
- Prioritize portfolio and property specific strategies

Q&A

Your questions and comments will inform our future webinars and guidance for asset managers.
CHAM is the national asset management association for professionals engaged in the affordable housing industry.

CHAM advances the financial sustainability of affordable housing and the achievement of mission goals for residents and the community.

Contact us at assetmgchtam@gmail.com
Learn more at www.cham.us

Online Class Starts Thursday!
Building a Property Deal Book as a Component of Your Asset Management Plan (AM210vc)
Online sessions on 4/9, 4/16, 4/23, 4/30 at 3:00pm EDT

NeighborWorks America is offering this faculty-led online class to assist participants in developing a basic property deal book for one of their own properties.

More information at assetmgchtam@gmail.com

Thank You!

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Thank You!