Mission-Driven Development
Asset Management Perspective
New York Land Opportunity Program

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Low Income Housing Tax Credits

- Created in 1986 as part of the Tax Reform Act to encourage private investment in affordable housing
- Federal subsidy given to states on a per capita basis
- State housing authorities allocate funds to specific projects based on a competitive application process
- Tax credits are sold by developers to fund up to 70% of eligible development costs
- Dollar-for-dollar reduction of federal tax liability over a ten year period
Summary: How Tax Credits Flow

Federal Government
Allocates Low-Income Housing Tax Credits to States

State Housing Agencies
Allocate Credits to Properties

Residential Rental Properties
for qualified residents with incomes not exceeding 50% to 60% of area median income

THE LOW-INCOME HOUSING TAX CREDIT INVESTMENT PROCESS

LIMITED PARTNERSHIP - PROPERTY OWNER

CORPORATE INVESTOR

Source: Reznick

Extraordinary things happen when you have great partners

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Partnership Structure

• LP or LLC structure
• General Partner owns 0.01%, but controls and operates the project
• Limited Partner/Managing Member is a passive investor, and gets its return almost exclusively from tax credits and losses

Developer/General Partner
0.01% Ownership

Fund/Investor
99.99% Ownership

LIHTC Project
The Triple Bottom Line

For the mission driven investor there is more than one bottom line.

• Focus on the financial and physical performance of a portfolio as well as the advancement of community goals.

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What is Asset Management?

The active and strategic pursuit of an owner's long term goals from predevelopment through management and disposition of a property.

In a JV partnership you may not be the lead developer but you must be a savvy asset manager.
Asset Management cont.

Monitor project from inception to sale
Maximize financial performance
Responsible for meeting owner and investor goals
Ensure each property remains in compliance with program regulations
## Investor Risk Rating

<table>
<thead>
<tr>
<th>Category</th>
<th>Best Practice</th>
<th>Worst</th>
</tr>
</thead>
<tbody>
<tr>
<td>DCR</td>
<td>• DCR is at or above 1.20x or as underwritten</td>
<td>• Loan is in default on must pay debt</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Notice of Default issued</td>
</tr>
<tr>
<td>Occupancy</td>
<td>• Economic Occupancy is 95% or above</td>
<td>• Economic Occupancy is less than 80%</td>
</tr>
<tr>
<td>Reserves</td>
<td>• Reserves and escrows are fully funded as originally underwritten</td>
<td>• Reserves and escrows are depleted and</td>
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<td></td>
<td></td>
<td>no payments are being made</td>
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<tr>
<td>Physical</td>
<td>• No physical issues</td>
<td>• Off-line units with no funding source to</td>
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<tr>
<td></td>
<td></td>
<td>remedy</td>
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<tr>
<td></td>
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<td>• Major issues or building(s) condemned</td>
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<tr>
<td>GP/Sponsor</td>
<td>• GP/Sponsor is financially secure and able to meet all obligations as</td>
<td>• GP/Project or Partnership Bankruptcy</td>
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<tr>
<td></td>
<td>identified in the Partnership Agreement</td>
<td>• Foreclosure</td>
</tr>
<tr>
<td>Compliance</td>
<td>• No material Compliance issues</td>
<td>• 8609s delayed more than 3 years</td>
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<tr>
<td></td>
<td>• Part III is on track</td>
<td>• Part III denied</td>
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<tr>
<td></td>
<td></td>
<td>• Recapture</td>
</tr>
<tr>
<td>Insurance</td>
<td>• No insurance/tax issues</td>
<td>• Unpaid real estate taxes/unpaid</td>
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<tr>
<td></td>
<td></td>
<td>insurance and no funds are available</td>
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<tr>
<td>Reporting</td>
<td>• No reporting issues</td>
<td>• Reporting not received</td>
</tr>
<tr>
<td>Recapture</td>
<td>• No Recapture</td>
<td>• Recapture event</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Sherriff’s Sale</td>
</tr>
</tbody>
</table>

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The “Buck Stops” Here

• The Board of Directors is charged with implementing policy for the organization.

• As the steward of the asset you have a fiduciary role to establish and monitor internal controls and ensure legality, accountability and ethical policies and practices are in place and being used.
Mission Driven JV Partner

Opportunity to earn additional revenue
Provide affordable housing opportunity
Serve the geographic and church community
Diversify income sources
Opportunities and Problems

- New revenue stream – legal structure, terms of JV partnership. How do you ensure that revenue expectations are met?
- Provide affordable housing opportunity – for whom? Do income levels meet the needs of your community?
- Serve the community – do community members see this development as beneficial, too big, gentrifying the neighborhood?
Other Partners

- Board of Directors
- Tax Credit Syndicator
- State (HCR) or Local Housing Agency (HPD)
- Lenders – Construction and Permanent Loans
- Property Management Company
- Tenants
- Neighborhood Residents, Community Board
- Parishioners
AM Best Practices

You cannot “not do” asset management - it happens whether anyone is paying attention or not, whether anyone “chooses” to do it or not.

“Not to decide, is to decide.”

“Failing to act has the same effect as actively deciding to shorten the life of the asset.”

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Additional Training Resources

NeighborWorks Training Institute – courses in Real Estate Development, Property and Asset Management

Institute of Real Estate Management (IREM) ARM and CPM Certification

Quadel Consulting – HUD and LIHTC Compliance