Why is this Topic important to us?

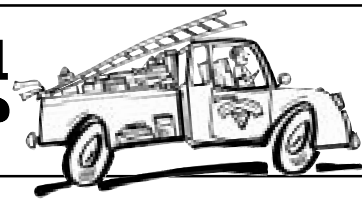
Small or scattered site portfolios pose many management challenges for their owners. Small portfolios may have trouble covering their costs, while scattered site portfolios often bear the burden of limited on-site staff and extensive travel time required for repair and maintenance. While we must continue to develop affordable housing where it is needed, these added management issues should be anticipated and the problems mitigated as much as possible.

ACTIVITIES IN THIS WORKBOOK

- WHAT ARE "SMALL" AND "SCATTERED" PORTFOLIOS?
- HOW DO WE HANDLE OUR "SCATTERED SITES"?
- CALCULATING THE COSTS OF MANAGING A SMALL PORTFOLIO
- MITIGATING THE MANAGEMENT CHALLENGES OF SMALL PORTFOLIOS

1 ACTIVITY 1

What are "small" and "scattered" portfolios?



One possible definition for a **scattered site portfolio** is the following:

"A portfolio where individual projects, that are not large enough to justify on-site staff, are located more than a 6 minute drive apart."

Some of the most analytical property managers use the 6 minute guideline because it represents 20% of the time it takes to complete a one hour management or maintenance task. That is, the worker leaves his or her normal work location, drives 6 minutes, completes the one-hour task, drives six minutes back to the starting point, and proceeds with other assignments. Hence a one-hour task has actually taken 1 hour and 12 minutes.

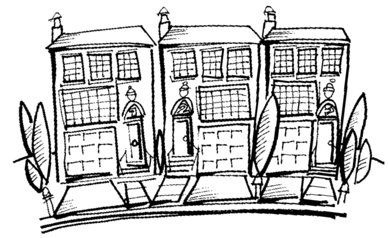
Travel time eats into the work schedule. The following shows a calculation of the number of one hour tasks that can be completed in various periods of time (a day, a week, a month, a year) with and without this travel time.

	CENTRALIZED	**SCATTERED**
One day	**8**	**6**
One week	**40**	**32**
One month	**160**	**128**
One year	**1,920**	**1,536**

In other words, over the course of a year, there is a significant difference in the level of staff productivity between those working with scattered site portfolios and those working with centralized portfolios.

SCATTERED PORTFOLIOS

● **What do we think of this definition of "scattered?" What other possible definitions of "scattered" can we suggest?**



Just as with scattered sites, there is often a question about the definition of a **"small" portfolio**. A working definition might have the following components:

"A portfolio where the management fees are not great enough to support the oversight and overhead costs necessary for management of the portfolio."

If the portfolio is self-managed, that would mean that the amount of money paid back to the CDC in "management fees" does not cover the cost of time that staff spend on portfolio issues (such as the ED ruling on evictions) along with their proportional overhead.

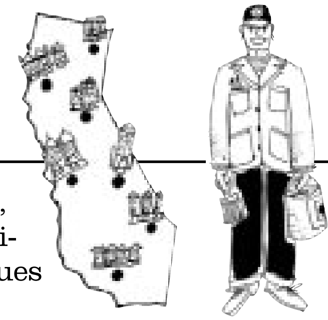
SMALL PORTFOLIOS

- **What other definitions of "small" portfolios can you propose?**

We explore more issues and solutions to scattered and small portfolios in the following activities.

ACTIVITY 2

How do we handle our "scattered sites"?



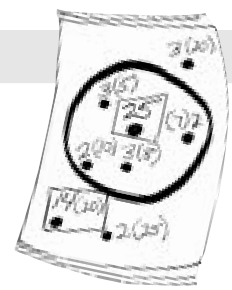
What challenges do we have in managing our portfolios, due to their locations in relation to each other? In addition to the "travel time" costs, there could be other issues and concerns that arise with managing scattered site portfolios.

In some cases if there is no maintenance staff on site, it is difficult for management to determine priorities, or to decide whether an issue is worth an extra trip. When staff do arrive on site, they end up spending extra time dealing with the little things that were previously not worth a trip, or that went unreported until found by a visiting maintenance staff member.

Other CDCs have experienced problems with their residents, finding that they may resent the manager for not making the response to their issues a higher priority.

Do we have these problems or others? Let's compare our portfolios.

MAPPING



Let's each map out our portfolios and compare our maps with the rest of the group. While drawing, think about the specific management issues of your portfolio, due to the location of your units in relation to each other. Design your own "map" or work with a partner who is also familiar with your portfolio.

Then we will share our maps with the entire group and discuss the issues that we are dealing with. As a group, we may even try to come up with some new strategies for addressing scattered site issues.

MAPPING INSTRUCTIONS:

- **Everyone take a sheet of large flip chart paper.**
- **Place a dot in the center of the page, to represent your largest property. Write the number of units above the dot.**
- **Draw a circle about 10" in diameter around the initial property to represent the "six minute" boundary.**
- **Add dots within that circle to represent each of the properties within the six-minute travel distance. Label the number of units above the dot.**
- **Next put dots outside the circle with the number of units above them.**
- **Next to the number above each note in parentheses how many minutes away that site is from the largest property.**
- **Place a square around any dot and the accompanying number of units that represents a site that supports a full-time staff person.**

ACTIVITY 3

Calculating the management costs of small portfolios

Managers of small portfolios often find themselves presented with challenges that managers of larger ones do not have. One of the most significant challenges to the CDC itself, and often hardest to mitigate, is covering the overhead, supervisory and back office costs. Many of these costs, because they are "indirect," cannot be charged directly to the project budget. Instead, they are meant to be covered by the line item in the project's budget called "management fees." When a CDC contracts out property management, the fee is paid to the management company, and it includes not only their oversight and back office support, but some element of "profit." Some CDCs find that they cannot attract a good property manager because the fees are too small to justify taking on the portfolio.

COSTS OFTEN COVERED BY "MANAGEMENT FEES"	COSTS GENERALLY CHARGED DIRECTLY TO A PROJECT
● Offsite Supervisor/management ● Rent and overhead for offsite staff ● Accounting ● Planning ● Profit	● Project operating costs (e. g. maintenance, utilities...) ● Onsite staff ● Some accounting expenses ● Taxes and insurance

CDCs sometimes feel that they can make money by self-managing because it allows them to pay the management fees from the project to the CDC operating budget instead of to an outside property management company. Unfortunately, it is a losing proposition for many small portfolios because without the economies of scale, the fees often are not large enough to cover the internal staff costs of self-management.

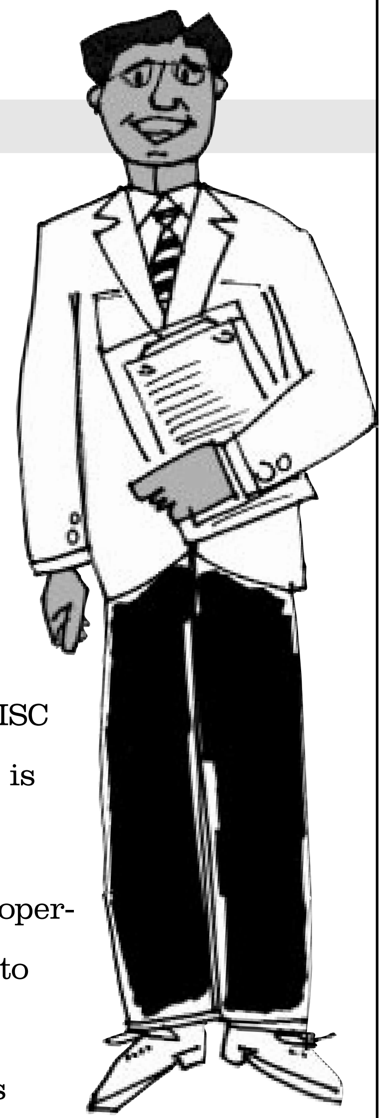
Even small portfolios need to be managed by professional, specialized staff, with appropriate experience. Regardless of the number of units, maintenance oversight, leasing, and accounting have to be handled. In addition to salary and fringe, each staff member comes with his own overhead costs, including a portion of rent, utilities and equipment.

Larger portfolios, or the combined ones managed by private property management firms, have the advantage of economies of scale, whereas small portfolios often do not have the critical mass to carry the salaries and overhead of full-time staff.

Many CDCs determine they must manage their own portfolios for any number of reasons, even when they are losing money doing so. Analyzing the costs and comparing them with the fees helps determine the shortfall. Once that is clear, the staff and board can make an informed decision about whether they want to allocate that level of resources to subsidizing a management operation, or whether they want to make some other choices.

So, how do we know if we have a "small portfolio" where costs are greater than the management fees? Let's work this case using your experience and see what the results are.

Finding the Bottom Line



DELTA CDC — THE PORTFOLIO

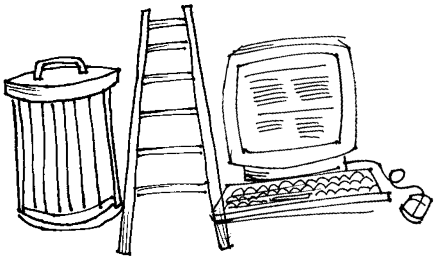
Delta Community Development Corporation (DCDC) currently owns 200 units, spread among six properties serving various populations.

The Executive Director, Sandy Simms, feels that his portfolio should be managed by the DCDC staff and wants to estimate the costs involved. He has been told that the portfolio is too small for self-management. Sandy knows that he can hire a consultant to come in and do a thorough study of their operations, in order to help him make the decision, and that LISC even has an entire workbook on the subject. But right now, he is looking for a "quick and dirty" answer.

There will definitely be expenses directly related to the new property management activity, but Sandy is hoping they will be able to charge most of them off to the project budgets. However, he knows that the management fee income is not pure profit. It is meant to cover the costs of staff time to handle the supervision, accounting, and administrative support related to the business, as well as the overhead cost related to each staff. Delta has five full-time staff who are currently overwhelmed, so Sandy knows he will need to reconfigure job functions as well as hire one or more full or part time staff in order to handle the additional work.

Let's help Sandy do a simple, back of the envelope calculation, to see if his income will cover his expenses. Sandy has some estimates but, if you see a number that does not look right for your area, feel free to change it.

STEP 1: OVERHEAD COSTS



Some organizations know exactly how much their overhead expenses are per staff member. Sandy doesn't have that figure but he does have his most recent organizational budget. He took these numbers from the "Management and General" column.

	DCDC	OUR NUMBERS
FACILITIES:		
Rent	$ 1,704	
Furniture/Equipment/Computers	$ 3,410	
Utilities	$ 2,883	
Janitorial/Building Maintenance	$ 2,150	
OFFICE EXPENSE:		
Telephone/Fax	$ 3,138	
Printing/Photocopying	$ 3,221	
Supplies/Postage	$ 2,714	
OTHER OPERATING EXPENSES:		
Legal	$ 587	
Audit	$ 5,000	
Business Insurance/Bonding	$ 4,030	
Consultants	$ 3,660	
Travel/Vehicle Expense	$ 765	
Employee Training	$ 1,112	
TOTAL:	$ 34,374	

For the overhead cost per staff, take the above total and divide it by the number of existing staff. Sandy's amount is $34,374 divided by the current staff of 5, so he now has an overhead cost of $6,874.80 per person.

If you think this amount is too high, or too low, change it to reflect your experience.

STEP 2: STAFFING COSTS

Sandy attended a class on property management and has some idea of the amount of office staff time that will need to be devoted to property management issues, over and above what he can charge directly to the sites. He doesn't know how he will organize his staff to cover the time, between new or existing staff, but he knows that the work will need to be covered.

His time estimates are below. Do they sound reasonable to you? If not, change them to an amount that you feel is appropriate. Sandy doesn't know what to put for salaries. Can you help him? He asks that you do not underestimate workload requirements or the salary and fringe he will need to pay!

Note: *Sandy estimates that each position will not be an entire full-time equivalent (FTE), so he is listing each position as a portion of an FTE. The salary cost should be listed as the FTE portion. (For instance, if a full-time clerical worker will cost $25,000, 0.5 FTE would be $25,000/2 or $12,500.)*

	FTE	SALARY/FRINGE COSTS
PAYROLL AND BENEFITS:		
EXECUTIVE DIRECTOR	0.1	
REGIONAL/SUPERVISING MANAGER	0.5	
SECRETARIAL/CLERICAL	0.5	
BOOKKEEPING/ACCOUNTING	1	
OTHER		
TOTALS:		

1. **Think about how much time he would need for each position. Change what he has listed if you can justify it. Then, total the FTE column.**

2. **Using the total from the FTE column, multiply it by the per capita overhead cost amount from Step 1.**

   Total FTE __________ x Overhead ______________ = _________________________

   This is the amount of overhead that the property management staff will have.

3. **Now list the salary and fringe costs you would have to pay for each of the positions for a year. What is the staff salary total you came up with?**

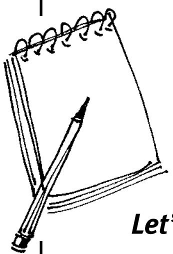
4. **Add your salary total to the number in two above.**

   Salary total plus overhead total = _________________________

This is a ballpark figure of how much it will cost Sandy to run his management operation. Will the management fee cover it?

Let's find out.

STEP 3: CALCULATING THE MANAGEMENT FEE



Delta pays its current property manager 5% of Collected Rents. To estimate it, Sandy knows that over the course of a year they have a vacancy loss of about 5% of gross potential rent (GPR), and lose another 1% of GPR as uncollectable. So for his ballpark number, he wants to subtract 6% from GPR before he calculates his management fee.

Let's do the math for Sandy.

To get your GPR number:

200 Units at average monthly rents of $500 = $ __,_____,____

x 12 Months = $ __,_____,____

Multiply your GPR number by 0.06 to get the vacancy and uncollectable loss = $ __,_____,____

And then subtract the loss amount from the GPR to get your Net Collected Rent = $ __,_____,____

Multiply the Net Collected Rent by 0.05 for the estimated Annual Management fee = $ __,_____,____

Is this method of calculating a management fee realistic for your area? If not, try it based on your own property management fee calculation or local rents.

Our Annual management fee income:

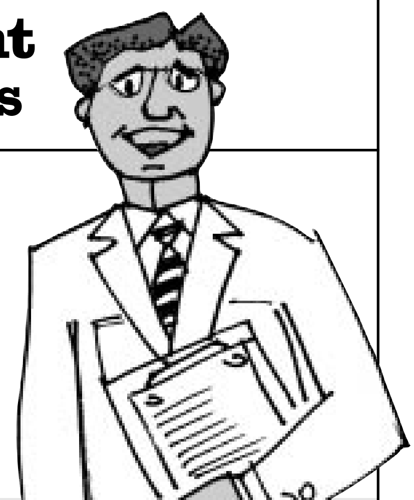
Now subtract your total salaries plus overhead from Step 2 from your management fee calculation.

Based on your bottom line, will Sandy be able to cover his expenses?

Will he make a profit?

ACTIVITY 4

Mitigating the management challenges of small portfolios



Now that Sandy knows what it may cost him to take property management "in-house" at Delta Community Development Corporation, he would like to know what types of things he can do to make running his small portfolio easier. He has already been told not to scrimp on staffing, that he needs skilled, appropriately paid staff. But what else can he do, short of adding more units to his portfolio so that it is no longer "small"? Or is that his only solution?

SOLUTIONS TO SMALL PORTFOLIO CHALLENGES

Let's list all the small portfolio challenges that we can think of, and things we can do that will help address them.

Manager's Tips

FOR MANAGING SCATTERED PORTFOLIOS:

- Select residents with great care. Responsible residents both create fewer reasons to visit the site, and also take care of some issues on their own.

- Conduct very careful orientations with new residents in scattered site properties. Be crystal clear about expectations (both what you expect of them and what they can and cannot expect of you.)

- Plan the work of your maintenance crew or contractors very carefully.
    - Group work orders carefully to minimize travel. This includes asking some people to wait a bit longer for non-emergency work orders so you can assemble a full day or half day of work before you pay a visit.
    - Group work orders around trades (e.g. plumbing, glazing) as well, so you can minimize the handling of materials and supplies.

- As often as possible, hire local contractors for the maintenance work, instead of doing it with your own staff.

- Hire residents to do some of the management and maintenance tasks on their own sites.

- Monitor the performance indicators for these properties very carefully. Often there will be early warning signs of problems that seem small, but are signaling major issues.

- Grow the portfolio in ways that will reduce the magnitude of scattered site inefficiencies. Select new sites for purchase that are close to existing scattered sites so that your organization can work its way toward full time staffing of clusters of sites. Like so much of asset management, thoughtful planning can prevent problems much more easily than they can be solved once they are in place .

- If the acquisition of a particular site out of the normal service area is perceived to be critical to the mission of the organization, it is the asset manager's role to calculate the extent to which the organization will have to subsidize the operations of the property and to push the group to determine the source of that subsidy.

FOR MANAGING SMALL PORTFOLIOS:

- **Shop very carefully for contractors. Even though you can't offer volume, you can offer them repeat business and referrals.**

- **Standardize as much equipment and materials as possible so that you only have to stock parts for, and learn to repair, one kind of kitchen faucet, one kind of door lock, one kind of toilet, etc.**

- **Choose residents very carefully. In a small portfolio, problem tenants can prove very costly and there are not enough other units to absorb the costs in dollars and time. Also, good tenants will take care of the property and reduce maintenance costs.**

- **Often small portfolios include distinctive properties that are serving special needs in the community, or are symbolic of the changes that the CDC is trying to make in the neighborhood. This creates fundraising opportunities that can help subsidize the operating budget and the management fees.**

- **Try the opposite of contracting out the management. Instead, seek additional management contracts for your organization. You will then create the economies of scale that will make the management of your own properties more feasible. There is a lot of risk while you are building up to scale. However, if an organization hires the right people for the job, and budgets carefully for the time period during which the operation will be in the red, this strategy can be rewarding in the long run.**

- **Don't compromise on staffing. Try to hire the best candidates you can. Look at their other skills. If you only need a part-time property manager, maybe they could also work in the development unit, or in fundraising. Many of the skills that make a good property manager are transferable to other parts of the organization.**

Notes for Facilitators

These Facilitator Notes have been developed to help you guide your working group. The most important aspect of your facilitation role is not lecturing or teaching; your role is to keep the conversations going, collect ideas, and to add new thoughts if others do not bring them up.

We offer guidance in the workbook exercises and discussion topics, but you are in no way bound by them. You may find that working on just one or two do the trick.

When planning how you will use the exercises consider how much time you have—if you only have an hour, you will probably only want to do one or two exercises in order to allow time for sharing of experiences. If you have a couple hours, you may want to use the entire workbook or add topics of discussion that are pertinent to your local area. The entire workbook could also be done over several sessions, if that works better for your group.

The individuals who gather to discuss this topic may be quite expert, new to the field or a mix of both. The exercises start out at a basic level, however there is no limit to where the conversations can go. It is your role to encourage those more expert to share their ideas and experience, and the less knowledgeable to ask their questions. This is what peer learning is all about!

We suggest that you take a trial run through the exercises that you plan to use, and work any of the math problems ahead of time, so that you are able to field questions.

ACTIVITY NOTES:

ACTIVITY 1 What are "small" and "scattered" portfolios?

This activity is best done as an entire group warm up discussion. It can be as short as a couple minutes, or if you have time and the conversation takes on momentum, it could last for as much as 1/2 hour. It is a good opportunity for the group to get to know each other if they don't already.

Participants are sometimes unclear about whether or not they have a scattered site or small portfolio, so it often helps to work through the definitions before going any further. Some participants may find out that they in fact have a scattered site or small portfolio as defined in the activity, but disagree with those definitions. We recommend that the group build their own definitions because what may be considered small or scattered in New York City, may not be in Wisconsin or vice versa.

An added twist: *At some point, you may want to have a dialogue addressing, "how we ended up with these portfolios." It can be a good experience to share how portfolios often are assembled without consideration of future management issues. Reinforce the notion that asset management of a portfolio begins early in the development process, with the decision on location.*

ACTIVITY 2 How do we handle our "scattered sites"?

Study the instructions for the mapping exercise ahead of time—and if possible post them on a flip chart. The actual drawing part of this exercise should not take more than 10 minutes. Have on hand a pad of flip chart paper, lots of different colored markers and masking tape.

An alternative to drawing would be to supply everyone with a copied map, if all the attendees are from the same general area. The drawback is that the results are very small and harder to share. A large flipchart with lots of colors makes a more fun exercise and allows everyone a picture of each portfolio.

To start the discussion, first ask everyone to present their portfolio and explain if they consider it scattered. The exercise will allow everyone to compare their portfolios. Then ask participants to share their particular management issues caused by the locations of their properties. Brainstorm solutions as a group. Collect suggestions on a sheet of flip chart paper.

An added twist: *Take one of the CDCs in the room (a volunteer) and focus on brainstorming resolutions to their particular problems.*

ACTIVITY 3 Calculating the management costs of small portfolios

This exercise is best done in pairs, or in small groups. However, if the entire group is under ten participants, you could work it out together on a flip chart. It is very important that someone work this exercise ahead of time and be familiar with the ideas and how the math is done. They can then be ready to coach.

There are no right answers to this exercise. Overhead costs, salaries, rents and management fees can vary significantly from region to region. We have made some suggestions, but we do strongly encourage the participants to change any numbers that don't ring true to them. To help this along, you might want to bring one or more sample budgets to the session that represent realistic local rents, costs and salaries so that similar numbers can be used.

	FTE	SALARY/FRINGE COSTS
PAYROLL AND BENEFITS:		
EXECUTIVE DIRECTOR	**0.1**	**$ 5,000 (0.1 OF $ 50,000)**
REGIONAL/SUPERVISING MANAGER	**0.5**	**$ 15,000 (0.5 OF $ 30,000)**
SECRETARIAL/CLERICAL	**0.5**	**$ 12,500 (0.5 OF $ 25,000)**
BOOKKEEPING/ACCOUNTING	**1**	**$ 30,000**
SUBTOTAL:	**2.1**	**$ 62,500**

Sandy's total is 2.1 staff. His calculation would be $6,874.80 x 2.1= $14,437.08. With the above salaries, the total comes to

$14,437.08 + $62,500 = $76,937.08

Sandy's numbers for the Management Fee are:

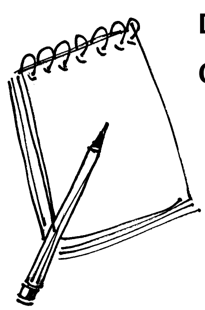
To get your GPR number:

200 Units at average monthly rents of $500	**=**	**$ 100,000**
x 12 Months	**=**	**$ 1,200,000**
Multiply your GPR number by 0.06 to get the vacancy and uncollectable loss	**=**	**$ 72,000**
And then subtract the loss amount from the GPR to get your Net Collected Rent	**=**	**$ 1,128,000**
Multiply the Net Collected Rent by 0.05 for the estimated Annual Management fee	**=**	**$ 56,400**
Sandy's costs	**=**	**$ 76,937.08**
Amount not covered by management fees:	**=**	**$ 20,537.08**

This exercise needs to be carried out honestly in every dimension. Any underestimation for the sake of "making the budget work" will only hurt the CDC. If the groups have been even remotely honest, they will see that the management fees generated by this portfolio will not come very close to covering the budget developed in the first part of the exercise. And there may well be portfolios represented in the room that are even smaller than 200 units.

An added twist: *Assign different groups the same case, only vary the number of units that are in the portfolio. One could be 400 units, another 700, or use some of the numbers of the portfolios that are represented in the room.*

ACTIVITY 4 Mitigating the management challenges of small portfolios



Do this as a large group discussion.

Collect both challenges and solutions on a piece of flip chart paper.

Resource Suggestions

Build a Manual Software Series, Operating Procedures Manual [Computer Program].
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Wallstein, Joan. "Selecting a Management Firm; a Workbook and Sample Forms"
LISC Asset Management, Occasional Paper Series No.2, (November 1997)

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The Enterprise Foundation	**www.enterprisefoundation.org**
Handsnet	**www.handsnet.org**
HUD Homes and Communities	**www.hud.gov**
HUD Office of Community Planning and Development	**www.comcon.org**
Institute for Real Estate Management	**www.irem.org**
Local Initiatives Support Corporation	**www.liscnet.org**
Neighborworks	**www.nw.org**