

What are the Specific Functions of Asset Management?

The following is a more in-depth discussion of the issues outlined in the preceding diagram.

A. Oversight of Property Manager

A key role exclusive to the Asset Management function is to oversee and supervise the property manager to insure that the long-term interests of the property are considered. The primary role of the property manager is to focus on day-to-day management of the property including rent collection and routine maintenance. Good asset management practices require careful oversight of the information generated by the property manager with an eye toward the long-term horizon.

Questions to think about include:

1. What information should we expect a property manager to provide?
2. How do you hold the property manager accountable?
3. How can we interpret the information provided by the property manager?
4. How can one move from reactive to proactive property management?
5. How might costs be minimized and revenues maximized?
6. Is the property manager meeting all regulatory and reporting requirements?

B. Development of Strategic Plan and Property Goals

Another important Asset Management function is to oversee and direct long-term planning for a property according to the goals of the owner. Questions relating to long-term planning include:

1. What are our long-term goals for the property?
2. What is the anticipated cash flow stream for the property?
3. Can the building cover the CDC's social service and asset management costs?
4. When do loans and other obligations mature?
5. How would external events such as changes in public policy or the loss of subsidies influence the cash flow stream?
6. What type of structural improvements and other capital needs are anticipated?
7. Are there adequate reserves?

C. Hold/Sell Refinance Decisions

The asset manager must keep track of debt obligations and must make decisions as to whether to hold, refinance or sell a particular property. Questions relating to refinancing, sales, and dispositions include:

1. Have interest rates declined substantially since the property was last financed?
2. Have other opportunities arisen that could reduce carrying costs?
3. How do restrictions in the subsidy documents impact refinancing, sales and disposition options?
4. Under what conditions might a disposition be considered?
5. Do the benefits to the organization and community justify the resources and costs associated with continuing CDC ownership?

D. Cash Management and Reserves

The asset manager must carefully monitor the cash flow from the property, make sure there is adequate cash available for emergencies, and keep track of accumulated reserve funds. Questions relating to cash management and reserves include:

1. How does the actual cash flow of the property compare with proforma projections?
2. What are the best tools for forecasting cash needs?
3. What performance measures are best for assessing the financial condition of the property?
4. What type of policy directives are given to control and manage cash flow?
5. How are reserve funds and other earnings invested?
6. What are the anticipated capital needs for the property over the next few years?
7. What constitutes "sufficient funds" in the reserve account?

E. Communicating with Investors

The asset manager is responsible for ensuring that investors and Other parties to the transaction receive regular information about the financial condition of the property and the activities of the general partner or owner that materially affect the value of the asset. Questions relating to investor relations include:

1. How often should investors receive Profit and Loss Statements, Capital Expense Reports, Operating Expense Reports, Delinquency Reports and Rent Rolls?
2. What other information should be made available to investors?
3. How can the process be streamlined?

F. Hiring Professionals (Accountants, Lawyers and Other Contractors)

Numerous professional disciplines are involved in the ongoing management of a real estate asset and Asset Management is responsible for hiring and overseeing the works of such third-party professionals. Questions relating to the hiring of third-party professionals include:

1. By what means are third-party professionals selected and hired?
2. Who oversees the work of third-party professionals?

G. Tenant Relations

A shared function of Asset Management and property manager is to assure that policies within the building are fair to tenants while appropriately serving the long-term interests of the owner. It is also critical that these policies are enforced adequately and fairly. Such policies may include tenant selection procedures and criteria within the constraints of the laws and the governing agencies, policies relating to evictions, operating procedures and security. Policy-related questions that include:

1. What are the key building policies that impact the long-term viability of a property?
2. What type of policy conflicts arise between one's mission as a community-based organization and one's mission as an asset manager?
3. How might such conflicts be resolved?
4. What type of mechanisms are in place to allow tenants to have input in determining building policies?

H. Annual Budgeting

Another key shared function of Asset Management and property manager is to oversee the preparation of the annual budget and to review the annual budget against actual expenses for the past few years. Questions relating to annual planning include:

1. What are the goals for the building over the next year?
2. How has the property performed over the past year relative to other years and relative to last year's expectations?
3. What capital expenditures will need to be made in the upcoming year?
4. Will any third party contracts require renewal?
5. Is any debt maturing?
6. Is there a need for any changes in policy?
7. What actions need to be taken and who is responsible?

I. Capital Planning

The long-term viability of a property can only be maintained if careful attention is paid to capital needs. A key joint asset management/property management responsibility is to conduct periodic capital needs analyses and undertake capital programs on a regularly scheduled basis. Questions that might be addressed in connection with capital needs, include:

1. How do CDCs conduct long-term capital planning?
2. How are such expenses budgeted and financed?
3. What type of expenses should be classified as capital expenses?

J. Workouts

In the event of a workout situation, a staff person in Asset Management must work closely with the property manager as well as with all other parties to the transaction to resolve financial difficulties. Key workout questions include:

1. What is the key cause or causes of the financial problem?
2. To what extent can problems be rectified through changes in policy and procedures?
3. To what extent must a negotiation with lenders and investors ensue to rectify financial problems?

K. Dealing with Regulations and Obligations

Asset Management and Property Management must jointly deal with the myriad of federal, state and local statutory regulations and obligations to which they are subject. Key questions include:

1. Which party is specifically responsible for assuring that statutory obligations are carried out?
2. What level of oversight is necessary to assure compliance?

L. Public Relations

A joint function of Asset Management and property manager is to communicate with the larger community explicitly, by participating in and sponsoring community events and implicitly, through the condition of the property. Key questions include:

1. What mechanisms are in place enable a free flow of information between the CDC, the property manager, lenders, public agencies, tenants and neighbors?
2. Is the property perceived to be an asset to the larger community?
3. Is that perception adequately publicized?

4. How does the property exemplify and enhance the organization's mission and its community goals.

M. Crisis Management

In the event of a crisis, whether it involve the physical condition of the property, conditions within the neighborhood, tenant-relations or the finances of the property, Asset Management and Property Management must work together to devise an acceptable and practical solution. Key questions include:

1. What are the options with respect to the resolution of this crisis?
2. Are there resources to implement the selected resolution?
3. What other stakeholders need to be involved in order to resolve the situation?