

Developing an Asset Management Plan Guide Book

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“Failing to Plan is Planning to Fail” ...



Overview

The following pages outline various components of an Asset Management Plan. While this outline is not “exhaustive”, it can serve as a template for creating a plan. In our daily work as asset/property/housing/executive directors, we get caught up in the details of the daily challenges of balancing a new project with an old. We forget about the “big picture” until “year end” or a problem arises. Then what?? How do we measure or determine success? How do we solve the problem??

There are several advantages to a written Asset Management Plan:

- ❑ Serves as a guide for managing the project over many years that can be updated and changed as needed
- ❑ Helps any one who reads the plan understand the operation and disposition strategy for a specific property
- ❑ Can document policies and procedures so there is no “second guessing”
- ❑ Preserves “institutional memory” so if a key staff person or property manager leaves an organization, the written plan can serve as a guide for a new staff or manager.

Owning and managing affordable housing projects requires a myriad of activities all related to Asset Management. There can be serious consequences if a property and/or project deteriorates or fails. So, it is prudent to create a written plan for each real estate project that outlines at minimum the information that follows. Truth be told, this can save many unintended consequences--headaches and pocket-book aches--in the long run!

When thinking about a definition, remember that the process of “asset management” is continuous from the time real estate is acquired until the time it is sold. In preparing to write an Asset Management Plan, we use this as our definition:

Asset Management
*The Acquisition, Administration and
Disposition of real estate in such a
manner that the owner’s goals are
achieved over the long run.*

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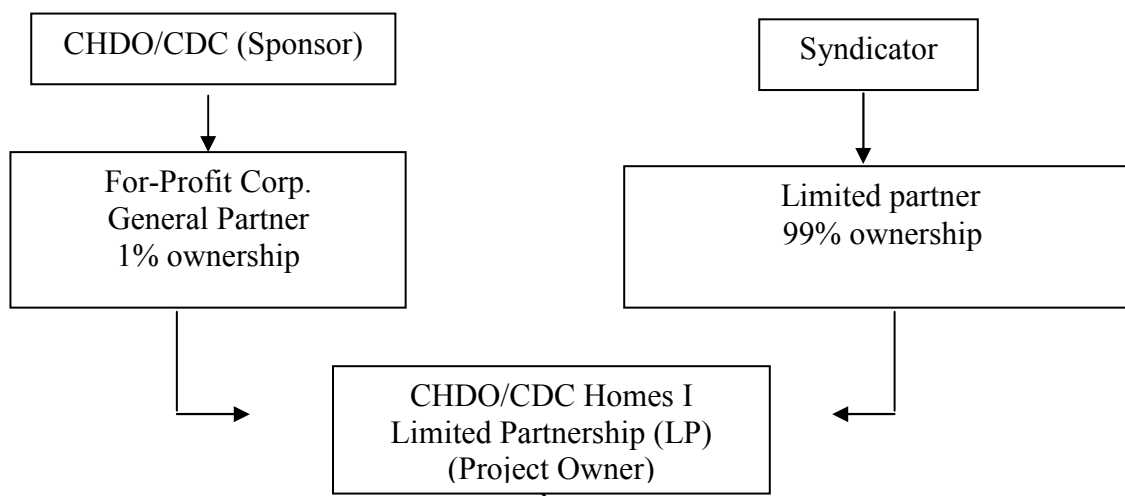
I. Introduction

This section of the Asset Management Plan is a summary of the project or the entire portfolio. It is helpful to describe the ownership structure and entities, role of various funders and IRS (Section 42) and some background of each project.

Completing the charts below can provide a handy overview of your project.

Project Name	
Sponsor Name Contact Info	
Project Owner Contact Info	
Managing General Partner Contact Info	
Limited Partner/Equity Investor Contact Info	
Type of Project (multifamily, senior, lease purchase, etc)	
Address(es) of properties in project	
# of units	
Date Placed in Service	

The following diagram outlines the basic structure of a tax credit project. It may be useful to include this type of diagram in the plan because it can alleviate any confusion about who plays what role.



The development team is an important part of the historical record for each project. For example, you may need to contact the original architect at some point or the construction company for insurance purposes. The chart below provides a tool for summarizing this information.

Project Manager/ Consultant Contact Info	
Architect (individual and firm) Contact Info	
General Contractor Contact Info	
Accountant (individual and firm) Contact Info	
Attorney (individual and firm) Contact Info	

II. Goals and Objectives of CHDO Sponsor and Project

In the affordable housing industry, there is a “double bottom line”: the cost-effective financial performance of a project, such as profitability, and meeting social goals such as safe, decent affordable housing. Balancing these seemingly opposing “bottom lines” can be challenging. This section of the plan contains a description of the Sponsor’s mission and/or vision, along with financial and social goals for the project. These goals should guide the management policies for the property.

Our Mission

What are the Social Goals for our portfolio?

- ✓
- ✓
- ✓
- ✓

What are the Financial Goals for our portfolio?

- ✓
- ✓
- ✓
- ✓



III. Administrative Plan

There are several administrative activities that should be addressed in an Asset Management Plan. These are described in this section.

Owner's Responsibilities

In very broad terms, the responsibilities of the CHDO as the owner of the real estate in each partnership are to ensure the long term financial and physical well being of the real estate.

The CHDO's general responsibilities as owner of this project include:

- ☐ Meeting all compliance requirements
- ☐ Ensuring real estate is maintained adequately
- ☐ Monitoring financial performance during development, operations and disposition phases of project

Management and Supervision

Management and supervision structures should be clarified and documented in writing. It may also be useful to include an organizational chart here to visually show the management structure for the CHDO and project.

If there is a third party firm involved in managing the project, oversight procedures should be established and described in this section.



Reporting and Communication

Management reporting requirements such as performance reviews, management meetings, etc. should also be outlined in this section of the plan.

Procedures for property management reporting and communication should be established and implemented as early as possible in a project. During the operations phase of the project, these strategies should be implemented to monitor performance of the property manager and the project.

Ideally, a property manager should be identified during the development phase of a project. Property management input can be valuable in providing guidance about materials used (linoleum vs. carpet, tile vs. drywall in bathroom), resident reaction to design, etc. This input can affect the costs of operations and maintenance over the life of the project.



Our reporting and communication procedures are:

Tenant Communication

A plan should be created to outline regular communication with tenants and monitor their satisfaction with housing conditions. This type of communication could take the form of newsletters, flyers or surveys.

In addition, it is important to develop a dispute resolution policy so there are procedures for settling issues that may arise. In general, the CHDO's grievance policy and procedures is adequate, but it should be communicated to the tenants and property management staff.

A tenant handbook should be prepared that outlines terms and conditions of tenancy, contact information, eviction process, etc. The manual should be reviewed as a part of each tenants orientation to the property. Some CHDOs

even require the tenant to sign a notice stated they have read and understood the policies!

One note of caution: All tenant communications related to leasing, unit conditions, rent collection and eviction should be handled by the property manager. This alleviates any problems with "who is in charge" and agreements that may have been made between the property manager and tenant. For example, if a tenant is under eviction, and attempts to make a payment that is accepted by a person other than the property manager, the eviction proceedings could be jeopardized. The Executive Director, Asset Manager or other CHDO staff are *NOT* the property manager and should not accept rents or other payments on behalf of a tenant except in cases of emergency (i.e., property management firm closes doors unexpectedly, in-house manager is sick, etc.)

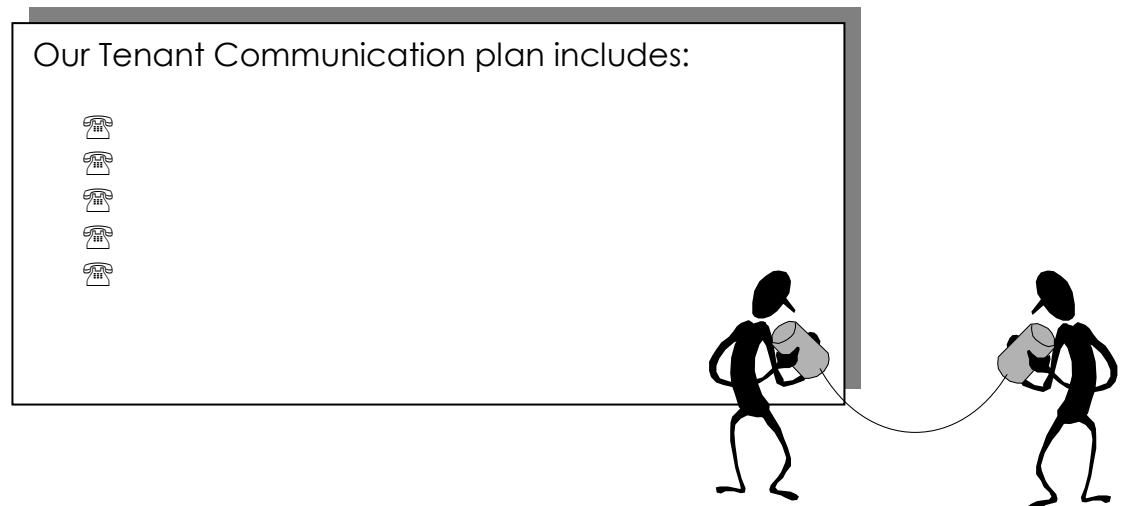
Other important components to tenant communication are:

Safety Plan: Plan to address injury prevention, damage control, compliance with applicable laws and regulations, and liability reduction. (Education, signage, inspections, first aid supplies)

Security Plan Cooperative effort to involve building management, residents, local police, and other authorities in establishing and enforcing policies and procedures which constitute the "security program". (Communication, education, continuous reinforcement.)

Emergency Plan: Designed to protect the lives of residents, guests and employees and to protect the owner's investment from further damage when a natural or man-made disaster strikes your property.

Evacuation Plan: Strategy for safely guiding residents out of a property when an emergency situation exists and for potentially providing temporary housing if warranted.



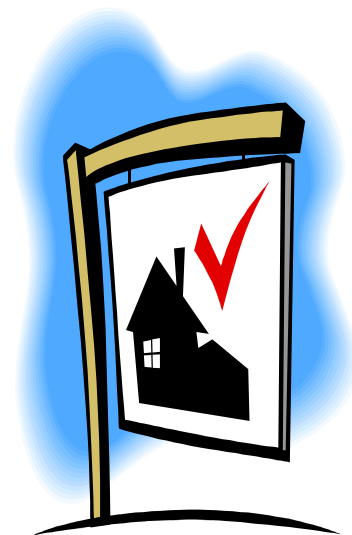
IV. Marketing Strategy

In order to obtain qualified tenants, a property owner should create a marketing strategy that:

- Identifies target population, product type, amenities, etc.
- Outlines the marketing and leasing strategy, to include the fair housing plan
- Recognizes the project's Applicable Fraction and Minimum set a side requirements
- Understands the "Next Available Unit" rule in mixed income properties

The marketing strategy should be summarized in the Asset Management Plan and attached in full as an appendix.

Our Marketing Strategy is:



V. Property Management

This section of the Asset Management Plan should outline the terms and conditions of any third party management firm agreement and the property management plan. If the property is self-managed, a management plan should be created for the property management and summarized in this section.

It is critical to remember the owner is ultimately responsible for what happens in the operation of a project. Generally, there are two methods of property management: self-management and third party. The decision to self manage should be made with much care and analysis because there are many issues involved in managing tax credit and other affordable housing that are not well-matched with staff that performs housing development or community service activities. For example, decisions about who will be “on call” during night time and holiday periods, who will do compliance monitoring and who will do maintenance will need to be addressed. Having a person that is employed full time in another position act as property manager is a decision that should be made very carefully.

If using a third party firm, careful analysis and research must also be conducted into the background and expertise of the firm. References should be checked, current properties under management should be visited other “due diligence” should be performed. Remember: The third party firm is engaged by the owner, is therefore a third party contractor and should be managed accordingly.

The owner and third party firm should negotiate a contract outlining terms of the management agreement, general agent responsibilities and renewal conditions. In addition, the third party firm should also provide at least a basic management plan for how they will oversee the property. Third party firms should also provide, at minimum, the following monthly financial information for the project:

- Monthly statement of Income and expenses, aging of accounts payable and accounts receivable
- Rent roll and Delinquency status
- Monthly expense disbursement summary
- Narrative of unusual incidents, emergencies, accidents and claims







The chart on the following page is a tool that can be used in setting criteria for the evaluation of your property manager, whether its done in-house or by a third party.

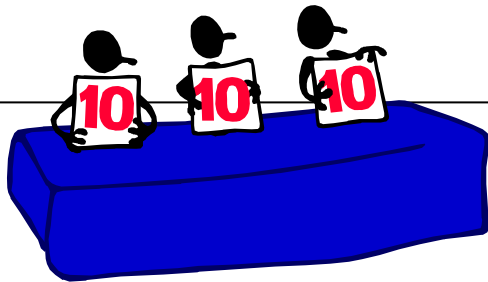
	<i>Using categories below, detail performance level using specific examples</i>		
Property Management Evaluation Criteria	Did Not Meet	Met Basic Requirements	Exceeded Expectations
Goals and Objectives			
Did the management firm meet the goals and objectives established for this property?			
Property Management Staff			
Did assigned Property Manager(s) respond to needs of Owner?			
Was Property Manager(s) responsive to needs of tenants?			
Section 42 Compliance			
Tenant Recertification completed?			
OHFA/Sec. 42 compliance reports submitted by April 1?			
Tenant files and recertification data maintained in proper fashion?			
City reports submitted as required?			
Any 8823s filed?			
Data Collection			
Work orders prepared/submitted?			
Inspection reports prepared/submitted?			
Incident reports prepared/submitted, if applicable?			
Maintenance Inspections completed as agreed			

Reporting			
Monthly income/expense with budget to actual comparison			
Vacancy report			
Unit turnover			
Summary of Maintenance Activities			
Rent delinquencies/Accounts Receivable			
Tenant Rent Roll with status of payments			
Narrative reports			
Annual operating budget			
Timeliness of submission			
Performance Standards			
Rent Collection (92-95%)			
Occupancy Rate (95%)			
Eviction started within 3 days			
Vacancy Turnover (15 days)			
Operating Expense/Unit/Year			

Our property is managed _____.

We evaluate our property manager using the following criteria:

- 
- 
- 
- 
- 
- 



VI. Compliance

Compliance is a critical area for tax credit and other types of affordable housing projects. Generally, the Asset Management Plan should include the following information as it applies to each specific project or partnership:

- Income and rent restrictions
- Applicable Fraction calculation
- Minimum set aside information
- Maintenance of initial tenant files for IRS
- Maintenance of ongoing tenant files for HOME
- Recertification process and Waiver procedures

Who is responsible for compliance? _____

Who does recertification? _____

What are the restrictive Covenants for this project?

What are Rent restrictions for this project?

Are there HOME restrictions on this project? If so, what are they?

Where do we keep old tenant files? _____

Where do we keep the OHFA and other compliance reports?

VII. Site Inspections, Maintenance & Capital Improvements

This section of the plan should summarize the inspection process and maintenance plan.

General up keep and maintenance of property is important for curb appeal and resident satisfaction. Regular site inspections, using a standard checklist for each property, should be conducted with property management and maintenance staff. The industry standard for inspections is:

Multifamily: Common areas: Weekly visual
Exterior: Monthly

Single Family: Interior: twice per year
Exterior: Quarterly



_____ inspects this property on a(n) _____ basis

We have a checklist for inspections Yes/No

_____ follows up on problems found during an inspection.

We have a performance standard to complete work order in ___ days.

In addition, a maintenance plan should be created that addresses the six areas of maintenance:

1. Preventative (Regular upkeep and inspections of property and equipment)
2. Corrective (Maintenance that is put off due to owner preference, budget constraints, weather, etc.)
3. Routine (Custodial, such as basic grounds care and responding to resident requests)

4. Deferred (Maintenance that is put off due to owner preference, budget constraints, weather, etc.)
5. Emergency (Non-scheduled repair that must be performed immediately because it endangers life and/or property)
6. Cosmetic (Repairs that don't affect the function of an item, but make it more appealing)

The CHDO should also keep a list of warranties, building systems and control locations that is kept by the maintenance department and property management staff. This would include items such as location of utility shut offs, key and lock codes and listing of interior finishes such as paint, carpet and window treatments.

Our maintenance plan for the 6 types of maintenance is summarized as follows:

1. Preventative (who, when, time requirement?)
2. Corrective
3. Routine (who, when, time requirement?)
4. Deferred
5. Emergency (What's our policy?)
6. Cosmetic

We keep a file that has all our warranties in _____.

We keep our list of paint colors, carpet colors, etc. in _____.

_____ knows the codes to our security systems.

_____ knows where the utility shutoffs are for each property. These are also written down and kept in _____.

Capital Improvements

Capital Improvements will be needed once the project has been operational for several years. Generally, after five years, basic systems will start requiring refurbishing or renewal. As a part of the Asset Management Plan, a capital needs assessment should be developed and reviewed at least every two years.

Items that are included in a capital needs assessment are: roofing, heating, ventilating and air conditioning systems, carpets/flooring, painting for interior and exteriors, gutters, exterior siding, appliances, plumbing, electrical systems. The chart below is an example of items and what you should be looking at in planning for capital improvements.

Item	Estimated Life	Remaining Life	Replacement Cost (including inflation)	Annual Reserve Requirement
Building				
Roof				
HVAC system				
Flooring				
Water heater				
Exterior siding				
Appliances				
Stoves				
Refrigerators				
Dishwashers				

VIII. Financial

This section of an Asset Management Plan summarizes the following financial data:

- ✓ Long term Income and Expense projections (usually prepared at beginning of project)
- ✓ Annual Tax Credits
- ✓ Equity/Bridge Loan Payments
- ✓ Replacement and Operating Reserve Requirements
- ✓ Debt and Subsidy summary
- ✓ Limited Partner Capital Account Analysis
- ✓ Syndicator & Other Financial Reporting Requirements
- ✓ Exit Tax Analysis
- ✓ Guaranties
- ✓ Performance Standards
- ✓ Bank Relationships



The following chart could be used as a tool for summarizing the financing portion of the above information.

Financing Source (List names)	Amount	Maturity Date	Rate	Amortization
Equity Syndicator				
Construction Lender				
First Mortgage Lender				
Subsidy Source #1				
Subsidy Source #2				

Listing types of bank accounts and account numbers for the project in the Asset Management Plan is helpful. Be sure to have the legal project name on all bank accounts and some type of owner access to these accounts (i.e., signature authority). In the event that any dubious activity occurs, your organization, as owner, will have access to these accounts.

Account Name (Operating, reserve, etc.)	Bank name & branch	Contact Person and phone	Account number	Signatures required

A Note on Performance Standards

Minimum performance standards should be established for each project and outlined in the Asset Management Plan. Remember: What gets measured gets done! The most common Performance Standards are:

Financial

Rent Collection: 92-95% for rehab, 95% for new and elderly units

Occupancy Rate: 95%, based on market/underwriting conditions (look at project proforma)

Vacancy Unit Turnaround: 15-20 days for scattered site, single family; 6-14 days for multi-family units

Resident Turnover: Seniors < 2%; LIHTC < 30%; Sec 8 < 20%

Operating Costs/Unit/Year: average \$4,700

Variances are acceptable based on size of project/number of units

Maintenance

Exterior & Interior Inspections

Single Family Interior at least 2X/year

Exterior at least 4X/year

Multi families Unit Interior at least 2X/year, common areas weekly

Exterior inspected at least monthly with checklist, visually as often as possible

Written Maintenance Plan covering policies and procedures six types of maintenance:

Preventive, corrective, routine, deferred, emergency and cosmetic

- Written schedule of activities for year, ideally on calendar posted where PM staff can see it!
- Emergency: within 24 hours
- Preventive: within 2 weeks of schedule
- Routine: as scheduled
- Resident Requested: response w/i 24 hours, completed w/i 5 days

Reporting

Written Asset Management Plan and Operations Manual

Investor Reports completed and submitted in timely fashion

Compliance Review & Recertification done annually

Monthly financial reports produced:

- 🔑 Income/expense with budget to actual comparison
- 🔑 Vacancy report
- 🔑 Unit turnover
- 🔑 Summary of Maintenance Activities
- 🔑 Rent delinquencies
- 🔑 Accounts Receivable and Payable
- 🔑 Rent Roll with status of payments
- 🔑 Third party firms--narrative reports

Our performance standards are:

-
-
-
-
-

IX. Risk Management

In order to assess potential risks associated with the project, the Asset Manager, in conjunction with the property manager/management firm, should ask these questions annually.

Questions/Issues	Yes/No Comments
☛ Are there hazardous or defective conditions within units, resulting from poor maintenance that could cause injury to residents, especially to children?	
☛ Are there hazardous or defective conditions in common areas resulting from poor maintenance that could cause injury to residents, especially to children, or damage the property?	
☛ Have any hazardous or defective conditions been reported, but not been responded to by management?	
☛ Are there conditions on the property which compromise security for residents or management staff?	
☛ Are there any foreseeable criminal acts that could be committed on or about the property for which acts of reasonable and prudent precautions could be taken by management to prevent?	
☛ Are staff properly trained in safety techniques to avoid work-related injuries to themselves or others? Have they been given proper equipment to avoid injury?	
☛ Is your hazard insurance coverage adequate to cover the value of your property?	
☛ Is your liability insurance coverage adequate to protect the organization against major loss?	
☛ Are all staff trained in appropriate fair housing and affirmative marketing procedures?	
☛ Have staff been trained in laws relating to accommodating the needs of the disabled, including the Americans With Disabilities Act?	
☛ Are all staff trained regarding appropriate behavior with respect to sexual harassment?	
☛ Is there a good means to clearly document and quickly communicate any incidents involving injury, theft or damage that might result in lawsuits or insurance claims?	
☛ Have management and maintenance employees been screened and hired on the basis of their being able to exercise good judgment to prevent problems or respond to emergencies, when they occur?	
☛ Have residents been given sufficient information and been encouraged to take more responsibility for their own safety? for the safety of a multifamily community?	
☛ Have health hazards with respect to lead-based paint and asbestos been appropriately addressed (if applicable)?	
☛ Are safety inspections being regularly performed by management and maintenance staff?	

Insurance

Understanding your insurance coverage requirements and policy is an important part of risk management. The Asset Management Plan should outline the basic coverage for the project and indicate expiration dates and insurance carriers and contacts. This section should be reviewed and updated annually. Some examples of coverage include:

ORGANIZATIONAL

- ☐ Business Owners
- ☐ Workers Compensation
- ☐ Directors & Officers
- ☐ Professional Liability

OWNED & MANAGED PROPERTIES

- ☐ Commercial Property
- ☐ Boiler & Machinery
- ☐ General Liability
- ☐ Umbrella
- ☐ Crime

DEVELOPMENT PROPERTIES

- ☐ General Liability
- ☐ Owners & Contractor Protective
- ☐ Builders Risk
- ☐ Environmental
- ☐ Vacant Properties

The following chart is a guide for summarizing this information.

Insurance	Provider	Coverage	Expiration	Premium
EXAMPLE General Liability	State Auto Joe Fabeetz, agent 216-555-1212	\$1 million per occurrence, \$2 million aggregate		

X. Disposition Plan

The last part of an Asset Management Plan is the Disposition Plan or Exit Strategy for the property. The first step in this process is defining the “back end” problem. This should be done long before the “end” of the project. For example, in lease purchase tax credit homes, the disposition plan has to be developed at least five years prior to the end of the project so tenants know what their purchase price will be and the project sponsor can plan for capital improvements, refinancing, etc. In many cases with lease purchase homes, the tenants want to know in Year 1 or 2 what it will cost to purchase the units after 15 years!

Other items that need to be considered are:

- Purchase Option or Right of First Refusal
- Determining the Fair Market Value of the property(ies)
- Calculating the Exit Tax Liability
- Calculating the General Partner’s cash needed to buy back the property
- Purchase Strategies
- Other Exit Strategies

It’s a good asset management practice to incorporate some disposition planning into the initial project development. Due to the many potential complications with affordable housing projects, it is also important to start thinking about a disposition plan well before the end of a project. This can prevent undesired consequences!

Our project’s 15 years are up in _____
Our board has discussed the disposition plan for the property. Yes/No
Lease Purchase Projects: We plan to sell our units for \$_____ at the end of 15 years.
Our CHDO has a purchase option for the property or right of first refusal. Yes/No
Our plan for tenant acquisition is _____ _____.
We have talked to our syndicator about exit taxes. Yes/No



XI. Appendices

It may be useful to attach the following items as a reference to an Asset Management Plan. Three ring binders are an excellent paper management tool for this!

- ✓ Partnership Agreement
- ✓ Marketing Plan
- ✓ Property Management Agreement
- ✓ Property Management Plan
- ✓ Tenant Handbook
- ✓ Maintenance Plan
- ✓ Property Inspection Checklist
- ✓ Restrictive Covenant
- ✓ Loan Documents
- ✓ Long Term Projections
- ✓ Capital Improvement Plan
- ✓ HUD or other government regulations