

ROAD MAP TO PRESERVATION

Introduction

This document is presented as a collection of checklists and forms to help owners move toward the preservation of their affordable housing property. The sections progress through the first three steps of the Preservation Process: *Step 1 - Know Your Property* (Sections 1, 2, and 4), *Step 2 - Set Your Preservation Goals* (Section 3), and *Step 3 - Choose Your Preservation Options* (Section 4).



The following gives a brief description of each section.

Section 1: Key Documents Checklist

This list of documents will help the owner collect the information needed to “Know Your Property” and will aid in the completion of the Preservation Property Form in Section 2.

Section 2: Preservation Property Summary Form

Use this form to record all of the relevant information about the history of the financing, and the current conditions and financial health of the property. Once this form is completed, it can be a tool to communicate quickly and accurately with the larger preservation team.

Section 3: Checklist of Potential Preservation Goals

This checklist can be used to suggest and record the preservation goals. These goals will help determine next step activities and priorities.

Section 4: Checklist of Potential Next Steps Toward Preservation

Moving toward “Choose Your Preservation Options,” this checklist helps owners decide and document what they need to do to move ahead. Some of this list might send an owner back to Step 1 since more basic information may need to be collected. At the end of the process, this form should point an owner to the next steps needed in a preservation transaction.



SECTION 1: Key Documents Checklist

This checklist itemizes key documents needed about a property in order to plan a preservation strategy. It includes the types of information that would typically be sourced from that document in the process of developing an understanding of your property's preservation characteristics and considerations.

1. Most Recent Three Years of Annual Financial Statements

- ☐ Amounts due-to and due-from affiliates
- ☐ Summary of 1st mortgage and subordinate loans: terms, origination, and current unpaid principal balance amounts
- ☐ Balances of Reserve for Replacement and operating reserves, if applicable
- ☐ Revenues and expenses, net operating income (NOI), debt service coverage ratio (DSCR), and cash flow characteristics
- ☐ Observations about operating trends, issues

2. Original Development Financing 'Sources and Uses' Statement for As-Completed or As-Recently-Recapitalized Property

- ☐ Identifies all original costs, financing, ratios of sources, amount of deferred developer fee, and other characteristics of the property as originally developed

3. First Mortgage Loan Note or Loan Agreement

The key loan document is sometimes called a 'Note,' sometimes called a 'Loan Agreement,' and sometimes has a different title altogether.

- ☐ Origination amount, interest rate, term, amortization
- ☐ Prepayment limitations / requirements



4. First Mortgage Loan, Most Recent Lender Statement

- ☐ Reflects current unpaid principal balance and may contain other key information, which can be a useful addition to loan information found in the financial statements

5. Flexible Subsidy Loan(s)

- ☐ For each Flex Sub Loan, there are four key documents:
 1. The Note (may also be called a 'Financial Assistance Contract,' 'Residual Receipts Note,' or 'Grant Agreement')
 2. The Security Agreement (may also be called a 'Mortgage' or a 'Deed of Trust')
 3. The Use Agreement
 4. HUD Loan Statement (showing most recent amount currently outstanding)
- ☐ For each loan, these documents will provide the date of origination (which partially defines prepayment options) and deferment alternatives.

6. Subordinate Loan(s)

- ☐ Program type (i.e., HOME, CDBG, State, etc.)
- ☐ Origination amount, interest rate, term, amortization
- ☐ Provides language that indicates what is owed now, and whether the loan would have to be repaid in connection with a preservation transaction

7. Regulatory Agreement(s) or Land Use Restriction Agreement (LURA)

There may be multiple regulatory agreements, each tied to a different financing source, tax abatement, or land concession. For each, you should abstract the following types of key information:

- ☐ Term, expiration
- ☐ Unit affordability mix
- ☐ Whether each agreement is deed-restricted (and the obligations convey to any purchaser) or whether it is subordinate to the 1st mortgage, and the restrictions can be lost under various circumstances

8. All Project-Based Rental Assistance Contracts

These include Project-Based (PBRA) Section 8, RAP, Rent Supplement, Mod Rehab, Project-Based Vouchers, and any State PBRA contracts. For each contract:

- ☐ The date of expiration
- ☐ The method of annual rent increase
- ☐ The number and type of units covered



Note: In addition to assembling and abstracting the project-based contracts, you will want to determine the number and type of tenant-based vouchers typically in use at the property.

9. Third-Party Reports

It is unlikely you will have all of these third-party reports at the start of the planning process. You will probably have to obtain some of these as you progress through a preservation transaction.

- ☐ Appraisal Report: determines the value of the asset, the market, comparable sales, and other important information
- ☐ Rent Comparability Study (RCS): market rent potential of units
- ☐ Capital Needs Assessment (CNA; also referred to as a Physical Condition Assessment or PCA): This provides a summary of the specific condition of all building systems, timing and cost of replacements, accessibility issues, and environmental issues.
- ☐ Original Plans and Specs: provides important information on unit configurations and sizes, accessibility, and other facts
- ☐ Environmental Report(s): provides information on issues that may be required to be remediated as part of a rehab
- ☐ Structural Report(s): provides information on any structural issues that exist, which may have to be addressed (whether as part of a rehab, or otherwise)
- ☐ As-Built Survey: As-built surveys record variations from original engineering plans and show what was actually built. They also show the actual locations of underground improvements.



SECTION 2: Preservation Property Summary Form

Use this form to gather basic property information about HUD-assisted multifamily affordable housing that is being considered for preservation. It is primarily designed for Section 202 Direct Loan and Section 236 properties, but can be modified to add information relevant to other properties.

BASIC INFORMATION

Property Name:

Property Street Address:

City:

State:

Zip:

FHA Project Number:

Tenant Profile: ☐ Seniors ☐ Family ☐ Special Needs
☐ Mixed

Year originally constructed:

Year of last substantial rehab:

OWNERSHIP HISTORY

Ownership Entity Name:

Ownership: ☐ For-Profit ☐ Nonprofit

Self-Managed? ☐ Yes ☐ No

Has ownership transferred since original development? ☐ Yes ☐ No

If transferred, comment:

Owner controls other properties? ☐ Yes ☐ No

If yes, number of properties owned:



LOAN AND GRANT HISTORY (SELECT ALL THAT APPLY)

- | | |
|---|---|
| <input type="checkbox"/> Monetary or Covenant Default | <input type="checkbox"/> Forbearance Agreement |
| <input type="checkbox"/> Foreclosure Proceedings | <input type="checkbox"/> Partial Payment of Claim |
| <input type="checkbox"/> Loan Modification | <input type="checkbox"/> Workout or Other Restructuring |
| <input type="checkbox"/> Service Coordinator | <input type="checkbox"/> Assisted Living Conversion Program |

Comment on any of the above:

OTHER CURRENT FINANCING

State Type of Financing: LIHTC, Flex Sub

Provide Supporting Details: Amount, Term, Maturity Date,

Type of Financing:

Details:

Type of Financing:

Details:

Type of Financing:

Details:

Type of Financing:

Details:

Additional comment on any of the above:



PROJECT-BASED RENTAL ASSISTANCE (PBRA) HISTORY AND INFORMATION

☐ Property has PBRA ☐ Property has multiple PBRA Contracts *If PBRA, provide details below:*

☐ Property has HUD PB Section 8 Contract(s)

Units Covered:
Exp. Date:

☐ Property has RAP Contract

Units Covered:
Exp. Date:

☐ Property has Rent Supp Contract

Units Covered:
Exp. Date:

☐ Property has Mod Rehab Section 8 Contract(s),
Includes Single Room Occupancy

Units Covered:
Exp. Date:

☐ Property has Project-Based Voucher Contract(s) with
PHA

Units Covered:
Exp. Date:

Notes regarding above:

UNIT MIX BY TYPE OF RENTAL ASSISTANCE

Unit Mix	Project-	Other	Tenant-	Units with No	Units with No	Non-	Total Units
0BR							
1BR							
2BR							
3BR							
4BR+							
Totals							



PROGRAM HISTORY (SELECT ALL THAT APPLY)

- | | |
|---|--|
| <input type="checkbox"/> ELIHPA | <input type="checkbox"/> LIHPRHA |
| <input type="checkbox"/> Mark-to-Market | <input type="checkbox"/> CRN (Contingent Repayment Note) |
| <input type="checkbox"/> Portfolio Reengineering Demo Program | <input type="checkbox"/> MRN (Mortgage Restructuring Note) |
| <input type="checkbox"/> Flexible Subsidy | <input type="checkbox"/> IRP Decoupling |

Comment on any of the above:

KEY CAPITAL NEEDS CONSIDERATIONS

Property and Energy/Water Efficiency Characteristics

- | | |
|---|--|
| <input type="checkbox"/> Property has newer water-saving toilets | <input type="checkbox"/> Property has low-flow shower heads |
| <input type="checkbox"/> Property has low-flow faucet aerators | <input type="checkbox"/> Property has energy efficient windows |
| <input type="checkbox"/> Property has Energy Star appliances | <input type="checkbox"/> Property has air sealing |
| <input type="checkbox"/> Property has properly installed insulation | <input type="checkbox"/> Property has other energy-saving features |
| <input type="checkbox"/> Property has upgraded to low-power LED exterior and common area lighting | |

Rough, Estimated Cost and Timing of Items

If known, what is the estimated cost of rehabbing the property? Provide total and per unit costs.

Type of **Roofing**:
Year of Next Roof Replacement:
Estimated Cost:

☐ **Exterior Painting** Required
Year of Next Painting:
Estimated Cost:

Exterior Wall Type:
Year of Major Repair/Replacement:



PROGRAM HISTORY (SELECT ALL THAT APPLY)

Estimated Cost:

☐ Property has **Elevators**

Year of Next Major Repair/Replacement:

Estimated Cost:

Year **Windows** were Installed:

Year of Next Major Repair/Replacement:

Estimated Cost:

Year **Parking** was Last Resurfaced:

Year of Next Major Repair/Replacement:

Estimated Cost:

Type of **HVAC**:

Year of Next Major Repair/Replacement:

Estimated Cost:

Year **Hot Water Heaters** were Installed:

Year of Next Major Repair/Replacement:

Estimated Cost:

Estimated number of **Refrigerators** to be replaced in next ten years:

Estimated number of **Stoves** to be replaced in next ten years:

Estimated number of **Counters/Cabinets** to be replaced in next ten years:

Estimated number of units of **Carpeting** to be replaced in next ten years:

Summary of Other Major Capital Needs over the Next Ten Years:

Property is ☐ Likely ☐ Unlikely to have sufficient funds to cover anticipated replacement costs

Annual Replacement costs will be: ☐ Higher than previous years ☐ Lower than previous years ☐ About the same as previous years

Based on the timing of replacement needs and the condition of the property, significant up-front repairs (i.e., rehab) will be required. ☐ Yes ☐ No



PROGRAM HISTORY (SELECT ALL THAT APPLY)
<i>Other</i>
<input type="checkbox"/> Environmental Issues Probable; if so, comment:
<input type="checkbox"/> Accessibility Issues Probable; if so, comment:
<input type="checkbox"/> Temporary or Permanent Relocation Necessary; if so, comment:
Other:



SECTION 3: Checklist of Potential Preservation Goals

Safeguard Long-Term Rental Assistance

- ☐ Renew my existing project-based Section 8 contract for a new longer term
- ☐ Convert my RAP / Rent Supp / Mod Rehab contract to project-based Section 8 using RAD 2
- ☐ Obtain Tenant Protection Vouchers for non-assisted residents
- ☐ Obtain project-based voucher contract from the PHA
- ☐ Keep rents affordable for non-assisted tenants
- ☐ Other:

Improve and Modernize the Property Physically

- ☐ Replace aging components/systems
- ☐ Make utility-saving investments
- ☐ Make marketability upgrades
- ☐ Solve accessibility compliance issues
- ☐ Other:

Stabilize the Property Financially

- ☐ Increase Section 8 rents
- ☐ Increase Replacement Reserve funding
- ☐ Reduce vacancy/bad debt loss
- ☐ Reduce operating expenses
- ☐ Other:

Long-Term Ownership Objectives

- ☐ How long do I want to own this property?
- ☐ Am I considering selling the property?
- ☐ Am I willing to bring in an ownership partner if necessary?
- ☐ What minimum level of affordability do I want/need to provide?
- ☐ What tenant population(s) do I want/need to serve?
- ☐ What do I mean by “long-term viability”?
- ☐ Am I willing to make new investments, using my own money?
- ☐ Do I need a minimum level of financial return?
- ☐ Do I want or need developer fees, net refinancing proceeds, or net sales proceeds?
- ☐ Other:
- ☐ Other:

Other Potential Preservation Goals

- ☐ Add a service coordinator
- ☐ Better support for aging-in-place
- ☐ Change the unit mix
- ☐ Add common areas
- ☐ Reduce utility consumption
- ☐ Achieve a green designation
- ☐ Improve cash flow
- ☐ Other:
- ☐ Other:



SECTION 4: Checklist of Potential Next Steps Toward Preservation

Discussions with Potential Preservation Team Members

- ☐ Discussions with prospective purchaser
- ☐ Discussions with HUD representative
- ☐ Discussions with architect
- ☐ Discussions with general contractor
- ☐ Discussions with prospective lender
- ☐ Discussions with prospective tax credit investor
- ☐ Discussions with consultant(s)
- ☐ Other:

Needs for Additional Information

- ☐ Obtain Capital Needs Assessment
- ☐ Obtain Rent Comparability Study
- ☐ Locate/obtain environmental review documentation
- ☐ Locate relevant legal documents
- ☐ Determine available Section 8 contract renewal options
- ☐ Determine whether Tenant Protection Vouchers might be available
- ☐ Determine whether the PHA has project-based vouchers available
- ☐ Determine whether loan can be prepaid without requiring HUD discretionary permission
- ☐ Other:

Choose Regulatory Options

- ☐ Apply to prepay and refinance the existing first mortgage loan
- ☐ Apply for Flex Sub Loan deferral
- ☐ Apply for Section 236 IRP decoupling
- ☐ Apply for rent increase for non-assisted units
- ☐ Apply for long-term Section 8 contract renewal
- ☐ Apply for RAD 2 (Convert RAP / Rent Supp / Mod Rehab to project-based Section 8)
- ☐ Apply for Tenant Protection Vouchers:
- ☐ Other:

Make Operational and Capital Improvement Changes

- ☐ Make changes to reduce vacancy / bad debt loss
- ☐ Make changes to reduce utility expenses
- ☐ Make changes to reduce other operating expenses
- ☐ Make changes to unit mix and distribution
- ☐ Develop plan for improving and modernizing property
- ☐ Make changes to improve marketability
- ☐ Other:



Preservation Planning

- ☐ Expand my preservation team
- ☐ Engage financial advisor
- ☐ Develop a status quo cash flow projection
- ☐ Determine \$\$ needed for adequate Replacement Reserve funding
- ☐ Priorities and goals established
- ☐ Determine my 'best option without a recapitalization'
- ☐ Develop a rough preservation sources and uses of funds estimate
- ☐ Develop a rough preservation cash flow projection
- ☐ Other:



Preservation Clinic Follow-Up Request

INSTRUCTIONS: Please use this sheet to request additional information or follow-up from HUD to assist with preserving your property. Turn in this sheet at the end of the day to your facilitator or to a HUD representative.

BASIC INFORMATION FOR FOLLOW-UP:

Property Name: _____

Property Address: _____

FHA Project No. (If known): _____

Current financing type: ☐ Section 236 ☐ Section 202 (pre-1974) ☐ Section 202 (1974-1991)

Other: _____

Current rental subsidy: ☐ Section 8 ☐ Rent Supp ☐ RAP ☐ Project-Based Vouchers

Other: _____

Your Name: _____

Organization: _____

Position: _____

Email address: _____

Phone: _____

Please tell us below what follow-up, additional information, or guidance you would like regarding the preservation of this property.
