THE ENTERPRISE FOUNDATION

Developing and Managing Scattered-Site Rental Housing

PROGRAM OPERATIONS

A Complete Overview of the Skills and Finances Needed To Run a Successful Program

Launched in 1982 by Jim and Patty Rouse, The Enterprise Foundation is a national, nonprofit housing and community development organization dedicated to bringing lasting improvements to distressed communities.

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About This Manual

What is scattered-site rental housing?

In a scattered-site rental housing program, a nonprofit housing organization acquires and renovates rental properties for low- and very low-income households. Depending on the neighborhood, the organization purchases houses or small apartment buildings located throughout the area. While the organization usually maintains ownership of the properties, in some cases another organization, private or nonprofit, takes over property management responsibilities.

This manual is designed for board members and staff of nonprofit community development organizations that are not experienced in managing programs for scattered-site rental housing. The manual can make that process easier and clearer. It should be used with the more detailed information and helpful documents available in The Enterprise Foundation's Developer Support System found on the Web at www.enterprisefoundation.org. This manual includes information on:

- Challenges and risks
- Market competitors
- Financing options
- Feasibility calculations
- Acquisition strategies
- Project and asset management

This manual is part of the *Program Operations* series within The Enterprise Foundation's Community Development Library™. The series provides detailed information on the housing-related programs used most by nonprofit organizations. Other manuals in the series include information on:

- Single-family acquisition and rehabilitation
- Single-family subdivision new construction
- Single-family housing for infill
- Multifamily new construction
- Multifamily rental housing through renovation
- Home improvement programs
- Supportive housing
- The HOME Investment Partnership Program

Table of Contents

Introduction

The development and operation of scattered-site affordable rental housing is one of the most difficult methods of neighborhood revitalization. A nonprofit housing organization must assemble property in piecemeal fashion and include disparate housing types, perhaps located in several neighborhoods. The organization may find it difficult or impossible to achieve major concentrations of property. These factors complicate both development and management. So why do it?

First, small multifamily properties (ranging from two to four units per building) may be an important part of a community's housing stock in need of preservation. In pursuit of its mission, a nonprofit may consider it strategically necessary to take control of these properties from owners with less motivation to maintain the real estate and work with residents.

In some cases, a group may rehabilitate single-unit properties as rental units. Qualified buyers may be unwilling to locate in some distressed neighborhoods unless their mortgage amounts are reduced by public grants or low-interest loans. In an environment of limited public funds, redevelopment of this single-family stock as rental housing for a lower-income market may be a less expensive alternative. In severely distressed neighborhoods, rental housing may also be the only marketable option.

In some markets, the cost of acquiring and rehabbing small properties may be significantly less than acquiring land and constructing a new multifamily project.

Small rental properties also provide an important choice for tenants. Tenants may prefer a single-family house or duplex, with individual yards, to a more concentrated multifamily community. This sense of private space may inspire a greater sense of pride and ownership among the tenants. In many communities, 1–4 family stock (houses with four or fewer units, often homes with attached apartments) offers the most expedient approach to creating or preserving affordable rental opportunities for large households.

Finally, small properties may offer value. In some markets, the cost of acquiring and rehabbing small properties may be significantly less than acquiring land and constructing a new multifamily project. This cost advantage can then be reflected in lower rents, allowing organizations to serve a lower-income market.

Strategic Risks

As noted in the introduction, there are substantial strategic risks in establishing a scattered-site rental business line within your organization. These include important challenges related to real estate development, marketing, and property and asset management.

Most nonprofits undertake scattered-site rental development that involves the acquisition and rehabilitation of existing structures, both vacant and occupied, throughout the neighborhood. Because these potential development sites may have multiple owners operating with different motivations and on different timelines, organizations have difficulty maintaining a steady pipeline of buildings in development. The absence of a consistent pipeline often keeps organizations from staffing up and creating the operating systems that permit specialization in this business. This lack of scale also makes some important financing sources, such as the Low-Income Housing Tax Credit, difficult to utilize.

Other factors increase the risk of developing scattered-site rental housing:

- Because of the absence of scale, staff may be required to work in other business lines, such as single-family rehabilitation for resale. While this variety may have benefits, scattered-site development does require particularly close oversight, and there is a risk that staff may overlook some essential detail.
- Financial packaging can be very time-intensive, as assembling several sites, each with only one or two units — negotiating acquisition, performing title searches, getting environmental reviews and, if necessary, abating environmental hazards — may be necessary for projects as small as half-a-dozen units.
- If your scattered sites fall into different municipalities, the planning, zoning and occupancy requirements may vary, complicating the process even more.
- Construction managers may have to work with different kinds of buildings and with different contractors and architects in scattered locations.

Similarly, unless a pipeline of small projects can be sustained, marketing of rental housing may face the problems of lack of scale. If units become available for initial lease-up sporadically and in small groups, it is difficult to plan and sustain marketing efforts.

Perhaps most importantly, the scattered and disparate nature of the real estate poses major challenges for asset and property management. Maintenance staff face problems of non-standardized units and distance of travel. Distance also impedes property managers' efforts to monitor properties and maintain relationships with tenants. Large numbers of small properties, as well as the number and variety of development financing agreements, strain asset management resources.

A different sort of risk arises from attitudes community residents and others may have toward affordable housing development. When that attitude is unfavorable, as it too often is, it is generally described by the acronym NIMBY (Not In My Back Yard). Immediate neighbors and others may oppose rental development, favoring owner-occupancy, even of buildings with two to four units. They also may demand the addition of amenities — beyond those that help in marketing efforts — that drive up the cost of the housing, or may otherwise insist on expensive or infeasible development methods. In some cases, people may prefer the demolition of rental properties to their rehabilitation, even though market conditions may make it unlikely the vacant sites will be redeveloped.

The Market

In evaluating whether to enter the scattered-site rental business, it is worthwhile looking at your possible competition, their motivation and the advantages they have in the marketplace. Careful examination of this competition can help you develop a successful development strategy.

One important class of competitors is the "Mom & Pop," small family-owned businesses. At the most basic level, this includes owners of small buildings who reside in one unit while leasing out the rest. On a larger scale, this class includes families with portfolios ranging from one to several dozen units, often concentrated within a single neighborhood.

Generally, these operators succeed by investing significant amounts of equity and keeping a large amount of the rehabilitation, maintenance and management work within the family. This allows them to keep rents competitive without compromising the quality of the real estate. Often these businesses generate little cash (the principals hold day jobs). Their primary financial goal may be long-term appreciation for retirement or to pass a legacy on to their children.

The old carpenter's adage, "measure twice, cut once," is especially true for market research, because you will not get a second chance to renovate a building.

Another class of competitor includes larger, more professional operations specializing in low-rent properties. They differ significantly from the Mom & Pop in scale, motivation and method. These owners may hold hundreds of units and employ a professional staff. Their financial motivations include relatively short-term capital gains, cash flow and tax benefits. (In the latter case, the owner generally maintains an active role in property management in order to meet requirements of the tax code.) Many of these operations are speculative, based on the supposition that property prices in a neighborhood are rock-bottom and likely to rise. In cases where this speculation turns out to be wrong, the owner may defer maintenance and use rental receipts only for immediate expenses. As this process leads the property toward uninhabitability, the owner may elect to reduce costs to a minimum, sometimes taking advantage of lax public code and tax enforcement, continuing to hold a vacant property for the possibility that the market will turn upward.

A third class of competitors may consist of other nonprofit organizations. A community-based nonprofit may plan on developing scattered-site rental housing as a new business line, or a city-wide or regional nonprofit with expertise in this field may intend to begin acquisition and rehabilitation in your neighborhood. Obviously, either of these scenarios would affect both available subsidy dollars for your organization and the market for your rental units. As with any new venture, success depends on a careful evaluation of both existing and potential competitors.

Other characteristics of your market that you will need to assess include the demand for rental housing and the capacity of prospective tenants to pay your projected rents. What are current rental vacancy rates in your neighborhood? If real estate agents or other landlords report high vacancy and little demand, what can you offer that might attract tenants, if anything? Is there a need for larger apartments? Can you offer amenities, like an additional half-bathroom, that will make your product more marketable? Should you be looking to buy homes or buildings near a particular bus or subway line, in a particular school district, close to medical services or to a particular employer? Questions like these require careful research. The old carpenter's adage, "measure twice, cut once," is especially true for market research, because you will not get a second chance to renovate a building.

Once you have investigated the level of demand and the desired apartment type or configuration, you will need to assess the ability of your targeted tenant pool to pay your anticipated rents. Perhaps the need is for three-bedroom units, but if residents of the neighborhood cannot afford a rent of $750, you will have a building of vacant, if coveted, apartments. Is your market band — the number of qualified prospective tenants — broad or narrow? If the band is narrow, you should figure a longer rent-up period into your underwriting projections.

Capital Financing

MORTGAGE PROGRAMS

Financing small rental properties can be difficult. The mortgage market has limited products for non-owner-occupied 1–4 family housing. Fannie Mae, the national government-sponsored mortgage finance giant, exerts a very strong influence on local mortgage markets through the its investment policies. If Fannie Mae buys a certain type of mortgage from local or regional banks, banks are far more likely to offer that product. Because Fannie Mae purchases few mortgage products for non-owner-occupied homes, banks offer few products. In addition, Fannie Mae places restrictions on the number of loans for non-owner-occupied homes that it will purchase from the same owner. It has been willing to negotiate a waiver of this limit with nonprofits on a case-by-case basis through *program agreements* Factors that can help in this negotiation include low loan-to-value ratios and a financially sound nonprofit borrower. Often a mortgage company can be helpful in facilitating this negotiation.

Financing of small multifamily buildings (five to 24 units) can also be difficult. Although there are a number of multifamily mortgage products available, origination and underwriting can be quite time-consuming for both the borrower and lender. As a result, lenders may not be willing to make small loans at the same rate and fees as a larger loan.

Some banks, recognizing the lack of product in this market, specialize in this area. South Shore Bank in Chicago, for instance, built its mortgage lending business in the '70s and '80s by making loans on small multifamily buildings to Mom & Pop owners. Investigate lenders in your area; you may find one willing to enter (or already in) the market of making small multifamily loans.

GRANTS AND BELOW-MARKET LOANS

Beyond mortgage lending, however, affordable rental housing generally requires an investment of subsidized financing, either from grants or from low-interest or no-interest loans, which reduces the total debt service and allows rents to remain within reach of a target market of renters. Sources of such financing include the federal Community Development Block Grant (CDBG) and HOME Investment Partnership programs, as well as the Affordable Housing Program (AHP) administered by Federal Home Loan Banks. With smaller projects, private grants such as those from community foundations or religious organizations may make a significant difference.

EQUITY FROM THE LOW-INCOME HOUSING TAX CREDIT

In recent years, the most important vehicle for rental housing subsidy has been the federal Low-Income Housing Tax Credit. This program is administered by state agencies and has become highly competitive, as it offers a substantial capital subsidy for rental housing development. It provides a valuable tax incentive to private investors in affordable rental housing.

Using the tax credit with scattered-site rental housing is difficult and expensive, however. Many of the costs of using the tax credit (legal, accounting and consulting fees) remain the same no matter what size the project. These fixed overhead costs may be as much as $60,000 or more, and prohibitively expensive on a per-unit basis for a project of only a dozen or so units.

One solution is to combine several small buildings into a single project for purposes of the tax credit. The law governing the tax credit explicitly allows this. In practice, however, there are problems of getting site control on several different buildings within a short amount of time. In some cases, groups have used short-term financing to purchase and hold buildings until a good-sized package could be assembled. This can be risky, however (what if your tax credit application is denied?), and may be beyond the reach of smaller nonprofits working by themselves.

You may also face challenges in finding investors interested in scattered-site projects. Some investors, knowing the difficulties in development and operation of scattered-site projects, may shy away. Projects with Low-Income Housing Tax Credits to sell, however, have become a more valuable commodity as the tax credit itself has become more in demand. Look around. There are national investor funds, such as those managed by The Enterprise Social Investment Corporation, which have experience in working with a variety of nonprofit-developed projects. You may also find such funds in your state. Finally, given the high demand for tax credits by investors, you may find that an experienced real estate syndicator (an organization that specializes in finding real estate investors) is able to help market your project.

Determining Feasibility

Figuring out whether a property is worth developing boils down to the interaction of a few variables:

- The cost of acquiring the property
- The cost of rehabilitating it (including soft costs such as interest on construction financing, fees to consultants and fees to yourself)
- The cost of operating the project
- The amount of capital subsidy available
- The amount of rent you can or want to charge (whichever is less)

If you are among those rare developers who can still get a deep operating subsidy (like SRO Moderate Rehabilitation grants), the amount of rent you can charge is determined by the source of operating subsidy, not by your tenants' ability to pay.

On the following page is an example of a simplified approach to feasibility.

This calculation starts with the operating side of project finances, computes the funds available for debt service (net cash flow), and then computes the amount of debt the project can support. Some developers prefer to go in reverse order: calculate total development costs, figure out net cash flow to find out the mortgage amount that might be available, and from that compute the subsidy requirements.

If capital sources are projected to exceed capital uses, your project passes this initial feasibility test. Of course all assumptions have to be verified constantly as you proceed through the development process.

The market for each of the scattered-site units you intend to rent will consist largely of households that are already renting within the same geographic area. If you can offer a housing product of similar quality and with similar amenities as what those households are getting now, but at a lower rent level, you will have few worries about whether sufficient renters will show up. Similarly, if you offer a better product at the same rent levels, households will choose your units.

Uncertainty comes when your units are priced at higher levels than surrounding properties, even if your housing product is superior. In these cases you can expect better demand for your units if:

- A property management firm experienced with this market draws up and executes a marketing plan.
- Vacancy rates at nearby buildings are 3 percent or less.
- Vacancy rates at nearby buildings have decreased recently.
- Rent levels you will charge are not greater than Section 8 rents for the metropolitan area (which permits households with rental certificates or vouchers to lease).
- The extra amenities you offer are exceptionally attractive to people in the area.

Feasibility calculations will indicate the rent levels that the project needs in order to bring the income necessary to pay project expenses, including debt service. If the rent levels calculated are much higher than prevailing rents, then developers have four choices:

- Lower the estimated operating expenses, permitting lower rents. This is usually not a practical choice if operating expenses were estimated correctly.
- Decrease the amount of construction so that the mortgage amount and its associated debt service would be lower, permitting lower rents. This puts you into the classic trade-off between housing quality and price.
- Increase the amount of development subsidy so that the mortgage amount and its associated debt service would be lower, permitting lower rents. The trade-off here is between lower rents and more units developed.
- Develop the property with the higher projected rents, and hope for the best. For most nonprofits, this puts the risk squarely in the hands of those that supply development capital, typically city and state agencies, and private banks and other lenders. The choice of whether this is a realistic option will be theirs.

	Item	How to Calculate	Where Do I Get Help?	Hypothetical Example
Operations	Rent	What you can/want to charge your tenants	Property manager, market study	$475/month
	(less)			
	Vacancy	Empty and non-paying units	Property manager, market study	$38/month (8%)
	(equals)			
	Net Rent	Rent less vacancy		$437/month
	(less)			
	Operating Costs	Property taxes, insurance, owner-paid utilities, prop. mgt. fees, maintenance and repairs, operating and replacement reserves, admin. costs	Property manager, other owners of similar projects	$265/month
	(equals)			
	Net Cash Flow	Net rent less operating costs		$172/month
Capital Sources	Available for Debt Service	Amount you use to make loan payments, taking into account lender's required debt coverage ratio; typically 85% – 90% of net cash flow	Lender's underwriting guidelines	$155/month
	Maximum Mortgage/ Unit	Amount you can borrow, based on amount available to debt service, rate and amortization period of loan	Use a debt service calculator	$19,200 (based on loan at 8.5% with 25-year amortization)
	Subsidy Available/Unit	How much you can raise/ unit from sources like equity from tax credits, CDBG, HOME, private grants	Program administrators in state & local government; syndicators (for tax credits)	$12,000 from HOME, $ 5,000 foundation grant, $ 5,000 lead paint abatement grant
	Total Capital Sources/Unit	Debt/unit plus subsidy available/unit		$41,200
Capital Uses	Cost of Acquisition	You get what you negotiate		$15,000
	Cost of Rehabilitation	Estimate of contractor's cost to complete your scope of work, including a contingency allowance	Professional estimator (often your construction manager)	$20,000
	"Soft" Costs	Interest, insurance and utilities during construction, title insurance, legal fees, architecture and engineering, construction management fees, development fees	Get price quotes; consult with other developers	$5,000
	Total Capital Uses/Unit	Acquisition plus rehabilitation plus soft costs		$40,000

Acquisition

It is best at the outset of a program to keep things simple. You can do this in several ways.

ONE

BUY THE BEST PROPERTIES FIRST

It is tempting to pursue the worst eyesores as a way of cleaning up a neighborhood. Unfortunately, it is also a good way to fail early. These properties are often the most difficult to redevelop economically. In your program's early stages, go for the easiest; it will be hard enough.

TWO

FOCUS YOUR PURCHASES IN A DEFINED TARGET AREA

This allows you to become very familiar with the real estate market. You get a sense of what properties are worth and what they will rent for. You are also more likely to purchase buildings with structural similarities. This will save your rehabilitation specialist and contractors a lot of headaches.

THREE

IF YOUR MARKET ALLOWS, BUY SMALLER BUILDINGS FIRST

Small buildings may be simpler to finance, and they are simpler to rehab, so you may face a smaller risk. But if your market study indicates that renters are looking for three- or four-bedroom apartments or homes, you would be making a critical error in buying a building with two-bedroom units just because it was easier to renovate.

FOUR

PLAN ON LOOKING AT A LOT OF BUILDINGS

Most of what you examine will not be economically feasible. Do not hesitate to reject a potential purchase if the numbers look bad, or if your negotiations with the owner are not bringing you together.

FIVE

DO NOT MIX AGENDAS EARLY

If your primary motivation is affordable housing, do not make decisions based on the redevelopment impact. Stay away from mixed-use buildings. If neighborhood redevelopment is your goal, do not make your financing harder by trying to get rents unrealistically low.

The cost of acquiring property is greatly influenced by the degree of competition, due to simple supply and demand. As we discussed earlier, the market for small rental properties may already be occupied by two sorts of owners: Mom & Pop owners directly managing a few buildings as a sideline (and perhaps a retirement plan); and larger investor/managers specializing in low-income rental markets. As noted, these latter owners may be in the business because they expect the market to improve (and to earn profits on the sale of their buildings), or may seek current income by reducing costs (such as maintenance) to a minimum.

You may be able to make good purchases, however, as some of your competition retires from the business. Perhaps Mom & Pop are ready to cash in and move to Florida (and their kids have declined the opportunity to take over the business). You may have the opportunity to negotiate the acquisition of a small package of buildings (this offers an advantage to both you and the seller by reducing the effort and costs associated with selling small buildings). Sometimes you are also buying a group of tenants who have a long history with the previous owner.

ACQUIRING TENANTS WITH BUILDINGS

Good tenants are an asset, but you have to know how to work with them in an acquisition/rehab project. First, if there are tenants still in the buildings you are purchasing, make sure to get copies of their leases in advance. How much are they paying in rent? Are they current? What commitments is the current owner willing to make to continue to collect rents during the time between when you negotiate a contract for sale and when you finally close?

Also, how will you deal with rehabilitation? It is difficult, and often unsafe, to attempt more than cosmetic improvements on a building with tenants in place (see the Rehabilitation section). If you are using federal funds (like HOME and CDBG) as part of the development financing, these tenants have anti-displacement protections, and may be entitled to cash relocation assistance if you make them move.

One approach to the latter issue is to "checkerboard": rehab vacant units, move tenants from their units into these now-completed units, then rehab their old units. Continue the process until you have rehabbed all of the units. You may or may not wish to offer tenants the option to move back to their original unit. Federal law will require you to pay the reasonable cost of moving for the tenants, but this may be as little as a few hundred dollars for each move.

Also, you need to know if you can raise tenants' rents. This means knowing their incomes and being able to calculate whether a rent increase would create a federally defined "cost burden" for the resident. If it does, the tenant may be considered "economically displaced" and you will be liable for several years' cash assistance to the tenant.

Meet with the tenants before buying the property. Talk with them about your goals, their lives, and how you plan to approach the redevelopment of their homes. Make sure they understand your plans and that you have identified any roadblocks.

The local or state governmental agency administering HOME or CDBG funds is required to have a process in place of collecting information from tenants to analyze displacement issues *before* you acquire the building. The programs also have requirements on information you must provide the seller before making an offer on the property. Make sure you know the staff responsible for these acquisition/relocation requirements and become familiar with the procedures.

Larger commercial owners of rental property may be interested in selling a package, perhaps because they have deferred maintenance about as long as they can before the property becomes unleasable (or before local code officials shut them down). Here you may also be buying tenants, but they may be less appreciative of their current landlord than the Mom & Pop tenants. You can find yourself taking over a very dysfunctional relationship, as one nonprofit summarized: "We found (under the previous owner) that the landlord pretended to maintain the property, and tenants pretended to pay rent."

You may also be able to acquire other owners' failures through a sheriff's sale (the auctioning of foreclosed properties). This is tricky, because you may not have the same opportunity to investigate a building's physical condition, and you will not have much time to assemble financing. This route is probably only available to those organizations with a pool of cash they can risk purchasing buildings for which they have no other financing yet in place.

In any case, you have to figure out whether a property makes economic sense for purchase (see the earlier section on Determining Feasibility). The seller's real estate agent may tell you what they think the property is worth based on the *capitalization* of the property's rent stream. This is simply a method used to convert cash flow from rent to the value of the property. It is not useful to most nonprofits, in that it fails to take into account either the advantages (access to subsidized capital) or limitations (you have little ability to invest for long-term capital gains). Seller's estimates of potential rent are also often unreliable. Ignore this analysis.

Rehabilitation

The challenges do not end with financing, however. Except in rare instances, scattered-site rental development involves acquisition of existing structures and moderate to substantial rehabilitation of these buildings. Construction management of rehabilitation projects, done well, has an enormous potential to add value to your efforts.

One of the fundamental challenges of managing small rehabilitation projects is that specifications vary house by house. What needs repair in one house may not need repair in the next; each house, moreover, may have been constructed in a different era, to different standards. A good inspector/estimator can help you find the savings in a structure that needs something more than cosmetic changes, but something less than gut rehabilitation. There are a number of automated construction management software packages that can aid in this process. If your organization is doing more than a few of these types of buildings, you should consider automating your construction management. A number of good software packages are available on the market, including The Enterprise Foundation's own Housing Developer Pro™.

One thing that you can do with a good software package is develop a set of standardized specifications, or program standards, which can be applied as needed to the varied buildings you encounter. These specifications are useful for commonly encountered repairs, such as patching plaster or replacing worn-out flooring. These commonly called-for specifications can then be placed on a standardized checklist (which also has room for noting less common repairs), facilitating the inspector's job in developing the scope of work. Such standardized specifications are also beneficial in arriving at clear language on how a contractor is to proceed with a repair, reducing misunderstandings and disputes.

This brings up another key issue, namely finding excellent contractors. There is a special skill and flexibility that makes good contractors for small rehab jobs stand out. They manage a complicated process with minimal overhead and are familiar with common building types so that they are able to anticipate hidden problems before they emerge. Such contractors are an invaluable part of the redevelopment team. A productive program requires that you never stop seeking them out and that you take good care of those you identify.

One critical issue is the reduction of lead-paint hazards, particularly in older buildings. Federal regulations are now in place mandating reductions when lead is deemed to be a hazard. Under the HOME and CDBG programs, state or local governments administer these regulations, subject also to applicable state laws. In some states, for instance, contractors must be certified as lead-removal specialists in order to disturb lead-bearing surfaces, such as walls and windows with lead-based paint. The shortage of such contractors may increase the cost and/or time of rehabilitation.

Relatively cost-effective standards, however, have been developed for the reduction of hazards arising from the presence of lead paint. One source of information and assistance is the National Center for Lead Safe Housing, located in Columbia, Md. (phone 410.992.0712).

Staffing Considerations

The challenges of scattered-site rental development entail fairly large commitments of staff time relative to overall production. In particular, the amount of time committed to ongoing asset management is substantial, and it grows as the portfolio grows. This is a factor you should take into account as you budget operations for these developments — how much can and should you build in as asset management fees back to the owner (separate from property management fees) to fund the cost of this ongoing responsibility?

We do not allocate time here to property management. Property management is a separate business line from scattered-site rental development, and many development organizations contract with other entities to take on property management responsibilities. You should evaluate whether to get into this business independently of your development decisions. This decision is discussed in depth in the Property Management section on page 15.

Position	Full-Time Equivalent for production of 25 units/year (single neighborhood)	Full-Time Equivalent for production of 75 units/year (multi-neighborhood)	Salary range	Responsibilities in operation of business line
Executive Director	20%	15%	\$40,000 – \$75,000/year	Overall strategic direction; relations with community
Senior Project Manager	N/A	35%	\$40,000 – \$60,000/year	Leadership of real estate development; concept development
Project Manager	50%	100%	\$30,000 – \$40,000/year	Implementation of real estate development; financing
Construction Manager	50%	150%	\$35,000 – \$45,000/year	Scope of work; hiring & supervision of contractors
Asset Manager	20%*	30%*	\$40,000 – \$60,000/year	Leadership in asset management plan; supervision of property manager
Bookkeeper	10%	30%	\$20,000 – \$25,000/year	Data entry and production of reports
Clerical Support	50%	100%	\$15,000 – \$20,000/year	Support to project manager and construction manager

*This is the time required to participate in the development and lease-up of projects. Ongoing work as owner's representative will demand more asset management time as the organization's portfolio grows. An organization with 200 scattered-site units will likely require a full-time asset manager.

Management

Financial Management

Advantages gained through innovative financing and good construction management can go to waste if you do not also have a strong financial management system in place. There must be enough cash available, at all times, to complete development of each project. Few nonprofits are cash rich, and they must track carefully what few funds they do have. Actual costs must be compared with budget estimates. The amount and timing of future cash inflows and outflows must be accurately estimated. Cash management systems for a development project are easily created in spreadsheet software and should be linked (automatically or manually) with construction and project management systems.

You should also plan for the long-term monitoring and reporting required by the project. At a minimum this includes consistent information about the operation of your project, including budgets, operating statements, budget-to-actual variance reports, and capital reserve accounting. Know also what your external reporting requirements are. For Low-Income Housing Tax Credit projects, for example, these will be extensive, and will be determined by your investors and included in a limited partnership agreement.

Project Management

Finally, you must have good overall project management. Organizations doing more than one or two buildings at any one time must track progress on all of them at the same time. This gives them a good idea of future problems with overall coordination. Will bidding be delayed because too many projects are starting development at the same time, overburdening the construction manager? Will any delay in moving a project from construction to permanent financing deplete the organization's cash resources and postpone acquisition of the next building? A simple project management system can be created in spreadsheet software, but commonly available software packages do an adequate job.

Asset Management

Asset management is an essential function for any organization that owns real estate, but when a significant portion of that real estate is in the form of small, scattered rental properties, this is even more challenging. Simply put, this is because you have to keep track of a lot more buildings, in a lot more locations.

Property management is just one part, albeit a significant part, of asset management. Good asset management involves making sure that all aspects of post-construction ownership — including financial management, fiscal and project reporting, maintaining operating and capital reserve funds, having and following a capital maintenance and improvement plan, and property management — are integrated, and that the staff responsible for each of these functions are communicating and performing in an effective, coordinated manner.

In a small organization, there may not be a person with the title of asset manager. It is up to the senior management of the organization to make sure that a system of asset management is in place. In practice this means that a clearly articulated process exists for communication among staff members, and that automated record keeping and reporting systems are available to the entire team.

There are special considerations in managing scattered rental projects. One is the additional expenses of managing physically dispersed properties, which include the additional time and expense of staff traveling between properties, as well as higher maintenance costs if you cannot use the same materials in each unit. This latter problem can be addressed at least in part by specifying the same types of equipment and fixtures as you rehab units (including both big-ticket items like furnaces and water heaters, and smaller items such as faucets and door hardware). There is also the challenge of monitoring property management performance (whether property management is performed by in-house staff or contracted out). It is harder to inspect your properties and talk with your residents on a regular basis when your properties are widely scattered. This makes systematic planning of asset management all the more important.

Finally, there are difficulties in controlling the physical environment around your project. You cannot control access easily, as you can with larger multifamily developments, and unless you have a large concentration of properties in a single neighborhood, you are very vulnerable to decisions made by other property owners and neighborhood residents.

It is often wise if you are working in neighborhoods heavily affected by poverty to plan on assisting the community in figuring out how to address social needs and issues such as crime prevention, availability of public services, social services to residents, neighborhood appearance, and so forth. This may be an integral part of your organizational mission. But if it is not, your involvement can help you strengthen the market for your properties (more people will want to live in the neighborhoods where you are) and reduce costs (such as vandalism and vacancies resulting from crimes against your residents). As a developer, you will not be able to address these issues by yourself, so you should look at engaging in partnerships with neighborhood associations, social service agencies, municipal service providers (police, mass transit, public lighting, etc.) in planning and operating your projects.

Property Management

This is a separate business line unto itself. We cannot do justice to it here. Recognizing this, we offer a big caution: Do not decide to get yourself into the property management business just because you have decided to be in the rental development business. Property management requires different expertise, different staffing patterns, and different management and tracking systems. It may be appropriate for your organization, but it is a considerable enterprise that has spelled disaster for many competent developers.

You should, however, consider carefully whether good property management is available, either through an in-house business or by contract with an outside manager, before getting into rental development. You will not survive without it, and you need to know who your property management company is and consult with it before completing financing and construction planning. A good property manager can help you figure out operating budgets, assist in assessing the rental market, and aid in determining the scope of rehabilitation you must do. Do not make the mistake of leaving your property manager on the sidelines during this crucial decision-making period.

Do not decide to get yourself into the property management business just because you have decided to be in the rental development business.

With scattered-site rental development, you need special property management skills. You will not have the advantage of an on-site office or resident staff. Management has to be highly mobile to monitor property conditions and maintain relationships with tenants. Being good at managing large multifamily projects does not mean you are good with scattered rentals. Look for a property manager with a track record specifically with dispersed properties. If these properties exist in your community, somebody is managing them. You need to find out if they are doing it well, and if they are available to work for you at a price your tenants can afford.

How to Beat the Odds

Here are some of the most important challenges, and how you can plan to survive them.

Buying "Good" Properties	Buy best first; look at lots and reject many; focus on a particular geographic market.
Getting Good Value From Your Buildings	Emphasize strong construction management, including an automated system that allows you to specify selective rehabilitation and manage the process efficiently.
Managing a Difficult Portfolio of Properties	Ensure that you have a good, experienced property manager on board from the beginning; budget operations adequately.
Locating in Poverty-Impacted Neighborhoods	Enlist community partners, such as neighborhood associations, social service agencies, and the police.
Piecing Together Financing	Identify lenders who specialize in small multifamily properties; investigate all potential sources of capital subsidy.
Keeping It Strong for the Long Haul	Commit resources to a strong asset management function within your organization.

THE ENTERPRISE FOUNDATION

The Foundation's mission is to see that all low-income people in the United States have access to fit and affordable housing and an opportunity to move out of poverty and into the mainstream of American life. To achieve that mission, we strive to:

- Build a national community revitalization movement.
- Demonstrate what is possible in low-income communities.
- Communicate and advocate what works in community development.

As the nation's leader in community development, Enterprise cultivates, collects and disseminates expertise and resources to help communities across America successfully improve the quality of life for low-income people.

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