Asset Management Software

What to Know Before You Buy

September 9, 2020 | tcamre.com | mrisoftware.com

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AGENDA

• Data Management and Systems
• Document Management
• Risk Rating
• Reporting
• What Data Systems Do For Asset Managers
  • Property Reporting - Portfolio Reporting
  • Insurance Monitoring - Risk Rating & Watchlisting
  • Capital Forecasting - REO Schedule
  • Surplus Cash Calculation - Site Inspections

DATA MANAGEMENT AND SYSTEMS
DATA MANAGEMENT IS CRITICAL TO ASSET MANAGEMENT

• Organizations cannot make good decisions without good data
• Regardless of the system you use, you’ll need to determine:
  • What information is really needed, and how frequently
  • What data you may need in the future
  • What process you will use internally for vetting ("cleaning") data received.
• These matters are too important to leave to the IT guys!

Remember: Different users have different needs
Needs vary from one organization to the next but also within organizations

DATA COLLECTION AND ANALYSIS: STARTING POINT

Who uses the data and how?

Stakeholders have different risks and different levels of involvement with the asset

The intensity and focus of their data collection and analysis will vary accordingly
DATA COLLECTION AND ANALYSIS: OTHER KEY ISSUES TO CONSIDER

What data do you need, now and in the future?
What data is being collected?
  • Needs a precise definition
From whom?
  • Property manager, GP, Sponsor and other
How frequently?
How validated and corrected?
  • The GIGO problem
How stored?
  • Who is allowed to access? Who can change the data?

Sometimes, READ-ONLY is your friend!

KEY TRADEOFFS IN DATA MANAGEMENT

+ Perfectly Accurate
  - Limited Comprehensiveness
  - Minimally Accessible

Simplicity / Speed

Comprehensiveness / Time Input

Openness / Accessibility

- Low Accuracy
  - Minimally Complete
  + Little Time Input

Integrity / Accuracy

+ Perfectly Accurate
  + Totally Comprehensive
  - Infinite Time Input

+ Highly Accessible
  + Highly Comprehensive
  - Limited Accuracy

Organizations must consider how to balance these key factors – what’s most important and what can give way?
ASSET MANAGEMENT SYSTEMS

• Once the portfolio is over a certain size, a database becomes essential
• Allow users to access, work with, and combine for analysis and reporting three major sets of data:
  • Static and historic information about properties and investment entities, such as property size and features
  • Periodic financial data
  • Workflow data such as due dates and receipt of various documents
• Most groups have found that property management, accounting systems and loan servicing systems, are insufficient for asset management

SYSTEMS IN USE IN THE INDUSTRY

• Many “off-the-shelf” systems are used in the affordable housing industry
  • Yardi, MRI or other PM accounting systems
  • Fusion
  • Investment Central (Integratec)
  • RealNet
  • ProLink
  • Starta
  • Tableau
  • RealPage BI
  • Rentlytics
• Many other proprietary systems
  • Designed and maintained by the organization for its own use
• At the moment, the trend is away from proprietary systems towards off-the-shelf systems
  • Some are building their proprietary systems in SalesForce
• **Warning:** “off-the-shelf” still involves a considerable amount of tailoring
INVESTMENT CENTRAL – MRI SOFTWARE’S AM PRODUCT

- Among the most widely-used systems in affordable housing
  - Increasingly used by developer/owners and public agencies, plus syndicators and investors
- Electronic data collection and controls
- “Mapping” of financial information into a single chart of accounts
- Standardized analyses and reports
- Security, back-up, disaster recovery and off-site access
- Document repository capability
- A database for important property or investment characteristics

EXAMPLES OF STATIC & HISTORICAL DATA

<table>
<thead>
<tr>
<th>Static Data</th>
<th>Historical Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property name</td>
<td>Equity commitments and pay-ins</td>
</tr>
<tr>
<td>Property location</td>
<td>Construction and lease-up history</td>
</tr>
<tr>
<td>Physical configuration</td>
<td>Key documents – names, parties, dates</td>
</tr>
<tr>
<td>Year built, renovated</td>
<td>Tax returns and audits</td>
</tr>
<tr>
<td>Income, rent and other regulatory restrictions</td>
<td>Development and investment milestones</td>
</tr>
<tr>
<td>Names and contact information of stakeholders (ownership entity, GP, LP,</td>
<td>Capital work and use of reserves</td>
</tr>
<tr>
<td>lenders, regulators, guarantors)</td>
<td>Insurance coverage, casualty events</td>
</tr>
<tr>
<td>Terms of subsidy, allocation, loans, ground leases and other financing</td>
<td>Any 8823s, H&amp;S findings</td>
</tr>
</tbody>
</table>
FINANCIAL DATA MANAGEMENT

Data management systems help Asset Managers efficiently manage the collection and vetting process

- Establish data due dates
- Define collection rules and maintain contact lists
- Send automatic notifications of due dates and deadlines missed
- Load data into system in a consistent fashion
- Notify specified people when data is received and loaded
- Store documents received as well as the electronic data
- Allow for adjustments to data and tracking of adjustments
- Generate reports on the process as well as the data itself

DATA MANAGEMENT SERVICES

Workflow automatically tracks all data due, received, in process and transferred to client

- Data Collected
  - Multiple file types
  - Various Data Providers
- Data Uploaded
  - Files & Documents loaded in the workflow system
- Prepped & Reviewed
  - Processed by DMS Analysts
  - Prepare and process files into standard format
- Delivered
  - Investment Central
  - Developer Central
  - Investment Modeling
  - Client or Third-Party Software

Client rules for data handling are captured, stored and applied consistently period to period; application “learns” from past mappings
DOCUMENT MANAGEMENT

DOCUMENTS AND WHY THEY MATTER

- Rights and responsibilities of the various participants are spelled out in the project documents
- Critical tool for asset managers
- Documents can be overwhelming, but in most cases you only need to focus on a few provisions that are usually in one or two documents
- But if there’s a major problem or change, you will need to consult more documents
- Not just for lawyers!
**DOCUMENT MANAGEMENT**

Can be part of the asset management system but can also be another (or more than one) separate system.

**Protocols need to be established**

- What needs to be kept in shared files (vs personal files)
- Where it is stored: what system, and what sections
- How the files are organized
- How the files are labeled
- Who can add and delete documents

**KEY DOCUMENTS**

- **Equity Documents**
  - Final, executed partnership agreement and all ancillary documents (guaranty, purchase option/ROFR, developer services agreement, incentive/supervisory management agreement etc.)
  - Final underwriting model/investment summary
  - Equity installment releases and back-up documentation

- **Tax Credit Documents**
  - Tax credit reservation and carryover agreement/Section 42(m)(1) and (m)(2) letters for TE bond projects
  - Final cost certification
  - 8609s for all buildings
  - Other final state, federal historic credit documentation

- **Regulatory agreements/LURA**
- ALL final loan documents (hard and soft sources)
- Rental assistance contracts/subsidy agreements
- Management agreement
KEY DOCUMENTS (CONTINUED)

- Compliance
  - 100% first year tenant files
  - Regulatory/state agency audits and correspondence
  - Copies of 8823s and corrective memos
  - Social services agreements
- Evidence of property tax exemption/PILOT, if applicable
- Ground lease, if any
- Insurance
  - Title
  - Property and liability
- Financial reporting
  - Rent roll/occupancy, unaudited income statement, balance sheet, audits, tax returns, budgets
- Updated contacts
RISK RATING: OVERVIEW

- Lots of rating systems in use
- All systems:
  - Identify the good and the bad with everything else in the middle
  - Watch list is a subset of the risk rating categories
- AHIC* system gaining “market share”
  - C- and D-rated investments considered “watch list”
  - Separate tools for stabilized and pre-stabilized assets
- * AHIC = Affordable Housing Investors’ Council
- Are you an affordable housing INVESTOR?

RISK RATING: AHIC SYSTEM

USING RISK RATING SYSTEMS

• Primary use of risk ratings is for communication
• Properties with the middle ratings can be the most perplexing
  • High performers do not usually need attention
  • Workout properties usually get plenty of attention
• Takes judgment to know which “C” assets need attention
  • “C” headed off the rails is not the same as “C” because of 1 major issue
• Other issues:
  • Most risk rating systems are not as formulaic as they look
  • AHIC and other equity ratings often not familiar to bank credit officers or public agencies
  • Drivers of risk differ for other stakeholders
REPORTING OVERVIEW

- Communicating information and analysis is a critical element of asset management
  - For follow-up action
  - For reporting to partners, regulators, lenders, other third parties
  - To provide feedback on the next deal

- Can be useful to distinguish between:
  - *Management reporting*: internal reports that help senior management make decisions and keep operations on track
  - *Stakeholder reporting*: external reports that tell partners, lenders, regulators whatever they need to know

Timing and types of reports are as varied as the purposes and the organizations that use them.

IN SUMMARY....

There is no one right way or wrong way to report

Easy to get lost in information
The most useful thing a data system can do is help you and your staff spend their time more efficiently
If you have high-skilled staff doing low-skilled work, they are probably bored and you are probably wasting money

Set goals to achieve
Design reports and analysis accordingly
Invest in getting accurate, timely and consistent data
Consider leveraging software systems to do so – the affordable housing industry no longer has to manage off spreadsheets
WHAT AM DATA SYSTEMS DO FOR ASSET MANAGERS

PROPERTY REPORTING

Routine (monthly) reports should include some static information, but mostly focus on key performance data:

- Occupancy over time
- Period-to-date and year-to-date revenue and expenses
- Actuals versus budget, with % variance
PROPERTY PERFORMANCE REPORTING

A more detailed, property-level financial performance report

Define the right (and the right number of) categories depending on what matters to your organization

PORTFOLIO-LEVEL REPORT: DETAILED VERSION

Example of Stakeholder Report from Syndicator to Investor

[Table and text content related to financial performance and portfolio details]
INPUTTING RISK RATINGS

<table>
<thead>
<tr>
<th>Rating Criteria Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Code: Project Name: Risk Rating Period:</td>
</tr>
<tr>
<td>Status:</td>
</tr>
</tbody>
</table>

New Calculation

<table>
<thead>
<tr>
<th>Category</th>
<th>Overall Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Calculation</th>
<th>Rating</th>
<th>Notes</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan is in default or must be paid in full</td>
<td>E</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan is in default or must be paid in full</td>
<td>D</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan is in default or must be paid in full</td>
<td>C</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan is in default or must be paid in full</td>
<td>B</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan is in default or must be paid in full</td>
<td>A</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

PORTFOLIO LEVEL REPORT:
WATCH LIST REPORT

Example of Management Report for Owner, Syndicator, Lender or Investor

<table>
<thead>
<tr>
<th># of Units</th>
<th>Construction Type &amp; Tenant Mix</th>
<th>Capital Transaction Strategy</th>
<th>DSCR</th>
<th>Operating Ratio (Indexed)</th>
<th>Initial Ratings</th>
<th>Ratings as of 6/30/2011</th>
<th>Trend in Occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>60</td>
<td>Family</td>
<td>Operations</td>
<td>0.43</td>
<td>$10,418</td>
<td>A</td>
<td>B</td>
<td>95.0%</td>
</tr>
<tr>
<td>140</td>
<td>Family</td>
<td>Operations</td>
<td>1.67</td>
<td>$37,459</td>
<td>B</td>
<td>A</td>
<td>95.0%</td>
</tr>
<tr>
<td>200</td>
<td>Family</td>
<td>Operations</td>
<td>0.77</td>
<td>$35,167</td>
<td>B</td>
<td>B</td>
<td>95.0%</td>
</tr>
<tr>
<td>59</td>
<td>Family</td>
<td>Operations</td>
<td>0.43</td>
<td>$36,603</td>
<td>B</td>
<td>C</td>
<td>95.0%</td>
</tr>
<tr>
<td>200</td>
<td>Family</td>
<td>Operations</td>
<td>0.64</td>
<td>$36,603</td>
<td>B</td>
<td>C</td>
<td>95.0%</td>
</tr>
<tr>
<td>154</td>
<td>Family</td>
<td>Operations</td>
<td>0.06</td>
<td>$11,654</td>
<td>B</td>
<td>C</td>
<td>95.0%</td>
</tr>
<tr>
<td>18</td>
<td>Family</td>
<td>Operations</td>
<td>0.06</td>
<td>$33,300</td>
<td>C</td>
<td>C</td>
<td>95.0%</td>
</tr>
<tr>
<td>151</td>
<td>Retail</td>
<td>Operations</td>
<td>-0.02</td>
<td>$36,432</td>
<td>A</td>
<td>B</td>
<td>95.0%</td>
</tr>
<tr>
<td>58</td>
<td>Retail</td>
<td>Operations</td>
<td>0.53</td>
<td>$13,034</td>
<td>C</td>
<td>C</td>
<td>95.0%</td>
</tr>
</tbody>
</table>
REO REPORTING

If this is something important and time-consuming for your organization, ask whether any data system you’re considering can do it for you.

If it can’t do the whole process, is it worth the investment to get you part-way?

INSURANCE MONITORING

Same question: if this currently takes a lot of staff time, can a data system do it for you AND/OR reduce your time input?
Capital Needs Planning can be so time-consuming that a lot of owner/operators don’t even try to stay ahead of it.

Could a software system help reduce the time spent, improve the accuracy, or even just keep you better alerted to timelines?

If so, is that actually worth its cost?

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SURPLUS CASH CALCULATIONS

- Time investment for surplus cash calcs varies widely across geographies, portfolios, and organizations.
- Some soft lenders prescribe a very specific calculation form to use.
- Some just take the auditors’ word for it.
- Some properties have multiple loans that each need a separate calculation of eligible ‘above-the-line’ costs vs. surplus cash.
- Whether a special investment in automating this capability is worthwhile for your organization will depend on your specific position.
SITE VISIT REPORTING

If your organization is doing a lot of work on this manually, think about whether a software investment would – on net – pay for itself by saving staff time and/or improving accuracy/consistency.

Some organizations have set up to feed directly from an iPad/tablet into a database so that there is NO data entry step after site visits.

Takeaways:

Decision on investment is about tradeoffs between efficiency, cost, level of detail/precision, accessibility, and more

1. Plan to put the time in upfront to think through what you need and what the priorities are
2. Asset Management requires a lot of information processing and analysis
3. Communicating information clearly is critical to enable well-informed and proactive decision-making – the payoff of good AM
4. Document management is an important part of organizing information
5. No system is perfect, and none will do exactly what you want off-the-shelf
Learn More or See a Demo

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QUESTIONS?

Thank you