

# Lessons from the Field

A SERIES OF ASSET MANAGER INTERVIEWS CONDUCTED BY TCAM/MRI

## A Municipal Asset Manager's Perspective

### Interview with Mike McLoone

Senior Asset Manager, Mayor's Office of Housing and Community Development  
San Francisco, CA

Are you an asset manager working for government? Or are you an asset manager who is monitored by government? Either way, Mike McLoone's interview will give you insights that will elevate your practice. He strives to be an empathetic collaborator and equitable problem-solver; he loathes bureaucratic inefficiencies and appreciates opportunities to inform tenant-centric policy. In this interview, he describes his mission-driven practices at the intersection of policy and implementation.

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#### ***With MOHCD primarily serving as a regulator and soft lender what drives how MOHCD does asset management?***

For us asset management is a balancing act. On one hand, we have to be stewards of the City's investments into affordable housing and make sure we're getting what we expected from the investments. On the other hand, we understand that having MOHCD asset managers direct and oversee Owner's asset managers is inherently redundant. We're constantly looking for that sweet spot of getting the information that we need and providing interventions when necessary, while being minimally burdensome on the owner/operators that are doing the actual work. We also use a risk-based categorization system to help us identify where our attention is most needed.

In MOHCD, asset management is at the intersection of affordable housing policy and practice. We operationalize what the City requires under our contracts. These contracts may only reflect what the development team and the City Attorney determined to be necessary; in many cases, we had no part in contract negotiations and we must do our best to enforce agreements inherited – some even from other departments. But I have been around long enough to know that asset management should participate in shaping some contract language and deciding what and how we should be monitoring for compliance. Regardless of our involvement in setting contractual terms, we are charged with gathering data that can vary significantly according to the terms in our contracts; and, we try to do this in the least intrusive way

we can. We also recognize that we are an integral component in a feedback loop that helps shape the City's production and preservation work.

***Is there anything you think developers may not realize about what is and isn't on the mind of a municipal housing department?***

Foremost, the money that we're collecting in repayments is actively being repurposed and put back out to communities to make additional investments in affordable housing.

Second, we don't only see LIHTC projects. Not everyone we're working with has the experienced development staff and facility in accounting and asset management that larger or more seasoned LIHTC developers have. We work with a range of organizations, and they produce a range of housing products. A shelter organization may not have the staff expertise and infrastructure that we see with a tax credit entity. Our challenge is to maintain the proper customer service orientation for sponsors that have a wide range of affordable housing staff capacity, experience, and expertise.

Third, developers should recognize that if requirements are imposed that are difficult for a project to achieve or hard to understand, the asset management teams will also be burdened. One example of a source of shared confusion/avoidable complexity is with audited financial statements. When developers fail to think ahead about accounting & financial reporting implications and include specific guidance in the contracts about how to characterize funding, it can result in seeing mischaracterizations in the audits, which then creates more work and confusion for everyone.

***How have your data collection efforts and infrastructure helped MOHCD achieve its affordable housing goals?***

While our systems are relatively simple, we have been eager about gathering data since before it became a billboard buzzword. Having data readily available has positioned us to make informed decisions quickly. We have been able to move to operationalize racial equity goals because we already have data that we can analyze to detect disproportionate outcomes. On a more practical level, our compliance monitoring systems are scrutinized - like most municipalities, we are regularly subjected to audits from our local government and other agencies whose funds we administer. We have been successful in our audits because of internal data management controls and standards we have in place to collect critical data and diligently document compliance. Being able to show how we meet our contractual obligations has paved the way for MOHCD to be entrusted with even more funding to increase the City's investments into affordable housing, including now being part of the City's General Obligation Bond funded Capital Plan.

Across the affordable housing sector, asset management teams often have the difficult task of implementing and checking adherence to terms or expectations that they had no involvement in establishing. TCAM encourages developers, regulators, and investors to bring AM into upfront decisions about what to build, how to underwrite, where to invest, and what to expect of projects. Strong AM teams can come into those negotiations equipped with lots of historical data about what has happened in similar projects before. AM can also help encourage their colleagues to put into place measures that will make the portfolio easier to oversee, like more standardized loan terms for a municipal lender.

***How has MOHCD assisted in responding to Developers needs during COVID?***

We recognize that it is usually quite inefficient for us to collect \$10K from a project in residual receipts and then give that \$10K back out to the same entity later on as new funding. We want to be smart about collection/re-disbursement processing without sacrificing accountability. In the case of COVID, our awareness of this dynamic helped inspire a COVID allowance policy that we were able to implement fairly quickly. The policy allowed sponsors to keep a portion of the residual receipts from 2019 that would be due to MOHCD if not for impacts that COVID was having in 2020. We had prior year residual receipts data aggregated and readily available so that our finance team could project the impact on the City's 2019 surplus cash receivables with a high level of confidence. We also invited forbearance requests for projects that were unable to meet repayments obligations for amortized loans.

The other element that allowed us to move quickly was our relationships development partners and owners. We have a core group of developers that participate in an affinity group that is prepared to convene when there is any reason to engage with the City. We met to confer with the affinity group when we started formulating our COVID allowance and forbearance policies and learned that they were in the process of getting ready to advocate with the City. The developers group seemed to be delightfully surprised that we were already prepared with a proposal and the discussion focused primarily on how the solutions would work rather than whether solutions were possible.

***What does it take for MOHCD to operate its Asset Management Department?***

Asset management is where a lot of things come together. The data collection, manipulation, and record keeping needs are significant. So much of our work is driven by the 'front end' folks, and so many of those folks are deal-focused. They get through a closing and then need to move on to the next deal. Asset management staff rarely move on; like goalies on sports teams, we are charged with taking whatever comes our way, accepting the "long tails" of the many agreements that get made as deals come together. We expect our asset managers to do a wide range of work: some work is straightforward (Limited Partner exits), but we also staff complicated LIHTC refis and cash-out recapitalizations; and all of it requires customer service that needs to meet the needs of owner entities, tenants, and applicants at a variety of capacities. The work requires staff that understand when we need to be efficient and focus only the big-picture (e.g., budget variance analyses), while still having the agility to shift the focus to the smallest details (e.g. calculating rent refund to a tenant that has been overcharged). Staff need to be comfortable reading technical content (legal docs, policies, regulations) communicating verbally and in writing, and completing quantitative analyses. We often find that we are using 6 or more "windows" on our computer screens simultaneously and regularly utilize project management skills; many tasks won't get done as quickly/thoroughly as needed without extra attention. The growth of the City's portfolio adds pressure for us. While we are completely committed to the City's efforts to close the gap in affordable housing supply relative to demand, the growing portfolio has also been hard to keep-up with: our 3 primary asset managers currently oversee about 100 properties each. That number has nearly doubled in the past 10 years.

***What advice would you give to a town/city that is contemplating building its asset management function?***

Before I answer that directly, I want to recognize that it is a privilege to work in a jurisdiction that happens to be both a City and a County. This gives us an unusual concentration of resources, which has

allowed us to have more capacity and staffing than other municipalities. This work is hard for us; it is undoubtedly even more challenging elsewhere.

One, be honest about the possibility that you might not have enough people/resources allocated to do asset management work. To do asset management work well you will need a broad range of skills. It may be difficult to aggregate the right combination of skillsets within existing job classification systems. And even if a given portfolio of assets is not growing significantly, the asset management needs may get more complex as the portfolio ages.

Two, it's important to recognize when you aren't the only funder in projects, and what that may allow. Small entities should look closely at how well they can meet their needs by relying on data that is already being generated to satisfy the requirements of other funders – and even the functions fulfilled by other agencies. Avoid creating extra layers of reporting and inspection burdens for owners. Most affordable housing already has many chefs tending the broth!

That said, we also know from experience that the local housing agency is often the first line of defense and the first place that gets calls when solutions are needed. So even if it sometimes feels like our involvement is redundant, there is a reason for a municipality to be more directly involved and assertive even if it is the last in lien priority.

Three, and I think this may be the most valuable piece of advice I can provide, do not allow the advice of attorneys that do not have experience operationalizing contractual requirements to dictate your asset management functions. Attorneys can be insightful problem-solvers but most of their work is transactional real estate law: they work on new deals and are focused on providing immediate solutions - to get to closing/avoid delays. They are smart people, but it is very rare that they are also thinking about asset management implications over the term of compliance periods. I have spent many hours in legal proceedings as a result of ambiguity in seemingly simple contractual terms. A municipality that is looking to build an asset management team should involve a cross-section of staff that have an operational focus, people that understand the accounting, the IT, the reporting and compliance implications to help build a program – not just close the deal. It's absolutely critical that the documents everyone is looking to have really been created with an understanding of the realities that the project staff and funder staff will face over the life of the project.

***Is there anything else you'd like to share about your experience and work at MOHCD?***

In San Francisco we have a committed core of mission-driven developers that are primarily responsible for creating and owning most of our affordable housing. They have active affinity groups, including one specifically for asset managers. It is important for the asset managers to be able to talk to each other and share their experiences. Similarly, it helps to have an active and collaborative developer community. Establishing and maintaining peer networks is helpful to everyone. But even more important than that, I encourage other municipalities to know the organizations that are participating in development and especially what motivates these organizations.

For cities or even states where several affordable housing developers are active and open to information-sharing, this type of AM list-serv can be invaluable. Many asset managers will be grappling with the same challenges around interpreting guidance from regulators or implementing new types of funding programs. If this type of forum doesn't yet exist in your region, consider starting one!



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Mike McLoone is grateful to work for the City and County of San Francisco since 2005, where he serves as Senior Asset Manager for the Mayor's Office of Housing and Community Development and manages a portfolio of nearly 400 properties/24,000 affordable units. He was primarily attracted to the role because of his interest in helping solve homelessness. Much work remains to be done but he is honored to have helped build the only municipal subsidy program that makes it financially feasible to serve formerly homeless people in permanent supportive housing. Mike has a legal and financial background combined with experience with databases.

He strives to be an empathetic collaborator and equitable problem-solver; he loathes bureaucratic inefficiencies and appreciates opportunities to inform tenant-centric policy. He is especially proud of contributions to policies that allow San Francisco to limit the use of criminal background checks and set a 4% cap on annual rent increases in most of the City's affordable housing.

The San Francisco Mayor's Office of Housing and Community Development supports residents with affordable housing opportunities and essential services to build strong communities by creating housing, preserving existing housing, protecting vulnerable residents, and empowering neighborhoods.

(<https://sf.gov/departments/mayors-office-housing-and-community-development#about>)

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Martha Tai prepared this interview for publication. She directs the Advisory & Transactions practice at TCAM, an MRI company, a leading provider of asset management and consulting services to the affordable housing industry. At TCAM, Martha is responsible for numerous consulting projects, working with state and local housing agencies, large housing authorities, capital providers, and housing developers. She also leads TCAM's third-party underwriting work in support of property acquisitions, valuations, and dispositions, including on unrestricted ("naturally occurring") affordable housing and Year 15 investor exits. Prior to joining TCAM, Martha was a Senior Program Manager at the Cambridge Housing

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