

Preserve or Sell

EVALUATING OPTIONS FOR YOUR AFFORDABLE REAL ESTATE



26 September 2023

3:00-4:30pm

chamonline.org

GETTING STARTED

- ▶ Our discussion will last approximately 75 minutes with a Q&A at the end
- ▶ This webinar is being recorded and will be shared with all attendees afterward
- ▶ All participants will be muted to ensure sound quality for our discussion
- ▶ Throughout the presentation you may submit questions using the chat box
- ▶ For additional questions, please email marketing@thirtycapital.com

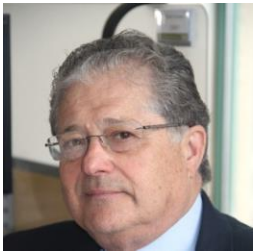
POLL QUESTION #1

Please introduce yourself & tell us your role:

- ▶ **Asset Manager for an Owner**
- ▶ **Asset Manager for an Investor or Syndicator**
- ▶ **CEO**
- ▶ **CFO**
- ▶ **Developer**
- ▶ **Other**

DISCUSSION AGENDA

- ▶ Current Dynamics: Multifamily Housing
- ▶ Specific Impacts to Affordable Housing
- ▶ Assessing Property Valuation & Financial Position
- ▶ Evaluating Your Options: Preserve, Partners, Refinance, Sell
- ▶ Question & Answer



Harold Nassau

CHAM Board President
Senior Director of Asset Management,
NeighborWorks America



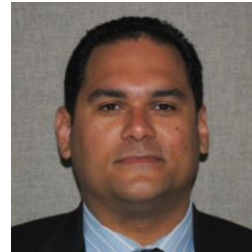
Beth Mullen

Partner & Affordable Housing Industry
Leader, CohnReznick



Matt Kurzmann

Senior National Director, Affordable
Housing Advisors



Alfred Arzuaga

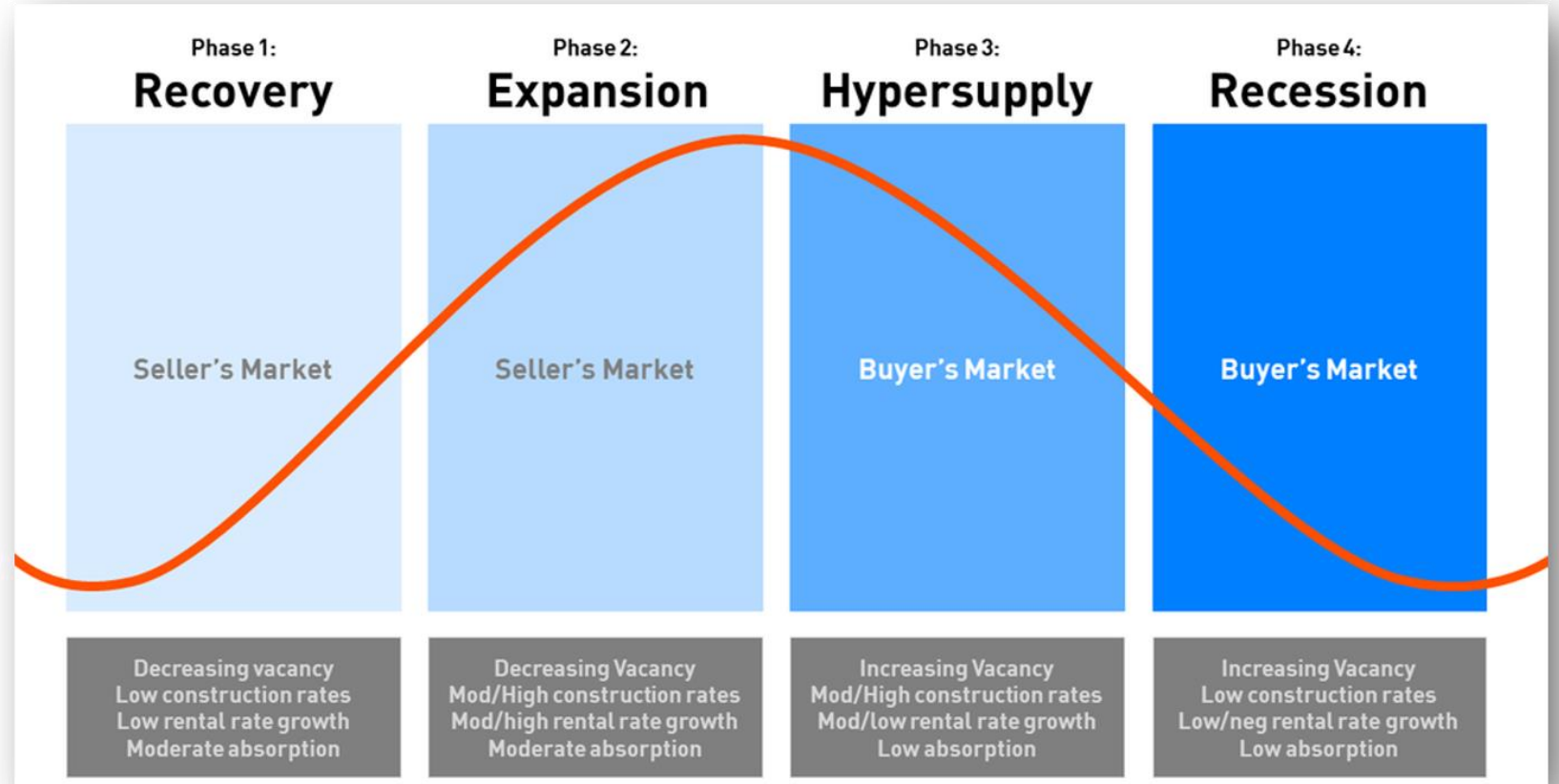
President, The Orlando Neighborhood
Improvement Corp



Rob Finlay

Founder, Thirty Capital

Market Dynamics: Recalibration



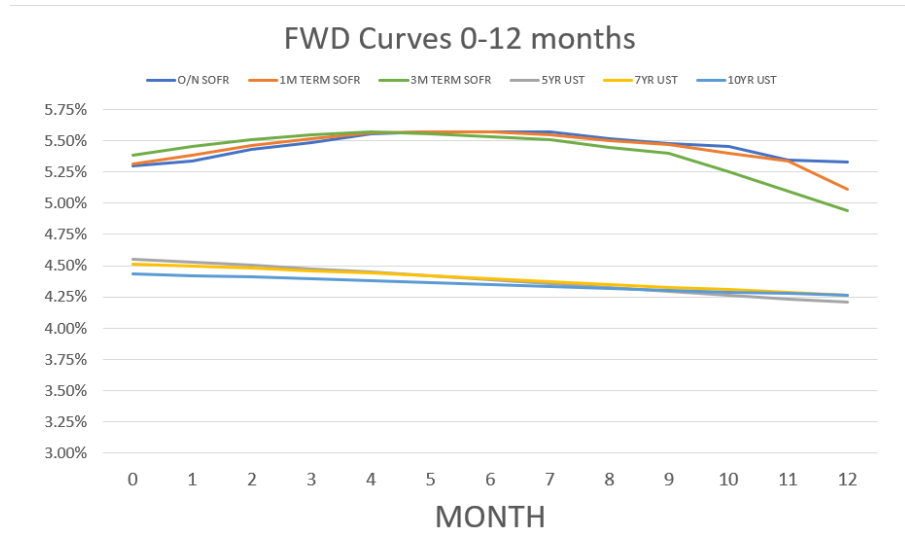
Transaction Slowdown

» Commercial Real Estate Transaction Volume

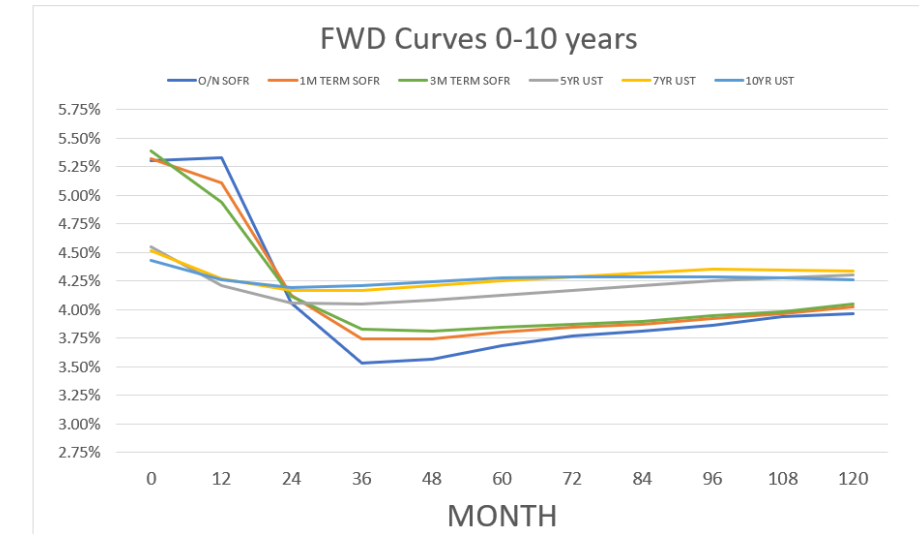


Tighter Lending & Higher Rates

	0	1	2	3	4	5	6	7	8	9	10	11	12
O/N SOFR	5.30%	5.33%	5.43%	5.48%	5.56%	5.57%	5.57%	5.57%	5.52%	5.48%	5.45%	5.35%	5.33%
1M TERM SOFR	5.32%	5.38%	5.46%	5.52%	5.56%	5.57%	5.54%	5.50%	5.47%	5.40%	5.34%	5.11%	
3M TERM SOFR	5.39%	5.45%	5.51%	5.55%	5.57%	5.56%	5.53%	5.51%	5.45%	5.40%	5.25%	5.09%	4.94%
5YR UST	4.55%	4.53%	4.50%	4.47%	4.45%	4.42%	4.39%	4.36%	4.32%	4.29%	4.26%	4.24%	4.21%
7YR UST	4.52%	4.50%	4.48%	4.46%	4.44%	4.42%	4.39%	4.37%	4.35%	4.33%	4.31%	4.29%	4.27%
10YR UST	4.43%	4.42%	4.41%	4.39%	4.38%	4.36%	4.35%	4.33%	4.32%	4.30%	4.29%	4.28%	4.26%

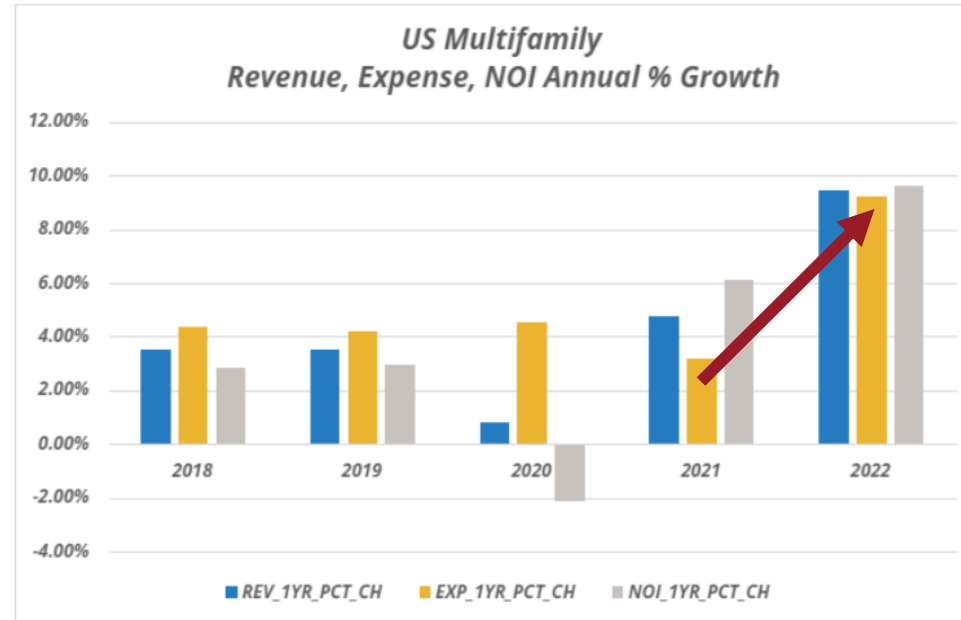


	0	12	24	36	48	60	72	84	96	108	120
O/N SOFR	5.30%	5.33%	4.06%	3.53%	3.57%	3.68%	3.77%	3.81%	3.86%	3.94%	3.96%
1M TERM SOFR	5.32%	5.11%	4.13%	3.75%	3.74%	3.80%	3.84%	3.87%	3.92%	3.97%	4.02%
3M TERM SOFR	5.39%	4.94%	4.12%	3.83%	3.81%	3.85%	3.87%	3.90%	3.95%	3.98%	4.05%
5YR UST	4.55%	4.21%	4.05%	4.05%	4.09%	4.12%	4.17%	4.21%	4.25%	4.28%	4.30%
7YR UST	4.52%	4.27%	4.16%	4.17%	4.21%	4.25%	4.29%	4.32%	4.35%	4.35%	4.33%
10YR UST	4.43%	4.26%	4.20%	4.21%	4.24%	4.27%	4.28%	4.29%	4.29%	4.28%	4.26%



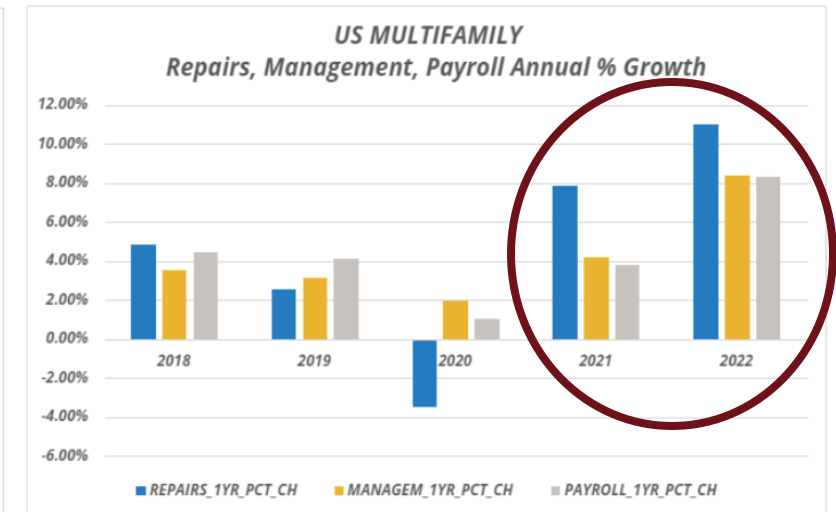
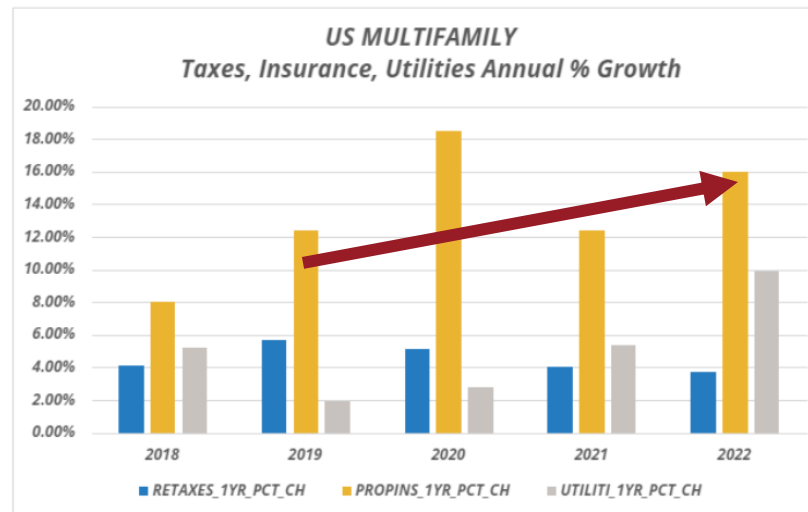
Source: Thirty Capital Financial, September 2023

Cashflow Concerns



3x Y/Y Expense Growth

- In 2023:
 - Flat income
 - 4-6% expense growth
 - Thin NOI margins



Source: Thirty Capital Performance Group

Impacts to Affordable Housing

Neighborworks Portfolio Performance (2022-2023)

- ▶ 62.8% NWOs positive performance; historically 80-90%
- ▶ Average NCF dropped to \$624/unit
- ▶ OpEx increased 10.1% to \$757/unit -- 2x inflation rate!
- ▶ Collection loss rose from \$3.4M to \$8.1M in 2022
- ▶ Vacancy loss rose from \$24.1M to \$26.5M in 2022

Impacts to Affordable Housing

- ▶ Enterprise watchlists are approaching 2008 levels
- ▶ Market pressures & continued expense growth causing owners to think about selling
- ▶ Investors are looking to take advantage, but not coming to the table with eye-popping numbers & fast transaction times
- ▶ Tough conversations about how to execute the mission in this environment

What Do We Do Now?

- ▶ Assess your property valuation & financial realities of your operations, debt, and equity
- ▶ Understand your options as you evaluate your properties & portfolio performance
- ▶ Create discipline for regular reviews & assessments – don't hide from bad news
- ▶ Implement tools & leverage industry advisors to help you navigate these changes with your team

Assessing Valuation & NOI

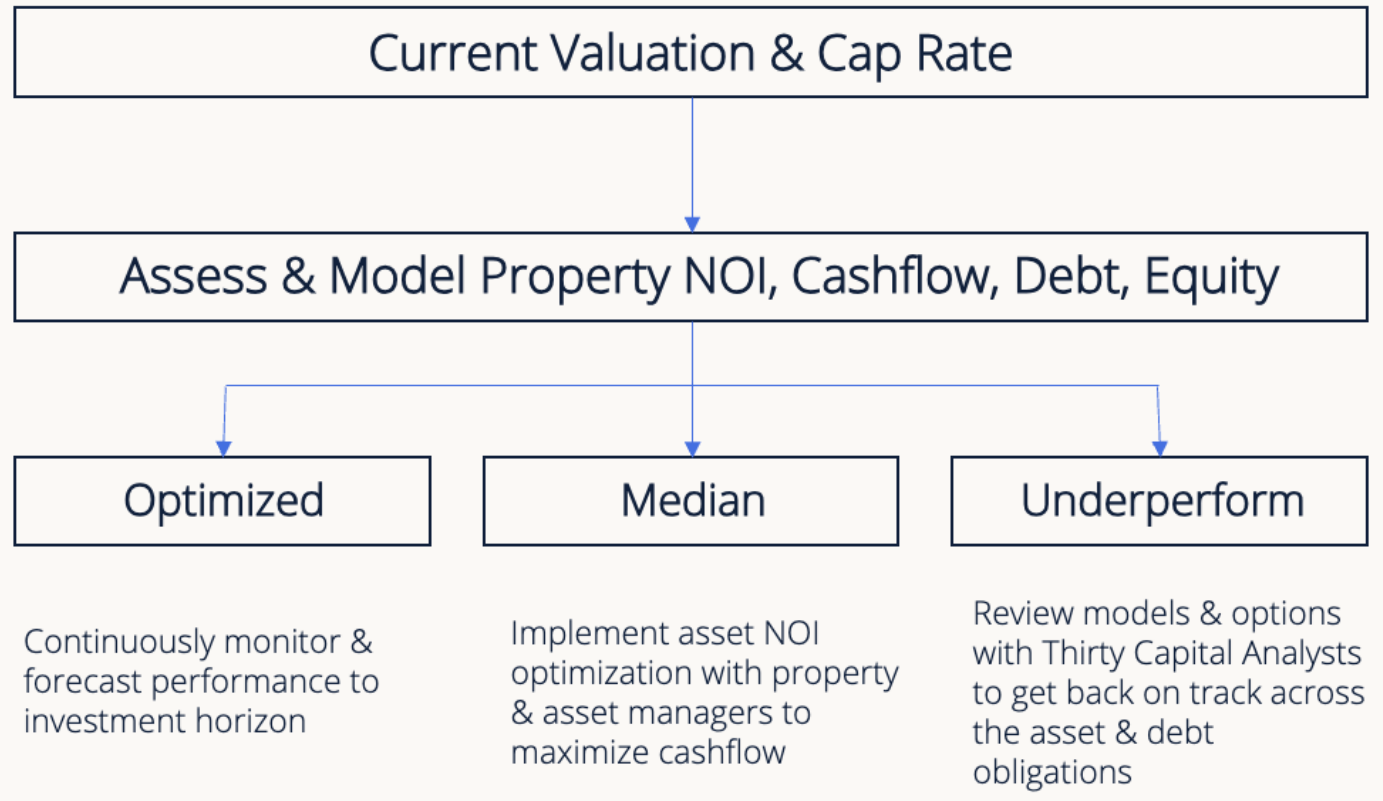
Case Study: Methodology

Produce a market assessment to include a market cap rate & statistical valuation analysis

Perform asset evaluation, including comparables analysis, debt forecast, and equity forecast

Model asset, debt, and equity forecasts for high-confidence next steps to communicate to your team & investors

Create **daily visibility** to property performance to monitor progress toward investment objectives



Case Study: What is the Property Worth?

STATVAL	STATVAL BENCHMARK RANGE		
VALUATION TYPE	LOW	STATVAL	HIGH
VALUATION DATE	9/15/2023		
VALUATION	\$8,518,519	\$8,870,053	\$9,251,849
VALUATION_PERUNIT	\$59,156	\$61,598	\$64,249
CAPRATE	6.31%	6.06%	5.81%
STATEMENTTYPE	MOST RECENT TRAILING FINANCIALS		
STATEMENTENDDATE	8/31/2023		
UW OCCUP	87.5%		
REV PERUNIT	\$769		
EXP PERUNIT	\$458		
NOI PERUNIT	\$311		
EXP PCTREV	59.6%		
NOI PCTREV	40.4%		

Assumes Implied Forward TRSY Rates, Modeled CAP Rate Adjustments, and Input NOI Growth

	Hold Period (YRS)	1	2	3	4	5
	Forward 10yr TRSY	4.37%	4.31%	4.33%	4.37%	4.40%
	Modeled CAP Rate	6.06%	6.06%	6.06%	6.06%	6.06%

Projected Terminal Property Value						
	5.00%	\$9,313,555	\$9,779,233	\$10,268,195	\$10,781,605	\$11,320,685
	2.50%	\$9,091,804	\$9,319,099	\$9,552,077	\$9,790,879	\$10,035,651
NOI Growth	0.00%	\$8,870,053	\$8,870,053	\$8,870,053	\$8,870,053	\$8,870,053
	-2.50%	\$8,648,301	\$8,432,094	\$8,221,292	\$8,015,759	\$7,815,365
	-5.00%	\$8,426,550	\$8,005,223	\$7,604,962	\$7,224,713	\$6,863,478

Percentage Change						
	5.00%	9.28%	14.75%	20.48%	26.51%	32.83%
	2.50%	6.68%	9.35%	12.08%	14.88%	17.75%
NOI Growth	0.00%	4.08%	4.08%	4.08%	4.08%	4.08%
	-2.50%	1.48%	-1.06%	-3.53%	-5.95%	-8.30%
	-5.00%	-1.13%	-6.07%	-10.77%	-15.23%	-19.47%



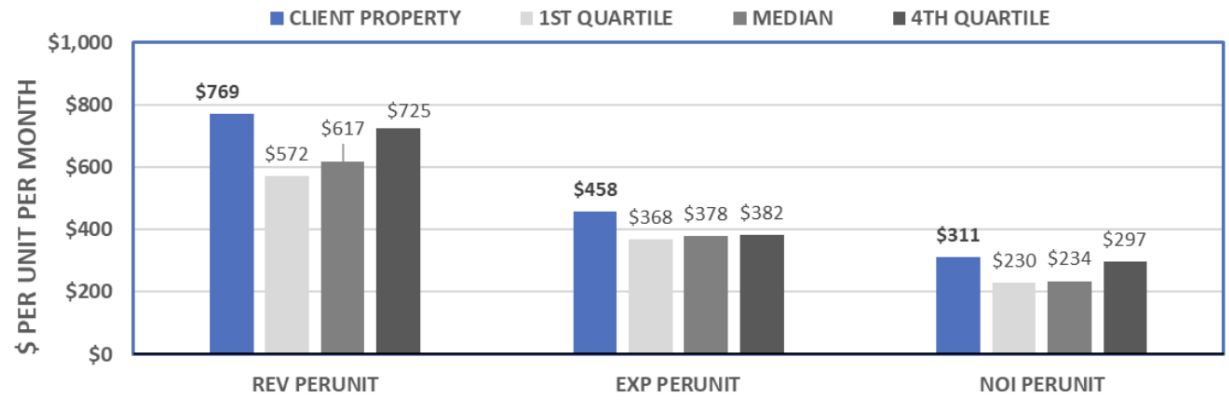
Case Study: Is It Me or the Market?

BENCHMARK COMPARISONS	CLIENT PROPERTY	1ST QUARTILE	MEDIAN	4TH QUARTILE	CLIENT VS MEDIAN
Year Built	2007	1974	1976	1983	31
Year Built-Renov	2007	1988	2012	2015	-5
Num Units	144	112	160	181	-16
OCCUP	87.5%	91.0%	97.0%	99.0%	-9.5%
Population PerSqMile	5,389	4,784	5,504	5,708	-114
Median HomeVal	\$163,200	\$160,800	\$162,100	\$183,500	\$1,100
Median HHInc	\$41,921	\$43,608	\$52,479	\$63,125	-\$10,558
Median Age	30.2	33.3	33.8	34.6	-3.6
Median Rent	\$696	\$860	\$920	\$1,120	-\$224
Median Owner Costs	\$1,406	\$1,289	\$1,421	\$1,529	-\$15
Renter PCT	62.6%	38.5%	41.4%	60.4%	21.2%
Rent Over30pct HHInc PCT	44.6%	47.1%	47.5%	47.8%	-2.9%
Bachelors Degree PCT	28.4%	21.5%	22.1%	32.6%	6.3%
Unemployment PCT	0.1%	1.9%	6.5%	7.2%	-6.4%
Mgt Finance Job PCT	13.3%	8.5%	12.7%	14.8%	0.6%
MovedIn After2010 PCT	67.6%	53.8%	63.2%	66.3%	4.4%

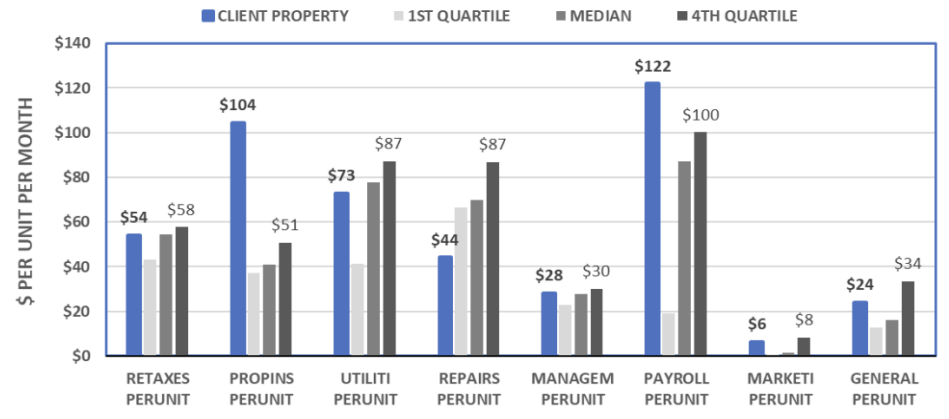
STATVAL generates an Automated Demographic Profile for each Client Input and Database Property by Geo-Mapping the Property location to Tract-Level US Census Data. STATVAL Algorithms select COMPS are similar to Subject Property with respect to Location, Property Attributes, and Demographics. Clients may also review and hand-select individual Comps to include in Benchmark Analyses.

Case Study: Is It Me or the Market?

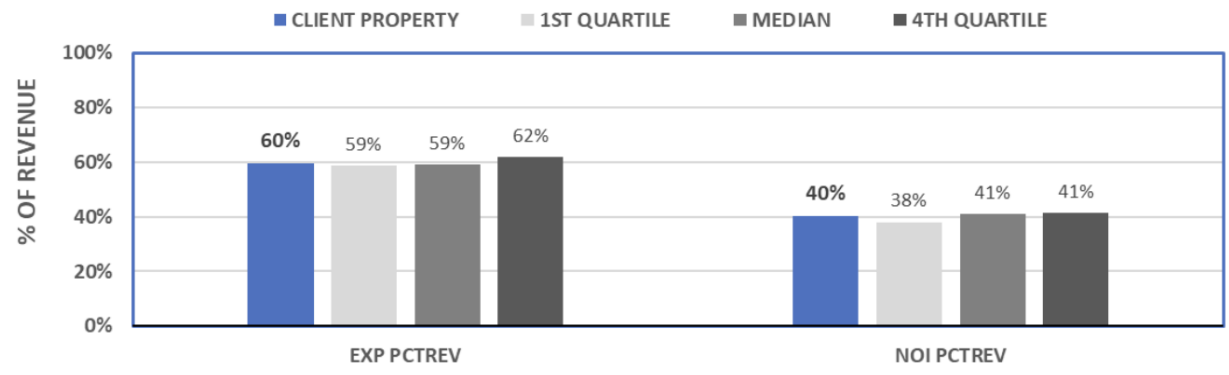
TOP-LINE FINANCIALS (\$ PER UNIT PER MONTH)
VERSUS COMPSET MEDIANS AND QUARTILES



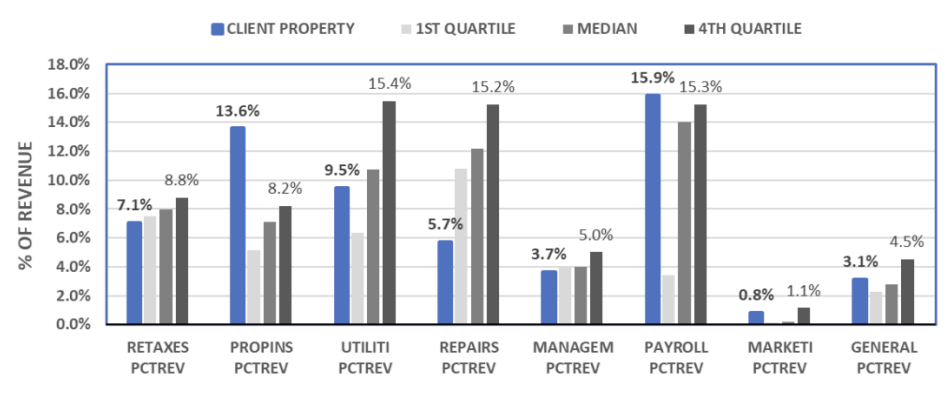
EXPENSE LINE-ITEMS (\$ PER UNIT PER MONTH)
VERSUS COMPSET MEDIANS AND QUARTILES



TOP-LINE FINANCIALS (% OF REVENUE)
VERSUS COMPSET MEDIANS AND QUARTILES



EXPENSE LINE-ITEMS (% OF REVENUE)
VERSUS COMPSET MEDIANS AND QUARTILES



Case Study: How Much Can I Impact?

	Median Optimization	Top Quartile Optimization
Current Valuation	\$8,870,053	\$8,870,053
Improvement Potential	<u>\$196,086</u>	<u>\$409,422</u>
Optimized Valuation	\$9,066,138	\$9,279,475

Median Optimization Analysis: 5 expense line items were below-benchmark values. Capture rates of 5%-15% (6.1% average) for these items result in \$196,086 of potential valuation improvement.

Top Quartile Optimization Analysis: 7 expense line items were below-benchmark values. Capture rates of 5%-15% (6.1% average) for these items result in \$409,422 of potential valuation improvement.



Case Study: Where Do I Focus for Impact?

Model shows potential opportunities for improvement for bringing line-items to Median Quartile Values vs. Comp Set.

Capture Rate = % Potential Improvement assumed to be captured by asset management team. Our model allows for sensitivity within each line-item based on probability for improvement.

Valuation is calculated on selected cap rates for each property.

COMBINED VALUATION CAP RATE 6.06%

SUMMARY TOP-LINE FINANCIALS	PORTFOLIO AGGREGATES		ACTION	DIFF VS COMPSET	MEDIAN	CAPTURE	CAPTURED IMPROVEMENT		
	AMOUNT	\$/UNIT	ITEMS	AMOUNT	\$/UNIT	RATE	AMOUNT	\$/UNIT	PCT
REVENUE	\$1,328,721	\$769							
EXPENSE	\$791,364	\$458	5	\$193,418	\$112	6.1%	-\$11,879	-\$7	-1.50%
CAPEX	\$75,884	\$44							
NOI	\$537,357	\$311	5	-\$193,418	-\$112	6.1%	\$11,879	\$7	2.21%
NCF	\$499,415	\$289	5	-\$193,418	-\$112	6.1%	\$11,879	\$7	2.38%
VALUATION	\$8,870,053	\$61,598	5	-\$3,192,716	-\$22,172	6.1%	\$196,086	\$1,362	2.21%

INPUT ASSET MANAGEMENT CAPTURE RATES

OPERATING STATEMENT LINE-ITEMS	PORTFOLIO AGGREGATES		ACTION	DIFF VS COMPSET	MEDIAN	CAPTURE	CAPTURED IMPROVEMENT		
	AMOUNT	\$/UNIT	ITEMS	AMOUNT	\$/UNIT	RATE	AMOUNT	\$/UNIT	PCT
REVENUE	\$1,328,721	\$769							
RETAXES	\$93,675	\$54							
PROPINS	\$180,534	\$104	1	\$110,189	\$64	5.0%	-\$5,509	-\$3	-3.05%
UTILITI	\$125,955	\$73							
REPAIRS	\$76,258	\$44							
MANAGEM	\$48,752	\$28	1	\$773	\$0	0.0%			
PAYROLL	\$210,618	\$122	1	\$59,988	\$35	5.0%	-\$2,999	-\$2	-1.42%
MARKETI	\$10,882	\$6	1	\$8,493	\$5	15.0%	-\$1,274	-\$1	-11.71%
GENERAL	\$41,690	\$24	1	\$13,975	\$8	15.0%	-\$2,096	-\$1	-5.03%
CAPEX	\$75,884	\$44							



POLL QUESTION #2

**Are you
assessing the
valuation of
your property
regularly?**

- ▶ Yes, quarterly
- ▶ Yes, annually
- ▶ Yes, when it's time to transact
- ▶ No, not with a regular cadence
- ▶ No, we expect someone else to do that

Evaluating Your Options

PRESERVE | PARTNER | REFINANCE | SELL

Our Options: Preserve, Partner, Refinance, or Sell

ONIC Evaluation:

- Operating margins continue to shrink as costs grow
- Condition of the property – nearly 20 years old, potential for large capital expenses
- Impacts to residents, tenants, and community
- Impacts to our team, operations, and services
- Alignment to our mission and vision
- Preserving affordability in the market
- Predictability for equity distributions
- Cost of debt and future capital needs
- Opportunities in the market versus opportunity costs of redevelopment
- Strategic plan for potential proceeds, if any

Evaluating Options: Preserving

- ▶ What's the impact if the decision is to preserve the property?
- ▶ What factors make this a good decision?
- ▶ What factors make this a poor decision?
- ▶ Are there concerns I can mitigate if I choose to preserve the property?

Evaluating Options: Partnering

- ▶ What's the impact if the decision is to partner with another organization?
- ▶ What factors make this a good decision?
- ▶ What factors make this a poor decision?
- ▶ Are there concerns I can mitigate if I choose to partner?

Evaluating Options: Refinance

- ▶ What's the impact if the decision is to refinance the property?
- ▶ What factors make this a good decision?
- ▶ What factors make this a poor decision?
- ▶ Are there concerns I can mitigate if I choose to refinance?

Evaluating Options: Sell

- ▶ What's the impact if the decision is to sell the property?
- ▶ What factors make this a good decision?
- ▶ What factors make this a poor decision?
- ▶ Are there concerns I can mitigate if I choose to sell?

Case Study: City View

- ▶ City View is a 50% Affordable (LIHTC) / 50% market rate community of 266 units + 25,000 sq ft of commercial space
- ▶ 2003 development & syndication by Bank of America Community Development Corporation (BOACDC) with ONIC as a Co-GP
- ▶ Tax credit investor/LP: Bank of America via Enterprise Social Investment Corporation (BOA/ESIC)



Case Study: City View

- ▶ **In 2015**, BOACDC exits its GP interest to recoup investment in the property by refinancing the first mortgage with HUD
 - ONIC becomes the property's sole GP with full repayment to BOACDC
- ▶ **In 2020**, ONIC purchased BOA/ESIC's LP interests for a nominal amount relative to equity
 - Property appraisal at \$34.5M at a 5.25% cap rate
- ▶ **In 2021**, ONIC engages in a portfolio review to assess opportunities with existing properties.
 - Broker valuation is received at \$45M.



Case Study: City View

- ▶ ONIC Board authorizes team to hire a broker and proceed with marketing the property for sale
 - Concerns about operating costs, capital needs for the portfolio, and meeting designated reserves.
- ▶ Broker pushes hard for \$60M or higher
 - Seven offers delivered: three at \$60M to \$62.5M and four from \$55M to \$58.5M
- ▶ ONIC Board decides to sell the property with the following consideration:
 - Residential Tenant Protection to limit rent increases to 5% for two years with a fund established to assist tenants (\$20-\$85/mo)



Case Study: City View

Investment & Management of Sales Proceeds

Category	Amount
Assistance to Residents & Retailers at City View	\$ 500,000
Cash Reserve for Operations	\$ 1,250,000
Staff Recruitment & Retention Investment Plan*	\$ 2,000,000
Improvements to Properties in the Portfolio	\$ 5,000,000
New ONIC Headquarters**	\$ 2,250,000
Pre-development Funds	\$ 3,000,000
Resident Services Endowment	\$ 11,000,000
Real Estate Dev. Gap Funding for new projects***	\$ 11,000,000
Rainy Day Fund	\$ 11,000,000
	\$ 47,000,000

* Includes training & tuition programs

** ONIC will receive two years rent free at our two spaces at CV. ONIC will evaluate options for a future location of its main office.

*** ONIC will continue working on developing a RE project pipeline. Current opportunities include: The Roberts Phase 2, Catholic Charities partnership in Deltona, Emerald Villas Phase III with The Related group of FL., Callahan Oaks Redevelopment, Hollowbrook Redevelopment, other recapitalization opportunities in the existing portfolio, and opportunities for acquisitions.

CLAWSON MANOR APARTMENTS (2022)

251 Unit Elderly-Designated Property (Originally HUD Financed) – No Rent Subsidy

- Property needed significant renovation
- Nonprofit owner had direct offers in the \$10,000,000-\$12,000,000 range
- AHA made contact and provided a broker opinion of value at \$19,000,000
- Nonprofit was not aware of the opportunity to layer in Project-Based Vouchers and increase revenue to support value

Marketing Process

- 30-day marketing, 15 offers received from national Preservation Developers
- After the final round of offers AHA had 4 offers at or above \$21,000,000
- Local Nonprofit Developer was selected, did not have the highest bid

What Happens Next?

- Nonprofit received \$20,000,000 of sales proceeds reinvested into the community
- New owner was able to fully subsidize the property using project-based vouchers and ensure long-term affordability
- Property is currently in the process of receiving a full rehab via LIHTC



CLAWSON MANOR APARTMENTS (2022)

What Does a Marketing Process Accomplish?

- Good Process = Good Results
- Fact Finding Mission:
 - Identify the buyers in the marketplace (nonprofit & for-profit)
 - Identify the price each buyer is willing to pay
 - Identify how various business plans impact price/future affordability
 - Transparency

Sell or Not to Sell?

- Clear set of criteria needed in purchaser (price may or may not be included)
- Scoring System to make Final Decision
- Quality Steward and Highest Price are not mutually exclusive
- Competition is important – You only get one chance to sell
- If choosing to hold, are you prepared to re-invest?

NEVER ANY OBLIGATION TO SELL – NO READY WILLING ABLE BUYER

Do & Don't

Never Sign a “Binding” LOI

- All LOI’s should be non-binding
- Buyers will use an “expiration date” to pressure you into a sale
- Purchase Agreement should be the only Binding Agreement

Owner Provides the NDA – Not the Buyer

- You are in control of the process and dictate the flow of information

Enter into purchase agreements with multiple contingencies

- Earnest Money should always be non-refundable past Due Diligence
- Representation makes a buyer do what they say they will do

POLL QUESTION #3

What is the primary reason you would consider selling a property?

- ▶ Greater portfolio efficiency
- ▶ Finding a “better owner” for a property
- ▶ For stronger cashflow to support your org
- ▶ For free cash to re-invest in other properties

Question & Answer

POLL QUESTION #4

**After this
discussion,
are you:**

- ▶ **Open to potential property sale or refinance?**
- ▶ **Committed to preservation?**
- ▶ **Assessing valuation of your properties?**
- ▶ **Looking for partners?**

Let CHAM be an Asset to You!

The Consortium for Housing and Asset Management is the only national association of affordable housing asset managers.

CHAM hosts an annual Asset Management Conference and offers Asset Management Professionals nationally recognized training programs:

- Asset Management Specialist (AMS): a foundational training for anyone looking to get started or freshen up their skills.
- Certified Housing Asset Manager Designation: our advanced certificate program dives into the analytical and financial details of asset management.

Visit chamonline.org for more resources and tools
Or email us at info@chamonline.org