

**2020 EMBRACING TRANSFORMATION**  
FINANCIAL MANAGEMENT CONFERENCE

# A Free Platform for Portfolio Oversight: NeighborWorks® MFInsights

Len Tatem, Principal, Tatem Consulting LLC  
October 28, 2020

**STRENGTHMATTERS®**

# How to use NeighborWorks<sup>®</sup> Multifamily Indicator (MFI) Reporting Site and MFInsights Benchmarking System for efficient asset management and crisis stress analysis.

## **Learning Objectives:**

- Using benchmarking and trending as key elements of a strong asset management plan.
- Using data to efficiently assess performance and assess and mitigate risk.

***Field of Study:*** Specialized Knowledge

***Level:*** Intermediate

# Getting Started

- All participant lines are muted.
- You may use the **Chat** feature to ask questions.
- Please use the **Raise Hand** feature if you would like to speak.
  - The Raise Hand feature is located in the Participant panel.
- Any questions not answered during the presentation will be addressed at the end of the session.

# Continuing Professional Education Requirements for CPAs

- **Polls are Required for CPEs**

- If you are seeking CPE credits, please submit ALL polls and the conference evaluations.
- We use **Polls** and the **Zoom attendance record** to verify participation throughout the webinar.
  - **Participants must submit ALL polls and be logged in no later than 10 minutes after the scheduled session start time to receive a certificate.**
- You may request a certificate of completion via the conference evaluations.
  - Links to the evaluations are emailed to all registrants.
- For more information on CPE credits, contact Lindsay Wells at [consult.lwells@gmail.com](mailto:consult.lwells@gmail.com).

# Important note on COVID-19 and CPEs

- We are part of the NASBA Registry of CPE Sponsors for Group Live programs, which covers in-person events.
- **Due to the COVID-19 crisis, NASBA has provided a temporary allowance for Group Live Sponsors to convert typically in-person programs to virtual delivery.**
- As always, state boards of accountancy have discretion regarding CPE credit acceptance. **Two states have indicated they will not extend this flexibility (Kansas and New York).**
- For details on state board responses, please check the [CPE Info page](#) of the registration site or email [consult.lwells@gmail.com](mailto:consult.lwells@gmail.com).

# STRENGTHMATTERS®

## 2020 EMBRACING TRANSFORMATION

### FINANCIAL MANAGEMENT CONFERENCE

#### MAJOR SUPPORTER



**Dauby O'Connor & Zaleski, LLC**  
A Limited Liability Company  
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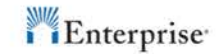
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# Meet the Presenters

## **Len Tatem, Principal**

Tatem Consulting LLC Organization  
Email: TatemConsult@att.net

## **Harold Nassau, Sr. Director, Asset Management**

NeighborWorks® America  
Email: Hnassau@nw.org

## **Phil Hood, Sr. Manager, National Real Estate Programs**

NeighborWorks® America  
Email: phood@nw.org

# Agenda

1. Asset Management Planning & Tracking
2. Forecasting & Sustainability
3. Decision Making & Implementing Solutions



# Why Asset Management?

- Implement owner's goals - *not property needs!*
- Measure how well we are doing as owners
- Goals:
  - Profitability
  - Sustainability (investment horizon and compliance)
  - Residual Value
  - Mission Outcomes (beyond safe and sanitary)
    - Affordability
    - Health
    - Green
    - Education
    - Employment

# Asset Manager's Job: Data

- Track
- Benchmark
  - By type
  - By peers
- Analyze
- Forecast

# Asset Management Plan Rubric

Rubric Sections	
I. Portfolio-Level Strategy Narrative	0.5 - 6 Points
II. Watch list	0.5 - 3 Points
III. Property Asset Strategy	0.5 - 3 Points
IV. Projected Cash flow	0.5 - 3 Points
V. Debt Schedule	0.5 - 2 Points
<b>Total</b>	<b>17 Points</b>

# Testing an Asset Management Plan

1. Does it clearly and accurately describe portfolio performance and challenges and opportunities?
2. Is watchlist consistent with performance data?
3. Are property plans consistent with watchlist?
4. Is aggregate portfolio cashflow consistent with Organizational cashflows?

# Case Study



Boston, MA

# Narrative

TND Asset Management Strategic Goals 2019		
Portfolio Objectives		
<u>Category</u>	<u>Narrative</u>	<u>Measurable Benchmark</u>
<b>Tenancy:</b>	Continue to monitor unit turnover, focusing on assisting Property Manager with streamlining process with agency/PBV units (i.e. MBHP). Provide preliminary benchmark for such units of 45 days of turnover time (posted vacancy to move-in).	PBV unit turnover < 45 days
<b>Financial:</b>	<p>Implement strategy for refinancing of Chelsea Homes I and combination with other eligible TND properties (ie 210 Broadway).</p> <p>Monitor properties for improved cash flow and upcoming loan expirations (Broadway I)</p>	<p>Financing and administration established, capital work underway.</p> <p>Plan for Broadway I complete. Maintain positive and improving portfolio cash flow from 2018.</p>
<b>Physical:</b>	Complete min-CNAs for mature LIHTC properties. Finalize and implement identified capital needs for Chelsea Homes I and 210 Broadway as part of financial restructure.	Mini-CNAs completed, plan finalized and work beginning at Chelsea Homes I properties.
<b>Cross-Team Goals:</b>	<p>1) Integrate Asset Management, Real Estate Development, and Resident Services across full life-cycle of projects, define roles and responsibilities.</p> <p>2) Partner with Resident Services to reduce evictions below 3%</p>	<p>Teams hold necessary joint meetings in 1) Development 2) Operations and 3) Re-positioning stages. (1-2 meetings in development, quarterly during operations). Basic timeline and template for RE Dev to Operations handoff established.</p> <p>Eviction rate tracked through Watchlist</p>

## Watchlist Criteria

Net Cash Flow as % of GPR	1	$x \geq 10\%$
	2	$10\% > x \geq 5\%$
	3	$5\% > x \geq 0\%$
	4	$0\% > x$

Turnover Rate (Annualized)	1	$x \leq 10\%$
	2	$20\% < x \leq 10\%$
	3	$50\% < x \leq 20\%$
	4	$50\% < x$

DSCR	1	$x \geq 1.4$
	2	$1.1 > x \geq 1.4$
	3	$1.05 > x \geq 1.1$
	4	$1.05 > x$

Average Length of Turnover	1	$x \leq 15$
	2	$15 < x \leq 30$
	3	$30 < x \leq 60$
	4	$60 < x$

Operating Expenses as % GPR	1	$x < 70$
	2	$70 \leq x < 85$
	3	$85 \leq x < 97$
	4	$97 \leq x$

Next Maturing Debt	1	15+ years
	2	6 - 15 years
	3	2 - 5 years
	4	0 - 2 years

Vacancy Loss as % of GPR	1	$x \leq 1$
	2	$1 < x \leq 3$
	3	$3 < x \leq 5$
	4	$5 < x$

Physical Conditions/Replacement Reserves	RR per unit (\$)			
	> 4,000	2,500 - 3,999	1,500 - 2,499	0 - 1,499
A: Significant improvements needed in 10+ years	1	1	2	2
B: Significant improvements needed between 6 - 10 years	1	2	2	3
C: Significant capital improvements needed with 2-5 years	2	2	3	3
D: Significant capital improvements needed within 24 months	2	3	3	4

Collection Rate	1	$x \geq 99.9\%$
	2	$99.9\% > x \geq 97\%$
	3	$97\% > x \geq 93\%$
	4	$93\% > x$

# Watch List

MFI Indicators December 2018	Broadway I	Broadway II	Chelsea Homes I	Highland Terrace	Ianus Highland	Spencer Green	Spencer Row	TND Homes I	525 Beach	One Beach	210 Broadway	
Number of Units	24	5	86	32	41	48	32	52	30	39	10	
Cash flow as % of GPI	12%	20%	8%	7%	10%	9%	11%	7%	6%	2%	-5%	400%
DSCR (NOI/Debt)	2.39	2.31	1.79	1.55	2.43	1.69	1.73	2.88	1.40	1.45	0.84	4.00
Expenses as % of GPR - Debt	79%	77%	81%	87%	81%	90%	86%	88%	91%	90%	108%	4.00
% Vacancy Loss	1%	0%	2%	2%	2%	2%	1%	2%	0%	3%	0%	1.00
Collection Rate	100%	100%	98%	99%	100%	99%	100%	97%	100%	100%	100%	100%
Turnover Rate (Annualized)	8%	0%	7%	16%	5%	6%	9%	12%	0%	15%	0%	1.00
*Average Length of Turnover (Property Manager)	46	0	78	86	201	61	57	89	0	83	0	1.00
*Average Length of Turnover (Agency)	0	0	0	21	0	226	0	26	0	0	0	1.00
Physical Needs Rating	3	3	3	1	1	2	2	1	1	1	3	
DSCR (Inc. RR Dep.)	1.94	2.18	1.45	1.38	1.87	1.51	1.60	2.33	1.26	1.18	0.84	
DSCR (All Res Activity)	2.83	2.18	2.20	1.53	2.36	1.86	1.89	3.83	3.21	1.40	0.84	



# Mission – Green and Health

Units	New Construction/ Rehab	Year	Tracking Electricity Monthly		Tracking Gas Monthly		Tracking Water Monthly	MA Green Retrofit	Recycling	Green Cleaning Products	Integrated Pest Mgt.	Green Turnover Procedures
			Common	Apts.	Common	Apts.	All					
24	Rehab	1900	✓	-	✓	-	✓	-	✓	✓	✓	✓

# Great Plan!

*But how are they really doing??*

*Using the Multifamily Indicator (MFI) Data*

# Watch List Creation:

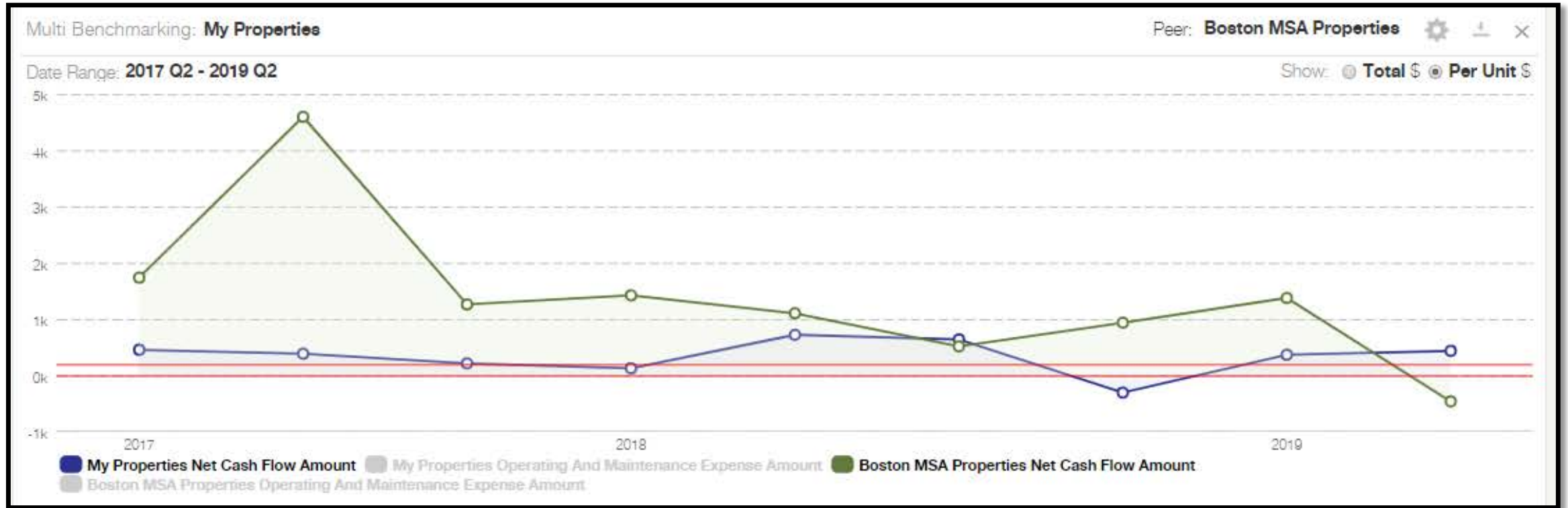
Customize watchlist to reflect up to 5 performance indicators for entire portfolio or portfolio segments.

Watchlist: <b>Cap. Improv. in 2-5 yrs</b>					
Date Range: <b>2019 Q2</b>					
Properties ▲	Vacancy as % of GPR / property	Operating Expense as % of GPR less Debt Service	Debt Service Coverage Ratio	Net Cash Flow as % GPI	Collection Rate
210 Broadway	2.75%	285%	(0.07)	(6.89%)	100%
Broadway I	3.53%	74%	2.70	15%	100%
Broadway II	0.00%	68%	3.41	28%	100%
Chelsea Homes I, LP	2.18%	85%	1.57	3.93%	100%
Portfolio	2.36%	87%	1.46	5.99%	100%
<div><div></div> high watch <div></div> medium watch <div></div> low watch</div>					

**Monitoring properties with capital improvements scheduled in 2-5 years.**

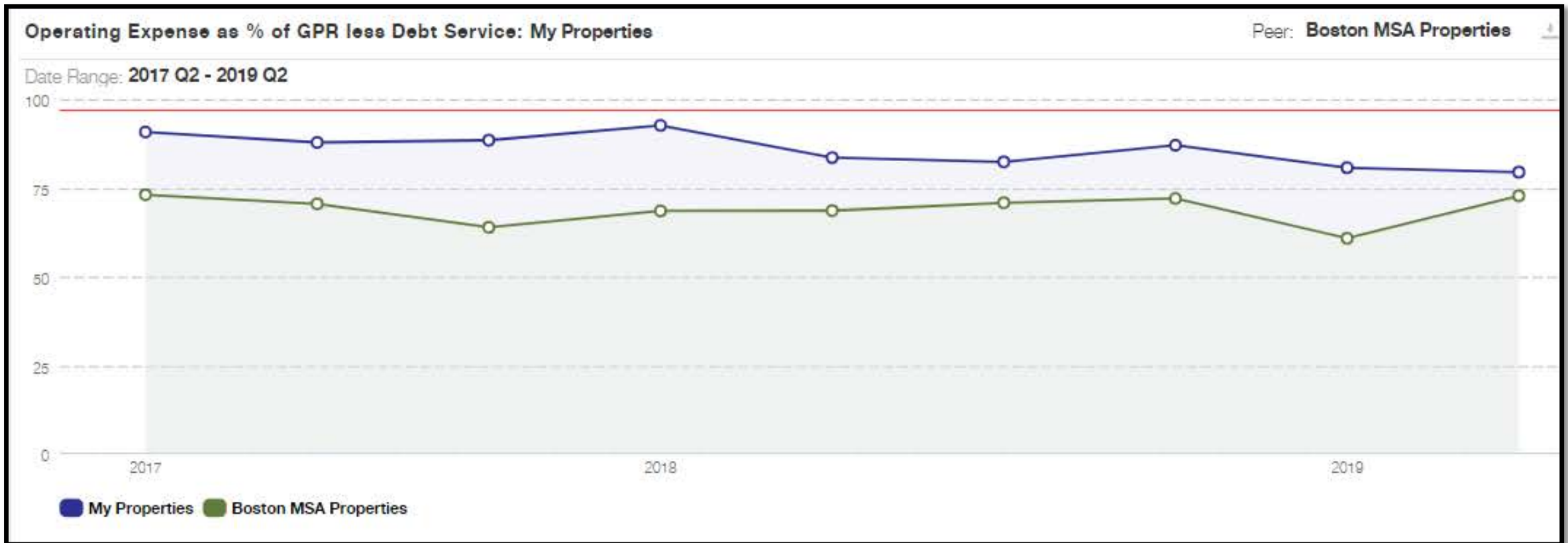
# Portfolio Performance – Data Benchmarking

Benchmark portfolio / portfolio segment performance data against customized peer groups.



**Monitoring portfolio's net cash flow against properties of other NWOs in the Boston area.**

# Benchmarking continued



Monitoring portfolio's net cash flow against properties of other NWOs in the Boston area.

# Data Trending

Trend portfolio performance data over customized date range.

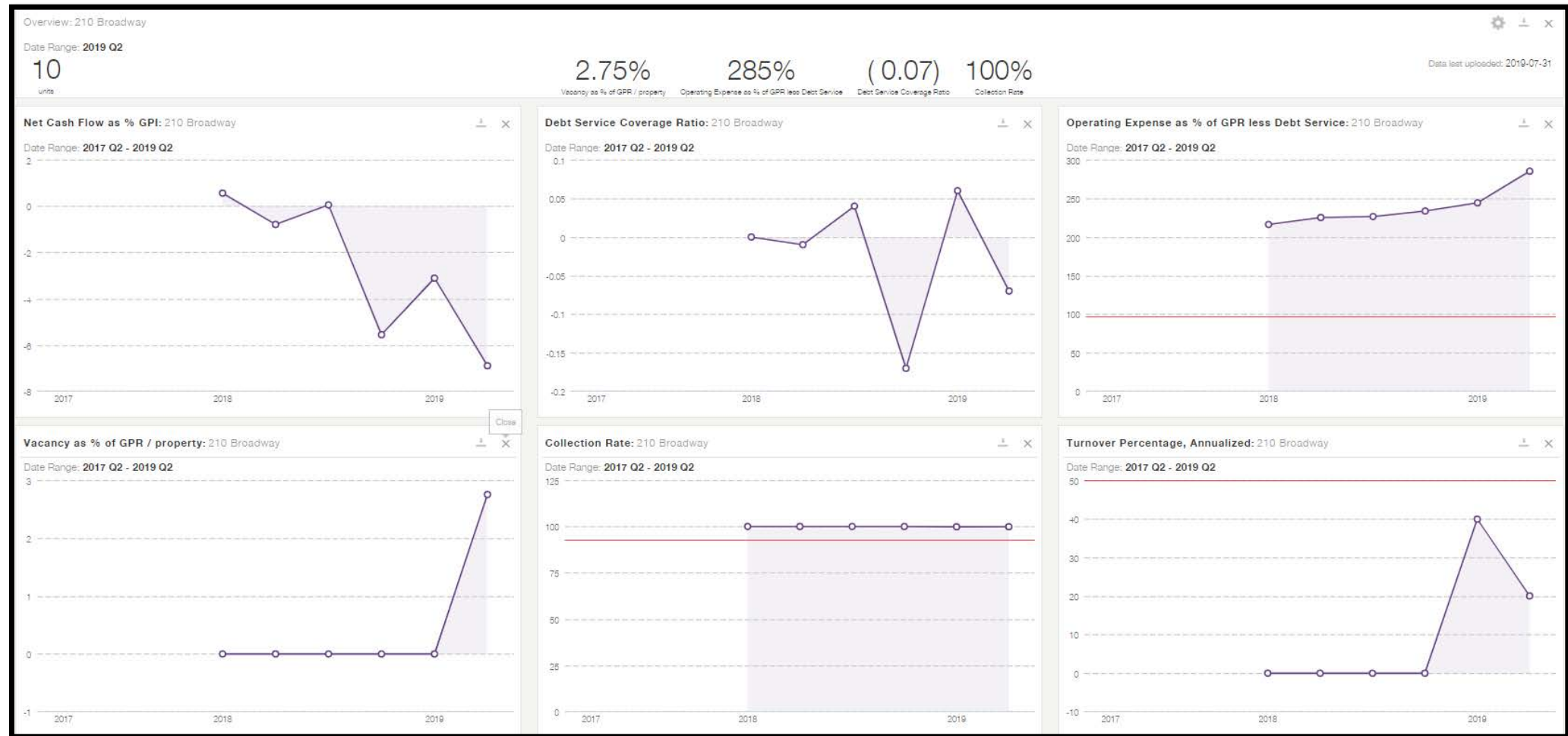


**Monitoring portfolio's Turnover percentage, as prioritized in TND's Asset Management Plan.**

# Poll Question

# Diving Deep: Property-Specific Monitoring

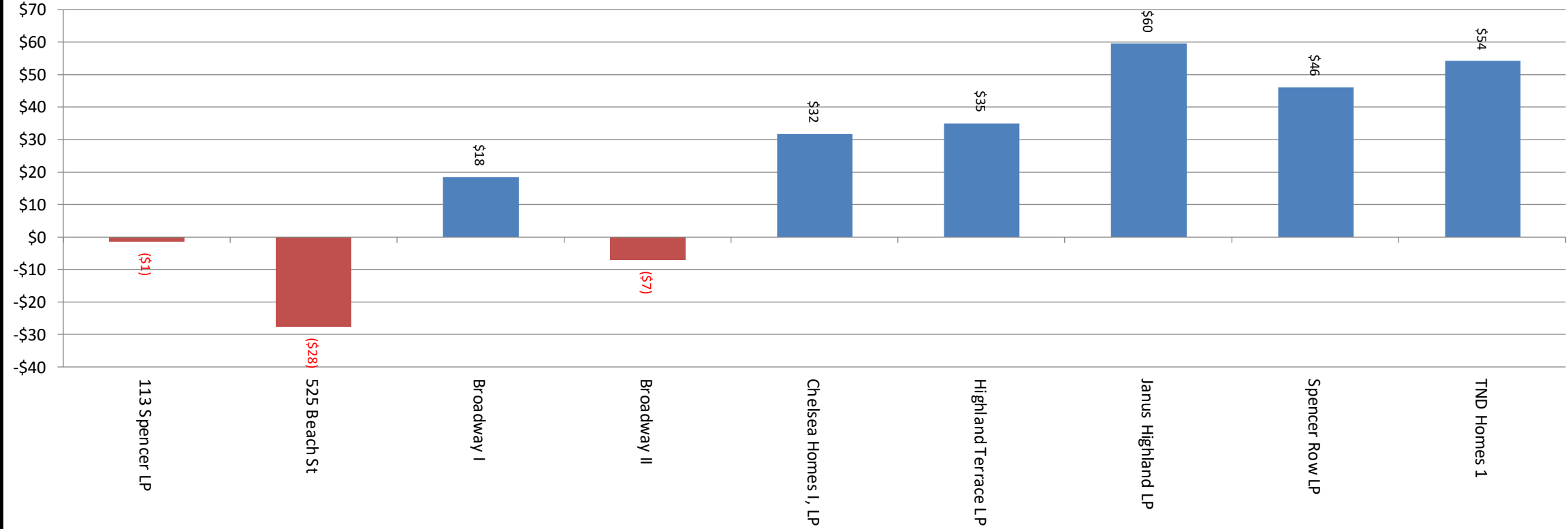
## Property: 210 Broadway Street





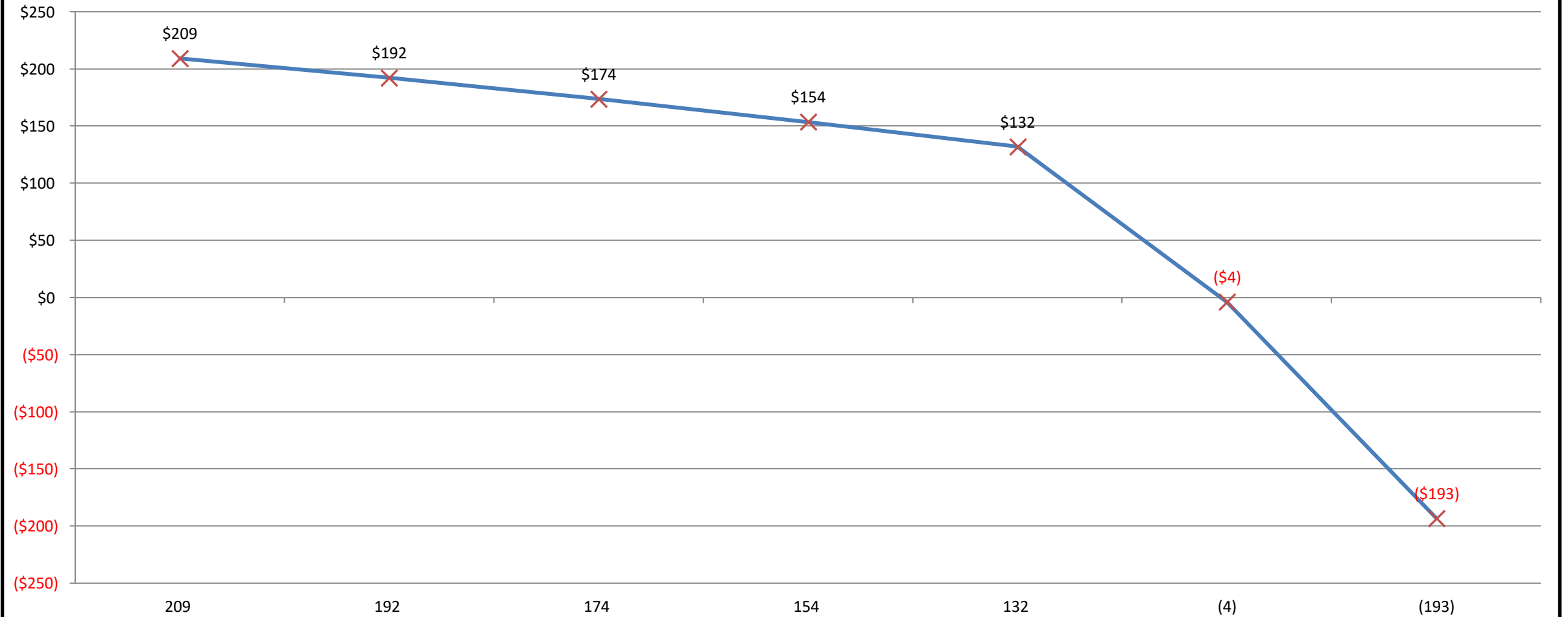
# Portfolio Sustainability Tool

Current Annualized CF (000's)  
*All Properties*

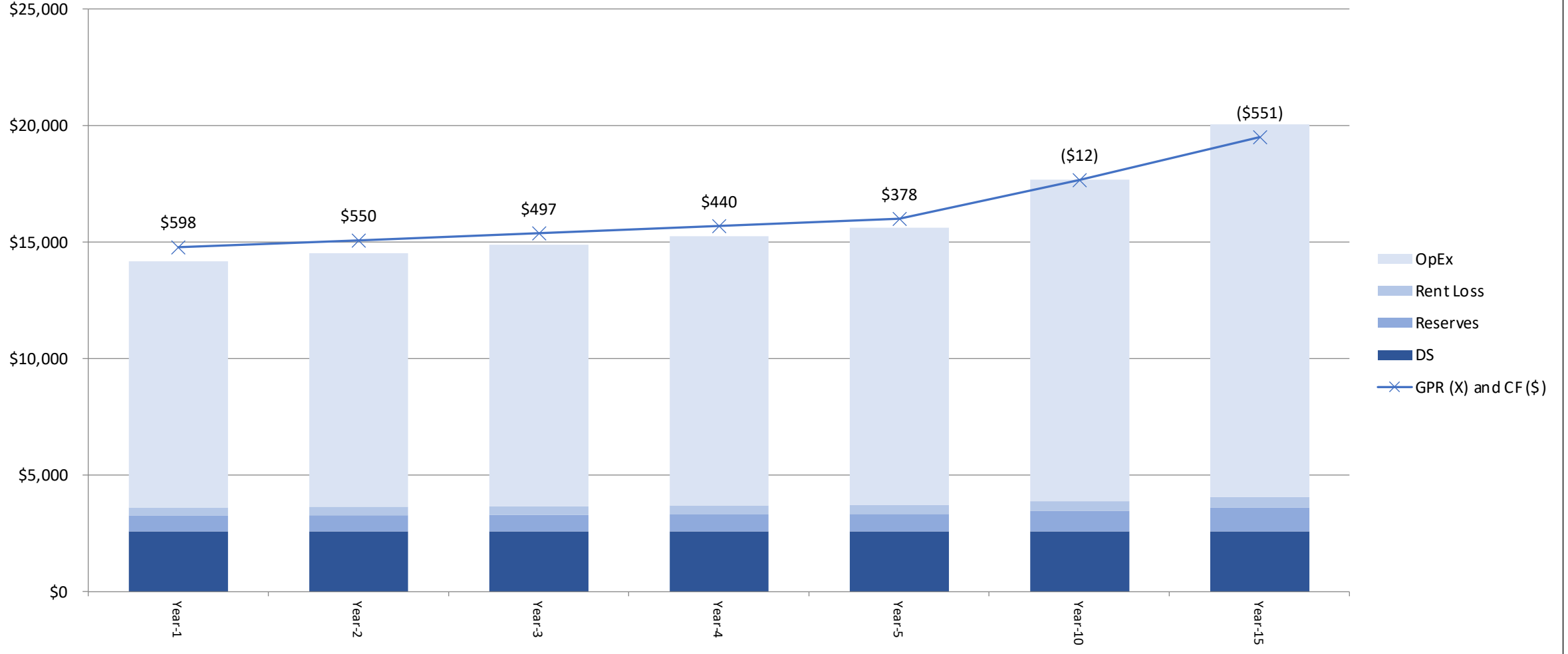


## Trended Aggregate CF (000's)

*All Properties 15 years*



## Inflation-Impacted Cash Flow



# MFInsights

## Positives

- Portfolio wide picture and
- Property detail
- Strong graphic interface for
  - Trending
  - Benchmarking
- Captures big picture
- **Free for NeighborWorks groups – and considering making available to others...**

## Negatives

- No budget comparison
- Cash Flow 'theoretical' because not tied to waterfalls.
- Adding platform
- Quarterly (monthly???)
- Combines financial and nonfinancial sources.

# Poll Question

# CASE STUDY

## Expanding the Power of the NeighborWorks Multifamily Indicator (MFI) System

Presented by Len Tatem, Principal Tatem Consulting LLC

# Building on Existing Work

## EXCEL TEMPLATE ADAPTION

- One of the many benefits of the MFI system is that it provides a standard template for delivering results. This means that we can reuse the Excel template version of the data for other purposes.

## BOARD OVERSIGHT

- Amongst the numerous responsibilities the asset manager is keeping the Board Committee informed on the following:
  - the results of operations for the properties
  - reputational risk
  - ability to deliver fees to the parent organization

# CASE STUDY INTRODUCTION

## CASE STUDY SCENARIO

- As everyone knows the impact of the worldwide pandemic created “stress” on businesses and individuals.
- As the stewards of results for the portfolio, the asset manager needed to assess the “stress” that this pandemic created for each of the properties and the portfolio as a whole. This includes challenges to the delivery of service.
- For residential portfolios this required a sensitivity analysis of changes to the rental stream. A magnified focus on the resident paid portion of the rent was key.

## ASSET MANAGEMENT PANDEMIC TASKS

- There were a couple of tasks that were necessary to assess the impact of the crisis on the properties:
  - sensitivity analysis on the rate of collection or discounting on the tenant portion of the rent
  - tracking the actual collections of the rent
- These were two of the three items that needed to determine the impact of loss rent payments.
- Many groups then created a property-by-property, tenant-by-tenant analysis to track receivables, payment agreements and sources made available by the CARES Act and State and Local resources. This was a third step.



# CASE STUDY

## EXCEL TEMPLATE ADAPTION

- By using the MFI template for the period ending December 31, 2019, we were able to forecast what the impact on the results of operations for the prior year using different discounting assumptions.
- This technique of using history was the quickest way to project the impact on the tenant share. We could forecast the portfolio later.
- This method also allowed asset management to address Board concerns about the rental payment impact on the operations. Using history, we reduced the amount of discussion (and variables) for questions on both property/portfolio and organizational stability from the Board.
- The template established a single worksheet cell to discount the resident share. We did this since we had no indication that subsidy sources would change (property management company was consulted in this decision as well).

# CASE STUDY

## EXCEL TEMPLATE ADAPTION

- At the onset of the pandemic, CHAM presented an excellent webinar regarding the need for sensitivity analysis. As was noted in this presentation, many folks were discounting the tenant share of rent at the 50 and 40 percent levels. This was a logical place to start.
- As we tracked the arrearages (weekly) for every property we noted that the CARES Act benefits such as the \$1,200 check as well as the unemployment benefit increase of \$600 per month helped keep many households stable.
- As time elapsed, we realized that this discounting could be substantially reduced and therefore we change the percentage to be closer to the actual exposure for the portfolio. (This was determined to be between 20 and 30 percent.) This provided a cushion for the actions needed by asset management.

# MFI TEMPLATE MODIFIED

Units:	48	10	30	24	5	86	32	41	39	32	52	34
	Property 1	Property 2	Property 3	Property 4	Property 5	Property 6	Property 7	Property 8	Property 9	Property 10	Property 11	Property 12
Gross Potential Rent - Residential	\$679,117	\$133,246	\$372,692	\$301,503	\$72,375	\$1,068,430	\$401,278	\$386,191	\$183,972	\$224,859	\$442,224	\$302,464
Gross Potential Rent - Subsidy	\$229,927	\$17,921	\$180,875	\$32,186	\$0	\$276,238	\$229,927	\$375,290	\$499,642	\$407,724	\$406,192	\$448,008
Rent Discounting/Arrearage (Tenant Portion) 40%	\$271,647	\$53,298	\$149,077	\$120,601	\$28,950	\$427,372	\$160,511	\$154,476	\$73,589	\$89,944	\$176,890	\$120,986
Other income	\$21,797	\$862	\$7,068	\$2,592	\$2,031	\$12,822	\$13,494	\$24,240	\$427	\$20,409	\$14,571	\$14,040
Concessions / Loss to Lease	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Collection Loss	\$6,334	\$0	\$0	\$2,640	\$0	\$0	\$324	\$239	\$0	\$2,602	\$1,182	\$0
Vacancy Loss - Residential	\$9,107	\$1,301	\$22,032	\$12,022	\$0	\$17,351	\$33,913	\$1,301	\$22,632	\$8,197	\$17,595	\$11,257
<b>Total Operating Expenses</b>	<b>\$611,369</b>	<b>\$130,811</b>	<b>\$401,187</b>	<b>\$225,357</b>	<b>\$42,820</b>	<b>\$1,013,219</b>	<b>\$438,950</b>	<b>\$572,298</b>	<b>\$469,626</b>	<b>\$436,428</b>	<b>\$758,423</b>	<b>\$391,555</b>
Administrative Expense	\$112,906	\$53,182	\$78,724	\$50,855	\$8,692	\$418,382	\$83,923	\$120,083	\$137,008	\$83,795	\$405,365	\$172,961
Maintenance Expense	\$220,578	\$27,965	\$163,429	\$79,533	\$3,081	\$197,244	\$163,966	\$180,099	\$153,564	\$180,452	\$336,464	\$116,141
Property Management Expense	\$41,862	\$7,267	\$27,781	\$17,931	\$10,370	\$72,167	\$30,143	\$34,932	\$22,483	\$30,928	\$42,644	\$37,063
Utilities Expense	\$122,673	\$22,394	\$72,760	\$39,729	\$14,036	\$164,630	\$80,720	\$129,763	\$82,376	\$69,198	\$113,329	\$24,036
Real Estate Taxes Expense	\$68,068	\$14,914	\$31,650	\$19,640	\$3,386	\$93,220	\$56,937	\$58,289	\$41,144	\$42,809	-\$186,164	\$15,396
Insurance Expense	\$45,282	\$5,089	\$26,843	\$17,669	\$3,255	\$67,576	\$23,261	\$49,132	\$33,051	\$29,246	\$46,785	\$25,958
Additional Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Replacement Reserve Deposits	\$37,704	\$0	\$12,700	\$18,772	\$1,620	\$80,353	\$53,684	\$55,596	\$19,356	\$48,613	\$24,084	\$8,500
Resident Services Expense	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Operating Reserve Deposit	\$8,337	\$0	\$0	\$0	\$0	\$1,974	\$0	\$3,933	\$0	\$11,761	\$7,925	\$0
Capital Expenditures	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Asset Management Fee	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Hard Debt Service	\$168,837	\$57,724	\$122,976	\$39,318	\$9,087	\$223,475	\$109,680	\$95,688	\$76,915	\$113,160	\$39,948	\$118,049
<b>Net Cash Flow</b>	<b>-\$182,494</b>	<b>-\$91,105</b>	<b>-\$147,337</b>	<b>-\$82,429</b>	<b>-\$8,071</b>	<b>-\$406,254</b>	<b>-\$152,363</b>	<b>-\$97,810</b>	<b>\$21,923</b>	<b>-\$57,713</b>	<b>-\$163,060</b>	<b>\$114,165</b>
Replacement Reserve Balance	\$97,290	\$0	\$17,823	\$9,504	\$7,386	\$82,325	\$133,714	\$264,367	\$35,649	\$126,411	\$429,365	\$100,000
Operating Reserve Balance	\$350,318	\$34,258	\$287,742	\$0	\$0	\$395,779	\$284,613	\$247,745	\$0	\$531,792	\$792,967	\$0

# CASE STUDY

- The other longer-range question that asset management would need to address was the exposure for the organization to advance money to the properties under the various discounting scenarios.
- For this analysis, we utilized the reported balances for operating and replacement reserves, contributions to the reserve and mortgage payment deferral.
- This allowed asset management to conduct an advance planning exercise for potential solutions. The potential strategies were presented to the Board.
- Preparing this analysis quickly also helped us address the avalanche of questions that came from investors and lenders.
- The chart on the next page was linked to the discounting model to help determine the feasibility of different solutions along with noting the cash situation and the debt service coverage impacts.

**STRESS TEST  
SOLUTIONS CHART**

40% SCENARIO												
Test and/or Potential Remedy	Property 1	Property 2	Property 3	Property 4	Property 5	Property 6	Property 7	Property 8	Property 9	Property 10	Property 11	Property 12
Debt Service Coverage is >1.1	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	PASS	FAIL	FAIL	PASS
Cash is Positive	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	PASS	FAIL	FAIL	PASS
Deficit Covered by Eliminating RR Contribution	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	PASS	PASS	PASS	PASS	PASS
Deficit Covered by Using Funds From Operating Reserve	PASS	FAIL	PASS	FAIL	FAIL	FAIL	PASS	PASS	PASS	PASS	PASS	PASS
Deficit Covered by Borrowing From Replacement Reserve	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	PASS	PASS	PASS	PASS	PASS
Deficit Covered by Deferring Mortgage Payment	FAIL	FAIL	FAIL	FAIL	PASS	FAIL	FAIL	FAIL	PASS	PASS	FAIL	PASS

# CASE STUDY

## FINAL STEPS

- By preparing this “pass” and “fail” chart for different methodology for mitigating rental loss due to non-payment related to the resident share, we were able to provide the Board with the confidence (and understanding) of the current situation.
- This model is easy to update by using each quarters actual results for each property. We eventually added a forecasting component so that the actual cumulative results could be used in the scenario planning.

# Poll Question

# Thank You!!

**Len Tatem, Principal**

Tatem Consulting LLC

[TatemConsult@att.net](mailto:TatemConsult@att.net)

Office: 919-848-4869

**Harold Nassau, Sr. Director, Asset Management**

NeighborWorks® America

Email: [Hnassau@nw.org](mailto:Hnassau@nw.org)