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Strategic Property Disposition: Building Capital for Growth

Lance Sutherland, Chief Financial Officer, Community Housing Partners (CHP)

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Continuing Professional Education (CPEs) Requirements for CPAs

- Please be sure you **SIGN IN at the beginning and SIGN OUT at the end of every session.** We use the sign-in sheets to verify your participation for CPE credits.
- Please **submit all conference evaluations.** Evaluation links are emailed to registrants daily. Please see the session host (the person monitoring the sign-in sheets) if you prefer a paper evaluation.
- For more information on CPE credits, contact Lindsay Wells at consult.lwells@gmail.com.

Questions

- We will pause during the presentation and again at the end for Q&A.



About Community Housing Partners (CHP)

- Established in 1975
- HQ in Christiansburg, VA

- 3 Business Lines:

- **Real Estate Development**

- ❖ Multi-Family Development
 - ❖ Construction

- **Housing Services**

- ❖ Property Management
 - ❖ Asset Management
 - ❖ Resident Services
 - ❖ Homeownership

- **Energy Solutions**

- ❖ Weatherization
 - ❖ Utilities
 - ❖ Training



- \$600M in consolidated assets
- \$100M in consolidated revenue
- 100+ properties owned and/or managed
- 6.5k+ Rental units owned and/or managed
- Footprint across 6 states in SE and Mid-Atlantic

Poll Question:

- Has your organization dispositioned a multi-family rental property (or properties) in the last 10 years?

Poll Question:

- For what purpose?
 - Improve operational performance
 - Raise capital for current or future real estate pipeline projects
 - Improve balance sheet strength
 - Support growth in new or developing business lines
 - Take advantage of current market trends (seller's market)
 - Other reasons

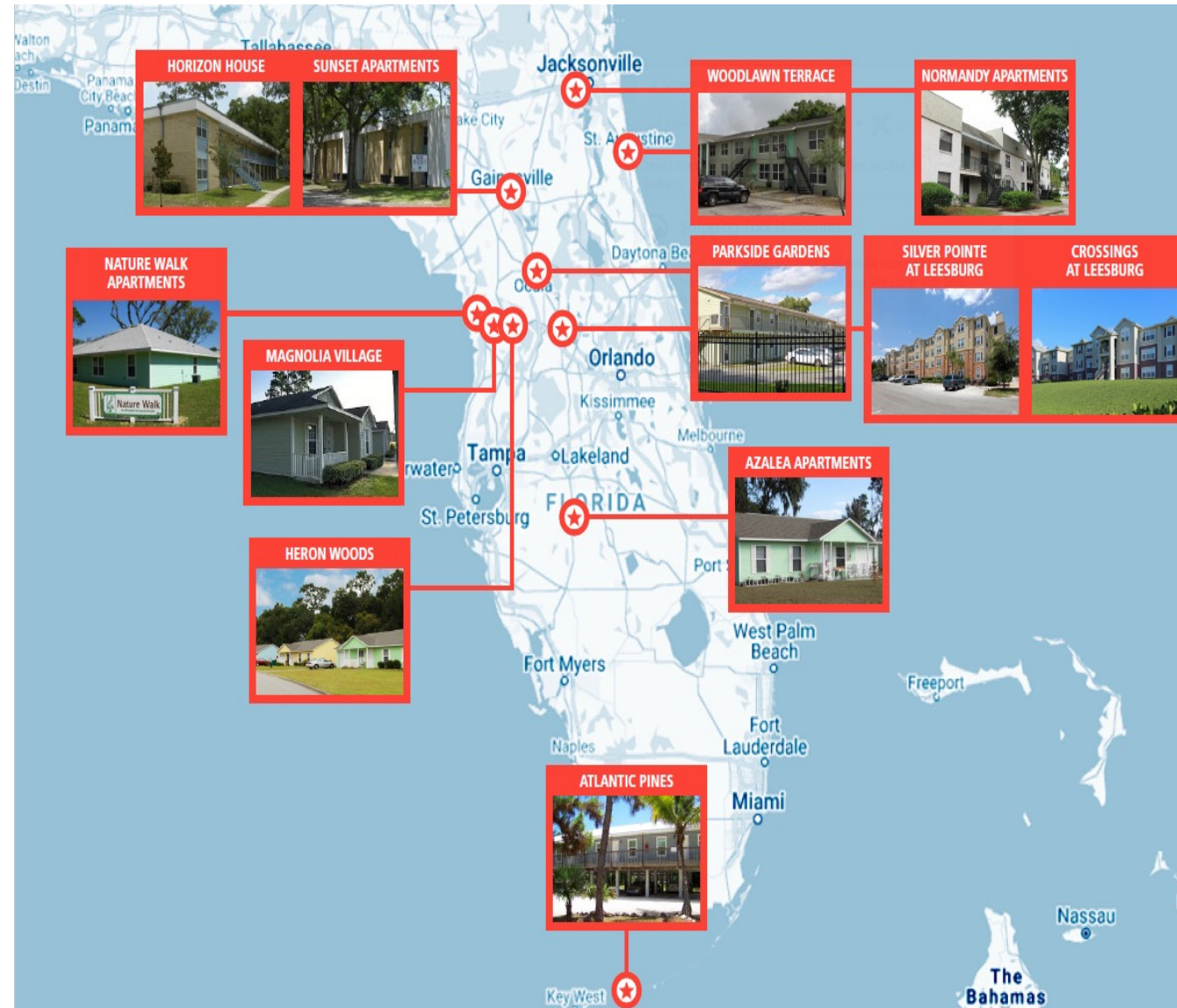
CHP's Strategic Florida Portfolio Disposition

- ✓ Improve operational performance
- ✓ Raise enterprise capital for current and future real estate pipeline projects
- ✓ Improve balance sheet strength
- ✓ Support growth in new or developing business lines
- ✓ Capitalize on current market trends (seller's market)



Florida Portfolio Disposition: Summary

- 12 Properties
- 900 Units
- Property density ranged from 14-168 units
- 10 Localities/markets spread all across state
- Eclectic portfolio acquired over 20+ years
- 2 LIHTC, 5 Project-Based Sec 8 HUD, 4 HOME Only, 1 RD
- \$73M total sales price, \$30M book gain, \$25M net cash
- Book or cash loss taken on some individual projects
- Sold to two buyers: (5 HUD, 7 Non-HUD)
- All units will remain affordable due to existing and continued financing and other subsidy sources
- New owners planning LIHTC rehab on most projects = better home for residents
- Brought to market Q3 2020
- Under contract Q1 2021
- Sales executed Q3 2021 – Q2 2022
- One 40-unit property under contract but not yet closed (RD property, anticipated Q4 2022 sale)



Improved Operational Performance

- Primary driver behind decision
- Cash flow as a portfolio consistently underperformed
- Aging assets needing mod-major rehab = higher maintenance costs
- Limited paths for recapitalization as the current owner
- Higher insurance claims and premiums
- Ongoing property management challenges
- 80/20 Rule (Pareto Principle)





Raise Enterprise Level Capital: Current/Future Real Estate Development Pipeline

- \$25M net cash to CHP from portfolio sale
- \$18M allocated to a new internal affordable housing fund
- Short/medium/long-term preservation and new development needs include:
 - Equity for buy/hold acquisitions to avoid over-leveraging
 - Bridge financing for delays in construction-perm loan conversion, pre-LIHTC investor acquisitions/starts
 - Land banking
 - Predevelopment expense funding
 - Additional long-term sponsor loan funding





Improve Balance Sheet Strength

- \$25M net cash proceeds injection to current assets
- Shed \$20M in current liabilities from CPLTD
- Shifting of \$1.5M in restricted reserves to cash/current assets
- Prior to sale, book net assets of FL portfolio was (\$9M); \$30M boost from net gain on sale
- Significant improvements to current, debt-assets, debt-equity ratios





Support Growth in New or Developing Business Lines

- The Energy Solutions Business Segment at CHP has grown exponentially over last 5 years.
- What traditionally was a mission only, grant funded division providing weatherization services to low-income homeowners has expanded greatly with the emergence of Utility Programs.
- The new programs gave way for an opportunity to transform the business segment into a mission + financial impact contributor, as the energy efficiency utility work still only serves low-income residents but is a privately funded fee for service structure vs grant.



Energy Solutions Revenue Growth:

2018	2022 (Budget)	\$ Growth	% Growth
\$9.4M	\$38.7M	+29.4M	+313%

Utility Programs Revenue Growth:

2018	2022 (Budget)	\$ Growth	% Growth
\$2M	\$14.6M	+12.6M	+611%



Support Growth in New or Developing Business Lines (Cont.)

- With this incredible growth came a substantial increase in working capital needs to support this new level of business operation for the division.

Energy Solutions Average A/R Growth:

2018	2022 (YTD)	\$ Growth	% Growth
\$1.5M	\$4.2M	+2.7M	+172%

Energy Solutions Average Inventory Balance Growth:

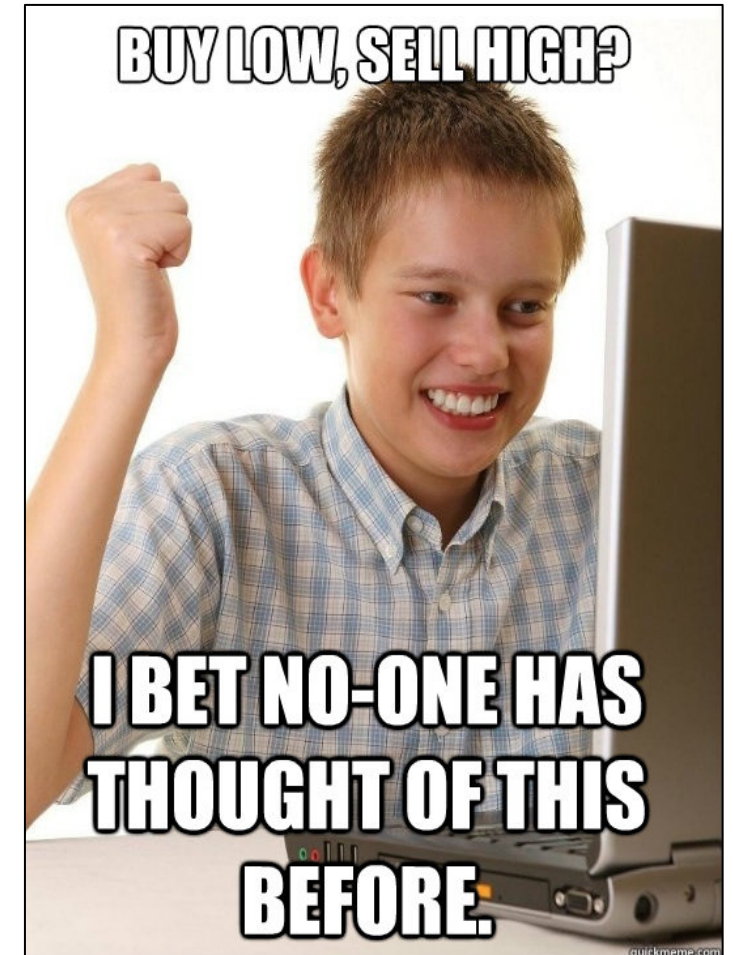
2018	2022 (YTD)	\$ Growth	% Growth
\$600K	\$3.6M	+\$3M	+507%

- Portion of FL portfolio disposition proceeds is being used to bolster working capital for this new \$5-6M need at a lower cost of capital.



Capitalize on Current Market Trends

- CHP is always seeking to acquire existing properties to buy-hold and/or create future LIHTC development pipeline opportunities.
- Market conditions over the last few years have significantly limited buying opportunities, with most seller's seeking sub 4% cap rate valuations.
- CHP is unwilling to overpay simply for the sake of growth to protect the long-term viability of the project and company.
- These conditions did, however present an opportunity and further support to capitalize on the seller favorable conditions and timing with the FL portfolio sale.
- Rent and collection stability seen by potential buyers from the 5 HUD project-based section 8 properties during the COVID-19 pandemic environment further enhanced asset value.



The Process: Senior Leadership Engagement

- This endeavor kicked off with the executive team bringing together heads of Property Management, Asset Management and Finance/Accounting.
- Each leader submitted the “Top 10” properties they would like to sell if they had the option, ranked.
- Leaders were brought together to discuss the list they submitted and for what reason they were included and ranked, from their team’s perspective.
- Factors included:
 - Financial performance
 - Geographic location
 - Asset condition and paths available to rehabilitate
 - Market conditions
 - Staffing challenges
 - Management oversight challenges
 - Environmental challenges
 - Risk Management and liability challenges

The Process: Senior Leadership Engagement

After averaging out all submitted properties and their rankings, a clear theme emerged...

- Florida properties made up 70% of the list and held the top 5.
- Alleviating concerns raised on specific FL properties would ultimately require exiting the entire state/region to effectively resolve.
- Justification, a plan of action and timeline were prepared to present to the CHP Board for approval to move forward with the strategic disposition.
- Once approved, a real estate brokerage firm with a specialty in affordable housing was engaged to help execute the transactions.



Poll Question:

How has or would your board react to the idea of dispositioning a property or group of properties?

- NO WAY – that's counter to our mission no matter how much or long we struggle
- Open to the idea, but show me how it will impact our mission, financial strength, growth, efficiency, etc.
- Show me the \$\$\$'s

The Process: Board Engagement

- Upon reviewing the business case presented, the board was receptive and got behind the FL disposition strategy.
- The executive team was very open over the years regarding the struggles operating in the state, making this proposal less of a surprise and an easier sell.
- Primary discussion surrounded how we can and will ultimately use this as an opportunity to grow and strengthen the company's mission and financial performance over time.



Poll Question:

How do you think your staff would react to announcing the sell of part of your portfolio?

- Leadership has lost it, we're out!
- Tell me more (business case, will there be layoffs outside of property level, plans for the future, etc.)
- It's about time, good riddance!

The Process: Staff Communication and Engagement

- CHP chose to be up front and honest with directly affected property management staff with the disposition plans from an early stage.
- Impacted employees were financially incentivized to remain on staff through sale execution.
- Both buyers conveyed intentions of retaining as many staff as possible once sales occurred.
- CHP chose to fund premiums for gap in health insurance coverage and other benefits for employees retained by buyers created from new hire policies.
- A virtual town hall style meeting was held for all CHP employees to discuss the disposition, the reasoning for it and to ensure understanding that the strategic move was ultimately for growing versus shrinking.

Lessons Learned and Takeaways

- Be objective when evaluating your portfolio for disposition candidates.
- Be willing to admit that another company may be better positioned for success with a property.
- Turn the evaluation process into a recurring exercise.
- Take a holistic view and approach.
- Remember there's likely unrealized market value in your assets, even those that may be underperforming.
- The same principle and process can be applied to evaluating your best properties for disposition when raising capital for growth is your organization's primary driver.
- Be patient during the selling and reinvestment process.
- Be prepared to dig if positioning a long-held property.
- Be vigilant, especially with for-profit buyer of multiple properties.

Poll Question:



Who's excited to have this conference in person again, and in New Orleans to boot!?

Group Discussion

Get together in small groups to discuss how your organization may be able to improve or fuel growth by considering a strategic disposition approach, and how you could start the conversation.



Evaluation Reminder

- Please submit all conference evaluations. Use the electronic evaluation link in your email.
- Contact consult.lwells@gmail.com if you do not receive the link.

CONTACT INFORMATION

Lance Sutherland

lsutherland@chpc2.org

540-469-0670



Lindsay Wells

(CPE credit contact)

consult.lwells@gmail.com

