

Portland Housing Bureau Portfolio Analysis Phase II:

Physical Conditions Assessment

Housing Development Center
March 2011

Agenda

- Overview
- Methodology
- Physical Characteristics of Portfolio
- Capital Needs Survey Findings
- Risk Assessment
- Inspections
- Capital Cost Model
- Key Policy Implications

Overview of Portfolio Analysis

Phase I		Phase II	
Financial	Mission/Policy	Physical Conditions	PSH
Is the portfolio performing as projected by the City?	Does the portfolio serve the people it is intended to serve?	Are the properties in the portfolio constructed and maintained to provide quality housing over a long term period of affordability?	Who is living in designated PSH units?
Is the portfolio financially sustainable?	Does the portfolio serve those people most in need?	What are the immediate capital costs outstanding in the portfolio?	Are the units operating as expected?
			How are partnerships between housing and service providers going?
			What is the range of support provided in the PSH units?



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Goals of Portfolio Analysis

- 1 Inform Policy
- 2 Inform Underwriting
- 3 Recommend Strategic Interventions



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Physical Conditions Assessment Goals

1. To identify projects with high likelihood of needing significant rehabilitation assistance in the next 5 years.
2. To estimate order of magnitude potential capital needs costs for those properties.



Methodology

- 1 Two survey tools sent to property owners:
 - Capital Needs Survey – Self-reported current level of knowledge about properties' capital needs
 - Property Data Check – Static data regarding basic building information
- 2 Survey responses ranked for degree of likelihood of needing rehabilitation.
- 3 Physical inspections completed for top 20 properties.
- 4 Order of magnitude capital cost estimates developed for properties inspected.

Scope

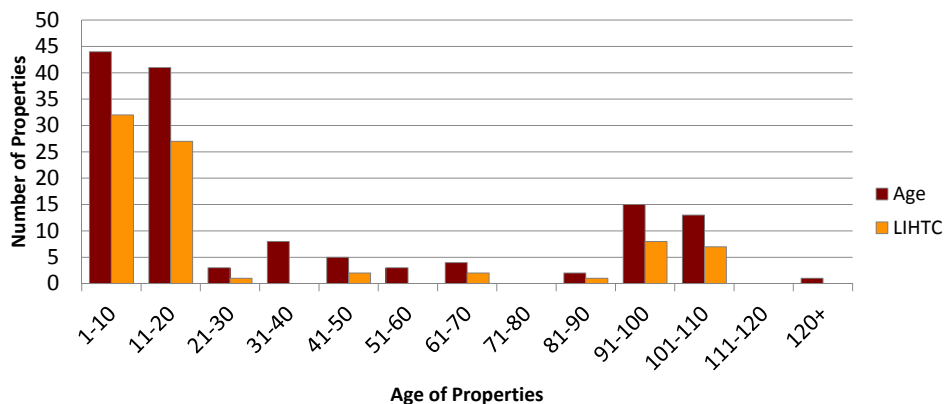
- Properties with 10 or more units.
- Surveys sent to 160 properties, representing 11,000 units.
- Received responses for 140 properties, representing approximately 9,000 units. Average building size of 62 units.
 - 88% response rate for Capital Needs Survey
 - 86% response rate for Property Data Check



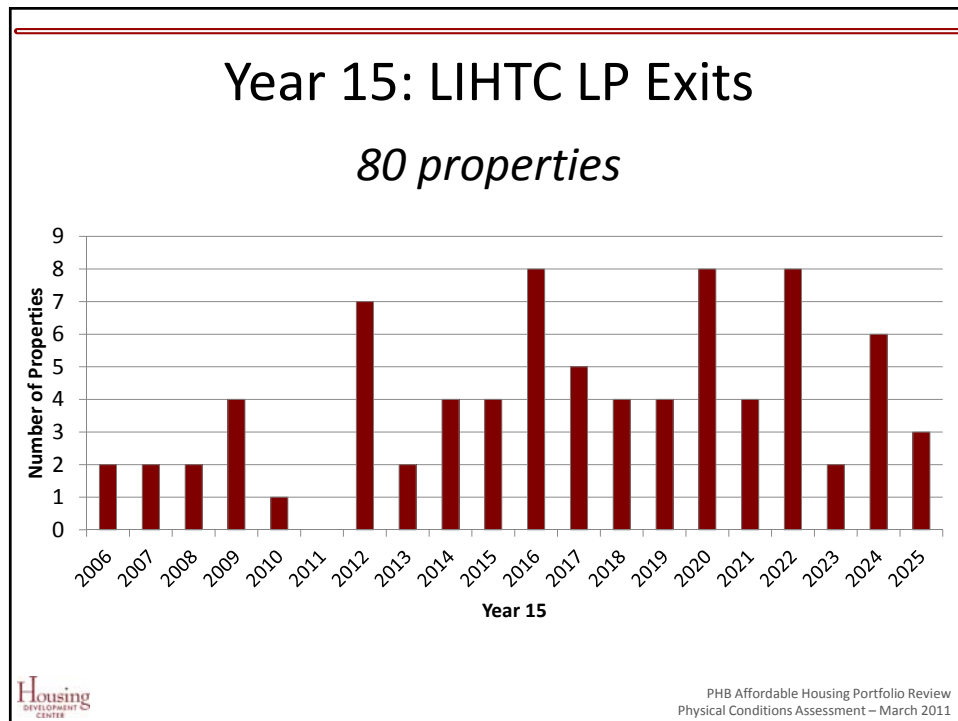
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Age & LIHTC Status of Portfolio

139 properties total / 80 LIHTC



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Risk Factors Related to Physical Condition

- Properties that are likely to have construction defects or are actively deteriorating
- Envelope and rot issues are likeliest
- Common elements of failed building systems
- History of rehabilitation

Risk Factors Identified

→ New Construction and Rehabilitation

Construction type	Wood frame
Foundation type	Slab on grade
Year built	1990-2005, especially prior to 2000
Siding type	EIFS
Presence of individual unit decks	

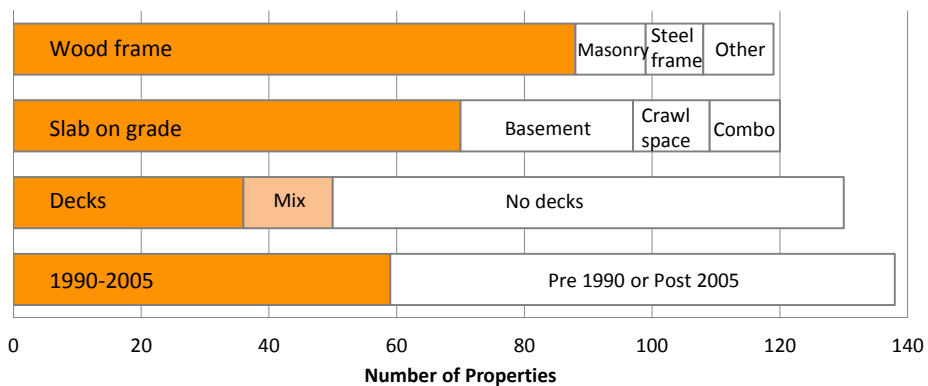
→ Rehabilitation only

Rehabilitation hard cost per unit



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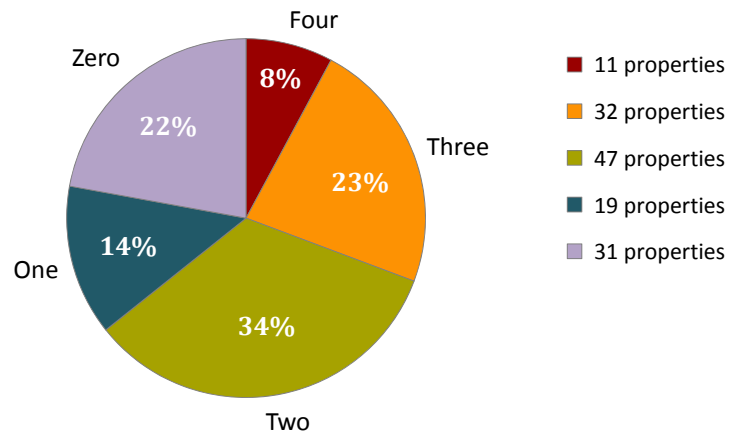
Portfolio by Risk Factors



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Portfolio by Risk Factors per Property

Slab on grade / Wood frame / Decks / Age

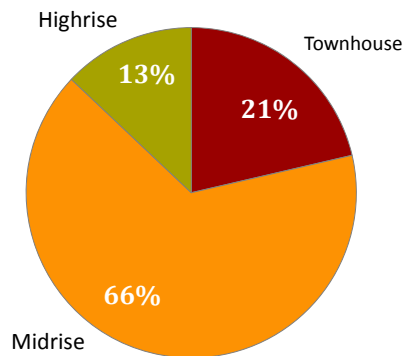
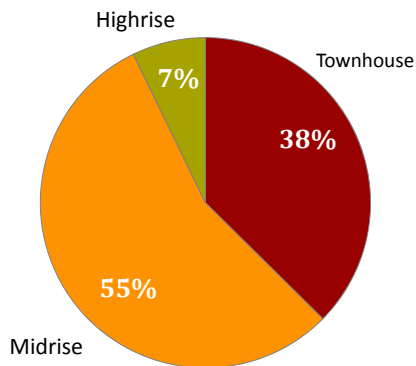


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PHB Portfolio by Building Type

By property (139)

By units (8,629)



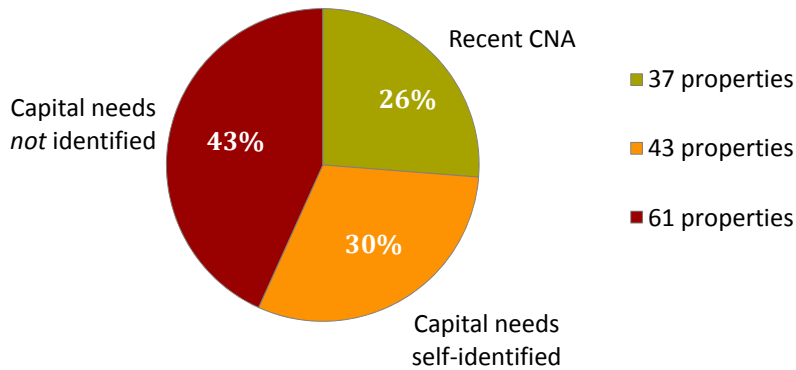
Townhouse 1-2 or 3 stories / Midrise 3-6 stories / Highrise 7+ stories



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Major Capital Needs Identified

141 properties in next 5 years



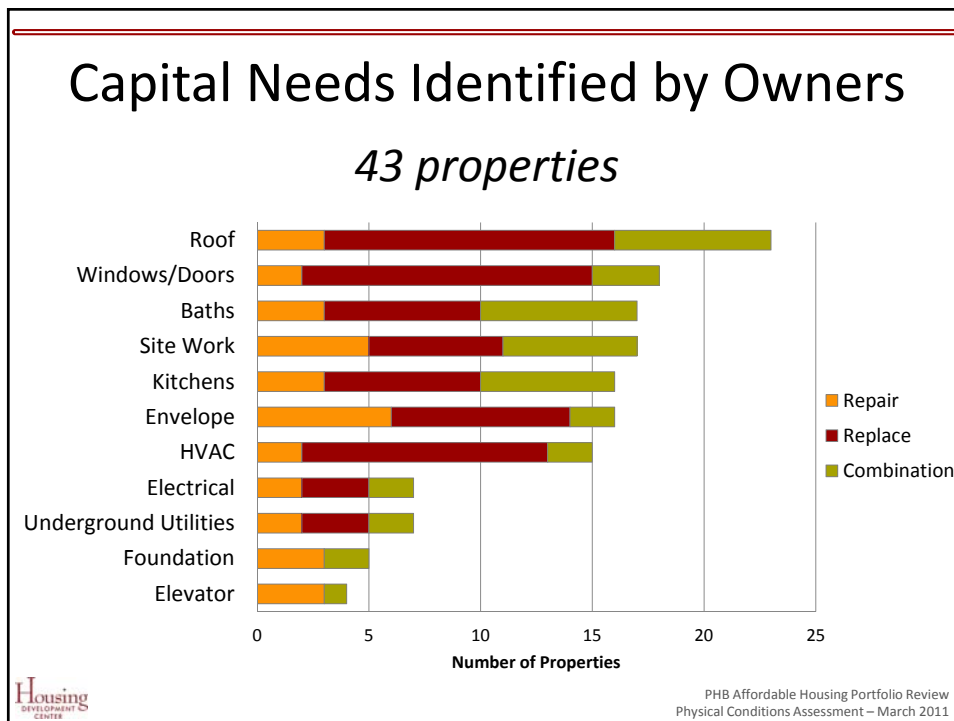
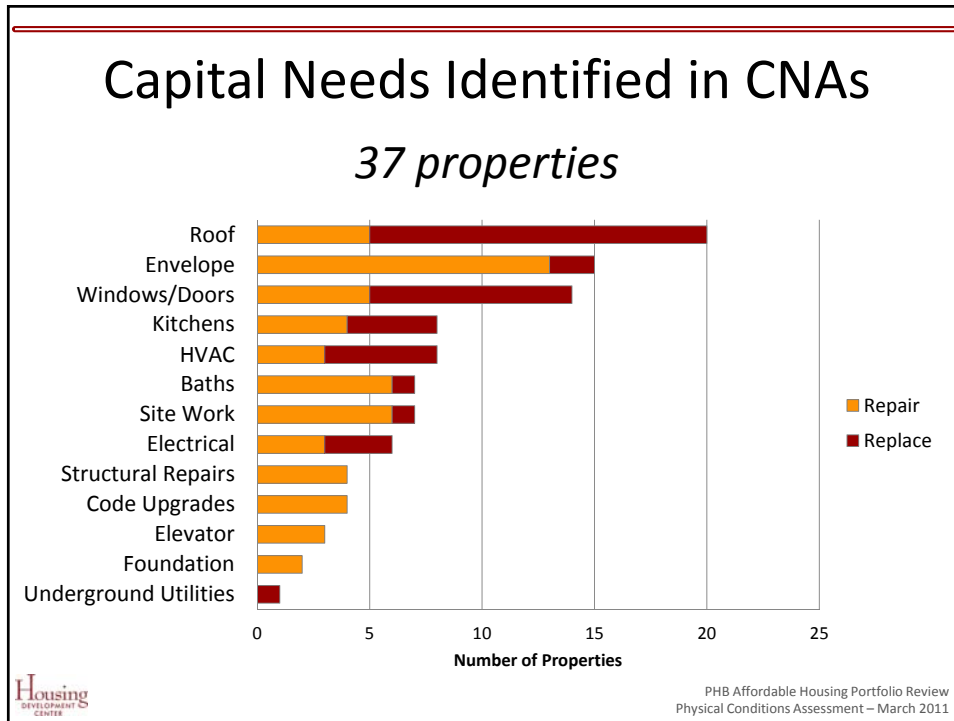
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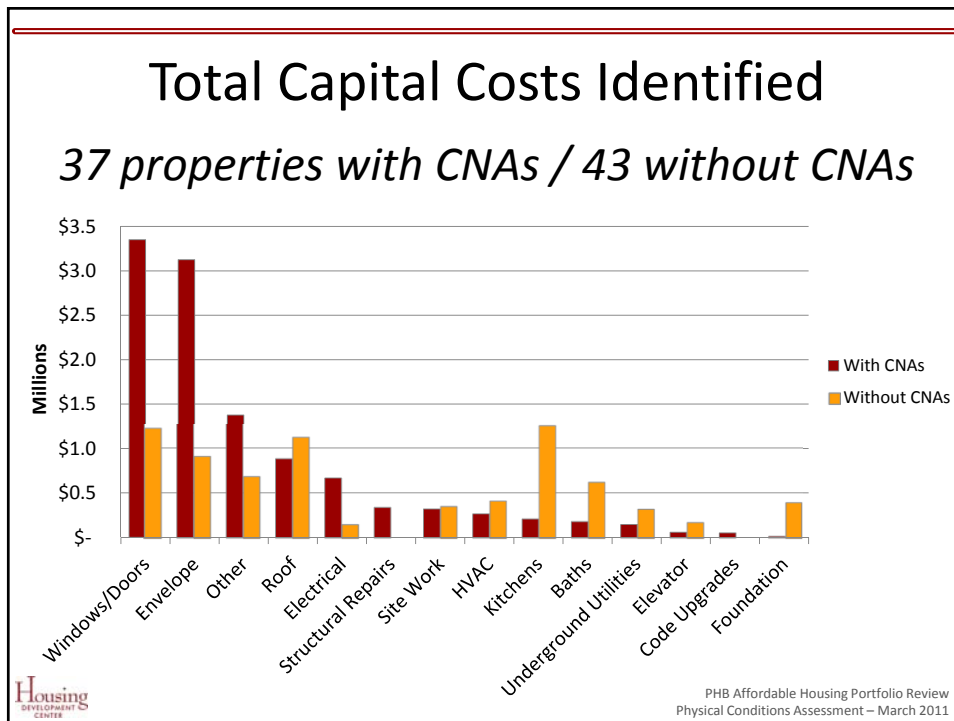
Owners' Reasons for Ordering CNAs

Reason for Ordering CNA	Number of Properties	Percent of CNAs
Routine	16	43%
Financial milestone/Condition of financing	8	22%
Known or suspected problem	6	16%
Other/No answer	4	11%
Acquisition	3	8%
Total	37	100%



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Risk Assessment

Sorted and ranked survey responses by

- Capital needs identified by owners
- Owners' response as to whether operations and reserves will be able to address capital needs
- Static risk factors (slab on grade, wood frame, etc.)
- Reserve balances minus costs identified in survey
- Qualitative owner comments


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Risk Thresholds

Created ranking categories

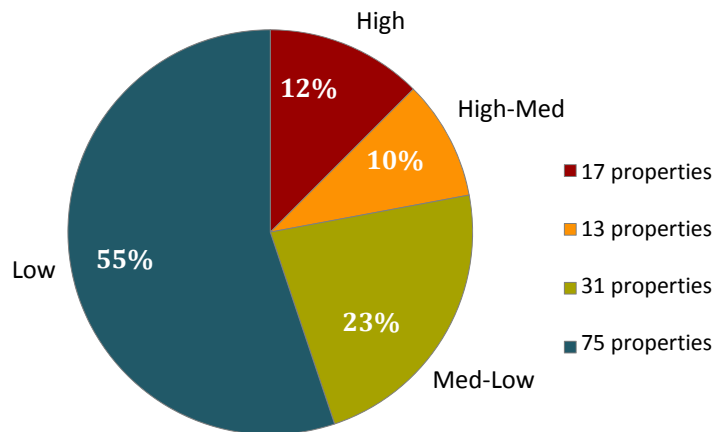
High	Significant identified needs with multiple risk factors, clearly needing work within 5 years
High-Med	Possibility of needing rehabilitation assistance in next 5 years, few risk factors
Med-Low	Active capital plan and sufficient reserves to address future identified (minimal) needs
Low	Newer construction or recent substantial rehabilitation with sufficient reserves



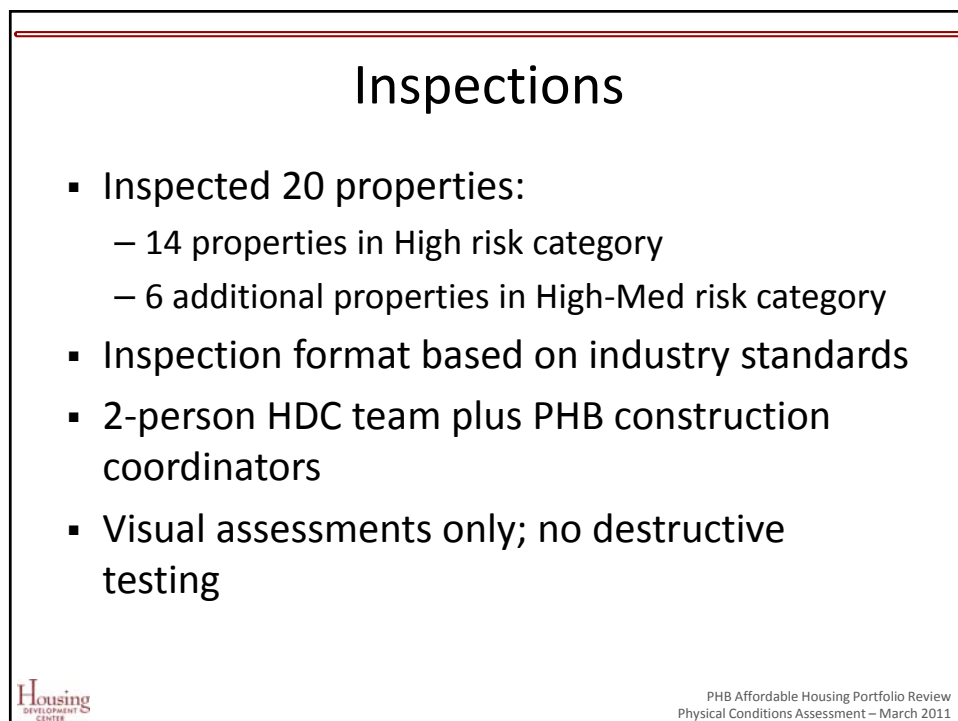
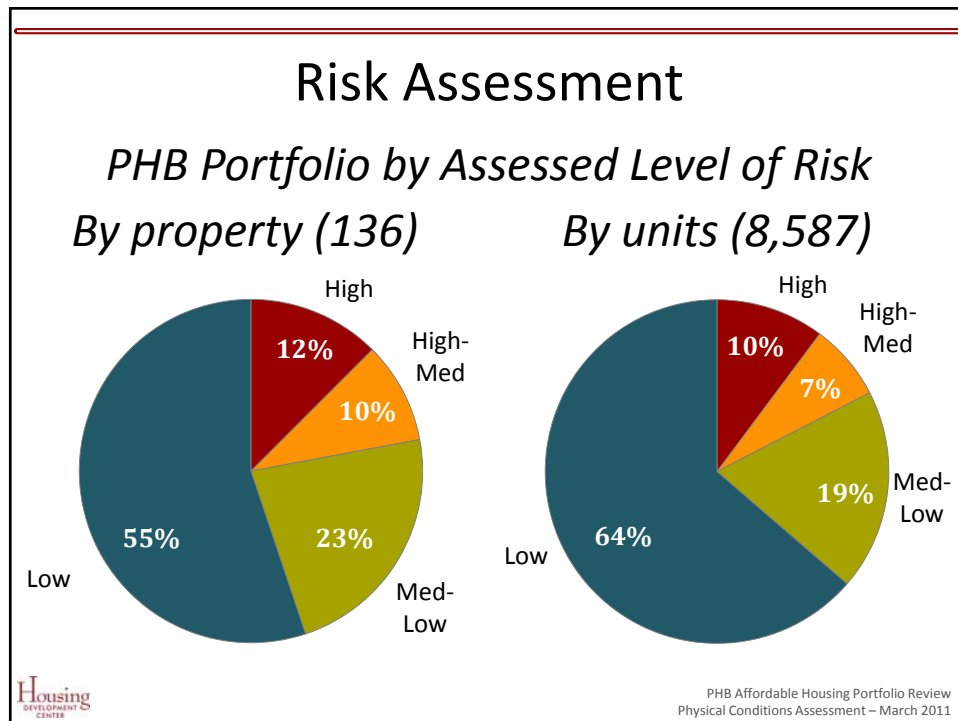
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Risk Assessment

PHB Portfolio by Assessed Level of Risk



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Defects Observed During Inspections

Observed Defect	% Observed (20)
1 Deck or porch flashing issues	80%
2 Obvious envelope issues	60%
3 Window or door defects over 25%	60%
4 Roof defects over 25%	60%
5 Earth contact over 25%	50%
6 Gutters or downspout issues	50%
7 Negative drainage over 25%	40%
8 Vegetation too close, sprinklers	35%
9 Mold or stains, interior or attic	30%

Capital Cost Model

- Unit costs from HDC, LMC, and Walsh
- Costs based on 3 building types:
 - Townhome, Midrise & Highrise
- Inputs:
 - Building type
 - # of units
 - Site sf
 - Building sf
 - Capital needs observed during inspections
- Adjustments for site-specific factors
- 20% estimating contingency

Capital Cost Model

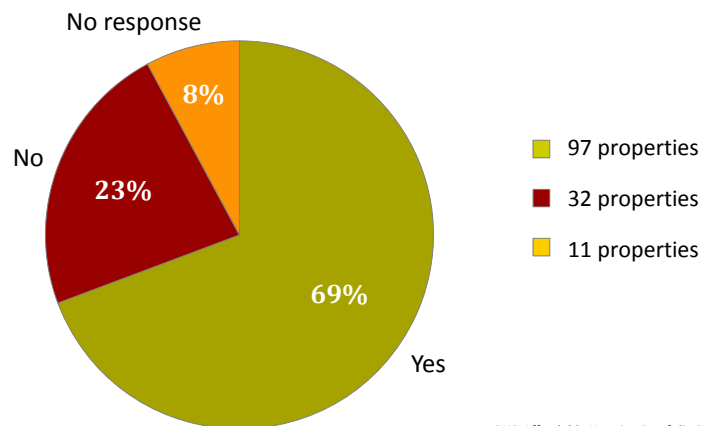
- \$25 million in estimated costs
- 20 properties – 1,063 units
- Cost model does not include:
 - Soft costs
 - Upgrades
 - Wider rehab scope



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Owners' Reserve Assessments

Response as to Whether Property will be able to Fund Capital Needs in Next Five Years



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Assessing Risk & Reserves

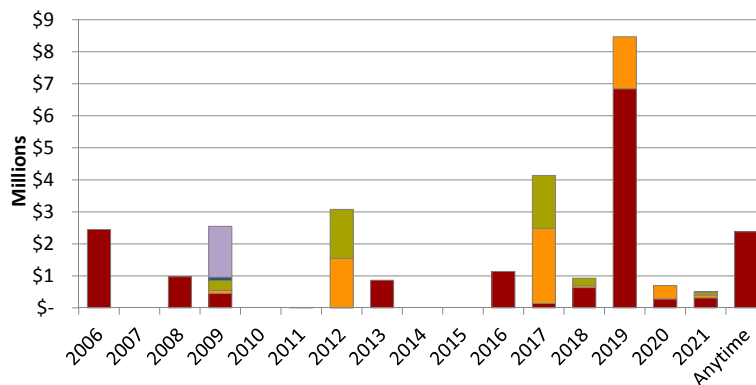
- 36 properties assessed as likely to need assistance
 - 18 were inspected
 - 18 additional indicated inadequate reserves to meet capital needs in next 5 years
- 1,722 units (10-15% percent of PHB portfolio)
- 13 sponsors
- \$30.8 million in hard estimates for building systems, which includes use of existing reserves
- Source of estimates *either*
 - HDC order of magnitude estimate *or*
 - Amount indicated by sponsor in survey



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Order of Magnitude Costs by Year

15 years post-PIS or LIHTC Year 15



Each color within a year represents a different property.
30 properties shown. (Six properties without cost estimates are not shown.)



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Goals of Portfolio Analysis

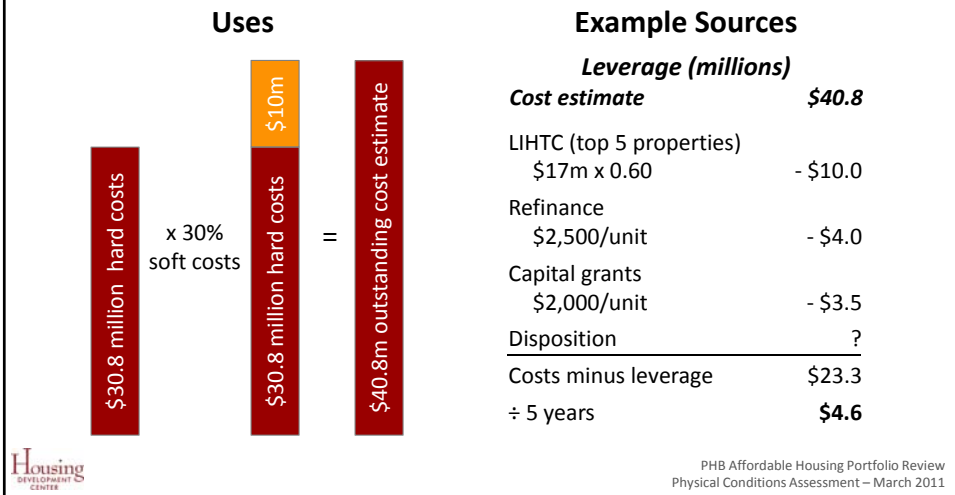
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Key Policy Considerations

- 1 Inform Policy
 - Allocation decisions

Key Policy Considerations

1 Inform Policy



Key Policy Considerations

1 Inform Policy

- Allocation decisions
- Owners' role



Key Policy Considerations

1 Inform Policy

- Allocation decisions
- Owners' role
- Investor climate



Underwriting Recommendations

2 Inform Underwriting

- Ensure preventative maintenance budgets
 - Population-specific needs
 - Complex design
- Reserves vs. recapitalization as strategy
 - \$350 PUPY is not adequate to year 30
 - Plan for reinvestment

Strategic Interventions

3

Recommend Strategic Interventions

Preventative Maintenance

- Clean the gutters!
- Assure downspout connections
- Clean drain grills on a regular basis
- Point sprinkler heads away from buildings
- Trim/remove plantings closer than 2 feet
- Rake away debris touching siding/framing
- Maintain caulking around windows
- Power wash siding on a regular basis
- Clear gable ends & soffits vents
- Treat moss-prone areas of roof
- Clear bathroom vent filters & grills
- Clear range hood filters & vent lines



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Strategic Interventions

3

Recommend Strategic Interventions

Projects Going Forward

- Close coordination with architect and civil engineer concerning elevations and grade
- Create simple designs
 - Cheaper to build and easier to maintain
 - Avoid excessive cutouts, roof planes, and complicated footprints
 - Use interesting surface detailing instead
- Design for our climate and location
 - Large overhangs
 - Use inexpensive and self-draining siding systems
 - Avoid complicated or problem-prone siding systems (EIFS)



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Strategic Interventions

3

Recommend Strategic Interventions

Projects Going Forward

- Avoid lightweight concrete floors on decks and landings; consider no decks or, at a minimum, using composite decking
- Assure that make-up air is specified in tight energy efficient construction
- Consider alternative heating systems instead of cadets, such as electric cove radiant heaters, hydronic, HRV, and mini-splits

Conclusions

- Facilities manager mentality
Planning for major milestones
- Protection of asset
Aggressive preventative maintenance
- Simple building design
- Ample replacement reserves & maintenance budgets