Notes on Housing Development Center's

Meyer Sustaining Portfolios Strategy Data Analysis

Updated May 2017

Introduction

This note provides context for a PowerPoint document titled *Meyer Preservation Convening - Data Analysis Presentation* and an Excel file titled *Meyer Preservation Convening - Spreadsheet*. The Excel file contains the data that informed the analysis presented in the PowerPoint document. Both documents can be found on the HDC website (www.housingdevelopmentcenter.org/resources/other/).

Background

The data in the Excel document comes from 19 Oregon affordable housing organizations that participated in the Meyer Memorial Trust Sustaining Portfolios Strategy (SPS) initiative. Sustaining Portfolios Strategy is a multi-year initiative that provides funds for 19 affordable housing owners (10 in Cohort One, nine in Cohort Two) to receive Housing Development Center (HDC) assistance with developing and implementing portfolio sustainability plans. As part of its work in this program, HDC collected information on the financial health, operating performance, and property details for the properties owned by participating organizations—specifically, data was collected on multifamily affordable housing properties put in service prior to 2012.

The PowerPoint presentation is a deep dive into the property data collected from SPS participants. With generous funding from the JPMorgan Chase Foundation last year and Meyer Memorial Trust this year, HDC was able to analyze the data in aggregate, examining trends and relationships, and summarize the findings for the benefit of the industry as a whole. The PowerPoint slides that accompany this note have been combined from several presentations given in Spring, 2017.

Data Included in the Excel File

The Excel file contains the following information for 241 properties (9,816 units) included in the portfolios of the 19 organizations in the SPS program. Data is both quantitative and qualitative and is grouped by category:

- Total units at the property
- County
- Participating jurisdiction
- Three-tier location (Rural, Portland MSA, or Other Metro Area)
- PDX tri-County Area (0= no, 1= yes)
- Funding types
  - To create four mutually exclusive funding categories when many properties utilize multiple funding sources, we used the following designations: LIHTC = 4% & 9%,

including post-investor exit; LIHTC > HOME; RD > LIHTC; RD > HOME; RD > HUD; HUD > LIHTC; HUD > HOME

- Age since original construction
- Age since most recent rehab or construction
- Number of units per buildings on the property
- Capital needs per unit within the next 10 years ($)
- Bedroom information
  - Number of single room occupancy (SRO) units
  - Number of studio units
  - Number of 1-bedroom units
  - Number of 2-bedroom units
  - Number of 3-bedroom units
  - Number of 4-or-more-bedroom units
  - Bedroom density (a weighted average of SROs, studios, 1BR, 2BR, 3BR, and 4+BR units, assuming studios are 0.75 bedrooms and SROs are 0.5 bedrooms)
- Total Number of Units and Percent of Units with Project-Based Rental Assistance
- Rent restriction information
  - Percent of units with required rent restrictions of less than 30% AMI
  - Percent of units with required rent restrictions of 31%-50% AMI
  - Percent of units with required rent restrictions of 51%-60% AMI
  - Percent of units with required rent restrictions over 60% AMI
  - Weighted average rent restriction [(0.3 x percent units ≤30% AMI) + (0.5 x percent units 31%-50% AMI) + (0.6 x percent units 51%-60% AMI) + (0.8 x percent units ≥60% AMI)]
- Set-aside information
  - Percent of units with *family* set-asides
  - Percent of units with *elderly* set-asides
  - Percent of units with *other* set-asides
  - Percent of units with *alcohol-and-drug-free* set-asides
  - Percent of units with *chronically mentally ill* set-asides
  - Percent of units with *previously homeless* set-asides
  - Percent of units with *developmentally disabled* set-asides
  - Percent of units with *special needs* set-asides (sum of alcohol-and-drug-free, chronically mentally ill, previously homeless, and developmentally disabled)
- 2014 or 2015 financial information
  - Effective Gross Income per unit
  - Economic occupancy
  - Operating Cost Categories, per unit
  - Expense-to-Revenue ratio (total operating expenses as a percent of revenue)
  - Net Operating Income per unit
  - Property has hard debt (yes/no)
  - Hard Debt per unit
  - Net cash flow per unit
  - Hard Debt Coverage Ratio (net operating income over total hard debt payments)
  - Total debt per unit

Properties Included in the Excel File

HDC excluded properties that were placed in service later than 2012, those that were currently undergoing rehabilitation in 2015/2016, and properties for which financial information was considered inadequate.

Data Sources for the Excel File

HDC looked at either three or four years of financial information, sourced from audited property and corporate financial statements, internal dashboards, budgets, and financial statements, as well as bank statements and regulatory filings sent to HUD, RD, or other government lenders. To gather information on the construction and building information for each property, we relied on capital needs assessments (or other property inspections reports), schedules of real estate owned, corporate audits, and internal reports. To gather information on the compliance requirements, set-asides, and affordability restrictions of each property, we relied on compliance documents, regulatory filings, and staff. Staff institutional knowledge filled in any gaps in reporting.

Data for each property was submitted to HDC. After receiving the information, the data was reviewed a second time to ensure expenses were consistently categorized. Finally, specific questions were prioritized and targeted requests were sent out to each organization to fill in any missing data.

HDC anonymized the data in the Excel file and received permission from all 19 organizations to publish the dataset.

Defining "Underperformers" in the Data Analysis

One of the goals of the data analysis was to determine relationships between financial health and property characteristics. To do this, HDC needed to define a benchmark for financial health that would categorize properties as "OK performers" or "underperformers."

It is important to keep in mind that there are myriad ways to define financial underperformance. In this analysis, a property was defined as an "underperformer" if two of the following three indicators were met for the most recent year the property was analyzed: (1) negative net cash flow, (2) debt coverage of 1.10 or less, (3) an expense-to-revenue ratio of more than 70%.

It is important to note that any method of defining financial performance would result in a different sample of "underperforming properties" and would change the relationships and trends described in this analysis.

Assumptions and Caveats in Both the Excel File and the Data Analysis

Every effort was made to ensure consistency and accuracy in the data collection and categorization. However, inconsistencies in audits, reporting techniques and details available were unavoidable. We aggregated the data into larger categories to avoid issues surrounding how individual organizations may have categorized expenses. In collecting and organizing the information, the following assumptions should be noted:

- For the 10 properties in Cohort 1, financial information is for calendar or fiscal year 2014
- For the nine properties in Cohort 2, financial information is for calendar or fiscal year 2015

- When rent restrictions were given as a range, we chose the maximum restriction.
- Property rent restrictions do not take into consideration project based subsidies
- When a property had 100% economic occupancy but recorded turnover expense for the year, we assumed vacancy loss was missing and put "n/a" in vacancy.
- For unique operating cost line items, such as Manager's Unit, Turnover, Elevator, or Security, if the property is identified as having these costs, but the cost was not separated out in the year analyzed, we recorded $0 and assumed that the cost is included in another line item.
- If a property has not paid real estate taxes in the past three years, we assumed it is not subject to real estate taxes and recorded $0 for these costs.
- If a property had not paid real estate taxes in the past three years, we assumed it was not subject to real estate taxes, and "n/a" was recorded for these costs.
- For properties with related-party debt, we assumed it was structured as soft debt (which is usually the case).
- Commercial income is included in debt coverage ratios
- Bedroom densities are a weighted average of the total number of bedrooms over the total number of units, assuming Studios are 0.75 bedrooms and SROs are 0.5 bedrooms.
- The weighted average rent restriction is calculated as follows:
  - (0.3 x percent units ≤30% AMI) + (0.5 x percent units 31%-50% AMI) + (0.6 x percent units 51%-60% AMI) + (0.8 x percent units ≥60% AMI)

Lastly, the data in Excel file on the HDC website differs from the data used to create the PowerPoint presentation in one important measure. In the downloadable Excel file, repairs and maintenance expenses *exclude* reserve-eligible costs and we show deposits to replacement reserves on their own. However, in the data used to create the PowerPoint presentation, we *included* reserve-eligible costs in repairs and maintenance expenses, and then calculated deposits to reserves *net of withdrawals*. Thus, in the PowerPoint presentation, repairs and maintenance expenses will be higher, and deposits to reserves will be lower, than the statistics presented in the Excel file. Since operating expenses affect net operating income, net cash flow, and debt coverage ratios, these figures will differ in the PowerPoint and the Excel file.

Because most users of the data file are looking for comparisons to their own development and operating proformas, we wanted to display our information using the most common industry methods – with maintenance and repair expenses *excluding* reserve-eligible costs, and deposits to replacement reserves *without* withdrawals.