Housing Assistance Council

HAC

"SHOULD WE DO IT OURSELVES OR HIRE SOMEONE ELSE?" A RURAL PROPERTY MANAGEMENT PLANNING GUIDE

$4.00
November 2000

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ISBN 1-58064-107-5

This report was prepared by Christopher Holden with the assistance of Gregory Betor of the Housing Assistance Council (HAC). The work that provided the basis for this publication was supported by funding under Cooperative Agreement H-21204 CA with the U.S. Department of Housing and Urban Development (HUD). Ndeye Jackson served as Government Technical Representative. The substance and findings of this study are dedicated to the public. HAC is solely responsible for the accuracy of the statements and interpretations contained in this publication and such interpretations do not necessarily reflect the views of the United States Government.

HAC, founded in 1971, is a nonprofit corporation that supports the development of rural low-income housing nationwide. HAC provides technical housing services, seed money loans from a revolving fund, housing program and policy assistance, research and demonstration projects, and training and information services.

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INTRODUCTION

Good property management is essential to the success of affordable rental projects. Nonprofit housing developers in rural areas face many unique challenges managing their properties. In some cases, hiring a professional management company is the most efficient approach, while in other cases the nonprofit project owner can best meet its goals and the needs of its tenants by managing the property itself. This manual does not provide a detailed guide to property management, but instead introduces rural nonprofit organizations to the issues they need to consider when making decisions about whether to manage their own properties or hire professional management companies. Manuals on how to manage rental properties already exist,[1] but they do not reflect many of the concerns and challenges faced by rural nonprofit groups. These organizations often have few staff and limited capacity. They often own small projects with few units, or projects located in remote places, and often have jurisdictions encompassing large or inaccessible areas of open country. This manual, then, is intended to provide guidance to rural nonprofit housing groups so they can make informed decisions about how best to manage the rental projects they have worked so hard to develop.

Rural Property Management Challenges

Rural nonprofit organizations considering how best to manage their affordable rental projects must address a number of challenges not faced by their urban counterparts. Generally, the management challenges stem from the preponderance of small projects in their portfolios and/or the rural nature of the places where these projects are located.

Small projects are more difficult to manage primarily because of cash flow considerations. Because of the limited number of rental units (between 20 and 50) typical of rural rental projects management operations are hampered by diseconomies of scale.[2] Most of the day-to-day management costs of a project are covered by operating income generated from rents. Fewer units means less project income. On the one hand, until a rural nonprofit housing group develops enough units, its management operation may not break even. On the other hand, if the group's rental housing portfolio is too small, third-party management companies will be reluctant to take on project management because of the limited cash flow. Finally, if a group owns a few small projects, especially if they are widely scattered, it may not be

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[1]A very good property management manual geared specifically to nonprofit organizations is *Managing Affordable Housing: A Practical Guide to Creating Stable Communities*, by Bennett L. Hecht, et al. (1996). This is a good source of property management information, both for basic property management functions such as maintaining project cash flow and performing cost-effective and timely maintenance, and for establishing systems for resident empowerment and involvement in project management.

[2]The U.S. Department of Agriculture's Rural Housing Service (RHS) administers the Section 515 rural rental housing program, a significant source of rental housing development funding in rural areas. RHS administrative data shows that the mean project size for pre-1979 projects is 24 units, while projects developed between 1979 and 1989 have a mean size of 27 units. Although other programs have been used to fund rural rental housing development, such as Low Income Housing Tax Credits, HOME and Section 8, Section 515 data reflect rural rental projects which serve scattered populations in small housing markets.

financially feasible to have onsite management at every project. This reduces the control the owner has over conditions at the projects, and makes it more likely that project and tenant needs may go unaddressed.

Projects in rural areas, whatever their size, also pose management challenges. Fewer professional management companies serve rural areas, and if they do, they may be reluctant to take on small, remotely located projects. Because of isolation and travel distance, remote rural projects may be more costly to manage on a per unit basis. Rent collection may be more difficult without onsite management. It may be hard to find qualified contractors for maintenance, and if the organization wants to provide services at projects or connect tenants to local service providers, rural areas generally have more limited social service infrastructure or great distances to the population centers where service providers tend to be headquartered. Rural areas seldom have extensive public transportation, which makes it harder to connect tenants to services that may promote self-sufficiency or improve quality of life. Finally, in a small market with scattered clientele, it may be difficult finding enough qualified or eligible tenants, even if there is a substantial need for affordable rental housing in the area.

Methodology

Housing Assistance Council (HAC) staff with expertise in rural property management provided substantial input for this manual. Their advice focused on performance of basic property management functions at rural housing projects, and the primary considerations that a rural nonprofit organization must address when making the decision to manage projects itself or contract for outside management.

In addition to input from HAC property management specialists, phone interviews were conducted with four rural nonprofit housing organizations. The interview questions covered major issues related to performing basic property management functions at small rural projects and what factors played a role in deciding to either self-manage or seek contract management. The information gathered in these interviews provides concrete examples of the challenges inherent in managing rural rental projects and the different approaches nonprofit organizations may take to address these challenges. The interviews also focused on factors important in making the decision to seek outside management or to self-manage projects.

The organizations selected for interviews are geographically diverse, and reflect a range of property management and housing development experience. Two groups have large portfolios of more than 800 units. One of these created its own property management company and self-manages its projects, while the other has contracted with a third-party management firm to oversee its properties. Each of these organizations also works in an area with a large proportion of farmworkers. This population has special housing and service needs, not the least of which is the need for onsite management staff bilingual in Spanish and English.

The other two groups interviewed are less experienced affordable housing developers with small portfolios of less than 50 units. Both manage their own properties, and both are actively developing more affordable rental units, albeit for different reasons related to their property management goals. One group is developing more rental housing with the aim of continuing to manage projects itself. By developing a larger portfolio, the group hopes to eventually break even with its management operation. The other group is also developing more rental housing, but is doing so in order to make its portfolio more attractive to an outside management firm, since paying an established management fee will likely be more cost-effective than self-managing its projects, and will free up staff time for other organization tasks.

This selection of organizations reflects both self-managing and contracting strategies, strategies for encouraging contract management to be responsive to special tenant needs, and the management challenges faced both by groups with small and large rental housing portfolios. Taken together, the groups' experiences should provide guidance on a wide range of property management issues faced by rural affordable housing organizations when making the decision about whether to manage their own projects.

Each of the groups interviewed is described below. The rental portfolio information given is current as of April 2000.

Coachella Valley Housing Coalition

The Coachella Valley Housing Coalition (CVHC) was founded in 1982 to help low-income people improve their living conditions through advocacy, research, construction and operation of housing and community development projects. CVHC serves the Coachella Valley in California's Riverside County. As of April 2000, CVHC had 1,087 rental units in 15 multifamily developments, including an 88-bed migrant farmworker facility and 21 rental homes. Five of CVHC's rental projects are dedicated to farmworker family housing. CVHC has also facilitated development of 545 self-help homes. In addition, CVHC provides housing rehabilitation services, with over 200 owner- and renter-occupied units rehabilitated, and provides a number of other services in the communities within its service area. CVHC contracts with a professional management firm to manage all of its multifamily rental properties.

Community Housing Improvement Systems and Planning Association

Community Housing Improvement Systems and Planning Association (CHISPA) was founded in 1980 with the mission to enhance the quality of life in California's Monterey and Santa Cruz counties by developing, owning, and managing affordable rental housing and providing homeownership opportunities for area residents with very low, low and moderate incomes. CHISPA's rental projects are managed by CHISPA Housing Management, Inc. (CHMI), the organization's management subsidiary. More than 90 percent of CHISPA clients are Hispanic, and most are employed in agriculture. CHISPA owns 15 rental projects (631 units) and two senior housing developments (65 units). In addition to developing and managing affordable multifamily rental properties, CHISPA has assisted clients in the completion of 333 homes using the mutual self-help method. Services provided at CHISPA sites include English as a Second Language (ESL) courses, a summer lunch program, various other youth activity and tutorial programs, licensed daycare referrals and a visiting nurses service.

Green Hills Community Action Agency

Green Hills Community Action Agency is located in Trenton, Missouri, and serves nine counties in the north-central region of the state. Green Hills has county service centers in each county in its jurisdiction. Green Hills owns and manages 32 rental units. Approximately 11 of these are single-family homes that Green Hills purchased, rehabilitated and rents to low-income households. The remaining units are in two small multifamily rental projects. Green Hills currently has 18 more units under construction, and five more under development. In addition to housing development, Green Hills provides weatherization and energy assistance. The agency also administers a number of social service programs, including emergency services for homeless or at-risk individuals and families; parenting services such as counseling, nutrition and budgeting programs; and assistance completing income tax, Medicare, insurance and other forms. Other services provided include family planning and employment training programs.

Housing Opportunity, Inc.

Housing Opportunity, Inc. is a nonprofit housing organization established by and operating within the framework of Ninth District Opportunity Community Action Agency (NDO), based in Gainesville, Georgia. NDO is a local community action agency serving northeast Georgia. Housing Opportunity was established in 1989, and owns and operates 28 units of affordable rental housing: one four-unit project and one with 24 units. As a community action agency, NDO also administers a wide range of social services benefitting low-income households in its service area.

OVERVIEW OF BASIC PROPERTY MANAGEMENT FUNCTIONS

Local organizations making the decision on whether or not to manage their own projects need to consider the tasks, costs, and staffing needs required to perform basic property management functions. Regardless of the size of a rental project or its location, basic tasks need to be done effectively in order to maintain a high quality of life for tenants, keep the project financially sound, and maintain compliance with the regulations governing the various public funding sources used in the project's development. Smaller organizations, and groups in remote areas with limited financial and human resources, need to accurately assess their capacity to maintain the financial and physical soundness of their projects. This section briefly describes the basic property management functions that need to be carried out in order to successfully manage an affordable rental housing project, and provides some examples from the groups interviewed illustrating how they have carried out these key property management functions.

Management Structure

Property management operations may be structured in a number of ways, depending on the property management needs of each project, their location, and the resources an organization has to support property management functions and compliance monitoring. For example, while most organizations believe it is preferable to have onsite property managers and maintenance personnel, small rural housing organizations may not have the financial or staff resources to place onsite managers in small remote rental projects. Nor are small projects likely to have enough cash flow to fund these positions from their operating budgets. Each of the organizations interviewed for this guide have developed different approaches to staffing the management positions for their rental properties and providing supervision or oversight in order to document management costs and ensure compliance with program requirements.

The property management company hired by CVHC has a resident manager at each of CVHC's projects, and some of the larger projects also have an onsite maintenance person. The site staff are supervised by a regional supervisor. All but one of CVHC's projects fall within the jurisdiction of one regional supervisor. CVHC also has staff dedicated to asset management functions, who review reports generated by the management firm about each project and the portfolio as a whole, and who act as the points of contact between the organization and the management firm. The management firm and CVHC asset management staff share reporting duties.

CHISPA established CHMI as a subsidiary to carry out management of its projects. All of the group's projects with between 26 and 100 units have a management office, with only a couple of smaller projects lacking one. Although CHISPA's projects are somewhat scattered throughout its service area, most are clustered in groups near one another. CHISPA has a resident manager living at one of the larger projects in such a cluster, who then holds office hours at each site in the vicinity. In this way, CHISPA has a resident management presence at its larger properties, and a daily onsite presence at nearby projects. CHISPA has found that this "resident/circuit rider" hybrid has not only proved cost-effective (since the organization does not have to place a manager at every site), but it has also provided a framework that allows site staff to develop personal connections with tenants at every project.

Green Hills has onsite managers at each of its multifamily rental properties, and provides offsite management for the single-family units that it rents out. However, the onsite managers at the multifamily projects do not live at the property, but instead hold regular hours each day. One of the projects also has an onsite maintenance person, who is also present regularly but does not live at the property.

Housing Opportunity has offsite management exclusively. Instead of a full-time management presence at the group's projects, Housing Opportunity uses an "on-call" system where the property manager can be paged to respond to emergencies. Rent collection is done by mail or by tenants bringing their rent to Housing Opportunity's office. As a back-up to the on-call system, the supervisor of Housing Opportunity's management operation provides his home phone number to one tenant in each project in case the manager cannot be reached in emergencies.

Despite the variety of management structures adopted by these organizations, each has established its operation so that basic functions like maintenance and rent collection are carried out, tenants have access to management staff, and reporting requirements are met. Although every management operation has to carry out the same basic functions, the different management structures adopted by these organizations do lead to some variation in how the groups perform the basic property management tasks.

Marketing and Tenant Selection

When vacancies occur in an affordable rental project, not only must they be filled quickly as would be true for any rental project, but applicants must also be screened to ensure that they meet income or other guidelines required by the programs that funded development of the project. Large numbers of vacant units, or long periods of vacancy, can have an adverse impact on the financial condition of a project. Vacant units mean less project revenue, which makes it difficult to make payments on the project's loans. On the other hand, filling vacant units with ineligible tenants can have serious repercussions due to noncompliance with program regulations. A good management operation must have an efficient system for marketing available units, which includes screening tenants for program eligibility and moving new occupants into vacant units.

Some affordable housing programs require project owners to maintain waiting lists for their projects. Projects funded through the HOME block grant program, for example, are required to keep waiting lists of eligible applicants. Waiting lists are valuable tools for managing unit turnover. They provide a pool of potential tenants who have already been screened for income and program eligibility, and waiting lists reduce the amount of marketing that needs to be done every time a household vacates an apartment. CHISPA, Green Hills, and Housing Opportunity all maintain waiting lists for their projects. Even though many of CHISPA's projects are financed largely with Low Income Housing Tax Credits (LIHTCs or tax credits), and these projects are not required to maintain waiting lists, the organization does so anyway because it significantly speeds turnover of the units. CHISPA staff noted, though, that demand for affordable housing is so high in their service area that even without waiting lists they would have no trouble filling their projects. Since Green Hills and Housing Opportunity are community action agencies, they take advantage of mutual referrals from other programs administered by their organizations. For example, a family placing a child in a Head Start program may inform their case worker of housing problems, and the case worker can then help them apply for a place on the rental housing waiting list.

Administering waiting lists can involve a substantial amount of work and investment. Even if a project is full, periodic marketing must be undertaken to generate new applicants for the waiting list. In many cases, for example, a family on a project waiting list may move out of the area, or their income may increase so they are no longer eligible to live in the project. It is not uncommon for property managers to call many households on their waiting lists before reaching one that is available, still interested in getting an apartment, and still eligible to live in the project. Not only must projects be marketed, waiting lists must be periodically updated. This can also require a substantial amount of staff time, since it requires calling households on the waiting list, confirming their continued interest in the project, and verifying that they are still eligible.

Given all the work required to maintain adequate project waiting lists, one of the benefits of contracting for property management is that the management agreement may specify that this function be handled by the management firm. CVHC's management company does the project marketing, maintains and updates waiting lists, processes tenant applications, and screens applicants for eligibility to reside in the projects. However, sometimes a professional management firm may not have the market knowledge to maintain high occupancy levels and turn over vacant units quickly in rural projects. One of the reasons Green Hills took over management of its projects from a professional property management firm is that the project managed by the firm consistently had high vacancy rates. Green Hills staff felt that because their project is so small, the management company was headquartered far away, and the company made only a limited profit managing the project, it did not put much effort into its management duties. However, if an organization's portfolio is large enough to generate a sufficient management fee, or the group is working with a company that has experience managing either a large portfolio of smaller projects or affordable projects in general, it may be more likely to have responsive management in regards to marketing the project and keeping units leased up.

Another aspect of tenant selection that is very important in maintaining the financial health of a project is being able to accurately estimate the costs of managing unit turnover. Marketing costs money, staff time is required to manage waiting lists, and vacant units must be cleaned, repainted, and necessary repairs done before a new tenant can move in. A good management operation has systems to estimate these expenses and include them in the project's operating budget so that project reserves will not have to be tapped for the management operation to cover its costs. Inexperienced organizations may be able to create and maintain waiting lists, and find qualified maintenance personnel to prepare vacant units quickly for new occupants, but they are less likely to have the expertise or financial systems in place to keep track of all the costs associated with keeping their units leased up. When an organization is deciding whether or not to manage its own projects, it must account for the costs of keeping vacancies at a minimum. If an organization decides to hire third-party management, the costs of unit turnover can be incorporated into the project's budget in the planning stages. Involving the management company in the project's development ensures that the management fee will be adequate to cover the costs of unit turnover, as well as other management functions that the organization would like the management firm to carry out (such as coordinating tenant services). CVHC involves its management firm as early as possible in the development phase, and is hoping to get the company more involved in the design of new projects as well. All organizations should involve their property managers in the project planning process for their input on project design, materials selection, and other concerns addressed when working with architects and engineers.

Turning over units quickly is critical to maintaining project cash flow, but it can also be viewed as an extension of a nonprofit organization's mission or goals. CHISPA will not always charge the maximum allowable rent in its tax credit units so that clients with incomes too low to afford the maximum allowed rent may live in the project. The organization would rather keep the units full and serve more clients with the lowest incomes and greatest needs than try to maximize their rent collections. CHISPA staff summed up how the organization's philosophy impacts their approach to managing unit turnover: "A vacant unit is a missed opportunity to provide housing."

Rent Collection and Rule Enforcement

Rent collection is one of the most important basic property management functions. If many tenants do not pay their rent on time, a nonprofit owner will have difficulty making the loan payments on a property. In this sense, managing affordable housing must strike a balance between the business needs of the organization to make timely payments on its debt, and the need to be flexible with tenants who have very low incomes.

State and local laws affect eviction procedures, and property management staff need to be aware of the eviction process applicable to their region. However, a nonprofit group managing its own projects may want to be flexible when it comes to late rent payments, since many affordable housing tenants have very low incomes and may not be able to find adequate and affordable housing if they have to be evicted. CHISPA site staff often need to work with tenants who are late with their rent, establishing payment plans or other arrangement to help tenants become current with their payments. Although CHISPA generally sends delinquency notices to tenants when rents are five days late, the organization does not usually begin eviction proceedings until rents are 30 days late. CHISPA staff note that if their very low-income clients are evicted, they could become homeless.

Professional property management firms are often more strict concerning timely collection of rent, since their fees are most often tied to project revenues. CVHC staff feel that rent collection is one of the strengths of their management company, and note that the firm is "tough" regarding timely payment of rent. The company promptly sends notices to tenants when rent is three days late. However, the management company also spends a lot of time educating tenants about the importance of paying rent on time, and CVHC feels that the company does a good job letting all tenants know about the consequences of late payment and the procedures established for bringing rents current or going through the eviction process.

Green Hills and Housing Opportunity staff also feel they have done a good job maintaining rent collections. Staff at each of these organizations note that because they have small projects, it gives them the opportunity to get to know their tenants. This is beneficial in that property management staff are more aware of individual tenant circumstances and can therefore provide more guidance and assistance in helping tenants catch up on back rent, or avoiding late rent payment before it becomes a problem. Staff at each group, though, also noted that it can sometimes be difficult to be forceful with rent collection with clients who have become friends. However, personal connections between management staff and tenants have not interfered with timely rent collections, and each group has had to evict tenants for failure to pay rent or disruptive behavior at its projects.

Rent collection is only one area of rule enforcement important to good property management. Rules concerning damage to units or public spaces in projects, disruptive behavior, or other areas important to maintaining buildings are needed to maintain quality of life for all occupants and the sound physical condition of properties. Rule enforcement is also important for maintaining security at rental complexes. Again, a nonprofit owner will have to strike a balance between the strict rule enforcement needed to protect the condition of the property and the quality of life for tenants, and flexibility when addressing rules with tenants. For example, CHISPA's projects have a great many large families with children, who place a lot of "wear and tear" on the grounds of their projects: cutting across landscaped areas on the way home from school, digging up grass as they play, and other unintentionally damaging activities. CHISPA encourages its staff to get to know the children at their projects, and help them understand why the rules are in place. However, CHISPA management supervisors also consider landscaping as primarily a cosmetic feature of their developments, and would rather have children and teenagers playing at the properties instead of getting into trouble on the streets.

Maintenance

Unless a nonprofit owner has an efficient system for planning, prioritizing, and budgeting for maintenance needs, project maintenance expenses can substantially impact the operating budget. There are two main areas where nonprofit owners, or their property management companies, need to focus in order to maintain high quality projects in a cost-efficient manner. Decisions need to be made concerning development of a system for prioritizing and documenting maintenance work and how supplies will be stored and made available to the complexes.

A good maintenance program must include regular inspections of occupied units (at least annually) and inspection of vacated units. In addition, there is a tremendous need for routine maintenance of plumbing, electrical, heating and cooling systems. These systems, fixtures and appliances need to have a regular inspection and maintenance schedule. Since not all maintenance needs require immediate attention, when a nonprofit owner develops its work order system it must prioritize how maintenance requests will be addressed. A typical priority list for maintenance tasks includes emergencies, preparation of vacant units, preventive maintenance, programmed maintenance, and non-emergency requests from tenants.

A formal system for responding to emergencies is important for maintaining tenant confidence in the management and for keeping small problems from becoming bigger and more expensive to fix. Large systems, such as the boiler, may have their serviceable life extended by a regular program of inspection and maintenance. For instance, scheduling heating unit inspection and maintenance quarterly will reduce the likelihood that major parts have to be replaced often or that the fixtures or units will fail before planned. Non-emergency requests, such as fixing a dripping faucet or other small jobs, do not need immediate attention. If property management staff inform residents of the regular timeline for responding to these requests (such as "within three days"), residents will feel confident that management will take care of small problems in a timely manner, and maintenance staff will not be in a position where they need to put aside more pressing maintenance tasks while responding to many less important requests.

Maintenance priority systems also must account for state and local housing codes. These codes have an impact on what the maintenance staff will consider high priority work, since code violations have a cost to projects in terms of fines and disrupting maintenance routines to address violations. Although many rural communities have limited or no housing codes, a good property management operation should research all applicable housing codes and incorporate these into its maintenance plan.

Each one of the self-managing organizations interviewed noted they had developed strong work order systems, although each has also prioritized its maintenance needs somewhat differently. For example, CHISPA focuses its maintenance services on unit quality and important safety or housing code-related needs, such as replacing light fixtures, electrical outlets, windows, plumbing or other related needs. On the other hand, maintenance needs that are related more to exterior appearance, such as landscaping, receive a lower priority in the work order system. Professional management firms all have established work order and maintenance documentation systems, and good firms have systems that are both efficient and cost effective. Good firms also make concerted efforts to educate tenants about maintenance prioritization and schedules for regular upkeep activities, such as visits by exterminators, schedules for painting, or other routine tasks that may impinge on tenant's daily schedules. CVHC's management firm, for example, is able to address most work orders within a day of the request for service.

Documentation is also important to an organization's maintenance program. A work order system allows management supervisors to confirm that maintenance requests have been addressed and that jobs have been completed. This also reduces misunderstandings between tenants and site staff concerning timely responses to work requests. Additionally, a detailed work order system also helps in budgeting for maintenance needs from year to year. Maintenance staff time, cost of supplies, and being able to target faulty or problem systems can be evaluated at the end of the year, and the trends noted can be used to inform budgeting decisions for the coming year.

Performing project maintenance also requires supplies: parts for appliances and fixtures, cleaning supplies, tools, paint, landscaping items, and many other items needed for regular upkeep and response to emergencies. Project owners will need to decide how to store and distribute these supplies in a cost-effective and efficient manner. On the one hand, purchasing supplies in bulk saves money, but if the organization does not have adequate storage at its property (-ies) it may be more costly to keep supplies on hand than to purchase them in smaller quantities on a more regular cycle. Central storage of supplies is more cost-efficient than widely distributing the same items among many projects, since there is a central point for inventory and it is possible to purchase and store items in bulk. However, if a rural nonprofit organization has a number of small, remotely located projects, transportation of centrally stored materials may be inefficient and costly. Many organizations try to strike a balance, storing supplies and parts for routine maintenance at each site (light bulbs, paint, cleaning supplies, fuses, etc), and parts for systems (plumbing, air conditioning, heating system components, and the like) that require less regular maintenance and replacement at a central location.

Groups that decide to hire a third-party management firm can take advantage of the company's knowledge of property maintenance needs to improve the quality of new projects under development, or the quality of the organization's existing portfolio. No one knows better than site staff where major costs are likely to be incurred at their projects, and firms with strong maintenance order record systems have a solid grasp of maintenance trends within their portfolio. CVHC, for example, has received substantial feedback from its management company in developing the organization's 15-year capital improvement plan, which establishes the long-term plan for upgrading and improving all of CVHC's properties.

Security

Maintaining security at project sites involves a variety of factors, including staff presence, rule enforcement, and site design. If an organization has contracted with a property management firm early in the development process, the management company can contribute its expertise to designing security features into a project's layout, such as lighting placement, design of entryways, or design of fences and gates. The management company can also provide input on developing tenant response systems and project staffing to respond to emergencies.

Generally, having property managers at the property increases security, and resident property managers provide a 24 hour professionally trained presence. However, small projects often do not have the space for resident managers, and around-the-clock staff onsite may be more costly than the operating budget allows. Physical security measures, such as electronic entrance systems or gates, while requiring a large initial cash outlay, may be a more cost effective security investment in the long run. These security devices, though, may have hidden costs. For example, a couple of CHISPA's complexes have electronic security gates, but they have broken down regularly. Not only has it been costly to repair and maintain the gates, their malfunctioning also causes inconvenience to tenants.

A formal system for emergency notification and response is important if minor security issues are to be addressed before they become more dangerous situations. Adequate emergency training for site staff is also essential to limit the frequency and severity of security problems. Still, not every type of emergency or security problem can be predicted and planned for in advance. For example, Housing Opportunity made sure that the staff involved in managing projects all received ample property management training, which included procedures for addressing security concerns. But Housing Opportunity staff observed that they have encountered numerous situations not covered in their formal training, such as a tenant's suicide at a small, remote project. In these kinds of cases, Housing Opportunity staff felt that their close connections with tenants and familiarity with their projects helped them make sound judgment calls for responding to situations not covered in their training. Flexibility and patience are therefore important site staff qualities that can improve responses to project security incidents.

Groups might also consider working with local law enforcement to establish a community policing system for their projects, similar to the "neighborhood watch" programs in most major cities. In addition, if security is a particular concern of the nonprofit owner, arrangements may be made for local law enforcement to establish a police substation at a particular project site. In any case, maintaining good relations with local police and emergency personnel can reduce security incidents at project sites.

Budget and Finances

As has already been noted, a number of property management functions, most notably rent collections and vacancy rates, impact project budgets and finances. Other financial considerations are also impacted by the efficiency or costliness of the management operation. Almost all rental projects have some form of reserve, usually at least a replacement reserve generally used for major work such as replacing a roof. Many organizations also establish a reserve for appliance replacement, so that these expenses will not drain project operating reserves. Some organizations, though, tap the replacement reserve to replace broken appliances like stoves and refrigerators, but most try to save this reserve for major repairs and cover appliance upgrades within the operating budget. Many projects also maintain an operating reserve, which can be used to cover shortfalls in the operating budget. Organizations that contract with a management firm must also budget for the management fee. Essentially, every management function has a cost, either in terms of staff time, materials and/or fees. If these costs are to be contained and the project kept financially solvent, accurate budgeting is essential. This requires both systematic documentation of all major management functions (collections, vacancies, maintenance), and training for both site staff and their supervisors in reporting and documentation.

Even with careful planning, documentation of ongoing expenses, and attention to budgeting for future needs, a nonprofit owner may still find itself with a shortfall in its operating budget. Operating shortfalls are particularly common with organizations that have only a few units, or a couple of small and scattered projects. Their portfolios are too small to generate the revenues needed to cover property management expenses, suffering from diseconomies of scale.

The risk of operating expense shortfalls can be limited by careful planning in the project development phase. Some funders, such as the Rural Housing Service (RHS), require a project sponsor to budget substantial replacement reserves as a cushion against unexpected expenses. For RHS projects, the required replacement reserve is 1 percent of the original development cost set aside per year for ten years, so that the reserve reaches 10 percent of the original development cost of a project.[3] CHISPA, for example, has large replacement reserves in all of its projects with RHS funding. CHISPA also has a number of LIHTC projects, and budgets during the development phase for capitalizing and maintaining both replacement and operating reserves. Through careful planning and a great deal of experience estimating the costs associated with maintaining properties, CHISPA staff are able to cover things like appliance replacement through project operating budgets, rather than having to tap their replacement reserves. This saves the reserves for larger maintenance needs such as roof or boiler replacement.

CVHC involves its management company in planning new developments, and is therefore able to incorporate adequate management fees into project budgets. CVHC has a number of projects that require special services or attention, such as a project for migrant farmworkers and one for disabled individuals or people with HIV/AIDS. By getting the management firm's input early in the development process, CVHC is able to plan a management fee sufficient to cover the additional service required from the management company.

When CHISPA first began developing and managing affordable rental housing, the organization's management operation took losses because the portfolio did not generate enough revenue to cover expenses. However, now that CHISPA has a large portfolio, the revenue generated at its bigger projects compensate for the shortfalls in the smaller properties. Organizations new to housing development and property management, especially if they own small or remotely located projects, need to find other avenues for covering shortfalls in their operating budgets.

Both Green Hills and Housing Opportunity have small enough portfolios that it is difficult to cover property management expenses solely from rent revenue. Green Hills covers this shortfall with operating funds it receives from the Missouri Housing Development Corporation (MHDC), the state's housing agency. Another approach to reducing shortfalls is to take advantage of staff or program resources on hand locally. Housing Opportunity, like Green Hills, is a community action agency that administers a wide variety of housing assistance and social service programs. Housing Opportunity has a work crew for its weatherization and housing rehabilitation programs, and has used its own crew to do much of the basic maintenance work on its projects. By saving money using its own staff and materials on hand, the organization is better able to operate its projects within budget.

Reporting and Compliance

Every management function described requires documentation, and this documentation must provide the basis for reports to owners and funders. Solid documentation of work performed and expenses is critical to estimating project budget needs on an ongoing basis. However, good documentation and reporting are also critical to affordable housing projects because of

[3]For more detailed information on operating reserves and their place in project budgeting in RHS-funded rental projects, see pp. 117-154 and Appendix G in *Rural Housing Service's Direct Section 515 Rural Rental Housing Loan Program: A Guide for Applicants* by the Housing Assistance Council, revised July 1999.

the public nature of their funding. Federal and state affordable housing finance programs all have guidelines concerning the eligible incomes of tenants. Some, like the RHS Section 514/516 farm labor housing programs fund projects open only to eligible groups, in this case, farmworkers. Another would be HUD's Section 202 and 811 programs, which provide development financing for elderly and disabled tenants, respectively. The reporting required by funders therefore is concerned not only with the financial health of the projects, but also with ensuring that only eligible tenants reside at the projects and that owners comply with other requirements for project operation.

One of the advantages of hiring a management company is that it reduces the reporting burden on the nonprofit group's staff. Because of the divergent compliance requirements of different affordable housing development sources, a nonprofit should try to find a management company with experience managing affordable housing projects. This is especially important when tax credits will provide project financing, since the compliance issues are complex and the reporting requirements are quite extensive. In addition, if the nonprofit organization is developing a project for a population with special needs, such as elderly or disabled persons, a management company with experience serving these groups will provide much better service than a firm with no experience serving these clients.

Even if a nonprofit housing developer plans to hire a management company to run its projects, some of the nonprofit's staff should still receive substantial training in asset management generally, and program reporting specific to the finance programs used. This helps safeguard the nonprofit organization from poor decisions by the management firm, or even fraud and abuse, since there are staff who have the knowledge to evaluate reports and assess recommendations made by the management company. Each of the self-managing organizations in this report obtained substantial training for staff involved in property management. Training was primarily obtained through state housing agencies or the state's tax credit allocating agency in the case of groups developing projects with tax credits. For example, because of the complexities involved in compliance reporting at LIHTC-funded projects, CHISPA requires staff involved with tax credit projects to receive specialized training in reporting and compliance issues for this program. Groups also utilized other training resources to upgrade staff property management expertise, such as workshops at affordable housing conferences or seminars conducted by private consulting firms. Some programs also include training resources. If an organization is certified as a CHDO, for example, it can obtain technical assistance through the HOME program.

CHISPA's management operation is set up so that substantial financial expertise is brought to bear in reporting and compliance review. Site staff provide project-specific reports to property management supervisors. As the supervisors work on reports, all of the accounting information is processed by the organization's finance division. This system therefore incorporates property management and financial expertise in the reporting process.

Although CVHC's management company provides the project data for reporting and compliance purposes, reporting is split between CVHC and the management firm. CVHC generally prepares reports that will go to investors in its tax credit projects, while the management company generally prepares the reports being sent to the state tax credit oversight agency and project funders. CVHC's asset management staff also meet at least six to eight times a year to review project budgets, compliance issues and reporting. These regular meetings help CVHC stay current on property needs and trends, and to work with the management company to address potential compliance problems before they surface. CVHC staff note that the reporting done by their management firm is both timely and thorough.

Staff Recruitment and Experience

The importance of recruiting qualified staff has already been discussed in a variety of contexts. However, it bears repeating that an organization considering self-management of its projects needs to hire staff with experience in the field of property management and project maintenance, and property management supervisors must also have experience. In many rural areas it can be difficult to find qualified property management professionals. Small, rural nonprofit organizations in these areas are best served by hiring a professional management firm, at least until the nonprofit's staff is able to obtain training and develop the capacity to self-manage.

Even small organizations may, however, find that some of their supervisory staff have past work experience that is related to many of the functions of property management, and this might make self-management more feasible for these groups. The supervisor for Green Hills' property management operation had no prior work experience specifically as a manager of rental property, but did have experience in a position where he had to perform most of the basic property management functions. Working as a school principal, he oversaw the development of three new school buildings, and had to be concerned with cash flow, loan payments, and quality of design and construction. He also had to supervise maintenance on his facilities, had experience with a work order system, and had to manage within the operating budgets for his facilities. Although not trained as a property manager, this experience helped prepare him to supervise management of Green Hills' projects

If an organization develops projects to serve populations with special needs, staff recruitment must consider the skills required to serve such special groups. Both CHISPA and CVHC have a number of farmworker housing projects, and most of the tenants in all their projects are Hispanic. Both of these organizations need to have site staff who are bilingual. CHISPA recruits its own staff, and gives language skills in Spanish a high priority when selecting its new staff. CVHC has worked with its management firm to ensure that almost all of the company's site staff are bilingual. Whether self-managing or negotiating a management agreement with a professional firm, nonprofit project owners need to account for the special needs of their target population when seeking staff that will be working closely with tenants.

ENHANCED OR RESIDENT-CENTERED PROPERTY MANAGEMENT

Many rural housing organizations provide other social services to low-income residents besides housing assistance. Empowering low-income communities and/or promoting self-sufficiency among clients are often important goals of these organizations. Because property managers interact closely with tenants, the property management operation may be an attractive vehicle for providing or coordinating services for residents. This can take the form or providing services directly or providing referrals to local service providers. Property management jobs may also offer tenants training and employment opportunities as part of a self-sufficiency program. Finally, good management programs provide forums for tenants to provide feedback concerning the management of their projects. All of these efforts are related to including tenants in the management of their projects, and providing opportunities for resident empowerment through the property management program.

Service Provision and Coordination

Many rural community action agencies have housing programs, while administering an array of other services benefitting their communities' low-income residents. These organizations can take advantage of established service networks, and coordinate service provision or referrals between housing and social service program staff. However, both property management and service provision are time- and resource-intensive. A nonprofit owner needs to evaluate if property managers are the appropriate staff to be coordinating resident services. It may be best for the group to separate service coordination from property management functions and hire service coordinators to connect residents to educational and employment opportunities.

Most project operating budgets, especially in smaller projects, do not generate enough revenue to fund both basic management operations and service coordinator positions. If service provision is a high priority for the nonprofit owner, other funding sources may have to be secured to pay for the position. If a housing authority is the project owner, any tenants receiving Section 8 tenant-based rental assistance may participate in the Family Self-Sufficiency (FSS) program. FSS programs have coordinators who help direct participants to local service providers, and families receive escrow accounts where they can accumulate assets as their incomes increase to buy homes or pursue education. Housing projects for elderly persons funded through HUD's Section 202 program may now compete for service coordinator funds. These staff coordinate provision of services that allow tenants to age in place longer. Without additional ongoing funding for service coordinator positions, though, nonprofit owners may wish to focus their attention on performing basic property management functions well. Lacking a service coordinator, a nonprofit project owner can try to contract with other local service providers to extend programs to rental complexes or do program outreach among tenants.

Green Hills is one of the largest social service providers in its area, and it made sense to connect tenants in its affordable housing complexes with the other services provided by the community action agency. Each of Green Hills' multifamily complexes has a small conference room near the manager's office. Green Hills provides some services at each site. For services not available at the rental projects, referrals are provided to the closest Green Hills county office. Green Hills tenants have access to the full range of services provided by the agency, including employment training, healthcare, family planning services, financial planning, and tax preparation. In addition, Green Hills is working on a collaboration with a local school to provide tutoring and other educational services at a project now being planned. By contrast, although Housing Opportunity is also part of a community action agency, the organization provides no onsite services or formal referral system. This is partly a product of Housing Opportunity having offsite property management. However, many tenants do access the community action agency's other social service programs through informal referrals. In addition, Housing Opportunity will incorporate some of NDO's other programs, such as establishing a Head Start Center at a project being planned.

Like Housing Opportunity, CHISPA does not have formal service provision incorporated into its management operation. However, property management staff are encouraged to focus on connecting tenants to local service providers. CHISPA also opens its facilities to service providers at no cost, as long as the services are made available to project residents. Each of CHISPA's larger projects has a community room, which provides an ideal venue for classes, especially for tenants but also other low-income residents in the vicinity. Not wanting to burden site staff with additional service duties, CHISPA is currently seeking funds for a service coordinator position to oversee service provision and referrals throughout its portfolio.

CVHC's management firm does not provide or coordinate services. Instead, CVHC has its own community services coordinators who provide referrals for tenants and bring service programs to the housing sites. Although the management company provides logistical support for these activities, it is not involved directly in these efforts. CVHC staff note, though, that the management firm has been very flexible and done an excellent job adapting its management operation to the special needs of some projects, particularly the migrant farmworker project and the project for residents with long-term illnesses. Coordinating public area scheduling and project upkeep with outside programs requires flexible site staff.

Although CVHC has worked with its property management company for a long time, it has sometimes been difficult to convince the company to take on projects that require substantial adjustment to the standard management operation. For example, the company did not initially want to manage CVHC's project for migrant farmworkers, since the short duration of tenant stays and their special needs were outside of the firm's management experience. However, CVHC staff prepared materials on management of migrant projects, and referred the company to other similar projects so they may visit and observe the projects' operation. The referrals and background information provided by CVHC increased the management company's comfort with such a nontraditional project, and the company took on its management.

Recruiting Tenants for Property Management Positions

A property management operation can support tenant self-sufficiency efforts more directly by recruiting current and former tenants for property management and maintenance positions. Tenants can gain work experience. Maintenance, landscaping, resident manager or accounting positions offer entry-level opportunities for clients establishing a work history and developing marketable skills. These tenant workers may also contribute to the success of management at their project through their knowledge of their complex and its residents.

A job training program, however, may require more resources than the project cash flow can support. Employment training clients require substantial supervision, and retention services may also be needed to help tenant staff maintain their positions. Retention services can include personal counseling, time management training, household budgeting instruction, or other educational efforts that help an employee make a smooth to a new work environment. If the nonprofit owner does not have the resources to fund the additional supervision required for on-the-job training programs, it may be possible to contract with a local employment training agency. Private nonprofit and public agencies administering Workforce Investment Act (WIA, formerly Jobs Training Partnership Act, or JTPA) training programs may agree to provide employment training and staff supervision.

Neither CHISPA nor Housing Opportunity have current tenants working in property management, although many former tenants work for CHISPA's property management subsidiary, CHMI. Most work in maintenance positions. At least three such maintenance workers also live at the complexes where they work, with reduced rent as a benefit. Green Hills has hired two former tenants, and Green Hills staff rated their work as "good to excellent." One was hired for an administrative role in the management operation, and the other for a clerical position.

CVHC has worked with its management company to recruit current and former tenants for property management positions. Some site managers are former CVHC tenants, and many maintenance staff are from CVHC projects. CVHC feels the management company has been sensitive to the fact that these staff are former farmworkers, and sensitive to the need for ongoing training and retention services. The management company has gotten staff who are invested in the upkeep of their complexes, and CVHC has provided valuable employment opportunities for its residents.

Reduced or free rent for current and former tenants recruited into the management operation may not only provide a cost-effective means to promote resident management, but also provide tenants moving to self-sufficiency with an additional and important benefit. In terms of a nonprofit organization's book keeping, the reduced/free rent can be accounted for as an employee benefit.

Tenant Feedback on the Management Operation

One last form of tenant project involvement involves providing avenues for tenant feedback on the quality of property management. Channels for tenant feedback may take many forms, but all allow tenants to feel comfortable voicing their opinions about the effectiveness of different components of the management at their properties. Providing opportunities for tenant feedback also helps tenants feel they have a say in how their complexes are run, and gives them a greater stake in the care and management of their projects.

Green Hills uses most of the common approaches to solicit tenant feedback. Green Hills performs an annual survey of tenant satisfaction at its multifamily rental projects. Each project also has a resident council or tenant association to represent resident concerns to the management. Finally, Green Hills' bylaws require its Board of Directors to include representation from the low-income community, and one of these representatives is a current tenant. Good management operations also educate tenants about the formal steps required to voice grievances concerning property management at their complexes. CHISPA has an established formal grievance procedure, and all new tenants are informed about the process for filing complaints about maintenance and other property management concerns.

RURAL AND SMALL PROJECT ISSUES

Much of the discussion so far has focused on what a nonprofit owner generally needs to consider before undertaking the basic functions of property management. Nonprofit housing developers and affordable housing owners in rural areas, though, must address additional considerations when thinking about how best to manage their projects. Small projects with few units generate a much less cash flow than do larger projects with many apartments. This can make it hard to pay all of the expenses of the basic management operation or provide a sufficient fee to entice quality service from a professional management firm. Limited project cash flow also makes it much more difficult to provide or coordinate services for tenants.

Rural property management is not only hindered by small project size, but also by the nature of the rural environment. Not only do rural housing organizations tend to develop small projects, these projects are often widely scattered through sparsely settled country. Distance and rough terrain can increase the cost of providing onsite management to remotely located projects. Rural providers of social services tend to be headquartered in county population centers or county seats, and may not have the resources to extend their programs to small remote projects. Tenants living at these complexes may also have difficulty coming into town to receive assistance. Finally, a nonprofit affordable housing owner may have difficulty finding qualified property management and maintenance professionals within its service area. Before deciding on whether to self-manage or hire a professional management firm, a rural nonprofit housing organization needs to factor in the additional costs of managing small projects within a rural context.

Small Project Complications

The primary complications in managing small projects arise from the limited revenues generated from only a few units. In most cases, if an organization has a small portfolio with just a few units, it will have to find ways to cut property management costs or obtain additional funding so that shortfalls in the management operation do not occur. In the long run, as an organization continues to develop new affordable housing projects and its rental portfolio grows, the revenues generated by larger complexes can cover the shortfalls at the smaller projects. Or the organization will have a more attractive portfolio that will generate enough of a management fee for a professional firm to take on management of the projects and be responsive to the nonprofit owner's needs.

One way to avoid shortfalls in a project's operating budget is to develop projects with greater numbers of units. CVHC, for example, has no projects with fewer than 32 units. In the development planning stages, CVHC makes sure that a new project's cash flow will be sufficient to cover its operating expenses. CVHC's management company provides feedback during the planning stages for new projects. This ensures that the management fee will be sufficient to pay for the tasks CVHC would like the management company to undertake. CVHC requires that all of its projects have onsite property managers, and so must make sure the project's revenues are enough to pay this person's salary, in addition to covering the other costs of property management, such as maintenance and managing unit turnover.

CHISPA has only one small project in its portfolio, a nine-unit complex developed as part of an arrangement with a local golf course to do some "inclusive" housing development. Most of the residents of this project work for the golf course as groundskeepers or service staff. However, the losses have been limited on this project because the tenants contribute substantially to project upkeep. For example, much of the landscaping work is done by tenants who work as groundskeepers for the golf course. Otherwise, the shortfalls stemming from the project's limited cash flow are absorbed by the revenues generated at CHISPA's larger rental projects.

Both Green Hills and Housing Opportunity have small portfolios comprised of a couple of small rental projects. Both organizations use work crews from their community action agencies' weatherization and housing rehabilitation programs to reduce their maintenance expenses. Green Hills also has additional subsidy sources to cover shortfalls in its management operation, receiving operating funds from the state housing agency. Housing Opportunity also covers some of its property management expenses with revenue generated by a program to rehabilitate old homes and sell them to first-time homebuyers.

Rural Considerations

One of the most direct impacts of managing affordable rental properties in rural areas relates to adjustments organizations must make in their management structure. More often than not, even if the size of an organization's portfolio generates enough revenue to support property management staff, if the organization's projects are widely scattered or located in inaccessible areas it may not be cost-effective to have onsite staff at each project. Other complications posed by managing properties in rural areas are difficulties connecting projects and tenants to local service providers, finding qualified management and maintenance personnel, and enticing third party management companies to extend their services to remote projects.

Among the organizations interviewed, CVHC's projects reflect the most common property management preferences, such as resident managers and onsite maintenance staff at every project, with few adjustments needed in response to the rural location of the group's projects. CVHC has onsite property managers at all of its projects, a component of its management agreement. The one complication that has arisen from the scattered, rural locations of its housing sites is that its most remote project falls outside of the jurisdiction of the management company's regional supervisor who oversees the remainder of CVHC's portfolio. This one project is supervised by a different regional supervisor, and CVHC has encountered some complications in coordinating compliance reporting and reviewing property management needs for this project.

Green Hills staff noted that the close proximity of the group's multifamily complexes to the Green Hills office has made onsite management more feasible, although the projects are small enough that the organization cannot afford to have site staff reside at the properties. Housing Opportunity staff would like to have onsite management, but the size of the portfolio and the rural locations of the projects have meant that the only cost-effective approach to property management is to have offsite managers and maintenance staff, supplemented by an "on-call" system so staff and their supervisors can be reached in case of after-hours emergencies.

Even though CHISPA has a large portfolio, the scattered project locations make resident site staff at every project infeasible. By taking advantage of some projects being clustered near one another, CHISPA is able to have onsite resident managers at a number of sites, who then act as "circuit riders" and hold regular hours at nearby complexes. In addition, CHISPA has involved tenants in the management of its most remotely located projects. One project for elderly residents is visited regularly by a property manager living at another complex, but one tenant has been given a rent credit in exchange for acting as a "caretaker" of resident needs when the property manager is not available. This person acts as a link between project residents and CHISPA's site staff.

CHISPA also has more difficulty recruiting tenants who can pay the maximum rents at its most remotely located LIHTC projects. As has been noted, CHISPA would rather reduce vacancies than wait to find tenants who can pay the higher rents. Reducing the maximum rents for tenants with very low incomes is another property management adjustment the organization has made in response to conditions in its rural service area.

Projects in remote rural locations also pose challenges for connecting tenants to services. The distance between these projects and county population centers makes it more costly and logistically difficult to bring service programs to project sites. It is also difficult to bring tenants from remote places to the county seats where many rural service providers are located. CHISPA staff note that it has been much easier extending services to projects located in or near Salinas, the area's largest population center, than to projects in the smaller towns in CHISPA's service area. There are fewer service providers working in the smaller towns, especially those farthest from Salinas. Nonetheless, the organization encourages its property management staff to pursue whatever resident empowerment services may be available. If small rural towns are not served by a formal social service network, nonprofit owners may have to rely on more informal means for linking their tenants to services that will enhance economic self-sufficiency and quality of life. Housing Opportunity, for example, does not have onsite property management staff or service coordinators, but relies instead on an informal referral system to inform its tenants of other services offered by the community action agency. The community action agency staff do not have formal checklists and referral sheets, but when they see clients with housing needs, or housing staff meet with tenants who have service needs, they will refer clients informally to the organization's other staff, services and resources.

Rural areas are also more likely than urban ones to lack a pool of qualified property management and maintenance professionals. If a management firm is hired, this may not pose much of a problem, since most large property management companies have their own property managers and maintenance crews. However, if a nonprofit owner is going to self-manage its properties, it may be difficult to recruit qualified people to staff the management operation. Even with a skilled management and maintenance team, it can be costly to contract for larger jobs, such as major electrical work or roof repair.

CHISPA has its own maintenance staff, and they do all but the largest repairs on the portfolio. Keeping a large maintenance staff means that the organization has a substantial budget line for personnel costs, but has fewer expenses for outside contractors. CHISPA has tried to have its maintenance staff do most of the work on its properties, since local contractors are generally very expensive. The organization uses contractors only for landscaping and major jobs like heavy electrical work and roof replacement. It is hard to get competitive bids from local contractors, because CHISPA is competing against the higher bids these contractors can receive for their services in nearby urban areas like San Jose.

Green Hills has also had difficulty finding experienced contractors for maintenance work. Green Hills' service area is very rural, and does not have the same availability of maintenance and construction professionals as is the case in and near Missouri's larger urban centers, like St. Louis or Kansas City. The lack of professional maintenance staff has been a factor pushing Green Hills to do as much maintenance with their own crews as possible, but larger jobs like roofing still require outside contractors. Housing Opportunity's rural service area in Georgia also suffers from a limited number of construction and maintenance professionals. However, the few contractors working in Housing Opportunity's jurisdiction are very well known to the organization's housing development and property management staff, and the organization has developed good relationships with contractors they have worked with for many years. This kind of long-term business relationship is one feature of rural communities that may help rural housing organizations keep their maintenance costs reasonable.

CVHC has encouraged its management company to hire local contractors as much as is feasible while maintaining a cost-effective property management operation. The management firm has maintenance staff at every site, and many complexes have resident maintenance people. The company also has a "floating" maintenance crew to care for specialized needs at every project in CVHC's portfolio, such as air conditioning repair or minor electrical work. The management firm only has to contract outside the local area for larger jobs, most typically roofing work.

Not only are property management professionals in limited supply in rural areas, but so too are professional management companies. If a management firm oversees some projects in a rural nonprofit's service area, more often than not the firm is headquartered in a distant urban center. If a nonprofit owner has a large portfolio, it may be able to not only attract a good management firm, but also have the leverage to make the firm more responsive to tenant needs. However, if a rural nonprofit owns only a couple of projects with just a few units, it may not be able to produce the rent receipts needed to attract a capable and responsive third-party management company. Or, if a professional firm does agree to absorb these units into its management portfolio, they may not receive much attention from the firm because of the limited revenues they generate, since management fees are usually based on a percentage of project revenues.

Each of the organizations interviewed for this manual, except CHISPA, was dissatisfied with the first management company they contracted to supervise their projects. CVHC sought a different company with more experience managing subsidized and farmworker housing, and as the size of CVHC's rental portfolio has increased, the management company's responsiveness to the organization's needs has also remained strong. Because CVHC is one of the management firm's largest clients, the company has a strong incentive to be attentive to CVHC requests. In contrast to CVHC, Green Hills and Housing Opportunity decided to self-manage their projects rather than find other management companies after problems with their first ones. In the case of Green Hills, the project supervised by the management company had high vacancy rates. In most cases, since management fees are usually a percentage of rent revenues, professional firms work hard to keep vacancies low. Green Hills staff felt, though, that because their small project produced such a limited fee even fully occupied, the property management firm made little effort to reduce vacancies at the site. It could also be the case that the “absentee” property management company did not have sufficient knowledge of Green Hills’ market area to recruit enough eligible occupants. After developing its first rental complexes, CHISPA could not find a management company that the organization felt would be responsive to tenant needs, at least at a price the group’s portfolio could accommodate. The lack of a responsive management firm operating in CHISPA service area was one factor contributing to CHISPA’s decision to manage its own rental housing complexes.

Because of limited funding and professional resources, and the sparsely settled character of many rural locales, rural nonprofits have many additional concerns when thinking about property management. The hidden costs of managing rural rental projects are often substantial. If responsible professional management firms are available in a rural nonprofit’s service area, and affordable given the operating revenues of the project portfolio, contracting for property management is probably the best approach for maintaining high quality project(s) and reducing staff burdens.

MANAGING RURAL LOW INCOME HOUSING TAX CREDIT PROJECTS[4]

Managing LIHTC projects is complex and full of risk for the owners of these projects. LIHTC projects are owned by limited partnerships comprised of general partners and limited partners, who invest equity in the project in order to receive federal tax credits. Ultimately, the managing general partner (usually the nonprofit) in the ownership structure bears the most risk in ensuring compliance with LIHTC requirements. LIHTC compliance and monitoring requirements are complicated enough that only nonprofit organizations with substantial experience in multifamily housing management and LIHTC regulations should try to self-manage these projects. Noncompliance invites tax credit recapture, and noncompliance can occur in any area, from tenant files and documentation, to income eligibility certification, to inattention to details concerning prompt unit turnover. The consequences of a reduced tax credit award or tax credit recapture are diminished equity in the project at best and loss of the project at worst. In addition, serious noncompliance with LIHTC requirements can lead to loss of the nonprofit general partner's tax exempt status.

If a nonprofit organization does not have experience managing properties, or has not had experience developing or owning a LIHTC project, the most sensible approach may be to seek a professional management company or another nonprofit organization with management or tax credit experience to play an oversight role and double-check program compliance. If a nonprofit is located in a rural area lacking these resources, it is important to at least retain a consultant with expertise in LIHTC compliance issues. The consultant may receive fees from the limited partnership that owns the project as compensation for oversight in compliance monitoring and reporting. The consultant can perform the oversight role either as an outside professional, or as a special limited partner in the project, depending on the wishes of the general and limited partners.

CHISPA, CVHC and Green Hills have LIHTC projects, and staff at each organization stressed the importance of having a tax credit consultant. The consultants were not only important in planning and developing the projects, but also in providing assistance on compliance monitoring issues. Although each organization's staff have received training in tax credit reporting, the compliance requirements are complex enough that additional oversight is essential.

Program Compliance

However a project is managed, safeguarding program compliance is key to the success of both the project and the continuing stream of tax credits to the partnership that owns it. There are many areas where project managers must be diligent in monitoring and reporting their compliance with LIHTC requirements.

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[4]This section is a summary of pp. 39-45 in *Utilizing the Low Income Housing Tax Credit for Rural Rental Projects: A Guide for Nonprofit Developers* by the Housing Assistance Council, August 1997. Readers interested in more detailed explanation of rural LIHTC project development and management should see this publication.

The major areas of compliance to be handled by management include vacancies, rents, and certifications of income eligibility, as well as maintaining comprehensive documentation and reporting to both the managing general partner (or other oversight entity on behalf of the partnership) and to the state tax credit allocating and monitoring agency.

Vacancies affect both rental income and tax credits. The number of vacancies (or the amount of vacant floor space) in low-income units must be kept at or below the levels determined at the end of the first year of the credit period in order to maintain the basis on which the credits are calculated. A decrease in the number of units occupied by low-income tenants, high vacancy rates, or long periods of vacancy can trigger recapture of the tax credits.

In the LIHTC program, vacancy rates not only affect project income, but also tax credits. If outside management is hired for the project, the management agreement should include a fee adjustment based on the percentage of low-income units that are vacant, rather than simply the fluctuation of dollars from income. Since tax credit projects often have no additional subsidy, owners may need to find other subsidy sources so they can make their units affordable to households with the lowest incomes. One way to do this is to work with a housing authority administering Section 8 tenant-based rental assistance. Most housing authorities assist clients with their apartment search, providing lists of landlords or properties that accept Section 8, for example. Referrals to tax credit projects benefit the housing authorities, since these units are very likely to meet Section 8 Housing Quality Standards (HQS). A nonprofit owner of a tax credit project, or its property management firm, can work out a similar referral arrangement with a local housing authority, or can aggressively market the tax credit project to renters with Section 8 assistance in local newspapers or other venues. If the project is in any way dependent for its income on Section 8 vouchers and certificates, the management agreement may also include a fee adjustment or bonus based on management's ability to rent units to households with vouchers.

Project managers must carefully review tenant applications and verify tenant income eligibility. Tenant files must include extensive third party documentation of the income verification process as well as the managers' certifications of tenant eligibility. All of these considerations add substantially to the process of screening and selecting eligible tenants, as well as to the process for managing unit turnover. One problem noted by CHISPA staff is that if project construction is delayed, tenants must be recertified at the time of project completion. CHISPA staff observed that having to go through the detailed recertification process on a short time-frame makes it more likely that staff may neglect to report essential information. Regular staff training in the certification requirements for LIHTC projects, and years of developing experience in this area, prevents certification errors from derailing tax credit projects. Since CHISPA has owned LIHTC projects for many years, the organization has developed substantial staff expertise in certification, compliance monitoring, and reporting. Over the years the organization has continually refined its reporting systems and required more diligent review of certifications and compliance monitoring reporting by its property management supervisors.

Nonprofits who seek to manage their own projects should think carefully about the depth of the risk involved in noncompliant management on a LIHTC project before going ahead with their plans. This brief explanation of LIHTC management and compliance monitoring only scratches the surface of compliance requirements and the consequences of noncompliance, but should be enough to discourage the inexperienced nonprofit from managing its own LIHTC project. Hiring expert on-site management can help contain the risk of noncompliance; involving the future management agency in the project preferably as early as the conception and planning stages, can help the developer avoid small problems during construction, lease-up or design of the syndication agreement with limited partners that can evolve into major issues with tax credit noncompliance.

Compliance Monitoring Issues

State tax credit agencies are primarily responsible for monitoring project compliance with LIHTC program requirements and reporting the results to the IRS. Monitoring begins with the process of certifying development costs at the end of construction or the first year of the credit period, but the real work of monitoring occurs over the period of compliance for federal tax credits.[5]

State monitoring varies procedurally from state to state, but the overall goal remains consistent: verify that projects are consistently serving the required number of households with appropriately low incomes. Compliance officers are primarily concerned with three basic income eligibility issues:

- Has the project continued to meet its minimum setaside of low-income units (either 40 percent of the units set aside for low-income households, or 20 percent of units set aside for very low-income households, as elected by the developer)?

- Has the project maintained enough of its units for low-income households to continue to qualify for all of its allocated tax credits? Projects must meet their minimum set-aside to qualify for *any* of their allocated tax credits; once they have met that threshold, they must maintain no less than the required number of units to maintain qualified basis and claim the full amount of tax credits for that year.

- Has management appropriately verified tenant incomes, assets, and student status, and documented the certifications comprehensively?

Compliance officers will also examine whether rent levels on low-income units comply with rent maximums for each size unit.

Should a project fail to meet program requirements in any way (change in basis, non-reporting, non-verification, etc.) recapture of tax credits is possible.

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[5]Tax credit projects placed in service before 1989 have a 15-year compliance period. Since 1989, state tax credit allocating and monitoring agencies must have LIHTC recipients sign extended restrictive use agreements increasing the compliance period not less than an additional 15 years. The full compliance period for post-1989 projects is therefore at least 30 years, although the length varies by state, with some states requiring longer extensions of the compliance period.

Depending on the state, management must report to the monitoring agency monthly, quarterly, or annually. Reports may entail statements of income and expenses plus all certifications for new residents. All tenants must be recertified annually.

States perform audits of their LIHTC projects periodically, usually on a schedule such as one-third of their LIHTC portfolios every year. Audits include on-site inspections. Although there is some variance among monitoring agencies' compliance procedures, owners should be aware that states in general are becoming more careful about compliance monitoring.

Monitoring for LIHTC compliance is improved with experienced onsite project management, and careful oversight of management operations on a monthly basis. Since accurate and timely reporting plays such an important role in managing LIHTC projects, the management operation of the nonprofit or its contracted management company should ensure that staff have the expertise to meet reporting requirements. Typical monthly reports to the general partner require much information from many aspects of the management operation, from tenant recruitment and eligibility screening to the maintenance needed to prepare vacant apartments for new tenants. These monthly reports contain income and expense statements, vacancy reporting, certification copies and all other data reflecting LIHTC compliance. With such a wide array of information required for reporting, coordination between the different management functions is essential. If contracting for management services, the nonprofit owner should include clauses in the management contract tying management fees to compliance issues.

Ultimately, the managing general partner bears final responsibility for compliance issues. Should tax credit recapture occur in response to noncompliance, the limited partners/investors will seek compensation according to the terms in the partnership agreement. Limited partners also retain authority to remove general partners in cases of fraud or great negligence. Ensuring that site staff and supervisory management have the training and experience to ensure compliance with LIHTC guidelines is important to the success of these projects.

Taxes and Audits

The tax matters partner, usually the managing general partner, is the partner designated in the partnership agreement to handle tax issues for the partnership. This entity is responsible for arranging a project/partnership audit annually. This audit must include reviews of project income, expenses, cash flow, reserves, and accounts, as well as partnership capital contributions, cash flow, reserves and guarantees. The tax matters partner is also responsible for arranging the preparation, filing, and distribution of tax forms based on the results of the partnership audit.

Nonprofit tax matters partners may not be aware of the full extent of filing necessary on behalf of the partnership simply because they are unaccustomed to the tax regulations affecting limited partnerships. An effective accountant and tax counsel experienced in these matters may help a nonprofit maintain its responsibilities of filing partnership taxes, registration and fees with the state and federal governments, as well as protect the nonprofit's tax exempt status.

It is also essential that the tax matters partner select an auditor with experience in limited partnerships and LIHTC projects. Nonprofits in remote areas may have difficulty finding an accountant with this experience. but it is *absolutely necessary* to effective auditing on the project and the partnership. An experienced auditor can alert partners to possible issues of noncompliance and ensure that funding of equity, reserves, and guarantees occurs in a timely and appropriate manner. An auditor inexperienced in LIHTC projects or limited partnerships may not understand the flow of equity, cash, or liability through the construct of the limited partnership or alert partners to issues on noncompliance. When either state monitoring agencies or the IRS audits the project for compliance, or begins testing whether the general partner's nonprofit status is valid, an effective auditor can prevent great damage occurring to the project, the partnership, and the partners.

Between extensive tenant eligibility certifications, complex compliance requirements, and exhaustive reporting on project compliance with LIHTC regulations, there is a substantial paperwork burden associated with owning and managing tax credit projects. Green Hills has an assistant to the supervisor of its property management operation dedicated to these tasks, but tax credit compliance and reporting are a major burden on this staff person's time. Green Hills staff note, though, that the purchase of a new computer to contain its reporting systems has been a tremendous help in reducing the reporting burden on the organization's property management staff.

If a nonprofit organization contracts with a professional management company, the management agreement may specify that the company is primarily responsible for compliance monitoring and reporting on LIHTC projects it manages. However, this does not mean that the nonprofit owner does not need to develop staff capacity in LIHTC compliance issues and reporting requirements. The nonprofit owner needs the staff expertise to evaluate the reports generated by the management firm, and to respond to the management company's recommendations for bringing projects into compliance. Developing this expertise among the nonprofit's own staff is particularly important since the nonprofit owner will ultimately be liable for any penalties arising from noncompliance with LIHTC requirements. For example, although CVHC's management company performs the compliance monitoring and most of the reporting for the organization's LIHTC projects, CVHC's asset management staff have undergone training in the tax credit program. By hiring a company with sophisticated reporting systems, and developing tax credit expertise on staff to revue the company's reporting and tax credit compliance, CVHC has avoided any problems with maintaining the financial soundness of these projects.

MAKING THE DECISION: SELF-MANAGEMENT OR CONTRACT MANAGEMENT

There are a large number of considerations that must be addressed in order for a nonprofit affordable housing developer to determine whether self-management or contract management is the best approach for the organization and its tenants. Developing projects in rural areas increases the complicating factors that a nonprofit owner must assess before making the decision to take on project management. In general, if a nonprofit group has limited housing development and project management experience, it is usually be best to seek a professional property management firm.

Although this manual has presented a wide range of issues that must be considered when determining the best approach to managing rural rental projects, four general areas should receive special consideration when making the decision to self-manage or contract for property management. First, an organization's mission or goals may play an important role in making the decision to take on property management, or influence which professional firm is hired to perform property management duties. Second, the size of a group's rental portfolio and the budgets for its individual projects will constrain the development of the organization's management operation and affect the attractiveness of the portfolio to a professional management firm. Third, the availability of a suitable property management company, or qualified property management staff, is an important factor. Fourth, special project or tenants needs, and the ease or difficulty of tailoring property management operations to meet those needs, should be assessed when making the decision about the best route to quality property management.

Most nonprofit housing providers have organizational goals to serve or empower low-income residents and their communities. Developing affordable rental housing is an important contribution to low-income households in rural areas, but nonprofit project owners may see their mission as something more. Self-management of affordable rental projects may be attractive because of the opportunity to more closely support tenant self-sufficiency efforts. Or, if seeking contract management, the willingness of a property management company to support or coordinate tenant services may be an important factor when choosing one firm over another. Although CVHC and CHISPA chose divergent approaches to managing their projects, hiring a professional firm and self-managing, respectively, each cited organization mission values and goals as factors in their decisions. CVHC dropped its first management company because it would not adjust its management operation to address tenant needs. Most of CVHC's tenants are low-income farmworkers, and almost all of the group's tenants are Hispanic. CVHC actively sought a company with experience subsidized housing in general, and farmworker housing in particular.

CHISPA, on the other hand, could not locate a professional management company that was responsive to the special needs of the group's tenants (also mostly farmworkers and almost all Hispanic). The lack of a firm with the experience and flexibility sought by CHISPA was a major factor in the group's decision to establish a subsidiary to handle management of its rental housing portfolio. Although CHISPA's portfolio is now large enough to make it a very attractive client for a contract management company, CHISPA is still committed to self-managing its projects. The organization feels that this approach gives it more control over the management function, and that the organization is likely to be more responsive to tenant needs than a for-profit property management firm. Ultimately, the availability of a contract management firm with experience managing subsidized rental projects is an important factor in deciding whether or not to self-manage. If such a company is present in the nonprofit's rural service area, and the property management company is flexible and responsive to the needs of the nonprofit's tenants, it may be best to contract out property management. If no firm experienced with subsidized housing management works in the area, or the firms that are present are not willing to adjust their management operations to the nonprofit group's needs, the nonprofit owner of rural rental projects may have no choice but to self-manage.

The size of a group's rental housing portfolio and the project budgets for individual properties are also important factors to consider, regardless of whether contracting for property management or self-managing. Small portfolios, in either case, make property management more difficult. On the one hand, if a nonprofit owner self-manages a small portfolio, revenues are not likely to be sufficient to cover the expenses of the management operation. The group will probably have to commit staff resources to secure additional operating funds. On the other hand, professional management firms are reluctant to take on small portfolios for the same reason, and because their management fee will be small, may be less responsive to the desires of the nonprofit owner.

Both Green Hills and Housing Opportunity have very small rental housing portfolios with less than 50 units, both have found their best option is to manage their projects themselves, and both are in the process of developing more units. However, they are increasing the size of their rental portfolios for somewhat different reasons. Green Hills is firmly committed to continued management of its own projects, and sees a larger rental portfolio as a means to help the management operation break even. Housing Opportunity, while considering staying with self-management as its portfolio grows, would prefer to have an outside company take over property management. A larger portfolio would be more attractive to a professional property manager, and a larger portfolio would increase the incentive for a professional company to be responsive to Housing Opportunity's property management goals.

In addition to the overall size of a nonprofit group's rental housing portfolio, the size and location of its projects should be a factor in deciding on a property management approach. Small project budgets cannot usually support onsite property managers and maintenance staff, but a portfolio with a mix of small and large complexes may be able to at least support some onsite property management presence. CHISPA's system of a resident manager at one project who is a "circuit rider" providing property management services to nearby complexes is possible with a mix of project sizes. Additionally, larger projects tend to generate greater rent revenues, and these revenues may help carry smaller projects with more limited cash flow.

There are few experienced property management companies headquartered in rural areas, and the lack of professional management firms may be an important consideration when a nonprofit organization decides to take on management of its projects. Green Hills initial management company is headquartered outside Missouri, and Housing Opportunity's initial company is based in Atlanta. In both cases, the remoteness of the companies from the projects they supervised was a factor in the groups' decisions to take over management of their projects.

On the other hand, if a nonprofit organization works in a very sparsely settled rural area where it will be hard to find qualified staff for the management operation, project and tenant needs may be better met by contracting with a professional company, even if that company is located far away.

Some rural nonprofit housing providers have developed or wish to develop housing to serve populations with special housing and service needs. Projects serving elderly residents, transitional housing for formerly homeless households, or farmworker housing projects are examples of projects that require additional staff resources and attention. Professional management companies maximize their profits at least in part by standardizing their management operations. They may be reluctant to alter their standard procedures or property management organizational structure to meet special tenant needs, such as having bilingual staff, coordinating service provision, or recruiting tenants for property management and maintenance positions. If there is a property management company with experience serving the special population(s) being targeted by the nonprofit group's housing initiatives, then it may be best to contract for management of these projects. However, if there is no company with such experience, the nonprofit owner may have to manage its own projects.

Rural nonprofit housing developers work very hard to produce safe, decent and affordable housing in their communities. These projects, although often quite small, represent a tremendous investment by these groups in the well-being of their communities. Poor management of these assets can quickly undo years of hard work. Sound property management not only maintains the physical assets of a complex, but also contributes to a higher quality of life for project residents. Because rural organizations generally have access to more limited resources than their urban counterparts, it is imperative that they consider all the factors that may undermine their efforts to transform bricks and mortar into homes and communities.

Good property management is essential to the success of affordable rental projects. Nonprofit housing developers in rural areas face many unique challenges managing their properties. This planning guide introduces rural nonprofit organizations to the issues they need to consider when making decisions about whether to manage their own properties or hire professional management companies. The guide covers basic property management functions, resident-centered property management, rural and small project management, and management of rural Low Income Housing Tax Credit projects.

ISBN 1-58064-107-5