NeighborWorks®

Neighborhood Reinvestment Corporation

Assessing Property Management for Affordable Housing

Comparing self-management and third-party property management of nonprofit-owned, affordable multifamily rental housing

Marc Diaz

Fellowship Program for Emerging Leaders in Community and Economic Development

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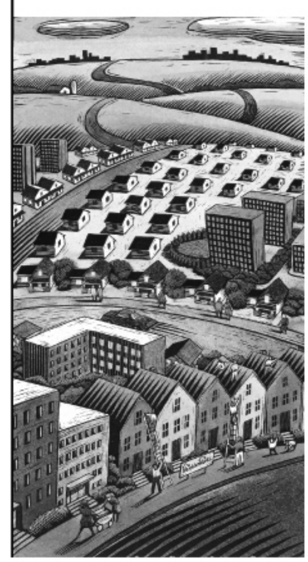

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Abstract

This research examines how nonprofit owners of affordable multifamily rental housing choose their approach to property management. It draws on existing literature on property management, insight from leading policymakers and practitioners, and survey responses from Neighborhood Reinvestment Corporation's NeighborWorks® organizations that participate in the Corporation's Multifamily Initiative. The paper explores how the structural features of a nonprofit's portfolio and local market, the owner's priorities driven by its mission and resources, and the capacity and incentives of managers shape the property-management approach that the owner embraces. It encourages owners to evaluate these factors and seek out a range of choices. By considering portfolio size and stage of organizational development, the importance of property management to the core mission, and the quality of property-management options in their local market, nonprofits can align their property-management approach with the financial and mission-driven double bottom-line focus of their organization. The paper also presents findings that describe how third-party managers tend to bring economic advantages of efficiency, while nonprofit managers often better serve owners seeking to organize and empower resident communities.

Policymakers should be mindful of the constraints that limit nonprofits from being effective stewards of their properties: burdensome requirements for regulatory compliance, insufficient financial resources to support asset management, and an underwriting process in which funders and developers can underfund operating budgets because of a desire to stretch limited subsidies. Policymakers and intermediaries can improve the quality of property and asset management by continuing to invest in property- and asset-management training and funding for the growing numbers of nonprofits becoming owners and developers of affordable housing. They can also contribute in a meaningful way by helping nonprofits to clarify their mission focus and by providing them with examples of effective decision-making and ongoing management practices drawn from strong self-managed and vendor-managed properties.

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1.0 Executive Summary

Affordable-housing development and preservation focus most often on how to build, buy and retain units. This can lead to a deal-driven focus that obscures the challenges of ongoing asset and portfolio management. Not only should nonprofits ensure safe, attractive and well-maintained housing for their residents, but they also should focus on asset management: the long-term financial stewardship of their properties. This work seeks to draw attention to the decisions nonprofits must make in determining their approach to property management, while also suggesting analytic frameworks that can help nonprofits optimize their decision-making for their portfolio. By doing so, nonprofits can better meet their double bottom line: sustainable financial performance and progress on mission-oriented goals.

This research examines how nonprofit owners of affordable multifamily rental housing choose their approach to property management. It draws on existing literature on property management, insight from leading policymakers and practitioners, and survey responses from Neighborhood Reinvestment Corporation's NeighborWorks® organizations that participate in the Corporation's Multifamily Initiative.[1] The paper explores how the structural features of a nonprofit's portfolio and local market, the owner's priorities driven by its mission and resources, and the capacity and incentives of managers shape the property-management approach that the owner selects. While the decision trees presented should not dictate the choices that owners make, these tools do provide a way to balance the variables at play in a given market and nonprofit owner's situation. Additionally, this paper considers the relative strengths of for-profit and nonprofit managers.[2]

This analysis suggests that the following factors play the greatest role in determining a nonprofit owner's management approach.

1. **Portfolio size, concentration and proximity to existing business.**
2. **Nonprofit owner's mission connection to direct management.**
3. **The financial bottom-line goals of the nonprofit.**

The primary trade-offs between for-profit and nonprofit management approaches are that:

1. **Nonprofit owners tend to pay a financial premium for self-management.**
2. **Services undertaken to organize and empower tenants tend to be delivered more effectively by nonprofits.**

Synthesizing these particular insights, the following broader findings emerge:

1. **As a nonprofit owner's portfolio scale, age, and staff professionalization grow, the value of self-management and vendor management varies.** The interaction of a nonprofit's stage of development, geographic distribution and mission orientation suggests a management approach that nonprofits similar in these dimensions are likely to prefer. Small nonprofits

[1] Multifamily Initiative members must own at least 70 units of affordable multifamily rental housing, which constitutes their primary line of business, and use accrual accounting in their financial statements.

[2] For more detailed information on property-management operations and best practices, see: Stockard, Jim. *A Guide to Comprehensive Asset and Property Management.* New York, NY: LISC. 1995. See also Hecht, Bennett L. *Developing Affordable Housing*. New York, NY: John Wiley & Sons, Inc. 1999. See also Batko, Bill and Mickey Diggs. "The Options of Property Management." Consortium for Housing and Asset Management (CHAM). September 1996. See also Holden, Christopher. "Should we do it ourselves or hire someone else? A rural property management planning guide." Housing Assistance Council. November 2000.

often self-manage because they lack the scale to attract vendor interest and because their mission focuses on managing the day-to-day operations of a property. Medium-sized nonprofits can benefit from using vendors to manage their properties because their portfolios attract vendor interest, often provide more attractive pricing than self-management at this scale, and enable a medium-sized organization to grow its capacity for development and resident-service delivery. Large organizations often embrace self-management because their scale allows for reasonable financial returns, leveraging their existing organizational infrastructure to support management operations.

2. **By emphasizing different property-management activities nonprofits can focus on different parts of the double bottom line.** Basic property-management activities resemble commodities and benefit from scale and standardization. They include tenant selection, rule enforcement, management of maintenance, security, community-building, budget and finance, personnel, and management information systems. They contribute primarily to a nonprofit owner's financial bottom line. Service-intensive property management activities focus on tenants and often require customization across properties and populations. They include educational, vocational, health, counseling, recreation, and arts and culture activities. Because these investments often lack short-term financial rewards, nonprofits pursue them because of mission-driven purposes. Based upon a nonprofit's double bottom-line priorities, different management approaches may better meet a nonprofit's property management goals.

3. **Effective asset management is more likely when clear goals for property management have been articulated to the manager, with ways to regularly measure outcomes and provide clear feedback that can be acted upon.** The owners most satisfied with their manager's contributions to the long-term stewardship of a property share clear goals for property management, measure outcomes, and work with the manager to improve continuously. By engaging in a process to determine their property-management goals, owners also address most of the major criteria that shape whether they are better served by a third-party or self-managed approach to property management.

Synthesizing these insights suggests the following for various actors in affordable housing.

To maximize the value they contribute to the owner's double bottom line, **managers** should:

1. Engage nonprofit owners annually about their goals for property management;
2. Recognize that the property-management operation functions with greater financial efficiency when run as a business, as opposed to a job-training program for community members; and
3. Focus on attracting and retaining affordable, high-quality staff by looking to sources of talent often used less intensively by market-rate property managers, such as recent college graduates and local community members, and considering nonfinancial ways to compensate employees.

To enable nonprofits to maximize the value of the subsidies that they deploy, **funders and regulators** can:

1. Coordinate regulatory requirements in key subsidy programs at the state and federal level;
2. Allow nonprofits to claim asset management fees above-the-line; and

3. Pay greater attention to property-management costs in the underwriting of development deals to ensure long-term, financially sustainable deals.

Finally, **intermediaries** can serve their nonprofit constituents by building upon their property- and asset-management training efforts and reference materials, helping nonprofits to:

1. Clarify their mission, double bottom-line focus, and their implications for housing development, service delivery and property management, and understand how well different management approaches meet mission and financial performance goals; and
2. Share the experiences of nonprofits that have selected and overseen in-house and third-party property management operations particularly well.

Ultimately, helping nonprofits to choose the most effective property-management approach for their portfolio yields several important benefits. Most importantly, it increases the efficiency with which a nonprofit's limited resources and affordable-housing subsidies are deployed, extending these tools across the greatest number of units and ensuring safe, attractive and well-maintained communities for residents. More broadly, nonprofits that choose the highest quality, most cost-effective property management solution for their portfolio disarm not-in-my-backyard (NIMBY) arguments that enable many communities to resist affordable housing. Finally, strengthening decision-making capacity in nonprofits carries powerful spillover effects, supporting more deliberative and well-informed management across the entire range of activities in which nonprofits engage.

2.0 Definition of Key Terms

Within the field, a number of terms appear together or are used synonymously when referring to affordable multifamily rental housing. In this research, **affordable multifamily rental housing** is meant to describe properties with the following general characteristics:

1. **Five or more units;**
2. **Public subsidies** leveraged in development or renovation, such as tax credits, subsidized loan funds and grants, and provided in exchange for below-market-rate rents to tenants; and
3. The majority of **households earning some percentage less than the median family income** (MFI) of a metropolitan statistical area (MSA) (usually dictated by the subsidies used: e.g., use of the Low Income Housing Tax Credit mandates that residents earn less than 60 percent of MFI).

Therefore, the shorthand "affordable housing" to which this paper refers excludes properties which occasionally serve lower-income people, but lack a consistent commitment or requirement to serve this population.

In addition, many different types of **nonprofit organizations** develop and own affordable multi-family rental housing. The term community development corporation (CDC) will be used to describe any community-based development organization (CBDO), community housing development organization (CHODO), mutual housing association (MHA), NeighborWorks® organization (NWO), or other community-based nonprofit that owns and develops housing. These organizations operate with a **double bottom line**: (1) the financial performance and sustainability of individual properties and the organization; (2) the mission, or advancement of specific goals to which the nonprofit is committed.

Finally, the term **nonprofit owner** refers to nonprofits that both own their properties outright and serve as the general partner in tax-credit development deals. This recognizes that, while nonprofit owners may own only a fraction of the physical asset in a tax-credit deal, the limited partners have little connection with the day-to-day operations of the property. The nonprofit owner is clearly the principal decisionmaker in determining who will manage the property and how the property will be managed.

3.0 Research Methodology

The findings from this research study were obtained in a number of ways.

SOURCE	DETAILED EXPLANATION
Expert interviews	• 47 individuals • Included academic, foundation and think-tank experts; industry consultants; nonprofit developers, asset managers and property managers; for-profit property managers; intermediary representatives; funders; regulators
Electronic questionnaire	• Sent to the 68 NRC NeighborWorks® organization Multifamily Initiative members; 46 responded (for a response rate of 67.6 percent) • Summary and aggregate responses to the questions are presented in the Appendix • Neighborhood Reinvestment's most recent information about the number of units and portfolio size of each respondent was cross-tabulated with the survey responses
Public meetings	• Policy briefing and discussion with leading housing experts at Neighborhood Reinvestment headquarters in Washington, DC • Workshop on August 9, 2004, open to participants in Neighborhood Reinvestment's Training Institute in Washington, DC • Focus group with nonprofit leaders interested in and informed about issues surrounding property-management decision-making
Literature review	• Publications on relevant issues incorporated and cited throughout the paper

4.0 Background

4.1 History of Affordable Multifamily Development and Nonprofit Involvement

Over the past generation, nonprofits have emerged as producers of affordable multifamily rental housing market. Prior to the 1960s, for-profit developers drove development of multifamily rental housing (excluding public housing). During the 1960s several federal programs emerged that created incentives for developing affordable multifamily rental housing, including the Section 202 program to develop elderly housing in 1959[3] and Section 236 in 1968 for rental construction and rehabilitation[4]. The support provided through these programs, coupled with the worsening situation of inner-city housing stock through the 1970s, drove local community activists, often initially organized around a single building or block, to reclaim and redevelop dilapidated housing stock. With continuing support from federal subsidies through the Section 8 production program, Section 221(d)(3) BMIR, RHS Section 515/Rental Assistance, and the 202 and 236 programs, and the consolidation of urban renewal funds through community development block grants, CDCs emerged as a new source of affordable multifamily housing development. Initially, these small organizations developed properties through trial and error and relied upon support from government and charities to sustain their work. However, writing about the impact of these grassroots efforts, Paul Grogan observes that, "as successes build credibility, experience, and revenue, their efforts expand[ed] and beg[a]n to influence the behavior of other market players."[5]

The next major governmental policy in affordable multifamily rental acknowledged the valuable role that these community-based nonprofits played in contributing to the nation's affordable housing stock. The Low Income Housing Tax Credit (LIHTC), introduced in 1986, provided an explicit allocation of at least 10 percent of all tax credits to 501(c)(3) tax-exempt nonprofit corporations, recognizing that nonprofits would take on the most challenging development projects. The introduction of investors whose returns depended upon the sustainable, long-term management and compliance of affordable properties elevated the importance of property and asset management. National intermediaries that had grown to support these nonprofits recognized this, forming the Consortium for Housing and Asset Management (CHAM) (www.cham.org) in 1994 to strengthen nonprofits' property- and asset-management capacity. Looking back over the past 30 years, nonprofit affordable-housing developers have emerged as meaningful contributors to the nation's affordable multifamily housing stock, producing or rehabilitating more than 550,000 units of affordable housing.[6]

4.2 Market Statistics

While America remains a nation focused on homeownership, the *2004 State of the Nation's Housing* reminds us that as of 2001 there were 37.4 million rental housing units, with 16.2 million of these in the five-and-over-units multifamily category.[7] A similar count of rental units in 1999 indicated that 13.5 million of their resident households earned less than 50 percent of the area median income, and

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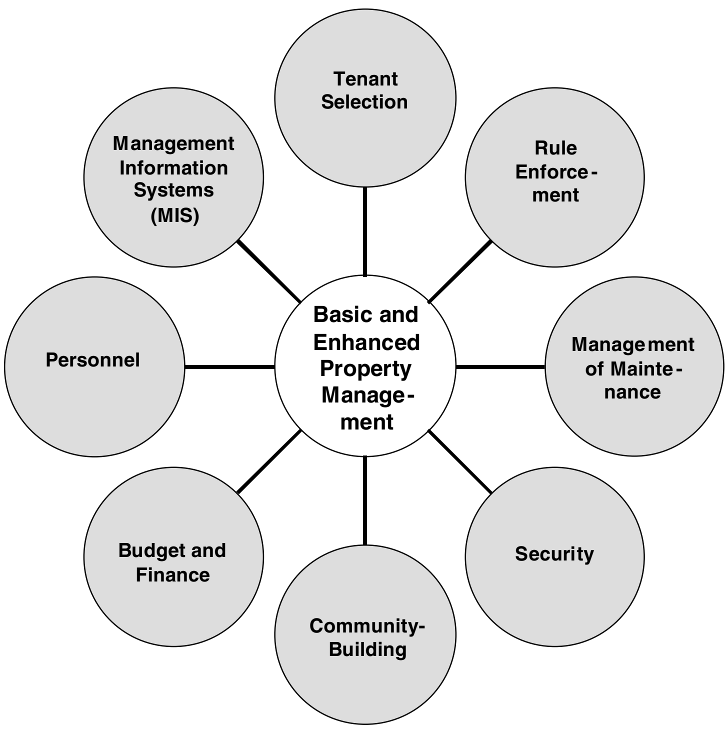
[3] "63 Years of Federal Action in Housing and Urban Development." *Cityscape*. Vol. 1, No. 3. Sept. 1995, p. vi.
[4] Mayer, Neil S. "HUD's First 30 Years: Big Steps Down a Longer Road." *Cityscape*. Vol. 1, No. 3. Sept. 1995, p. 2.
[5] Grogan, Paul and Tony Proscio. *Comeback Cities*. Boulder, CO: Westview Press. 2000, p. 69.
[6] Rohe, William M., Bratt, Rachel G. and Protip Biswas. "Evolving Challenges of Community Development Corporations." Chapel Hill, NC: Center for Urban and Regional Studies at UNC–Chapel Hill, Jan. 2003, p. 7.
[7] *2004 State of the Nation's Housing*. Cambridge, MA: Joint Center for Housing Studies at Harvard University. p. 42.

20.8 million rental households earned less than 80 percent of the area median income.[8] Only 6.3 million of these units were subsidized as of 2001. Of these, 3.9 million units were in over-five-unit structures.[9] Subsidized affordable rentals in five-and-over-unit buildings owned by nonprofits are the focus of this paper.

4.3 Property Management Definitions

As nonprofits have developed properties, they have had to learn how to maintain the properties to preserve their investments. While multifamily rental properties differ, property-management needs for these units consist of a shared set of activities focused on tenants, finances and property. The range of these activities has been well defined in LISC's *A Guide to Comprehensive Asset and Property Management,*[10] a practical manual developed for nonprofit owners and developers of affordable multifamily housing. The major categories of core property-management activity include the following:

Figure 4.3.1 – Basic and Enhanced Property-Management Activities

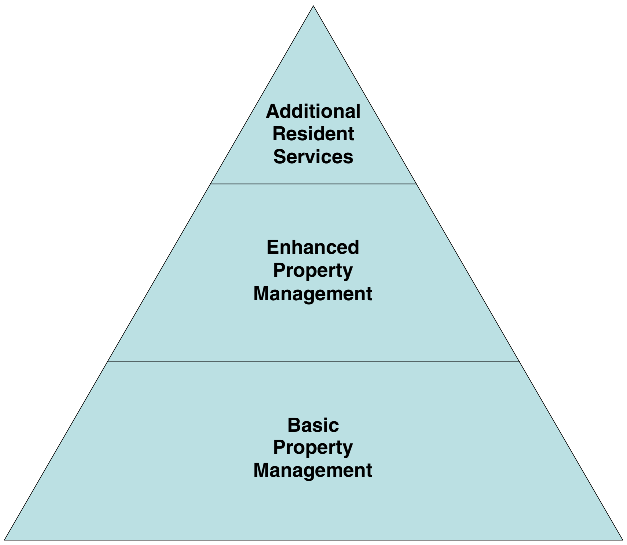


A complete listing of the basic and enhanced property-management activities can be found in the LISC publication. In addition to these core functions, which "are absolutely necessary for good property management anywhere,"[11] the guide describes a set of six other property-management activities that many nonprofits choose to provide. These additional resident services may include

[8] Golbeare, Cushing. "Housing Affordability: Challenge and Context." *Cityscape.* Vol. 5, No. 2. 2001, p. 114.
[9] Joint Center for Housing Studies. Tabulation of 2001 American Housing Survey data. August 12, 2004.
[10] Stockard, *A Guide to Comprehensive Asset and Property Management*. 1995, p. iv.
[11] *Ibid.,* p. iv.

educational, vocational, health, counseling, recreation, and arts and culture activities.[12] Examples include computer classes, leadership training or substance-abuse therapy.

Figure 4.3.2 – Relationship of Property-Management Activities



Many nonprofits choose to provide these services themselves or to contract with third-party service providers, separate from their property manager, to sustain the properties as well as the residents and communities there. In evaluating the management approach that nonprofits choose, special attention is given to the value that a nonprofit owner places on these resident services and the ways in which property management and delivery of services to residents interact.

4.4 Ownership and Management Structures

To consider the different potential ownership and property-management structures, a simple matrix suggests four generic options:

Figure 4.4.1 – Ownership and Management Structures

Research Focus = □

	Nonprofit Ownership	**For-Profit Ownership**
For-Profit management	• Some properties managed by firms specializing in affordable housing • Less commonly managed by market-rate-focused managers	• Often individually or company-owned and managed • Common market-rate multifamily property arrangement
Nonprofit Management	• Most often represents self-management by nonprofit owner • Includes management by for-profit subsidiaries of nonprofit organizations • Includes direct management by other nonprofit organizations	• No evidence outside of supportive housing

[12] Stockard, p. 103.

Entirely private-sector ownership and management composes a significant piece of the multifamily rental market. Many of these buildings are privately owned and managed by the same individual or firm, which make them difficult to study. Based upon extensive interviewing with experts in the field, there is no evidence that nonprofits manage for-profit-owned affordable multifamily housing, outside of supportive housing arrangements in which service provision and management are integrated. This paper focuses on nonprofit-owned housing because nonprofit owner/developers' extensive use of public subsidies in their projects provides a unifying set of challenges to make reasonable comparisons between nonprofit owners. Nonprofit owners also draw particular interest because of their mission commitment to serve low-income people. In contrast to some for-profit affordable owners, many nonprofit owners also attempt to serve significantly lower-income people than subsidy sources require.

For nonprofit owners of affordable multifamily rental housing, the choice of for-profit versus nonprofit management more typically emerges as a choice between self-management and third-party management. Those nonprofits that self-manage most commonly directly manage properties, oversee the staff hired to manage the properties, or create a subsidiary property-management organization within the parent nonprofit. Direct management is more common among small nonprofits, where there may be an entirely volunteer staff or a limited number of employees who may play multiple roles (e.g., executive director, property manager, chief financial officer, etc.). Subsidiary property-management organizations are more common among larger nonprofits whose portfolio size exceeds a threshold size (discussed later), where they either begin self-management or more explicitly structure their management operations. In several instances, as in the recent experience of the Arlington Housing Corporation, Inc. (AHC) (www.ahcinc.org), a subsidiary structure is built in collaboration with an existing property manager.

Creating a Subsidiary to Self-Manage

Arlington Housing Corporation, Inc., in Arlington, VA, created a subsidiary organization with its existing property manager in order to build the capacity to transition to more financially attractive self-management. AHC created a 51-percent-owned subsidiary, run by the principal of its property-management vendor, who also owned the remaining 49 percent of the subsidiary. AHC structured the arrangement with a contract to purchase the subsidiary outright after three years. AHC used this time to build the subsidiary's capacity and its ability to oversee management operations. Other nonprofits capture an existing property-management firm to generate taxable revenue, which can benefit the parent nonprofit.

For-profit management represents the vast majority of third-party vendors. Some of these firms, such as the Boston area's Maloney Properties (www.maloneyproperties.com) or The Gavzy Group in Minneapolis–St. Paul, specialize in the management of affordable multifamily housing. Other for-profit vendors, such as the John Stewart Company (www.jsco.net) in California, manage affordable housing as one line of business among other types of property-management and real estate activity. Still other vendors manage only a few affordable multifamily properties and often do so because they have the only property-management presence in an underserved area.

In addition to using third-party, for-profit vendors, a small number of nonprofits use third-party, nonprofit managers to serve their properties. These tend to be small nonprofit owners in communities with larger and more experienced nonprofit owner/managers. Both the nonprofit owner and manager value the economic benefits of scale and the mission resonance that often exists between organizations. These nonprofit managers rarely aspire to expand their portfolio beyond the local community or affordable housing. In contrast, for-profit managers tend to aspire to greater economies of scale that often lead them to pursue business outside of their core market and even to consider managing properties that are not affordable multifamily rental housing.

4.5 Asset Management: The Long-Term Perspective

Complementing property management, asset management represents the long-term commitment to steward the physical asset and the financial structure that supports it. The core asset-management activities related to the preservation of the development include “the acquisition of properties that can serve the goals of the owner, and the administration and disposition of those properties in such a manner that the owner’s goals are achieved over the long run.”[13] While asset management remains the owner’s responsibility, strong property management provides the owner with information to engage in the long-term planning and capital investments needed to achieve the financial and mission-driven goals for the property and its residents. The most basic financial goal is to generate long-term positive cash flow that funds adequate capital expenditures and reserves, while maintaining long-term affordability for residents. The core nonfinancial goal is to keep the physical plant sufficiently well-maintained to provide residents a safe, well-functioning and attractive place to live.

Asset management relates to effective property management and development in a number of ways. Clear asset-management goals enable the property manager to align budgeting and day-to-day management with financial targets and to prioritize among competing property-management activities. This ensures that the property manager advances the owner’s values through daily activities from screening tenants to maintaining the physical plant. To articulate goals clearly, asset managers need to forecast performance and needs, yet respond to changing market conditions and realities at the property. They also need to translate their mission into outcomes and approaches that work for their property manager. This is especially important for nonprofits that self-manage, where it is often assumed that everyone knows how to serve the mission. The more guidance asset managers provide for property managers, the more likely owners are to achieve the outcomes that they seek.

Ultimately, continuing housing development depends upon effective asset management. Funders consider an owner/developer’s capacity to make good on previous development promises and steward limited financial resources effectively. With the diminishing availability of subsidies for affordable-housing development, funders pay particular attention to the ability of nonprofit owners to maintain high-quality properties that are financially stable. They look for adequate reserve budgeting, rents and management expenses in line with market norms, and rigorous oversight of the physical asset from construction through the lifetime of the property to demonstrate good stewardship.

[13] Stockard, *A Guide to Comprehensive Asset and Property Management,* p. 170.

5.0 Research Questions

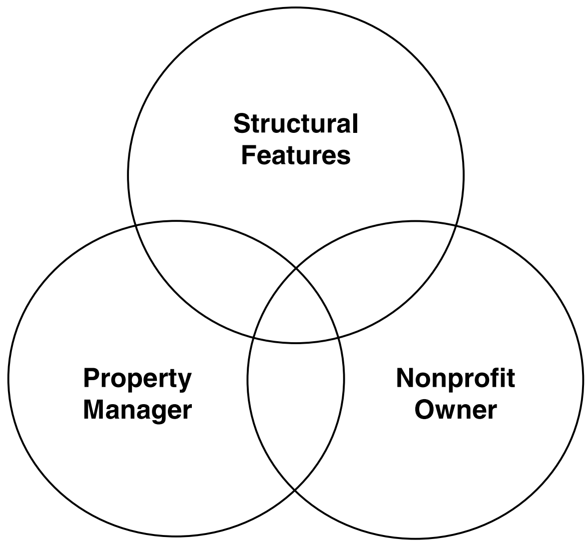
With this background information, the first research question asks how nonprofit owners of affordable multifamily rental evaluate management options and what factors shape their decisions. The most common and meaningful questions that nonprofit owners ask are: (1) do we self-manage or contract with a vendor? and (2) if we use a third party, which vendor do we select? While this process is iterative based upon the cost, presence and quality of potential vendors in the marketplace, nonprofit owners typically assess their own capability and desire to manage before evaluating vendors in detail.

The second research question asks what differences exist between nonprofit and for-profit property management of nonprofit-owned affordable multifamily rental housing. Here the salient comparison addresses an owner's satisfaction with the ability of the management approach to meet the owner's goals. For nonprofit owners, two sets of management goals exist: financial and mission-related. The primary financial goal is to ensure that their properties are, at least, economically sustainable. The mission-related goals can vary widely, but often include a commitment to serving a particular resident population with a specific approach that produces outcomes for the residents and/or the property and community that drive the nonprofit's purpose for owning affordable housing. When taken together these goals represent the double bottom-line for nonprofit owners. The importance of each component of this double bottom-line varies across owners.

6.0 Factors that Shape Nonprofit Owners' Approach to Property Management

The factors that shape an owner's property-management approach are described from three perspectives. By considering the decision trees presented for each perspective, nonprofit owners can make a well-informed choice and select a management approach that meets their needs.

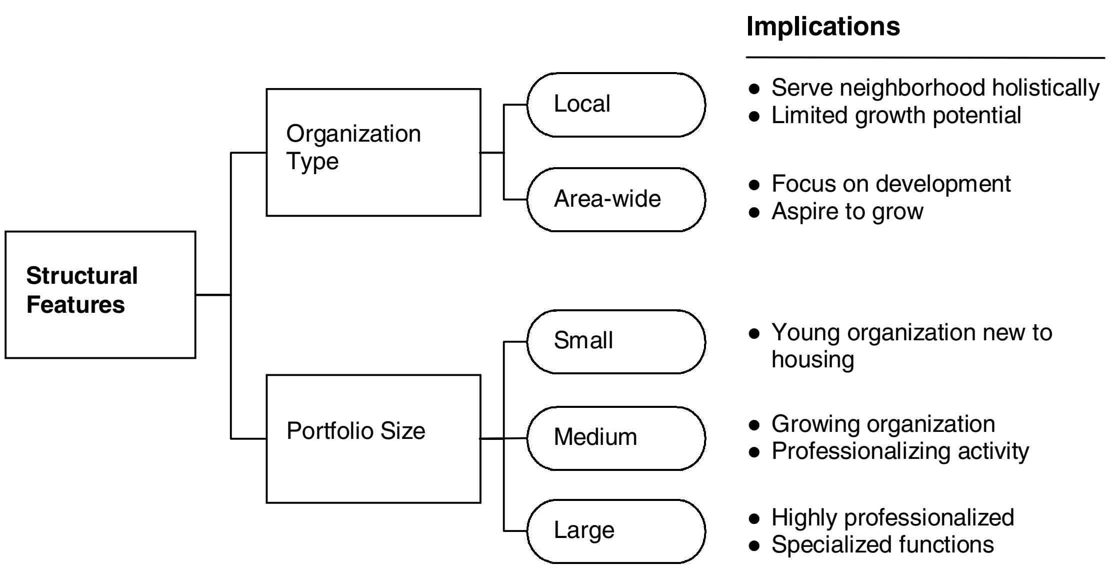
Figure 6.0.1 – Perspectives That Inform Decision-Making for a Property-Management Approach



6.1 Structural Features

The following decision tree diagrams the key structural features that shape a nonprofit's management approach, and it suggests the priorities that emerge from organizations of different types and sizes.

Figure 6.1.1 – Structural Features That Shape a Nonprofit's Property-Management Approach



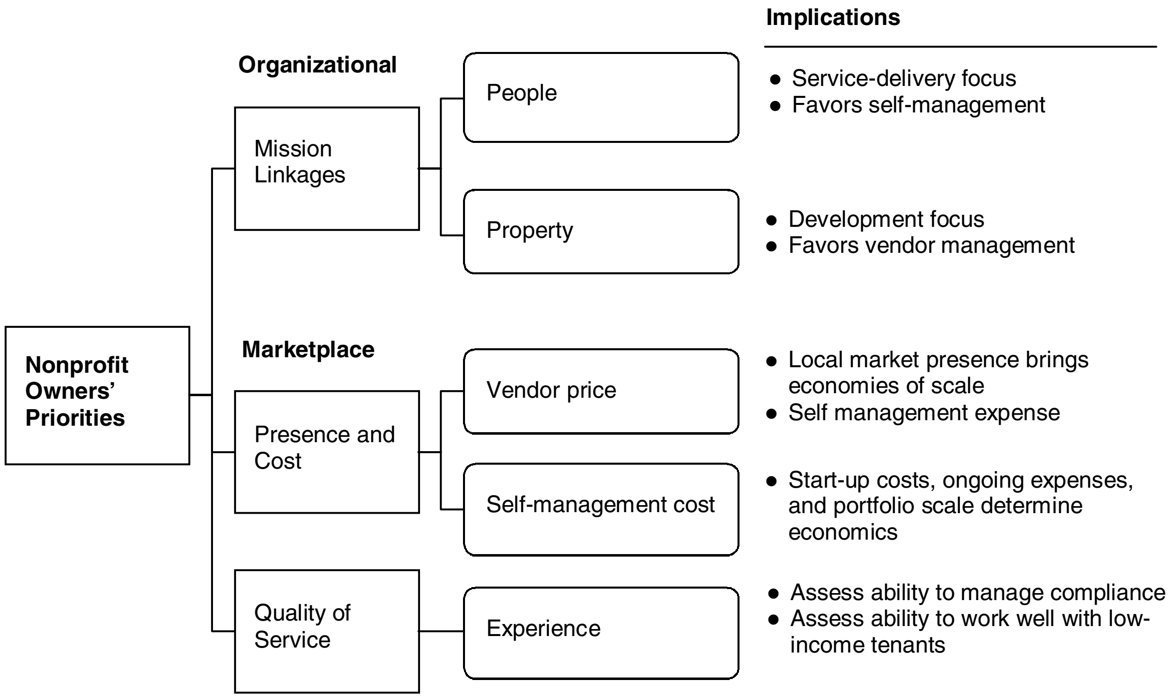
When examining nonprofit owners of affordable multifamily rental housing, two types of organizations predominate: local community-based and area-wide nonprofits. These differ in the owner's geographic reach, mission orientation, aspirations for growth and portfolio size. Local community-based nonprofits focus their housing activity in a bounded geography, often seek to serve this local neighborhood holistically, typically contribute to development within this community through both housing and non-housing activity, and may build a portfolio of up to several hundred units of housing. In contrast, area-wide nonprofits expand their presence beyond a single neighborhood, see housing development and management as priorities over other services, aspire to build a high-quality portfolio of housing to serve as many constituents as possible, and own or aspire to own a housing portfolio with units numbering in the thousands. Clearly, organizations blur these boundaries, but they represent the two poles around which most organizations cluster.

Combined with a housing development organization's geographic focus, portfolio size leads organizations to make different types of property-management choices. Generally, portfolios can be thought of in three sizes: small, medium and large. Small portfolios typically represent less than 100 units and appear in young organizations or those for whom housing development is a peripheral activity to their core mission work. Medium-sized portfolios typically range from 100 to 500 units, though there may be as many as 1,000 if the units are scattered in different neighborhoods within a metro area. A medium-sized portfolio usually emerges when an organization begins to institutionalize housing development and asset management. Many organizations make the transition from small to medium when they hire full-time development staff and are able to pursue multiple projects simultaneously. The 100-to-500-unit scale makes such an organizational infrastructure possible. Large portfolios can be as small as 500 units, but usually number 1,000 or more. With increasing growth and organizational specialization, large portfolios emerge when either the portfolio is robust enough on its own to continue to sustain the nonprofit's infrastructure, or the organization has developed sufficient capacity to build a pipeline of future development activity. Portfolio size correlates with the likelihood of a nonprofit organization being community-based or area-wide in its scope of activity. The larger the organization's scope, the more likely that it will have a large portfolio or aspire to growth.

6.2 Nonprofit Owners' Priorities

In assessing their property-management options, nonprofit owners take several factors into consideration. First, they determine their mission linkages to property management and decide how this directs their limited organizational capacity. Next, they ascertain whether there are any property managers in their marketplace. If there are, the nonprofit owner then assesses potential third-party management options, weighing cost and quality of service against what the nonprofit is capable of providing. Together these variables shape the management preferences that nonprofits develop, and they frame the trade-offs that nonprofits consider between self-management and third-party management. The following decision tree summarizes how factors within the nonprofit's organization and within the marketplace favor particular management approaches.

Figure 6.2.1 – Nonprofit Owners' Priorities That Affect Their Property-Management Approach



The first criteria — mission linkages and implications for organizational capacity — often determine a nonprofit's management approach because of the demands placed on its operations. Two distinct emphases exist among the different types of missions found in nonprofit housing organizations: people-focused and property-focused. Many nonprofits pursue housing work primarily to serve a constituency for whom housing is one of a broader set of needs, albeit a central element. The essential quality of these people-focused organizations is that they begin with a group of individuals that they seek to serve and pursue housing ownership to meet these people's needs. In contrast, some nonprofit housing organizations focus on the role that quality housing stock plays within a community. These organizations pursue housing development to create the structure for broader community development. They often believe that housing serves to stabilize or enrich a neighborhood, and it represents an economically sustainable approach to community development.

While many organizations weave elements of both values through their missions, people- and property-focused approaches to affordable housing often result in nonprofits that are more service-delivery focused and development-focused, respectively. These mission emphases play strongly into nonprofit owners' decision-making around property management. Organizations with a stronger focus on a constituency of low-income people often attempt to deliver more holistic services through the housing that they provide. While this does not require them to manage their properties, they will place far greater scrutiny on a property manager's ability to serve residents well and coordinate with other service providers to create a highly transformative community. These nonprofits will also direct more resources to the development and delivery of resident services themselves and through third-party partners. As a result, they often focus less intensively on housing development than do more property-focused organizations. In contrast, nonprofits whose missions place the physical housing asset at the center of their activity prioritize ongoing development because they see the provision of more high-quality affordable housing as the key to effective community development. They too care about complementary resident services, but often rely more strongly upon partners to deliver these services. They also focus on services needed to support stable tenancy, not services to meet an individual's whole set of life needs. These nonprofits place greater priority on housing development than management, and usually have less capacity and desire to manage their properties themselves.

Ultimately, mission and organizational capacity do not predetermine a nonprofit's approach to management. However, more intensively people-focused nonprofits are also more likely to deploy their organizational capacity to manage the property because they are invested in managing a wide array of services for their residents. Property-focused nonprofits feel a greater trade-off between deploying their own resources to manage properties and using their time, energy and money to support further development.

Once nonprofits have determined their mission focus and organizational capacity, they will assess the cost of management services and resulting quality of service delivery to decide whether to self-manage or contract with a third party. Nonprofit owners begin by scanning the local market to identify potential third-party vendors capable of serving their portfolio. Next, they assess whether the services a vendor proposes to deliver at a certain price meet their needs. Most managers specializing in affordable housing work hard to develop large portfolios in areas where they can concentrate resources because property management is a business which benefits greatly from economies of scale. Local market conditions vary significantly as well, so networks from which to draw affordable tenants, familiarity with local regulatory systems, and relationships with local suppliers, sources of talent, and institutional actors (e.g., police, sanitation, etc.) are critical to successful management. To attract a property-management firm to an area where it has no market presence often demands either a large, concentrated portfolio or an entry point into a market where the manager can quickly develop scale with other affordable units. A limited number of firms in every market build the technical and operational capacity to serve affordable properties. The limited choice of vendors for nonprofits often leads them to self-manage their properties.

If the nonprofit owner finds a vendor's costs too high or the level of service insufficient, the owner will then determine whether it could manage the property for the same quality at a lower cost. In addition to many significant start-up costs involved in self-management (primarily for systems), ongoing management costs can be substantial, particularly if nonprofits lack a large portfolio over which to distribute the expenses of a property-management operation. Still, some organizations find that with sufficient scale or in the absence of affordable options in the marketplace, they benefit economically by choosing to self-manage their properties. Conversely, the presence of a strong affordable-housing property manager with systems and networks in place provides an attractive option for many nonprofits that would be challenged to develop comparable organizational capacity and expertise to manage their own properties.

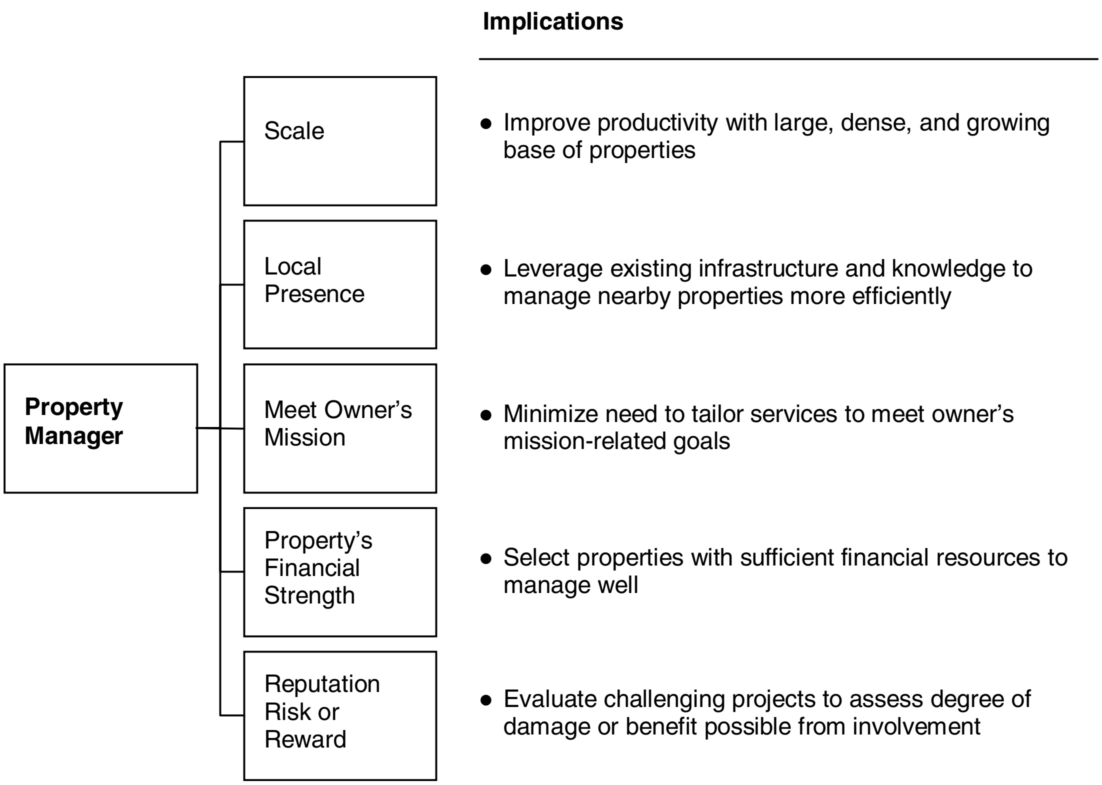
Complementing their assessment of cost, nonprofit owners will also assess the quality of the management options available. Nonprofit owners place importance on the experience of managers with similar properties and populations. Though many property managers capably manage multifamily housing, affordable multifamily housing introduces greater complexity, primarily due to the administrative compliance associated with the funds that underwrite affordable developments, but also due to the unique needs of the resident population. Not only must managers meet the same basic operational needs as with other properties, but they must also engage in extensive income-screening, abide strictly by fair housing laws, maintain accurate tenant files, and generate a large stream of operating reports for funders, investors, regulators and the nonprofit owner. Managers often must do this additional work with less funding because of reduced rents and lean underwriting. This reduced funding often results in smaller reserves for capital expenditures.

Low-income residents present another layer of complexity in managing affordable housing. These residents require the same level of respectful and responsive customer service as market-rate tenants, yet the challenges they confront in their lives often make it difficult to pay rent on time and can divert tenants' energy from maintaining their homes. Affordable-housing managers need to serve these tenants professionally, while building the systems and awareness to address the challenges and more limited capacity that low-income tenants often present in contrast to market-rate tenants.

6.3 Property Managers' Capacity and Incentives

Once the nonprofit owner has taken into account its priorities, property-management vendors will also make choices driven by their capacity and incentives that shape the management approach that nonprofit owners take. Third-party managers strongly consider the scale of the portfolio, features of the local market, their ability to meet a nonprofit owner's mission-related goals, the financial strength of projects, and reputation risk and reward in assessing whether and how aggressively to pursue a particular nonprofit's business. The following decision tree illustrates the key criteria that managers assess when evaluating whether to take on a new affordable-housing client.

Figure 6.3.1 – Property Manager's Capacity and Incentives That Influence Management Approach



The most critical feature for a third-party manager in assessing any nonprofit's properties is the scale of the portfolio. This includes the number of units, number of properties, physical proximity between properties, and the portfolio's potential for growth. Building scale in property management is essential because the business requires investments in labor, systems, equipment and technical knowledge, which become increasingly productive as they are distributed across a wider portfolio of activity. The scale that appears attractive to vendors differs widely by market. However, the more units that are close to one another, the greater the interest from third-party vendors and the more attractive pricing they can provide to nonprofit owners. These variables of scale can balance one another, so that even small portfolios can be attractive to vendors if they are in close proximity to existing business. However, limits exist in the ability of these factors to balance one another off. Even the largest-sized portfolio will be of little interest if it is scattered widely in small buildings across a vast geography. A nonprofit portfolio's growth potential represents a final factor of scale that can influence a firm's decision, particularly in regard to properties whose scale is borderline in attractiveness. Nonprofits with small portfolios who have the desire and capability to enlarge their portfolios can be particularly attractive to vendors who value getting in on the ground floor and growing a business with an existing client. Similarly, a nonprofit with a sizable portfolio that is challenging and offers few opportunities to grow further within a local market may not be worth the investment of capacity and resources on the part of the vendor if other clients present greater growth potential.

Local market presence represents a second important area that vendors consider in assessing a nonprofit's portfolio. If a vendor has a business presence in the local market, then it can distribute local fixed costs across a larger base of units and have an incentive to serve more clients in this territory. Additionally, it is likely to be able to capitalize on its knowledge of the affordable-housing regulations in a particular city and state and its access to networks for leasing up units and maintaining properties.

A third factor vendors consider is their ability to meet the owner's mission-related management goals. While most multifamily property managers seek to deliver basic management services in similar ways, many nonprofit clients have specific approaches to enhanced or additional resident services that require a manager to adapt existing systems, policies and procedures to meet the owner's goals. For example, after-school programming, such as a homework help hour, may require different staffing or training based upon the needs of a particular resident population. While some nonprofit mission-related management goals may benefit the vendor's wider portfolio, most tailoring of management services will create variation across properties and diminish the ability of a vendor to capitalize on economies of scale by sharing personnel or standardizing systems.

The underlying financial strength of a project represents a fourth factor that managers consider when assessing projects. Most basically, managers have to see revenue sources sufficient to fund operating expenses. Pro formas with no room for error or little money for reserves create management situations where the manager is set up to fall short in maintaining the physical asset and sustaining high occupancy and rent collection. Savvy managers will look ahead in the pro formas several years to ensure that reasonable assumptions for the growth of expenses and revenues exist as well.

A final consideration for a third-party vendor is reputation risk or reward. Taking on an extremely distressed property that is insufficiently funded, or working with an owner with a track record of churning through vendors, poses reputation risk to the third-party manager. This risk may diminish opportunities for future business and may raise doubts among existing clients. This risk carries through to the vendor's employees, who may leave the organization if it takes on excessively difficult projects. In contrast, some firms willingly take on challenging properties because of the reputation reward possible. This occurs most often when a funder or nonprofit owner asks a manager to consider turning around a small or highly distressed property. Though the short-term costs may outweigh benefits, building goodwill and a reputation for strong performance will serve a manager well, particularly when funders evaluate future development proposals and scrutinize the property manager connected to the deal. Additionally, many nonprofits will gladly open up their portfolio to managers capable of turning around smaller or distressed properties.

While strong property management is possible almost anywhere, nonprofit owners must be mindful of how structural features, owners' priorities, and managers' capacity and incentives combine to shape the range and quality of management options available to them. Nonprofits should consider the preferences of funders and the support that intermediaries can provide in developing asset and property-management capacity. To illustrate how all of these issues interact in a particular market environment, consider the Twin Cities of Minneapolis and St. Paul, Minnesota.

The Challenge of Property Management in the Twin Cities

The Twin Cities benefit from the presence of many nonprofit development organizations that have contributed substantially to the preservation and growth of affordable housing in the region. In addition, the Minnesota Housing Finance Agency (MHFA), city and county governments, area foundations and national intermediaries have supported the development of both affordable housing and the organizational capacity of nonprofits to do this work. In 2003 alone, Minneapolis and St. Paul together created 817 units of new rental construction and preserved or stabilized 1,162 units of existing rentals.[a]

Challenges

- State with the highest rate of homeownership (77.3%)[b]
- Residential zoning that is less dense than in many urban areas
- Preference for in-fill development

Result

Small, scattered-site development

Implications

- Fewer benefits of scale
- Higher property-management costs
- Limited management capacity that the market can sustain

Nonprofits rely on third-party vendors because of the difficult economics of building a viable property-management organization on a portfolio of small, scattered-site developments. Because of past performance difficulties, funders also often prefer that nonprofits work with property-management vendors.

Two groups have attempted to address these local market challenges by adapting their approach to property management. Twin Cities Housing Development Corporation deploys its asset-management staff to support efficient property management. TCHDC views asset management as more than just oversight. It facilitates compliance activity by developing matrices to define the income criteria and demographics for tenants required by various funding sources for each property. TCHDC also spot-audits tenant records to provide a layer of oversight and support for its managers' tenant-selection efforts. In addition, TCHDC asset managers support annual budgeting by created detailed capital-improvement plans that they update annually in cooperation with the property managers. Asset managers research insurance options, appeal property-tax assessments, and revise pro formas regularly to reflect changing market conditions. Practically, this saves TCHDC money because it takes on these difficult, labor-intensive functions itself, freeing up the vendors to focus on core management tasks.

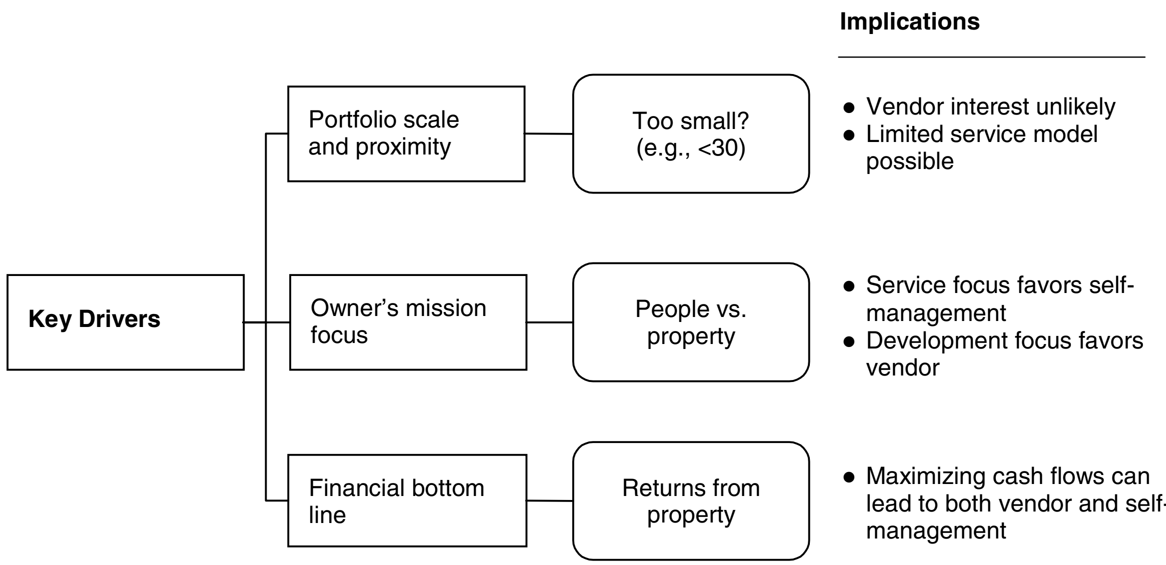
Central Community Housing Trust (www.ccht.org) has worked to address challenges with the quality of property-management options in the region by looking outside the traditional stable of affordable-housing vendors that tend to serve the nonprofit community. After employing four management companies for approximately 1,200 units in 2003, CCHT looked to consolidate its vendors and issued a new request-for-proposals (RFP). It engaged in a rigorous selection process in which it focused on communicating its goals for service levels and its values for a long-term vendor relationship. After selecting a group of finalist firms, CCHT interviewed key vendor staff, reviewed their policies and procedures, conducted site visits, did reference checks, and ultimately brought on a vendor new to the third-party vendor marketplace in the Twin Cities. This vendor has experience in development and self-management of affordable housing, and with a portfolio of approximately 3,500 to 4,000 units is well positioned to provide meaningful time and attention to 500 of CCHT's units.

[a] Family Housing Fund. "Housing Counts: Measuring Affordable Housing Production and Preservation in the Twin Cities." Minneapolis, MN. April 2004, pp. 5–11.
[b] U.S. Census Bureau, "State Rankings—Statistical Abstract of the United States—Homeownership Rates, 2002," www.census.gov/statab/ranks/rank31.html.

7.0 Key Drivers of Property Management

The following structural factors, owner's priorities, and manager's capacity and incentives combine most often to determine the management approach taken by the nonprofit owner.

Figure 7.0.1 – Key Drivers That Shape Nonprofit Owner's Property-Management Approach



7.1 Portfolio Size, Concentration and Proximity to Existing Business

The most important factor in creating any choice in management approach for nonprofit owners is whether their portfolios approach a minimum size and concentration that would attract vendor interest. There is a threshold that nonprofit owners' properties must meet to even have a choice of management approach. While minimums vary by market, never did managers interviewed express interest in serving a single property of less than 30 units. Even multiple properties of that scale were seen as unattractive, unless they were in such close proximity that they could be managed as a single property. Some vendors expressed little interest in properties with fewer than 60 to 80 units or those that were not within neighborhoods in which the manager already had a strong business presence. However, managers did demonstrate a willingness to enter entirely new markets to serve attractive portfolios or to create a toehold for growth in a promising market. Most often managers drawn to new markets cited a strong nonprofit owner with growth potential or an underserved market or one ripe for development as the most attractive features. Managers also reward larger portfolios with better pricing. Surveying NeighborWorks organizations about the cost of their management fees as a percentage of gross potential rents, those organizations that split their portfolios between both a for-profit and nonprofit property manager paid more for management than respondents that managed their properties exclusively with a nonprofit (self-managed or nonprofit third-party) vendor or for-profit vendor.[14]

[14] On average, respondents who indicated in Question 2 that they used both a nonprofit and for-profit manager paid 6.52 percent, in contrast to either those that managed exclusively with for-profits (5.94 percent) or nonprofits (5.92 percent).

While portfolios that fail to meet a local market threshold cannot attract vendors to fully serve their properties, many limited-service models exist for nonprofits seeking an alternative to straight self-management. Within the marketplace, outsourcing of compliance activity occurs with regularity. Compliance requires technical skill with Section 8 and/or Low-Income Housing Tax Credit (LIHTC) regulations, in addition to Fair Housing Act provisions. The tenant screening, income verification and record-keeping can be done in a central back office where tenant files are maintained for regulatory review. Some nonprofit owners contract with vendors for this expertise, rather than build the capacity in-house, especially for smaller portfolios, which may not be able to fill a full-time compliance officer's time. Vendors that have already trained personnel to do this work can increase the returns for these largely fixed costs by adding properties to compliance officers' portfolios. Additionally, light-service models exist that can make self- or vendor-management attractive, even for small portfolios. One such model is a resident/circuit-rider approach deployed by Community Housing Improvement Systems and Planning Association (CHISPA) in Salinas, CA (www.chispahousing.org).[15] In this model, a manager lives in a building that serves a cluster of properties. He or she visits each property during set office hours to address issues that may have emerged during the week. Though on-site management is more desirable, the resident/circuit-rider hybrid demonstrates how core management activity can be organized, even in widely distributed portfolios.

7.2 Nonprofit Mission Connection to Direct Management

Nonprofits with a strong emphasis on a people-oriented mission will be more likely to pursue self-management in the absence of third-party vendors with proven track records of managing in sophisticated service environments. Nonprofits whose missions focus primarily on serving people view housing as one of many resources needed to meet their constituents' needs. They often view housing as the platform from which to deliver a wider range of services. Because they are already so invested in day-to-day contact with their residents and will be on-site providing extensive service offerings, the benefits of coordinating this activity with property management often lead these nonprofits to self-manage. Additionally, if these organizations emphasize the mission component of their bottom line, they will view property management as an extension of their program work, focusing on breaking even financially, not maximizing profit from operations. Property-focused nonprofits driven by a commitment to maximizing affordable-housing development as a primary activity concern themselves with the efficiency and opportunity costs of self-management. Even if such a nonprofit sees itself as being as capable as any vendor in the marketplace, it may choose to outsource management to focus its limited resources on development activity.

Figure 7.2.1 – Implications of Emphasis on Mission and Financial Bottom Lines

Strong Mission-Driven Bottom Line	**Strong Financial Bottom Line**
• Achieve break-even financial performance	• Maximize cash flow
• Use net income or cash flow to subsidize rents or deliver non-housing services	• Utilize net income to fund reserves, asset management or further development

7.3 The Financial Bottom-Line Goals of the Nonprofit

The corollary to mission direction shaping a management approach is that the nonprofit owner's financial bottom-line goals will lead the organization to make different choices. While the financial bottom line creates a performance threshold and constraints within which a nonprofit must operate to

[15] Holden, "Should we do it ourselves or hire someone else?", pp. 5–6.

maintain a property as a going concern, there are many ways to meet the cash-flow requirements of a property. For organizations with a strong emphasis on maximizing net income, a vendor that can leverage scale to deliver good management at a lower price than the nonprofit can realize on its own outweighs the ability to directly control all elements of property management. Maximizing the price/value equation for core service will often favor third-party vendors. As the survey findings confirmed, the bulk of third-party vendors are for-profit firms,[16] which, by broad consensus among interview subjects, operate with the same or greater economic efficiency as nonprofits. (The causes for this are discussed in greater detail in the following section.) However, there are instances in which a nonprofit's financial bottom-line focus will favor self-management. This is particularly true if it is in an underserved market (e.g., rural area) where it can leverage existing staff and infrastructure to build a more efficient property-management organization than a third-party new to the area. Additionally, some nonprofits whose development opportunities are few and far between will seek to develop a property-management operation as a stable, long-term business with positive cash flow. This diversifies away some risk associated with pursuing development fees in a competitive environment, while also enabling nonprofits to pursue only the deals that meet their financial and mission-related bottom-line goals. If nonprofits build a property-management business for this purpose, they will usually opt to serve clients in addition to themselves so that they can build economies of scale. Finally, some nonprofits don't seek to maximize net income because they attempt to subsidize rents, often to serve very-low-income tenants, or because they invest potential net income in service delivery. While a vendor can perform this delicate calculation, nonprofits that don't seek to maximize net income for these reasons often choose to self-manage.

[16] Of 26 respondents, 20 (77 percent) identified their third-party vendor(s) as a for-profit; 2 (8 percent) identified their third-party vendors as both for-profit and nonprofit; 4 (15 percent) identified their third-party vendor(s) as nonprofit.

8.0 Tradeoffs Between Self-Management and Third-Party Management

Few consistent trade-offs were found when comparing self-management and third-party management operations. While each approach appeared more attractive in some instances, only one major trade-off appeared extensively in interviews and research. Nonprofit owners appear to pay a financial premium for self-management, largely because of the "invisible" costs of unallocated overhead. While some nonprofits conceded this point, they often pointed to higher-quality service, usually rooted in greater responsiveness and respect for tenants. However, many for-profits demonstrated a high degree of resident responsiveness in their service delivery. Responses to the survey conducted among NeighborWorks organizations showed nearly identical pricing for for-profit management vendors and nonprofit management (either self-management or third-party).[17] While it is promising that price may vary less between nonprofit and for-profit managers than expected, the cost of nonprofit management for self-managers likely still exceeds that of for-profit management because of the unallocated costs of shared overhead and opportunity costs for self-management that never appear on financial statements.

The following factors suggest additional reasons why nonprofits often self-manage properties for a premium compared to for-profit vendors. First, nonprofits often focus development on small and/or challenging projects that do not interest vendors, because their missions lead them to serve particular affordable-housing constituencies or properties. For-profit firms generally can expand across geographies and even asset types, leveraging labor and fixed costs to improve the efficiency of their management and drive down costs for clients. Many nonprofits are constrained by the neighborhood or area in which they are committed to work, in addition to a low-income constituency within that community. With limited choice, nonprofits either own and manage fewer properties or take on more challenging properties than for-profit managers choose. Additionally, for-profits preserve cash flow for net income, while nonprofits derive less value from surplus cash flow. In tax credit deals, for example, this cash flow is often promised to the limited partners, while cash flow spent on additional resident services helps the nonprofit to meet its double bottom line.

Up until this point, the major management decision for nonprofits has been framed as a choice between self-managing the portfolio and contracting with a third-party vendor. However, some nonprofit owners may have access to nonprofit vendors in their markets, which offers some of the benefits and costs associated with both self-management and third-party management. Many of the mission-driven benefits of self-management can exist with nonprofit third-party vendors that share a similar mission alignment.

A trade-off observed between for-profit and nonprofit management suggests that nonprofits deliver higher-quality resident services designed to organize and empower tenants. For most resident services, there was consensus that nonprofit and for-profit firms demonstrated equal capability to coordinate and deliver services to residents. However, most observers felt that services undertaken to organize and empower tenants tended to be delivered more effectively by nonprofits. These services range widely. Some are as direct as resident training and leadership institutes, through which residents learn about the mission of the nonprofit affordable-housing owner and become more technically skilled in understanding a property's finances and operations. Other resident services

[17] Question 5 asked, "approximately how much are your management fees as a % of your gross potential rents?" Five fee ranges were provided: <3%, 3–5%, 5–7%, 7–9%, >9%. Responses from nonprofits that self-managed and managed exclusively with a nonprofit vendor(s) were averaged, yielding a cost of 5.92 percent. Respondents with a third-party, for-profit manager(s) had an average cost of 5.94 percent.

indirectly equip residents to be more confident, engaged and responsible tenants and community members. These services range from training in public speaking and meeting protocol to services such as art classes, which assist tenants in gaining self-confidence and developing their voices.

Observers felt that nonprofits better delivered these services for several reasons. First, nonprofits more clearly make the connection between empowerment-focused activities and positive outcomes for both the resident and the properties. For-profits often have to adapt their management approach to support residents in developing the skills necessary to be stronger tenants and ultimately more productive and independent members of the community. Because the connections of tenant empowerment to the financial performance of the properties are often indirect, a nonprofit's mission component of the double bottom line provides a rationale for placing tenant empowerment at the center of management operations more often than a for-profit firm focused on the financial bottom line. Second, nonprofit managers often bring to their properties a single perspective about the best ways to organize and empower tenants. For-profit vendors may have a number of different nonprofit clients with differing perspectives. Having to adapt their operations to these different approaches is both costly (reducing standardization and the benefits of scale) and challenging (requiring the for-profit to understand and reflect different organizations' values).

In the survey of NeighborWorks organizations, three questions were asked about nonprofit and for-profit management. Across all three questions, nonprofit owners preferred nonprofit management to for-profit management options. This could be for many reasons, though resonance with the mission-focused component of the double bottom line remains key.

Figure 8.0.1 – Survey Opinions About For-Profit and Nonprofit Management

Please rate your agreement with the following statements:	**Rating** (1 – Agree strongly to 4 – Disagree strongly)
8. In general, for-profit firms manage assisted housing very well.	2.22
9. In general, nonprofits manage assisted housing very well.	1.88
10. In general, nonprofits manage assisted housing better than for-profit firms.	2.27

9.0 Implications for Owners

9.1 Management Changes Along a Developmental Pathway

In the process of assessing the factors that shape management decision-making and the trade-offs between for-profit and nonprofit vendors, several broader patterns became clear about the relationship between features of nonprofit owners and the management choices that they were likely to make. Specifically, a nonprofit's portfolio size, organization age and staff professionalization correlate with developmental stages. The interaction of these stages with a nonprofit's geographic distribution and mission orientation suggests management approaches that nonprofits similar in these dimensions are likely to prefer. Nonprofit owners should be mindful of the transitions between stages and ensure that their management approach reflects the changing nature of their organization and portfolio.

Figure 9.1.1 – The Implications of Basic Property-Management Economics

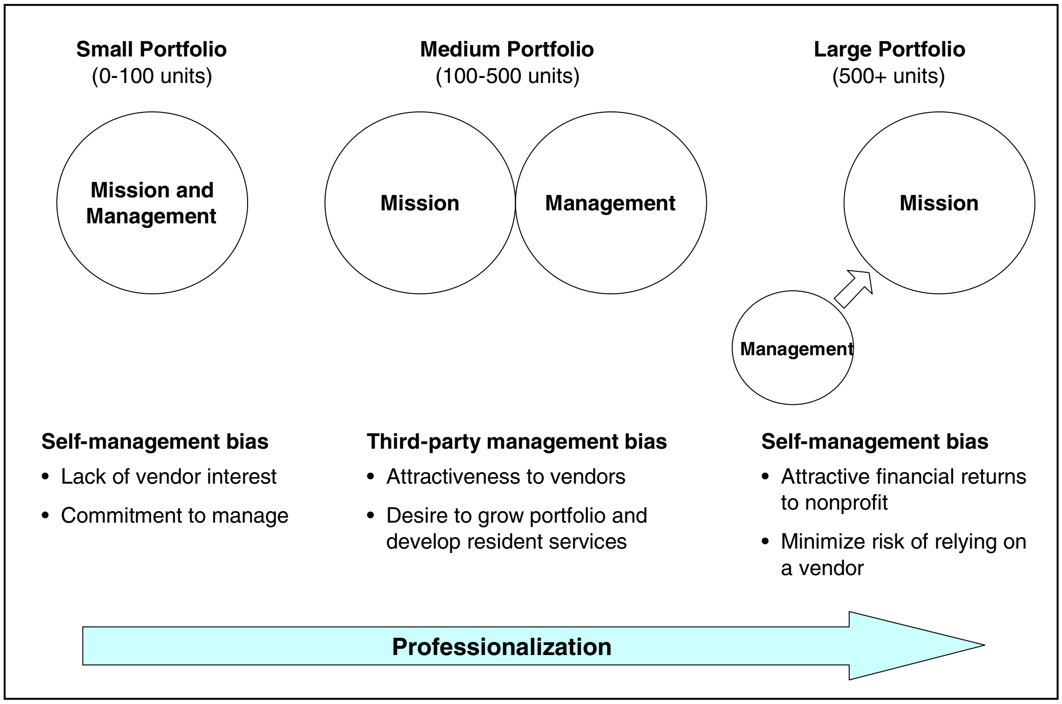
Simplified Economics of Management	
Average Rent	$600 x 12 months
# of Units	100
Occupancy %	95%
Potential Income	$684,000
Management Fee	5% = $34,200
Less Accounting Cost	– $6/unit/month = $7,200
Funds for site-management expenses	**$27,000**

Implications

- Smaller organizations rely upon volunteer activity and hands-on involvement from leadership.
- Medium sized groups may have to absorb overhead to break even with a full-time property manager.

In observing different kinds of nonprofit affordable-housing owners, three clear groupings emerged, although their boundaries remain fluid. Small groups' portfolios consist of up to 100 units, typically have less than five years of development experience, often see their mission fully encompassing property management, and are usually directed by active volunteer boards and an extremely limited staff of generalists. Medium-sized groups' portfolios consist of between 100 and 500 units (though in some markets these groups could have up to 1,000 units), tend to have between 5 and 15 years of development experience, generally see their core nonprofit mission as distinct from their property-management goals, and have begun to specialize staff in different job functions. Large groups have portfolios of at least 500 units (though most often 1,000 or more units), generally have at least 15 years of experience in affordable-housing development and/or ownership, view property management as subordinate to their overall mission, and have highly professionalized job functions. In particular their senior staff usually possess professional training in business, real estate or public policy; these staff are often hired with for-profit work experience. The chart below summarizes how the nature of property management changes with scale.

Figure 9.1.2 – Management Approach Tendencies Across Developmental Stages



While hardly universal, small groups just starting in their affordable-housing development (as well as their organizational development) were more likely to self-manage their portfolios. This appears to be the case often for several reasons. Principally, small portfolios attract little interest from affordable-housing property-management vendors who are looking to build scale and who thus work with a limited number of experienced owners. The demands of a small, inexperienced owner rarely outweigh the additional business that these small groups provide. Small groups are also likely to be unsatisfied with the limited attention and flexibility that managers are willing to offer. In addition, small non-profits have usually emerged from tenant- or community-advocacy efforts, and the individuals involved believe that managing affordable rental properties well is a core responsibility of their newly formed organization. As a result self-management becomes a necessary and preferable option. Most small groups will use the operating cash generated by the property to cover basic expenses, but quickly realize that managing a small-scale portfolio is difficult to sustain economically. They rely on hands-on involvement from staff, board members and residents. For this reason, along with a desire to build upon their experience and increase their impact in the community, small nonprofits usually develop additional units and properties. Exceptions to this rule include nonprofits that specialize in supportive housing or that operate in highly developed affordable-housing markets, such as Boston, which possesses an extensive network of property-management vendors. Even a small group can attract high-quality professional management for supportive housing because of the substantial funding usually provided to meet the extensive service requirements. Small groups in well-served markets may find a vendor with existing clients in close proximity that makes third-party management possible.

As nonprofits grow, they approach a medium size in which their portfolio of several hundred units attracts vendor attention because the property's cash flows can support an on-site manager. At this scale, most nonprofits still lack the scale to break even economically when self-managing their properties. Medium-sized groups have also moved past an all-volunteer organization and have usually learned first-hand how challenging property management can be. At this scale, groups that self-manage may confront challenges if they continue to work with a single, organization-wide accounting system that does not give them the ability to monitor and report on the financial performance of each property. Developmentally the organization also begins to build discrete job functions, including staff dedicated exclusively to development and resident services. Outsourcing property management to a vendor allows medium-sized nonprofits with limited capacity to focus on development and service delivery, work tasks seen as core to mission. To drive the growth necessary to become a more economically sustainable organization, medium-sized groups' leaders often recognize the opportunity costs of spending significant time on property-management operations. Though these costs do not appear on the income statement, they sap the organization of energy for other activities. Some medium-sized groups that retain management in-house may do so for several reasons. Underserved markets, particularly rural communities, may still not offer affordable, high-quality property-management operations for these nonprofits. In such cases, the nonprofit may have developed an economically sustainable approach to managing its properties. Other types of medium-sized groups may benefit from a sponsoring entity that enables them to distribute the costs of management or cover the losses with direct financial support. Finally, some nonprofit groups place delivery of resident services at the heart of their mission, and begin building extensive resident-service capacity around their property-management organization. For these organizations mission and management remain blended, reducing the benefit of outsourcing such work to a vendor.

As organizations grow, they increasingly move toward self-management for reasons largely driven by the financial bottom line. While the break-even size for self-managing portfolios differs widely across markets, there is broad consensus that a minimum of 500 units is required to break even financially[18] and that only at 1,000 units do nonprofits begin to break even based on the fully loaded costs of their property-management operation.[19] At this developmental stage, nonprofit staff specialize in discrete job functions. If the nonprofit continues to use a property-management vendor, an asset manager usually monitors and guides the property manager. To manage a large portfolio, nonprofit boards also tend to look for an executive director with extensive experience in affordable housing and in managing organizations. This results in a preference for leaders with professional training (advanced degrees in management, real estate or public policy) and often for-profit work experience. Both professional training and for-profit work experience tend to introduce or reinforce a strong focus on maximizing the financial bottom line within the organization. A large organization's executive director will usually consider bringing the property-management capacity in-house because it generates a steady stream of cash flow and usually a profit, if it is run well. Additionally, with the organizational specialization, non-housing services usually exist as a separate division. Another advantage of an internal property-management operation is that its financial proceeds are often used to supplement funding for services that are underwritten into projects and obtained from grants.

Large organizations that are either extremely lean, because they prefer to contract for professional services, or are concentrated on an aggressive development or growth agenda, may continue to retain the services of a property manager. However, as portfolios grow to several thousand units, large nonprofits often bring property-management capacity in-house to capture the benefits of scale more directly. Different approaches used include developing a joint venture with a property manager, with the intent of creating a wholly owned subsidiary; acquiring an existing property-management firm; or hiring experienced property-management senior staff to build an organization in-house.

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[18] Weber, Judy. "Self-Management vs. Contract Management." Viva Consulting. June 10, 2004. See also Batko and Diggs, "The Options of Property Management," p. 11. See also Stockard, *A Guide to Comprehensive Asset and Property Management*, p. 128. See also Bratt, et al. *Confronting the Management Challenge*. New York, NY: New School of Social Research. 1995, p. 73.
[19] Bratt, et al., "The status of nonprofit owned housing." *Journal of the American Planning Association*. Winter 1998, Vol. 64, Issue 1, p. 45.

9.2 Property Management Contributions to the Double Bottom Line

A second insight that emerged from discussions with individuals involved with all aspects of property management was the observation that property-management activities differ in their contribution to the double bottom line, with basic services, or commodity-like activities, driving the financial bottom line and resident services, or premium activities, driving the mission-focused bottom line. The daily tasks involved in management can be divided into commodity and premium activities and mirror the "basic" and "additional services" groupings identified in LISC's *Guide to Comprehensive Asset and Property Management.* Many core features of property management operate like commodities: they can be done with increasing efficiency to scale. These commodity activities benefit from standardization, ensure the ongoing economic viability of the property, and contribute primarily to the financial bottom line. Commodity activities in property management include the basic features of tenant selection, rule enforcement, management of maintenance, security, community-building, budget and finance, personnel, and management information systems. In contrast, premium activities do not benefit greatly from scale, contribute value primarily to the people served by the housing, and must be tailored to different individuals' needs. While beneficial to the tenants and health of the residential community, their impact is measured most strongly in the mission-driven bottom line. These activities consist of the non-housing services, typically social services provided by a resident services coordinator.

When nonprofit owners have management choices in the marketplace, they serve the financial bottom line by embracing the management approach that best leverages scale to deliver commodities effectively. Readily accessible market studies represent a third-party advantage of scale, because a firm can commission this work and use the information across numerous clients and properties in a given area. Nonprofits that self-manage must create or obtain all of this information, even though they may have significantly fewer units over which to spread the cost of this work. With reasonable oversight nonprofit owners can expect managers with scale to execute commodity activities most efficiently.

Additional resident services usually are not performed by property managers. Even when a nonprofit self-manages, the skill sets required to counsel, teach or empower residents do not overlap much with those required for effective property management. Nonprofits should focus on developing this non-housing service expertise, either in-house or through partnerships with leading service organizations. Acknowledging that the property managers cannot be responsible for treating the substance-abuse problems of tenants or building their skills and confidence for participation in the community aligns expectations appropriately and frees managers to complete their core responsibilities.

9.3 Asset Management: Aligning Property Management with the Double Bottom Line

An additional insight gathered through research conversations concerns the importance of driving asset management with clear, property-specific goals for property management that have been articulated to the manager, with ways to regularly measure performance and provide specific feedback that can be acted upon. Consistently the owners most satisfied with the performance of their manager (whether in-house or third-party) focus on clear outcomes for their properties. By engaging in a process to articulate these goals, owners address most of the major criteria that shape whether they are better served by a third-party or self-managed approach to property management. For the best relationships with third-party vendors, owners start the RFP process with a clear articulation of these goals, to ensure that bidding firms implicitly accept the owner's approach to management. Owners also translate these goals into clear performance outcomes that managers can measure and report on regularly. Monthly meetings always address the same criteria, but rarely resemble one another, as performance successes and challenges constantly change at each property. For nonprofits with multiple properties, senior nonprofit managers and property-management staff that connect regularly (e.g., quarterly) and identify broader patterns in the management of the portfolio can address systematic issues that may be beyond the power of on-site staff to change. Owners who invite their managers to shape these discussions benefit greatly from the manager's daily experience with the properties. Nonprofit owners should also balance property-focused performance outcomes with tenant-focused outcomes, including tenant satisfaction and other measures of tenant growth, such as learning center outcomes or tenants' migration to market-rate rental or homeownership housing. Finally, owners should use an annual capital budgeting process to communicate asset-management priorities to the manager.

Nonprofit owners should also revisit their property-management goals in the annual budget process to ensure alignment with the evolving nonprofit mission. One finding of the survey of NeighborWorks organizations that raises concerns is that nonprofit owners do not appear to re-evaluate their property-management approach regularly. Of 46 respondents, 34 (74 percent) have been using their current management approach for more than five years. Only one nonprofit (2 percent) had changed its management approach within the past two years. It is unlikely that such inertia would exist if an owner regularly examined its manager's ability to meet the nonprofit owner's double bottom line.

10.0 Implications for Managers

Property management is a complex business and to be done effectively it requires strong systems, significant planning, and ongoing staff training. In speaking with owners and managers, several insights were shared about ways to ensure more successful management for nonprofit-owned properties, regardless of whether an organization manages in-house or with a vendor. First, managers should engage nonprofits in the annual budget process about their goals in property management. Not only should they measure and report upon the performance of the properties, but they should always ask nonprofits which criteria are most important and how long-term success of a property and its residents should be judged. Managers should aspire to do all activities well, but can focus extra energy on those issues of particular importance to the owners.

A second observation of particular relevance to self-managed properties is to recognize that the property-management operation should function as a business. Numerous cautionary tales exist about the pitfalls of placing mission goals before the financial bottom line within the property-management operation. Unlike a parent nonprofit, whose mission and financial bottom line can be pursued in tandem, property-management operations unravel when the financial accountability of setting annual budgets and operating within these budgets is lost. Property-management jobs are too complex to staff with unqualified individuals. Failing to make the tough decisions around rent collection, public safety and evictions — even in the name of mission — quickly destroys the economic viability of properties, undermining the ability of affordable housing to contribute value to a community. Additionally, property-management operations should dedicate resources to building scalable systems across management information systems, staff training, and back-office finance and accounting functions. As an activity that benefits from scaling operations, nonprofits should plan for and make investments in the systems that will allow them to optimize the financial bottom line of their property-management operation.

A final area of focus for property managers should be attracting and retaining high-quality staff. Many self-managed operations and property-management firms of all sizes across the country lamented the scarcity of high-quality talent in affordable-housing property management. While many talented individuals work in nonprofit management at some point, many are lost due to burn-out. The low salaries necessary in tightly underwritten affordable-housing developments, combined with the challenges of serving low-income tenants whose lives often make routine management activities difficult, drive nonprofit management staff to burn out. Because nonprofit property-management staff can perform much the same work in market-rate housing, usually for more money, nonprofit owners and managers must be creative and resourceful in figuring out how to develop and reward high-performing employees. Investing in ongoing training, not just in core management activities, but also in the work of affordable housing provides one way to strengthen and retain staff by connecting them to the nonfinancial rewards of work: personal development and contribution to a broader mission. Additionally, recognizing property-management staff efforts is particularly important for owners and managers to do because residents will often be too burdened to do so. Finally, nonprofit managers should be creative about sourcing talent. Property management remains one of the few professions which does not require extensive training at the entry level and within which ladders to the top still reach the bottom. Nonprofit managers work in and serve low-income communities that many employers overlook because of the limited educational attainment of residents. Sourcing from low-income communities, screening applicants carefully for valuable general work attributes (e.g., curiosity, a desire to serve customers well, attention to detail), and investing resources in training staff with the skills they need to succeed in their jobs and grow within the industry will enable nonprofit managers to compete more effectively for talent and hold on to the best staff that they develop.

The following case study touches upon many of the findings presented about effective property-management operations. Above all, it underscores the value of close collaboration between a nonprofit owner and its manager.

A Study in Partnership: Alamo Area Mutual Housing Association and Alpha-Barnes Real Estate Services

Key findings

- AAMHA and Alpha-Barnes collaborate as partners with their organizational counterparts from top management to the property level.
- AAMHA uses services to meet residents' needs directly and to identify and build residents' leadership capacity.
- Property management and resident services get tailored to each development to reflect the needs and priorities of each community.
- AAMHA's mission focus on development and resident services leads it to outsource many professional services, including property management.
- AAMHA believes it benefits financially from the third-party management because of Alpha-Barnes's advantages of scale and experience and because AAMHA limits its opportunity costs of involvement in property management.
- The partnership works well because Alpha-Barnes also benefits from its strong, visible relationship with AAMHA and its access to key players at the state and national level.
- Training resident-services and property-management staff together results in a clear division of labor, ensuring high-quality service delivery and minimal confusion for residents.
- AAMHA and Alpha-Barnes hire and train recent college graduates to address the scarcity of property-management talent.

AAMHA demographics

- 8 properties
- 780 units
- Resident population (May 2004):

<30% of area median income =	34%
<50% AMI =	71%
<60% AMI =	85%
<80% AMI =	95%

AAMHA's mission is to provide housing of choice and build communities of choice in San Antonio's Bexar County. AAMHA (www.alamomha.com) seeks to provide "a quality place to live and opportunities and programs for every resident," and to support network-building with other residents and with other resources in the surrounding community.

AAMHA and Alpha-Barnes view their property-management relationship as a partnership. Despite managing a 10,000-unit portfolio, Mike Clark, principal in Alpha-Barnes property management, maintains a close working relationship with AAMHA Executive Director Sandi Williams. The collaboration and long-term commitment to partnership is modeled all the way down the line: between Bryan Miller, Alpha Barnes' regional supervisor for the AAMHA properties and Jennifer Gonzalez, AAMHA's deputy director; and between the on-site learning center coordinators and the property managers.

This dynamic, collaborative relationship extends beyond the staff of the two organizations, and it reflects AAMHA's philosophy toward involving residents. Resident-services staff identify resident volunteers to participate in training institutes that build leadership capacity and a better understanding of the values behind AAMHA developments, as well as the requirements — both financial and programmatic — to ensure the properties' long-term financial stability and affordability.

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Volunteer resident board and committee members then develop the rules for the properties and help to govern the organization. They provide regular feedback to AAMHA and Alpha-Barnes, both formally (through monthly resident meetings and board meetings) and informally (through comment cards and phone calls). Residents also assume responsibilities for enforcing the rules in their community and building connectivity with other residents. The dynamism and feedback loops extend to non-housing service-delivery partners (such as 4-H, Girl Scouts and Junior Achievement) whose programming is hosted in the learning centers. These organizations cannot provide off-the-shelf services. Rather, they need to tailor their activities to complement or reinforce existing programming priorities and community rules.

How did AAMHA get here?
In 1999, AAMHA initiated a management search process because it was unsatisfied with its current property management. It sent out an RFP using the template provided in the LISC *Guide to Comprehensive Asset and Property Management*. With three finalists to consider, AAMHA reviewed the managers' proposals for responsiveness to the RFP, interviewed them all, conducted site visits and spoke with residents of the properties under management. AAMHA chose Alpha-Barnes because its local focus and portfolio size of several thousand units ensured that AAMHA would be an important client and receive commensurate attention. It also felt that Alpha-Barnes could work with AAMHA to build a highly responsive, customer-service–oriented operation, driven by collaboration between the owner and the manager, not the owner accepting a cookie-cutter management program. For its part, Alpha-Barnes saw the opportunity to gain access to the NeighborWorks network and to build a relationship with an emerging nonprofit affordable-housing owner as it began to grow its portfolio. Alpha-Barnes also had no business presence in San Antonio, and it saw an opportunity to enter a new market and build its operations with a strong base portfolio in AAMHA.

Weighing self-management versus vendor management
More generally, AAMHA Executive Director Sandi Williams brings a management style to the organization that focuses on specialization around core competencies and a desire for the "smallest number of moving parts." This focus on a streamlined operation has led her to contract for many of the organization's professional services. This provides AAMHA with access to higher-quality professionals than it could afford to retain on staff full-time. It also sharpens the AAMHA staff's attention on its two core activities: development and resident services.

Benefits
AAMHA feels that Alpha-Barnes provides the most financially attractive approach to management. It believes that Alpha-Barnes's skills in maximizing cash flow from the properties provide more benefit than the profit margin that AAMHA could ever obtain from choosing to self-manage its properties. In addition, Alpha-Barnes provides a level of professional skill in its management that AAMHA would not be able to deliver on its own. Alpha-Barnes Principal Mike Clark acknowledges that "AAMHA could manage these properties better than we can…if they wanted to." However, both he and AAMHA's Sandi Williams recognize that AAMHA's limited capacity should be directed to supporting resident empowerment and housing-development activity. Clark points out that one trade-off many nonprofits fail to consider is the opportunity cost of senior staff time focused on property management.

Alpha-Barnes also has gained much from its relationship with AAMHA. First, it has sharpened its business activity across the portfolio by using tools built for AAMHA with other clients. These tools have even been deployed by the Consortium for Housing and Asset Management (CHAM) and Neighborhood Reinvestment Corporation in their training programs. Second, Alpha-Barnes's high-quality work for AAMHA has opened doors within the affordable-housing industry due to recognition of the quality of its work. This has provided Clark with a platform in Texas and nationwide to build relationships with policymakers, intermediaries and other practitioners, all of which strengthen Clark's ability to continue to grow his firm.

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Addressing challenges
One reason often cited for self-management is the concern owners express about the ability of property-management firms to treat the residents in the way in which the nonprofit owner wants residents to be treated. Additionally, nonprofits often worry about the quality of resident services if they need to be delivered or coordinated through a management agent. AAMHA and Alpha-Barnes address this by clearly separating the property-management and service-delivery responsibilities. AAMHA focuses on providing resident services in on-site learning centers, and it manages the services available to residents. It assumes responsibility for strengthening the development's human assets. Alpha-Barnes provides wide latitude and support for these services, while focusing on the core maintenance, lease-up, and compliance activity that preserve the long-term value of the physical assets. To coordinate, AAMHA and Alpha-Barnes have developed shared norms of interaction with the residents. The organizations train their on-site staff together. Employees in both organizations work jointly to resolve any issues that relate to either of their primary jobs.

A challenge that affects property managers nationwide is attracting and retaining high-quality talent. While attracting high-quality staff to nonprofits that cannot afford to pay salaries available in market-rate properties is challenging, Alpha-Barnes and AAMHA have tackled this problem by hiring bright recent college graduates with no property-management experience. In the eyes of both organizations finding people with the right traits — honesty, good listening and communication skills, a quick study, eagerness to learn, and a problem-solving bent — is more important than finding people with property-management skills, which they believe are teachable. Though they do not retain these staff for a very long time, the properties get high-quality staffing for the time that the young managers are there, and both organizations can offer career development pathways for the very best of their managers.

11.0 Implications for Funders and Regulators

Discussing the challenges confronting nonprofit owners, several issues emerged regularly that regulators and funders are in a position to affect. The coordination of regulatory requirements in key subsidy programs at the state and federal level, allowance of asset-management fees above-the-line, and greater attention to property-management costs in the underwriting of development deals would enable nonprofits to devote greater time and resources to the effective management and long-term stewardship of their affordable multifamily rental housing. The challenges that these three issues pose consistently draw nonprofits away from the needs of residents and properties and force owners to make choices that often sacrifice the long-term sustainability of affordable housing in order to meet short-term financial requirements.

The first issue raised by many nonprofits addresses the coordination of regulatory requirements across major subsidy programs. While the Section 8 and LIHTC programs were legislated at different times and for different purposes, their income-certification approaches, for example, need not differ to serve their programmatic ends. Creating different requirements for program compliance requires multiple sets of paperwork and reports, and it siphons time and money away from properties and residents to specialized compliance staff and record-keeping activity. Echoing the recommendations of the Millennial Housing Commission to streamline state planning requirements for community-development programs,[20] those states with multiple major sources of development subsidy make better use of their funds by coordinating their applications. Massachusetts has done this with its One-Stop application (www.onestopapp.com), used for all major state and city of Boston housing development subsidy programs. With one set of deal pro formas, funders achieve greater transparency and consistency in the operating estimates provided in development proposals because organizations are not tailoring their pro formas for the funding audience; nonprofits benefit from spending less time and money on development applications. The latter is no small cost, when consultant fees run into the tens of thousands of dollars per development application. Finally, reporting represents a significant task for property managers, and it presents a trade-off between preparing financial reports and analyzing them for many resource- and time-constrained managers. When one property manager joined a new organization, he discovered that he had to produce 522 reports per year for 475 units. This is a common experience echoed by managers across the country. To encourage greater analysis and financial management and to reduce the reporting burden, funders should consider consolidating reports and reporting formats or supporting nonprofits in acquiring more sophisticated technology systems that automate more of the report generating. This burden falls most heavily on smaller organizations that lack the scale to distribute compliance and reporting functions across a large back office. These organizations also stand to benefit greatly from enabling management staff to analyze their properties' financial performance and make operational changes to improve their performance.

A second oft-repeated need among nonprofit owners is the ability to fund asset-management activities consistently by allowing for fee income above-the-line. Traditionally, funders have rewarded good asset management by driving nonprofits below the bottom line to claim any surplus net income as an asset-management fee. This has not served nonprofits well because it does not create a consistent cash flow to fund an asset manager's work, and it fails to recognize that good asset-management decisions — which serve the long-term financial bottom line — often require reserves or investments in preventive care for properties that reduce funds available below-the-line. Some even argue that rewarding nonprofits that asset manage for below-the-line surplus flies in the face of the long-term stewardship that should be the managers' responsibility. By providing a fee of two to three percent of

[20] Millennial Housing Commission. *Meeting Our Nation's Housing Challenges*. Washington, DC: U.S. Government Printing Office. May 30, 2002, p. 73.

total income above-the-line, funders demonstrate a clear commitment to institutionalizing asset-management capacity and enable nonprofit owners to make the responsible choices that will preserve the value of the subsidies that funders distribute.

A final issue raised by many industry observers concerns the attention to operating costs in the underwriting of development deals. While there is no clear evidence that deals are being underwritten in a way that is unsustainable, most parties involved acknowledge that there is tremendous pressure to "do the deal" and that pro formas are often built around assumptions that meet available subsidies, as opposed to the realistic operating needs of a development. Several factors have obscured this in the recent past. First, an environment of falling interest rates has enabled owners to refinance deals and extract cash to cover rising operating costs that outpace income growth. Second, in newer properties many managers contend that they are making trade-offs, forgoing preventive maintenance, for example, to operate within budget. Down the road, properties will suffer more significant consequences as key parts of the physical plant fail, requiring substantial infusions of cash. Third, many deals that fail are viewed as isolated incidents, due to poor management by nonprofit owners, when they actually reflect more systematic problems in the underwriting of projects, in which owners, managers and funders share blame. While nonprofits surely bear responsibility for failing to meet the pro formas that they designed, funders can not escape responsibility for the terms that they underwrote. Ultimately, when affordable properties are lost, they represent a wasted subsidy, in addition to a setback for tenants and the community.

Funders should expand the use of data from the experience of well-managed properties to benchmark historical growth rates for reference in future development deals. They should focus on properties that have both operated within budget and remained attractive and affordable after many years. Critical in these assessments is the need to understand the range of costs included in operations. Resident services, adequate reserves, and preventive maintenance contribute to effective asset management. Owners should not be penalized for investing in these activities.

12.0 Implications for Intermediaries

In addition to suggestions for funders and regulators, observers contributed several recommendations for intermediaries to support effective property management. First, many applaud the training and reference materials developed by CHAM and the three intermediaries (Neighborhood Reinvestment Corporation, LISC and the Enterprise Foundation) independently. All parties encouraged the intermediaries to do more in this regard. In particular, intermediaries can support nonprofit owners in clarifying their organizational mission and describing how development, resident services and property management contribute to meeting mission-driven goals. By facilitating nonprofits' efforts to determine these things (drawing upon decision-making resources such as those presented in this article), intermediaries enable nonprofit owners to make the best choices for the management of their properties based upon the goals that the organization has for the tenants, portfolio and the broader community. Intermediaries can also link smaller organizations that share similar property-management goals to build a critical mass of units and properties, capable of attracting greater vendor interest and better pricing. Also, more training and resources could be developed for small organizations self-managing properties for the first time. Providing detailed studies of organizations that have approached self-management in different ways will show nonprofit owners not only how to get started, but also what to expect along the way. Finally, intermediaries can play a valuable role in supporting their nonprofit members to identify third-party property-management options and assess their performance. When questioned in this study's survey, five of 30 (17 percent) respondents that self-manage were not aware if there was a property manager capable of serving affordable housing in their area. Creating a directory of vendors and their service areas of interest, and developing a standardized vendor evaluation, would illuminate the market for nonprofits.

13.0 Further Research

While this research reflects many in-depth conversations and analysis of property-management issues, it represents a small fraction of the work necessary to better understand the forces at work in managing nonprofit-owned affordable multifamily rental housing. Though this report has described and organized the major factors that shape nonprofits' decision-making, causality and correlation in the explanation of the impact of structural forces, owners' choices and managers' capacity and incentives remain elusive. More in-depth survey data on the factors that shape management would refine ideas presented here about the drivers of nonprofit property-management decision-making. Including property managers and market-rate housing in such surveys would provide valuable sources of input and comparison. In terms of understanding the trade-offs between nonprofit and for-profit management, a more clear understanding of the magnitude of the financial costs is needed. In terms of the economic differences between for-profit and nonprofit management, a particularly effective analysis could be conducted using the 1.2 million unit database of FHA-insured properties assembled by Jim Stockard in work creating comparables for pricing public-housing property management.[21] While too large in scope for this research effort, a detailed assessment of the relative costs of for-profit and nonprofit management agents would yield much finer descriptions of the magnitude of the financial trade-offs owners make.

Additional research that addresses connections between development and property management would also be of great value. Long-term studies assessing how well properties perform with different underwriting assumptions could help to clarify how projections can be made most accurately. Additionally, research could consider ways to evaluate and rate nonprofits based upon their development, property-management and asset-management track records to provide more standardized ratings for underwriting. These research efforts may illuminate the field and provide insights into the following significant questions: (1) Why do large national property-management firms not dominate the affordable multifamily rental market? (2) How do funders and owner/developers maximize production, while maintaining strong ongoing property-management operations? (3) Is there a greater need for nonprofits to focus their missions and more resources on development, property management or delivery of resident services?

[21] Stockard, Jim. "Public Housing Operating Cost Study." Prepared for HUD by Harvard University Graduate School of Design. June 6, 2003.

14.0 Conclusion

Affordable-housing advocates tend to focus on development because it represents a visible measure of success in housing. However, the different trajectories that multifamily rental developments take depend upon the quality of property management. Not only does a good manager create a safe, attractive, well-maintained community, but such a manager enables low-income residents to thrive. All parties connected to affordable-housing subsidies extend the life and impact of these resources by helping nonprofit owners align their mission and financial objectives with the most effective management approach to meet these goals. Well-managed properties also disarm critics of affordable housing by demonstrating that safe, attractive, vibrant affordable communities exist. In addition, nonprofit owners can benefit by taking the rigor and clarity of an effective property-management assessment process and carrying it through to their operations and program activity. To capture these benefits nonprofit owners need managers willing to engage owners about their needs and respond with flexible, high-quality service. Owners also need funders to make the day-to-day business of management easier and more effective by coordinating regulatory requirements, providing financial support for asset management, and balancing a desire to stretch subsidy dollars with a recognition that cash flows contribute to effective long-term preservation of affordability. Intermediaries can continue to train their nonprofit members in property and asset management and support them in structuring their decision-making processes by helping them to clarify their mission objectives and clearly see all management options available in the local marketplace.

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All interviews were conducted by the author between June 7 and August 10, 2004. An asterisk (*) denotes focus group or workshop participants.

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Appendix: Survey Data

	# of Small (<100)	# of Medium (100<x<500)	# of Large (>500)	**Total**
Self-Managed	2	10	9	**21**
%	10%	*48%*	*43%*	***100%***
Third-Party	3	8	6	**17**
%	18%	*47%*	*35%*	***100%***
Both	1	6	1	**8**
%	13%	*75%*	*13%*	***100%***
Total	**6**	**24**	**16**	**46**
%	***13%***	***52%***	***35%***	***100%***

1. How do you manage your multifamily rental properties?

	Response Percent	Response Total
Third-party property manager	37%	17
Self-manage	**45.7**%	**21**
Use both a third-party property manager and self-manage	17.4%	8
Total Respondents		**46**
(skipped this question)		**0**

2. If you use a third-party property manager, what type of organization(s) is it?

	Response Percent	Response Total
For-profit property manager	**76.9**%	**20**
Nonprofit property manager	15.4%	4
Use both a for-profit and nonprofit property manager	7.7%	2
Total Respondents		**26**
(skipped this question)		**19**

3. If you self-manage any multifamily rental properties, are there third-party managers in your market capable of serving your properties?

	Response Percent	Response Total
Yes	**56.7%**	**17**
No	26.7%	8
Don't know	16.7%	5
Total Respondents		**30**
(skipped this question)		**14**

4. If you self-manage any properties in your portfolio, what best describes your approach to training property management employees?

	Response Percent	Response Total
Employees are trained on-the-job by more experienced staff	16.1%	5
Some employees participate in formal training programs for property management (e.g., CHAM, IREM)	9.7%	3
Most employees participate in formal training programs for property management (e.g., CHAM, IREM)	22.6%	7
All employees participate in formal training programs for property management (e.g., CHAM, IREM)	19.4%	6
Training varies based upon the experience and responsibilities of the employee	**32.3%**	**10**
Total Respondents		**31**
(skipped this question)		**13**

5. Approximately how much are your management fees as a percentage of your gross potential rents?

	Response Percent	Response Total
<3%	2.2%	1
3-5%	24.4%	11
5-7%	**42.2%**	**19**
7-9%	22.2%	10
>9%	8.9%	4
Total Respondents		**45**
(skipped this question)		**1**

6. How long have you been using your current management approach for your portfolio?

	Response Percent	Response Total
<1 year	2.2%	1
1-2 years	0%	0
2-3 years	15.2%	7
3-4 years	4.3%	2
4-5 years	4.3%	2
>5 years	**73.9%**	**34**
Total Respondents		**46**
(skipped this question)		**0**

7. On a scale of 1 to 4, how satisfied are you with the quality and value of your property management?

	Very satisfied	Somewhat satisfied	Somewhat unsatisfied	Very unsatisfied	N/A	Response Average
Third-party management OVERALL	19% (7)	**43% (16)**	8% (3)	5% (2)	24% (9)	**2.00**
Third-party financial management/reporting	24% (9)	**38% (14)**	5% (2)	8% (3)	24% (9)	**1.96**
Third-party physical maintenance	22% (8)	**39% (14)**	6% (2)	6% (2)	28% (10)	**1.92**
Third-party tenant selection/relations	27% (10)	**30% (11)**	8% (3)	11% (4)	24% (9)	**2.04**
Self-management OVERALL	32% (12)	**41% (15)**	11% (4)	0% (0)	16% (6)	**1.74**
Self-managed financial management/reporting	37% (13)	**40% (14)**	3% (1)	0% (0)	20% (7)	**1.57**
Self-managed physical maintenance	22% (8)	**53% (19)**	8% (3)	0% (0)	17% (6)	**1.83**
Self-managed tenant selection/relations	**42% (15)**	36% (13)	6% (2)	0% (0)	17% (6)	**1.57**
Total Respondents						**46**
(skipped this question)						**0**

8. Please rate your agreement with the following statement:
In general, for-profit firms manage assisted housing very well.

	Agree strongly	Agree somewhat	Disagree somewhat	Disagree strongly	Response Average
Agreement	9% (4)	**62% (28)**	27% (12)	2% (1)	**2.22**
				Total Respondents	**45**
				(skipped this question)	**1**

9. Please rate your agreement with the following statement:
In general, nonprofits manage assisted housing very well.

	Agree strongly	Agree somewhat	Disagree somewhat	Disagree strongly	Response Average
Agreement	29% (12)	**56% (23)**	12% (5)	2% (1)	**1.88**
				Total Respondents	**41**
				(skipped this question)	**5**

10. Please rate your agreement with the following statement:
In general, nonprofits manage assisted housing better than for-profit firms.

	Agree strongly	Agree somewhat	Neither agree nor disagree	Disagree somewhat	Disagree strongly	Response Average
Agreement	31% (14)	22% (10)	**38% (17)**	7% (3)	2% (1)	**2.27**
					Total Respondents	**45**
					(skipped this question)	**1**

Mean Respondent Portfolio Size
Number of Properties = 10
Number of Units = 504

Median Respondent Portfolio Size
Number of Properties = 8
Number of Units = 297

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