

# Sustainable Properties and Owners

## A Social Enterprise Perspective

Solutions for Working Families  
June 28, 2009

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## **STRENGTHMATTERS™**

- NeighborWorks® America
- Housing Partnership Network
- SAHF • SAHF
- MacArthur Foundation financial support
- 250,000 LIHTC, HUD and RD apartments
- Social enterprise nonprofits--committed to both mission and sustainable performance
- Property stewards for the long term
- Operations, financial reporting, policy



## **STRENGTHMATTERS™**

- Improve organizational operating performance;
- Create transparency and consistency in financial reporting [www.strengthmatters.net](http://www.strengthmatters.net) ;
- Increase and streamline access to capital for parent organizations; and
- Align public sector regulatory and underwriting policies with sustainable ownership.

# 20 years of tax credits

- Self assessment in six meetings
- Striking lack of cash flow
  - Archaic HUD bars against nonprofit distributions
  - Operating cost hits
  - Stagnant incomes and frozen or flat rents
  - Unrealistic original underwriting
  - Cash flow swept by soft debt

# Financial fallout

- Property level
  - Lack of resiliency
- Enterprise level
  - Over dependence on developer fees
  - Restricted ability to cross subsidize
  - Reduced overall impact



## Dialogue with state agencies

- Informal meetings through NCSHA
- Discovered common concerns about portfolio performance
- Many agencies finding a significant proportion of struggling properties
- Shared desire with nonprofits to keep tax credit properties affordable for the long term



# Controlling operating costs

- SAHF developed a legislative and financing strategy for energy conservation
- Insurance—HPN and NW developed captive insurance companies
- Property taxes—SAHF survey and state campaigns



# Lessons learned

- Capital base at the enterprise level required for long-term stewardship and broader impact
- Need return for ownership, not just development
- For long-term strength of the field, need to tilt towards robustness from unit maximization



# Where do we go from here

- Self-discipline in applications
- Federal policy reform
  - Tax credit modernization
  - Legislation on rent levels
  - Removal of HUD barriers

# Where do we go from here?(contd)

- Continued dialogue with HFAs
  - Underwriting assumptions—
    - Starting points for expenses
    - Realistic trending
    - Strong DSC
    - Appropriate reserves
    - Stress testing
  - Improve cash flow splits on soft debt
  - Operating cost control, including energy
  - Opportunistic use of credits for recapitalization