Implementing Asset Management Strategies
for Public Housing Authorities

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Testimony Presented By
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Mr. Chairman, I am delighted to accept your invitation to share my vision of implementing effective asset management strategies and performance standards for public housing.

My perspective has been shaped as a result of over 20 years of experience in the field of asset management, primarily as a public official and most recently as a partner in Housing Partners, Inc., an affordable housing consulting firm in Boston. From 1985 1995 I served as Director of Multi-Family Asset Management for the Massachusetts Housing Finance Agency, a state-chartered lending institution known as the state's housing bank for low and moderate income people. Housing Finance Agencies (HFAs) raise funds for mortgage lending to first-time homebuyers and developers of rental housing by selling taxable and tax exempt bonds to investors. During my tenure as Director of Multi-Family Asset Management, the Agency's multi-family portfolio grew to $3 billion comprised of over 400 developments and 52,000 units. Approximately 70% of the rental units were HUD-assisted through the Section 8 and 236 programs.

More recently, since forming HPI in 1995 with my two partners, Marvin Siflinger and Eleanor White, I have been involved in a broad variety of assignments focusing on asset management and redevelopment initiatives for public housing authorities (PHAs), housing finance agencies, the US Department of Defense, as well as other public agencies and private clients. Currently I serve as senior technical specialist and advisor on the Coopers and Lybrand Center for Excellence in Public Housing in their contract with the HUD Office of Public and Indian Housing Stock Viability Assessment/Compliance with Section 202 of the OCRA of 1996.

The Current State of PHAs

The world of 1.4 million units of public housing is entering a period of *profound* change. HUD's evaluation of the nation's 3400 PIIAs indicate that most of the PHAs are effectively managing the public housing stock. However, HUD has also identified a number of PHAs that are classified as "troubled" and "near troubled". These Authorities manage a highly-visible proportion of the public housing inventory.

In addition, it is reasonable to assume that Federal pressure for deficit reduction will result in fewer dollars being available for public housing operations in the next five years. Political support is at an all-time low as the press and public seize on the specific and dramatic examples of physical, economic and social problems that occur in the segment of the public housing stock that is "troubled".

For years, PHAs have contended that the poor condition of some public housing is the result of too many rules and regulations by which I-IUD has micro-managed from Washington. PHAs have been controlled by a myriad of policies and regulations that manage the authority as a single entity whereby tenants, staff, and dollars are fungible among all of the properties that the authority manages. There has been little accountability or recognition of the qualities of the *individual* property that contribute to its success or failure in the marketplace. The HUD regulations controlling tenant selection, rent levels, redevelopment, maintenance staffing and many other issues make it very difficult to do those things that are necessary -to be done to turn around troubled housing developments. Today, however, many of these rules are under consideration for change in light of the move to deregulation that is defining a new era in public housing. This new era makes possible positive change for the first time in decades.

But change will not be easy, and there are dangers as well as opportunities. Many PIIAs face a series of painful dilemmas. The financial resources typically available are not enough to meet the physical and operational needs of the housing developments in these portfolios. How PHAs perform in this new era will have a major impact on their local communities. **Operating successfully requires applying tested real estate principals that are not traditionally used by PHAs.**

My vision for designing and implementing effective asset management strategies involves transforming PHAs into asset management entities similar to state housing finance agencies. The record demonstrates that HFAs have managed an assisted multifamily housing inventory of more than one million units at a level of quality and cost consciousness that has gained the confidence of Wall Street, the Congress, and the key housing stakeholders. However, let us first provide a definitional context of what we mean by asset management.

1) Asset Management Definition

Asset management is the process of maximizing the value of a real estate asset based on the investment objectives or mission of an organization or owner.

This definitional context is important to keep in mind when looking at the two major components that make up asset management: **1) Asset Management Decision Making; and 2) Property-Based Management.**

1) Asset Management Decision Making

One of the fundamental premises of real estate that differentiates privately-owned rental housing from public housing authorities is that **each property is considered individually** in terms of. its position in the market, management responsibilities, operations, budgeting, tenancy, and long range capital needs. Asset management oversight includes long-term capital and financial planning, monitoring the physical and financial condition of the development, and overseeing the property manager. PHAs, as owners, need to make strategic decisions about how their collection of assets (including the developments, subsidy contracts, and capital funding resources) will. meet the affordable housing needs of the community as set forth in their mission statement. This is a concept not currently required by regulations or employed by most PHAs - H.R. 2 takes important new and bold steps; however, it does not require portfolio evaluations based on individual property assessments.

Traditional asset management techniques utilized by state housing finance agencies have resulted in quality housing, often serving a similar clientele to that of PHAs, with a demonstrated track record of financial and physical viability which has proven its acceptance by Wall Street as evidenced by the investment grade bond ratings of HFAs. Kevin Marchman, Acting Assistant Secretary of HUD for the Office of Indian and Public Housing, supports this view and wrote in an article for the National

Council of State Housing Agencies that he sees, "...a *future public housing system that will look at individual developments as separate assets and determine which are performing, as state Housing Finance Agencies manage their developments.* "

As part of their asset management responsibilities, PHAs should perform portfolio evaluations to determine the most appropriate use of each site. Portfolio evaluation is a major asset management planning tool. Its key benefits are to: 1) integrate the physical and financial characteristics of the housing with market conditions to develop highest and best use; 2) evaluate alternative treatments and strategies in light of available resources; and 3) prioritize future actions and clarify strategies going forward. Some PHAs, like Pittsburgh, Pennsylvania and Atlanta, Georgia, have shown foresight and understand the importance of this concept and are beginning to undertake portfolio evaluations. The evaluations for individual properties should include but not be limited to the following areas:

(1) **PHA Mission -** what is, the highest and best use of the development

(2) **Market Evaluation**

(3) **Capital Needs**

(4) **Revenues and Expenses**

(5) **Debt Service/ Ability to Support Private Debt**

(6) **Property Management**

(7) **Funding Sources**

(8) **Identification and Analysis of Various Options and Property Treatments**

(9) **Disposition Strategy**

Although this approach will clearly be very staff intensive and involve significant time to complete, it is important to indicate that this analysis will require a **one time** effort. However, the results of the evaluation will be immeasurable, allowing the PHA and locality to gauge how well their assets are serving existing residents as well as meeting the PHAs mission and the community's need for affordable housing. From this, clearly defined priorities can be developed and a strategic plan for the future can be determined.

2) **Property-Based Management**

None of the portfolio evaluation measures can be effectively accomplished without PHAs implementing a property-based management system comparable to the system used by Housing Finance Agencies and the conventional real estate industry. By this we mean site-based management where responsibilities are given to managers and maintenance staff at the property level to be accountable for operating budgets, tenant selection, work order distribution, and property appearance. To initiate this property based management system, a property evaluation for every development should be conducted with the end product being the completion of a detailed *management* plan. The management plan is based on the goals and objectives of the PHA and the particular characteristics of each property.

As a result of this evaluation process, each development will have an operational management plan outlining staffing levels, central office support, level of services, and capital needs. The final component of the management plan is a detailed property operating budget. The property operating budget translates into costs associated with the management plan and measures these costs against projected revenues. **The process of initiating property- based budgeting is one of the most important aspects of**

property-based management. The viability of a development in terms of its financial, physical, and social health are dependent on the accuracy of the operating budget. The operating budget measures whether the development works as is; it also measures whether the development can be repositioned to work with a change in income mix or different target market. The operating budget also projects feasibility of recapitalization strategies, the taking on of additional debt, and measures the effects of undertaking various operating efficiencies such as energy conservation improvements. In short, the operating budget lets the user know whether or not the project works and how it can be made to work better.

Conclusion

Public housing is entering a challenging period; with challenges springs opportunities. As PHAs make this transition, they will position themselves to become full service public purpose affordable housing real estate companies which will allow them to promote their mission. I am confident that many PHAs will find this an exciting and rewarding opportunity.