

Preserving Small Rural Properties

NCSHA

Austin, 2018

Working Together for Strong Communities



The Challenges

- Limited markets and declining populations
- Aging properties
- Aging residents
- Underwriting assumptions aren't working
- Small rural properties in small portfolios

Solutions....????

- Larger groups can merge properties
- Larger groups can afford to recapitalize
- HFAs have been finding ways to help !
- But small groups – with small portfolios of small properties

The brutal facts:

- Average Cash Flow for Rural
 - >35 units \$429 \$136
 - 36-60 units \$1427 \$515

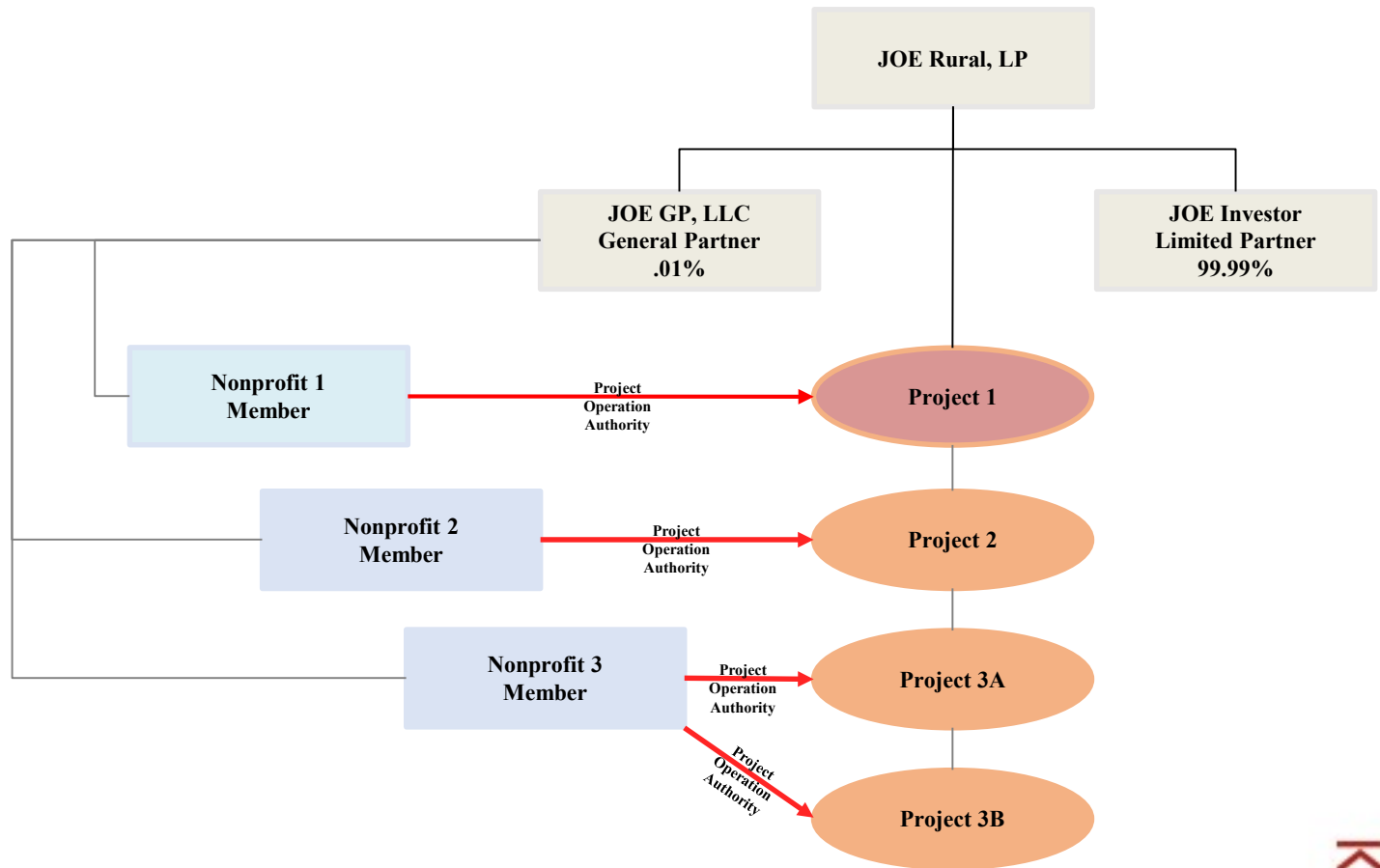
- Cash Flow p/u for portfolios
 - >700 \$530
 - <700 \$1675

- Rural projects are too small to economically recapitalize in a 4% LIHTC, syndicated transaction
 - High transaction costs per unit
 - Limited investor interest

Rural Joint Ownership Entity (R-JOE)

- Conventional tax credit partnership: general partner and investor limited partner
- Projects in same state
- Local nonprofits are all members in JOE GP, LLC
- JOE GP has all conventional rights and responsibilities, but with respect to each project, delegates those responsibilities to the Project Member.

Rural Joint Ownership Entity Ownership & Responsibility Structure



Obligations of Project Member

- Structure and oversee development/rehab
- Engage and oversee property manager
- Provide or arrange for asset management and reporting
- Guarantee completion, tax compliance, operating deficits

Backstop Role of JOE GP

- Ability to assist challenged Project or Member
- Ability to rescind delegation and take over Project
- Backstop individual project guarantees

Project Acquisition

- Fee purchase, not interest transfer
 - Need to comply with various tax rules (related party, ten-year rule, etc.)
 - Assessed value
 - Seller note
- Each Project a separate bond “project” -but single issuance
- Could be project-specific subordinate debt
- Project-level reserves required?

TBD...

- Reception of HFAs, Lenders and Investors
- Tradeoff of Local Autonomy and Group Responsibility
- Can Pooled Reserves and Guaranties Reduce Overall Levels?
- Willingness of Strong Groups to be Exposed to Weak?

This is tough, but...

What the heck is Plan B?

For more info

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