



**BOSTON FINANCIAL**  
INVESTMENT MANAGEMENT

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# Underwriting Operating Expenses NCAHMA

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LIHTC EQUITY INVESTMENTS | ASSET AND PORTFOLIO MANAGEMENT

## BFIM Portfolio & Approach to Underwriting Expenses

- Portfolio of more than 1,600 properties & 165,000 units
- Analyze via IVAN, RealNet, Expense Pivot Table
- Use these sources to gather most relevant expense comparables based on property type, tenant base, subsidy & location

## BFIM Portfolio Statistics

- Family LIHTC New Construction \$2,100+/unit Gross & \$1,500/unit less TURI BELOW Family S8 Rehabs
- Family LIHTC New Construction \$250/unit Gross & \$150/unit less TURI ABOVE Sr. LIHTC New Construction
- Family S8 Rehab \$1,100/unit Gross & \$1,000/unit less TURI ABOVE Sr. S8 Rehab
- Property Size Range: 10 units to 750 units; Avg. 100 units
- Expense Range: \$2,500/unit to \$10,000/unit Gross

## BFIM Portfolio & Approach to Underwriting Expenses

- Focus on expenses less TURI
- Developer / Mgt. Company expense comps are key
- Emphasize \$/unit expenses while considering property size
- Also get quotes for applicable line items & ask market participants for area norms.
- Complete line by line pro forma (approx. 30 line items)

## Risks / Issues to Consider

- Expenses can put a deal underwater too, not just rents / occupancy
- Expenses can fluctuate dramatically; not a straight line
- Spikes possible due to utility rates, tax increases, insurance, security
- Assume competent management; poor management can lead to big expenses, high turnover
- Developer / management company may have to be replaced, maybe spent too little

## Risks / Issues to Consider

- Don't cherry pick line items across comps
- With limited number of expense comps don't overemphasize data; better to build pro forma
- Be wary of explaining away atypical expenses across expense comparables for a given developer / mgt. company

## BFIM Portfolio & Approach to Underwriting Expenses

- Conclusions should be transparent & data driven
  - Just like rents
- Total expenses per unit & individual line items need to make sense
- State where expenses fall within the comparable range & why