

OUTLOOK ON ASSET MANAGEMENT

AUGUST 2010

PER UNIT EXPENSE ANALYSIS

INSIDE THIS ISSUE:

PER UNIT EXPENSES	1
ABOUT RJTCF	2
2010 INCOME LIMITS	2
MOVE OUT OR RENEW?	3
PET FRIENDLY	4
UTILITY THEFT	5

On an annual basis, RJTCF collects and analyzes audited financial statements for over 1,000 multi-family properties. RJTCF uses the data collected in a number of ways, including producing a per unit operating expense analysis. The per unit operating expense analysis is used to underwrite operating expenses for new projects, to benchmark existing underperforming properties against State and Regional averages to identify areas of improvement, and to identify trends. The charts below compare 2007, 2008, and 2009 operating expenses on a per unit basis.

Total Portfolio per Unit Expense Analysis

Year	Payroll & Related	M&R	Admin	Subtotal - Variable	Mgmt Fees	Real Estate Taxes	Utility Expense	Insurance	Subtotal - Fixed	Total Operating Expenses
2007	361	894	414	1,668	407	410	519	212	1,547	3,215
2008	398	956	451	1,804	414	419	549	215	1,597	3,401
% Change	10.25%	6.94%	8.94%	8.15%	1.72%	2.20%	5.78%	1.42%	3.23%	5.79%
2009	441	957	467	1,870	467	418	573	230	1,739	3,609
% Change	10.68%	0.07%	3.55%	3.67%	12.80%	-0.33%	4.38%	6.93%	8.91%	6.13%

SPECIAL POINTS OF INTEREST:

- RJTCF's per unit operating expense analysis
- About RJTCF
- Determining which 2010 income limits to use
- You can't manage what you can't measure
- Pet friendly communities
- Utility theft in multi-family properties

RJTCF's portfolio experienced an increase of 6.13% from 2008 to 2009 in Total Operating Expenses, which is greater than the increase from 2007 to 2008. The largest percentage increase from 2008 to 2009 was in Payroll and Related, which was 10.68%. This category also saw the largest increase from 2008 to 2009. The largest increase in absolute value was \$53 per unit in Management Fees. Maintenance and Repairs, which includes Maintenance Payroll, continues to represent the largest expense category at 27% of Total Operating Expenses. Real Estate Taxes decreased slightly from 2008 to 2009. The chart below represents per unit operating expenses by Region.

Regional Per Unit Expense Analysis

Region	Payroll & Related	M&R	Admin	Subtotal - Variable	Mgmt Fees	Real Estate Taxes	Utility Expense	Insurance	Subtotal - Fixed	Total Operating Expenses
2008										
West	639	1,075	586	2,300	423	442	739	224	1,843	4,139
Northeast	319	1,240	500	2,059	432	618	1,052	239	2,341	4,509
Central	336	929	421	1,686	426	368	543	209	1,546	3,250
Atlantic	434	1,032	459	1,925	409	486	517	222	1,634	3,652
2009										
West	673	1,049	589	2,311	439	429	753	225	1,846	4,157
Northeast	344	1,195	511	2,050	591	664	1,030	279	2,564	4,614
Central	414	904	412	1,730	459	368	558	230	1,615	3,345
Atlantic	437	975	400	1,812	472	455	518	227	1,672	3,484

Properties in the Northeast continue to have the highest Total Operating Expenses. Total Operating Expenses for this Region saw the greatest dollar amount increase from 2008 to 2009, increasing \$105, or 2.33%. The Central Region saw the largest percentage increase in Total Operating Expenses at 2.92% from 2008 to 2009. The Central Region has historically had the lowest Total Operating Expenses. The most notable change from 2008 to 2009 was a decrease in Total Operating Expenses of 4.60% in the Atlantic Region, driven primarily by decreases in Maintenance and Repair and Administrative expenses.

RJTCF can provide a customized per unit operating expenses analysis specific to your location, property type, size, age, and a variety of other criteria.

If you are interested in receiving customized reports, please contact Brian Lynch, Director – Asset Management. You can reach him by email at Brian.Lynch@RaymondJames.com or by phone at 800-438-8088 extension 71929.



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About Raymond James Tax Credit Funds

Raymond James Tax Credit Funds (RJTCF) is a wholly owned subsidiary of Raymond James Financial, Inc. (NYSE-RJF). Since 1969, subsidiaries of RJF have been among the leading syndicators of affordable housing. Raymond James Tax Credit Funds has raised over \$2.6 billion in equity for more than 1,200 properties in 45 states since the inception of the tax credit program in 1986. Our firm has closed over 50 funds with no foreclosures or tax credit recaptures to date.

Our corporate culture revolves around a philosophy known as "Service 1st" which pervades everything we do, especially in how we cultivate and manage our relationships with partners and investors. We have a deeply experienced Asset Management Team whose portfolio continues to grow with recent closings in Brooklyn, New York City, Syracuse, Oklahoma, Idaho, Arizona, Houston, Tampa, Washington State, and Nevada.

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Compliance Corner - Income Limits for 2010

With the end of HUD's Hold Harmless policy and the implementation of HERA, determining the correct income limit to use at your property has become anything but simple. There are National Non-metro limits, MTSP limits, HERA Special limits and Hold Harmless limits that must all be considered depending on your individual property's circumstances.

The National Non-metro limits are only applicable for properties located in rural areas as defined by Section 520 the Housing Act of 1949. Verification for



the status of your property's location and subsequent eligibility to use these limits can be provided by your state Rural Development office. Additionally, use of the limits should be approved by your state housing agency.

The 2010 MTSP limits are used if your property was placed in service after HUD's release of the limits on May 14, 2010. If your project was placed in service prior to May 14, 2010 determining the appropriate income limit can be complicated.

HERA Special limits apply to your project if it was in service prior to January 1, 2009 and is located in a HERA Special county. Hold Harmless limits will prevent your project's applicable 2010 income limit from being below the limit used in 2009. A useful tool in helping to determine the applicable income limit for a project is the Novogradac Rent & Income Calculator.



<http://www.novoco.com/products/rentincome.php>

The state agency may also be a resource. The bottom line is that the process has changed and will require effort and careful consideration to ensure that you are using the correct income limit at your property. RJTCF Compliance would be glad to discuss your specific property in more detail and answer any questions you may have on this topic. Please send inquiries to Jacquelyn.Covington@RaymondJames.com.

If you have a compliance question and would like to know RJTCF's perspective, please send an email to

Jacquelyn.Covington@RaymondJames.com

with a subject line of "Compliance Corner."

Please note that your question may appear in a future issue of the newsletter.

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You Can't Manage What You Can't Measure

Although there are signs of national markets moving from the recession to a tepid recovery, and not a lot of new supply of apartment product coming on line relative to recent history, in many markets private sector job creation remains anemic at best. In the context of apartment management, this means a defensive posture may be more appropriate than aggressively pushing rents and increasing turnover with a bias toward tougher qualifying criteria and arbitrary policies that replace sound judgment with respect to slow paying tenants that result in greater numbers of evictions. This is because in many markets the volume of qualified traffic from which managers pull to fill vacant units has diminished and may not be expected to improve any time soon.

When statements such as this are made to a group of apartment managers, common questions arise such as:

- Should I loosen qualifying criteria and admit more risky tenants?
- Should I be slower to evict for non-payment?
- Should I lower my rents?

The answer is No.

The value in this observation is to hopefully prompt measurement of readily available data to allow the best



decisions relative to managing vacancy and the renewal process. For instance, if for a property of 100 rental units traffic is running at 15 per month, of which 5 pieces (1/3) of that is qualified, and the closing ratio (% converted

to a lease and occupancy) of qualified traffic is 80%, the property may be expected to deliver (80% x 5) four new leases on average per month. Now, if annual resident turnover is 50%, meaning that move outs, evictions and skips are measured to be 50 per year, or half of the total units in service, to maintain level physical occupancy over the course of a year this manager needs to lease 50 units to backfill the 50 move outs. In the closing ratio above of 4 per month on new traffic, this equates to (4 x 12 months) 48 units that will, on average, be the replacements for the 50 move outs. This supports a forecast of diminishing occupancy over the course of the year because 50 tenants are leaving and only 48 are replacing them.

So what does this mean? It means this manager needs to either (a) lease more units than the current run rate, or (b) renew more units than the current run rate otherwise occupancy may be expected to be lower over time. Specifically, physical occupancy would diminish by 2 units (2%) in this example over the course of the next twelve months.

Assuming the goal is to maintain current occupancy, is it more efficient to lease more units or renew more units and how is this efficiency measured? Assuming for the moment there is nothing fundamentally amiss with pricing, the quality of the units or the effort (experience, service) of the staff, the cost of leasing more units may be measured in (a) a greater marketing effort to develop more qualified traffic, and/or (b) a more competitive concession. Let's further assume that the cost of greater marketing and/or a temporary concession will cost \$1,000 to replace the

two unit differential between the leasing and renewing measurement in the example above to allow physical occupancy to remain level.

Alternatively, what does it cost to renew two more residents and avoid the \$1,000 leasing expense? The renewal cost for an individual unit may be a renewal concession or an improvement to his/her unit. Suppose the manager determined the cost to reverse the move out and renew the lease is a renewal concession of \$300, or half of the monthly rent of \$600 for the unit the manager wishes to renew, and the tenant indicates the carpet is worn and wants it replaced at a cost of \$900. The total cost to save the move out and renew this lease is (\$300 + \$900) \$1,200.



But there are other costs applicable to move outs that are saved if the tenant is renewed, specifically (a) down rent time, or the time a unit remains vacant between residents and for which no rental income is received, (b) the concession on a new lease, if any, (c) the cost of making the unit rent ready, (d) the costs of house meters for utilities in the owners name applicable to down rent time, (e) a leasing commission, if any, and (f) the staff resources applicable to leasing, such as showing and maintaining the unit in perfect condition during the period it is being marketed.

[See MEASURE, Page 4]

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[MEASURE, from Page 3]

Let's suppose the down rent time on average is measured to be a month, the make ready cost is \$350 and the current ordinary concession on a new lease for this particular floor plan is half of one month's rent free, applied to the second month of occupancy. The sum of these items (ignoring house meters and leasing commissions for the moment) is the \$350 make ready cost, plus one month down rent time of \$600 and a half month's rent free at another \$300 for a sum of \$1,250. But in this case a new carpet is required, so add another \$900 for a total of \$2,150.

So, absent any other information, the cost to renew the lease (one of two to maintain physical occupancy) is \$1,200 and the expenses avoided that are directly attributable to the renewed lease are \$2,150. So in this analysis (\$2,150 - \$1,200) cash flow is improved by \$950 relative to this particular lease renewal evaluation. Note that in this example the \$300 concession and carpet replacement are costs common to both the renewal and new lease scenarios, so the \$950 cost saving provided by the renewal is the equivalent of the \$600 down rent time and \$350 make ready cost; this is not the case in many circumstances, but you get the idea. Remember that to increase the number of units leased to offset the 2 unit differential and maintain physical occupancy there may be other costs for increased marketing and temporary concessions to increase the closing ratio, which make the renewal related costs saved greater still.

Many managers understand that in times of depressed demand for apartments, assuming a minimal loss to lease value and credit worthy tenants, it is best to renew everyone possible. Although simplistic, this evaluation provides an outline for measurement so a manager is able to more specifically understand just how cash flow is affected by renewal decisions, and the cost effectiveness of tactics when evaluating renewals and developing a resident retention policy. This evaluation also serves to illustrate the value of collecting certain data points so analyses such as this one can be performed quickly and easily.

PET FRIENDLY IS BOTTOM LINE FRIENDLY

If your community has historically prohibited pets or has restrictive pet policies, this is a good time to take a look at your onsite pet policy to see if there is room to broaden it and increase your market share and bottom line. The Humane Society says that 39% of US households have 1 or more dogs and 33% have 1 or more cats. In a 2006 survey by the American Veterinary Medical Association, about half of the pet households consider their pets to be family members.

We have all heard or seen the worst of the worst when it comes to pets. Pets that have chewed through furniture, pet droppings, pet smells, pet dander, pet barking, unruly pets, etc! Don't let this cause you to lose business. There are some time tested ways to set-up pet rules and guidelines to make pet ownership in an apartment community work for everyone.

10 Elements of a Good Pet Policy:

1. Clearly define what kinds of pets you are going to accept. For instance, some communities will accept small dogs up to a certain weight. Other communities will accept dogs regardless of the size - but they may have breed restrictions. Do your research, and set criteria that best fit the needs and expectations of your community. For example, in communities where the size of the apartments is small, or where outdoor space for walking dogs is limited, it might make sense to restrict the size of dogs. In other communities where the size of the apartments are larger, and the community was built as a pet-friendly community, it may be a better option to accept all sizes, but decide on breed restrictions.
2. Decide how many pets are allowed per apartment.
3. Establish a pet deposit and/or pet fees. This should be used to establish your community's expectations of pet owners. Let them know they are responsible for any damages inflicted by their pet.
4. Establish whether or not you community will charge "pet rent." This approach is used in communities that have been built to be pet-friendly, meaning they have a dog park or dog walk area that may need some routine maintenance like weekly sanitation or other cleaning services. The "pet rent" usually helps to offset the cost of keeping those facilities clean and well-maintained.
5. Establish penalties for resident who do not notify the management office of their pet. If you are allowing residents to own pets in your community, have everyone, even non-pet owners, sign the pet addendum. This establishes the fact that your community DOES accept pets, as well as outlines the penalties for not notifying management of a pet household member.
6. When outside the resident's apartment, a pet should be under the complete control of a responsible human companion at all times. Pets are not to be left alone, unattended or tied anywhere outside.
7. If your community has common areas, establish which common areas pet owners can bring their pets. Some pet friendly communities establish "no-pet" zones - like the fitness center - but keep everything else available to pets & their owners. Decide what works for your location.
8. Establish clearly defined penalties if an owner does not clean up after their pet. Some communities use specially designed receptacles that are located in key areas around the property for this purpose. See, for example www.dogipot.com.
9. Take a picture of the pet, get copies of their vaccinations and rabies shots and keep this information in the resident's file.
10. For cats, decide if your community will accept cats that have claws or declawed cats only.



By being proactive about pets you should be able to increase the available pool of renters for your community. You can also design special marketing campaigns around a pet theme or through providers of pet services such as veterinarians, groomers and retailers.

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Utility Theft in Multi-Family Properties

Are you aware that your residents may be stealing from you? The impact may be as much as \$22 billion a year nationwide according to some estimates. One private study estimated the problem of electricity theft to cost owners an average of \$67 per unit per month.

Continuous Service Agreements (CSA) are used throughout the apartment industry and by their nature they make it relatively easy for residents to commit utility theft. A CSA is a contract between the property owner and a utility company that en-



sures uninterrupted utility service in all rental units if they become vacant. The property is responsible for the utility bills until a new resident moves in and opens an account to begin utility service to the unit. The CSA is a practical solution used nationwide to avoid the cost and inconvenience of turning utility service on and off in between occupancy of the apartment unit. Physical connection and disconnection fees are rising alarmingly nationwide because of the need for an actual technician to visit the property.

How does utility theft occur? It occurs when there is a CSA in place and residents move in without switching the electricity accounts into their name or when they simply close an account before move out or at any time during their occupancy. The property owner is faced with paying the bill for any period in which the

resident had discontinued service and is left trying to recover this cost after the fact and typically after the resident has moved out. There are a number of ways to try to control this problem.

1. Maintain a strict policy and procedure with regard to new move-ins putting the utility service in their names. Some managers have the resident fill out the change of utility forms as part of the move-in process and fax or mail the application directly from the rental office to ensure that the task was completed. A similar process can be completed as part of the move out process.
2. Careful review of any utility bills received each month against the rent roll to make sure that a unit that is occupied is not being billed to the owner. Some managers keep specific vacant utility logs to track these bills and to ensure that actual vacant units are not using excessive utilities due to contractors working in the unit, etc.
3. If your utility is sub-metered (electricity or gas) and billed by a third party private company, many providers can compare your rent roll and move-ins and move-outs with their billing summaries as part of their service to the property to make sure that all occupied units are being billed appropriately. Some apartment management software packages can be adapted to upload this information to the vendor electronically

and automatically at a specific time each month.

4. Some managers require residents to bring a receipt from the power company to prove they have implemented service. However, this can be a rather labor intensive method for the property management staff and consistent follow-up may not be enforced.
5. There is some emerging technology that is being used for a fee at some locations to automatically monitor all utility accounts throughout the lease term through a pro-active interface with the utility company. Although not available in all locations it is currently being used successfully in North Carolina, Georgia, Maryland, Alabama, Texas, Washington, Mississippi with other locations still pending. This method is touted as being more efficient and avoids a long lag between the actual theft and receiving a bill that confirms it. A proactive interface provides timely alerts enabling the property manager to take immediate action to stop the problem. For further information, please visit www.csasecure.com

The absolute first step for any owner or manager is to become more aware that this problem is happening on many properties and it is costing the ownership money. Taking direct steps to eliminate the theft improves your bottom line, in some cases, dramatically.

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