

OUTLOOK ON ASSET MANAGEMENT

FALL 2011

IMPORTANT IRS REGULATION REMINDER FOR YEAR-END

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As we approach the end of another tax year, it is important to consider any units that are not currently suitable for occupancy. While no credit is allowable for these units, IRS § 42(j)(6)(E) provides relief from the credit recapture provisions to the extent the unit is restored by reconstruction or replacement within a reasonable period. The determination that a unit is unsuitable for occupancy is made at year-end and is based on its physical condition, without regard for the cause of the noncompliance.



If the IRC §42 project is located in an area declared a major disaster area by the President under the Stafford Act on or after July 2, 2007, then Rev. Proc. 2007-54 provides the additional relief for damaged projects. Similar relief provisions are provided in Rev. Proc. 95-28 for locations declared major disaster areas before July 2, 2007

Please remember to ensure that all your units are suitable for occupancy by 12/31/11.

2010 OPERATING EXPENSE ANALYSIS

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 provided compare 2007, 2008, 2009 and 2010 operating expenses on a per unit basis. In addition to examining year-over-year changes and expense variances, we have also explored variances between Family and Senior housing types. The Maintenance category includes all maintenance payroll. The Payroll category includes Office/Administrative Payroll and all benefits and payroll taxes:

Year	Payroll and Related	M&R	Admin	Subtotal - Variable	Mgmt Fees	Real Estate Taxes	Utility Expenses	Insurance	Subtotal - Fixed	Total OPEX
2007	361	894	414	1,669	407	410	519	212	1,548	3,217
2008	398	956	451	1,805	414	419	549	215	1,597	3,402
% Change	10.25%	6.94%	8.94%	8.15%	1.72%	2.20%	5.78%	1.42%	3.17%	5.75%
2009	441	957	467	1,865	467	418	573	230	1,688	3,553
% Change	10.80%	0.10%	3.55%	3.32%	12.80%	-0.24%	4.37%	6.98%	5.70%	4.44%
2010	460	992	500	1,952	474	426	596	231	1,727	3,679
% Change	4.31%	3.66%	7.07%	4.66%	1.50%	1.91%	4.01%	0.43%	2.31%	3.55%

COMPLIANCE CORNER

If the IRS comes knocking at your door, what will they want to know about your tenant qualification process?

By Missy Covington

Earlier this year, Grace Robertson, LIHTC Program Analyst with the IRS focused a portion of her periodic newsletter on what to expect during an IRS audit. While there were multiple topics in her article, for the purpose of this Newsletter, the focus will strictly be on tenant qualifications:



In Grace's article, she indicated that the IRS auditor would be interested in answers to multiple questions regarding tenant certification:

- "How does the taxpayer ensure that new

tenants are income-qualified at move-in?"

- "Does the taxpayer train employees?"
- "Is the taxpayer using an independent management company?"
- "Is the taxpayer frequently changing management companies?"
- "Does the taxpayer conduct internal audits or reviews of the tenant files?"
- "Who prepares the files?"
- "How are they maintained?"
- "Where are they stored?"

This is an extensive list of questions, focusing mainly on the policies and procedures in place

to ensure that tenant qualification and compliance with LIHTC regulations is well thought out, documented and consistent for all Applicants.

How well prepared would you be to answer those questions? Are policies and procedures current and detailed to adequately reflect how an applicant is deemed eligible to become a tenant?

Hopefully you will never be faced with an IRS auditor, but if you are, it is nice to have an idea of what to expect. Better yet, your ongoing good management practices ensure that your are ready.

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RJTCF's portfolio experienced an increase of 3.55% from 2009 to 2010 in Total Operating Expenses, which is the lowest net increase in the last three periods. Administrative expenses experienced the largest percentage increase of any category and Maintenance & Repair had the largest increase in terms of absolute values. The most notable trend is the relatively stable Insurance expense, increasing less than one percent from 2009 to 2010. The table below summarizes 2009 & 2010 operating expenses by region:

2009										
Region	Payroll and Related	M&R	Admin	Subtotal - Variable	Mgmt Fees	Real Estate Taxes	Utility Expenses	Insurance	Subtotal - Fixed	Total OPEX
West	673	1049	589	2,311	439	429	753	225	1,846	4,157
Northeast	344	1195	511	2,050	591	664	1030	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
2010										
Region	Payroll and Related	M&R	Admin	Subtotal - Variable	Mgmt Fees	Real Estate Taxes	Utility Expenses	Insurance	Subtotal - Fixed	Total OPEX
West	616	1,071	646	2,333	424	439	786	232	1,881	4,214
Northeast	380	1,366	589	2,335	586	591	1,042	305	2,524	4,859
Central	465	942	393	1,800	394	382	485	240	1,501	3,301
Atlantic	476	1,044	527	2,047	487	471	547	229	1,734	3,781

Properties in the Northeast continue to have the highest Total Operating Expenses, while properties in the Atlantic Region experienced the greatest change in terms of percentage and dollar amount, 8.5% and \$297 per unit per year, respectively. The Central Region continues to have the lowest Total Operating Expenses of any Region, declining 1.31% from 2009 to 2010. The chart below summarizes operating expenses for 2009 and 2010 by property type—Family versus Elderly:

Year/Type	Payroll and Related	M&R	Admin	Subtotal - Variable	Mgmt Fees	Real Estate Taxes	Utility Expenses	Insurance	Subtotal - Fixed	Total OPEX
2009 Senior	420	906	446	1,772	490	399	548	207	1,644	3,416
2009 Family	451	984	487	1,922	535	427	586	244	1,792	3,714
2010 Senior	450	932	478	1,860	509	402	573	214	1,698	3,558
2010 Family	466	1,031	515	2,012	451	442	611	242	1,746	3,758

JUST SAY 'NO' TO FREE RENT GIVEAWAYS

By Melissa Melvin

We all want to say 'no' to free rent concessions but what are our options? Free rent concessions and reduced rents below maximum negatively impact the economic occupancy. While physical occupancy is crucial, the economic occupancy indicates the property's strength in the market and is necessary for long term financial stability.

Here are a few ideas that might work on your property.

1. Reducing upfront fees: In some markets, the prospects biggest obstacle to moving is the overall moving expense. This may be solved by waiving the application fee or lowering the required damage deposit amount. These offers will be a savings to the prospect and a special offer that can be advertised while still collecting rent on day one.

2. Move in incentives: We all love receiving a free gift, so rather than free rent concessions, a move in gift is a less expensive and more personal option. This may be a television, moving truck gift certificate, gas card, furniture store gift card, grocery store card to stock the refrigerator at move in or a gift card where the resident may purchase items to assist their



moving costs. These ideas can run concurrent with a property marketing theme to build excitement with prospects and residents.

3. Signing upgraded amenity bonus: In the era of the "upgrade" everyone wants to be upgraded and this is an area that helps to provide value to the resident at move in and improves the asset. This can be an upgraded ceiling fan at move in, free built in microwave at renewal or paint color options provided by the maintenance staff. These offers can all be relatively inexpensive ways to provide the resident with options for their home while improving the value and character of our properties.

4. Optional amenity discounts: Your property may also provide cable service or washer and dryer rentals as optional amenities to the residents. You can give a move in or renewal special of 3 months of free washer and dryer rental or free cable service. This may be an effective tool to entice new applications and serve as a great incentive for renewals. Usually the property receives these services in bulk at a reduced rate and rent them as optional items to residents as a service at an increased amount. If you give a short term "free" option to the resident this may increase the probability of the resident liking the optional amenity and

choosing to continue through the lease term which will increase property income.

5. Replacing capital items: While taking a tour with a prospect or doing a renewal inspection with a resident, this is a great time to discuss the property condition and what should be replaced to capture this new or renewal lease. The prospect may mention the carpet as older, stained or not attractive and you may have hoped

to get by with the older carpet, but an immediate lease would prove more beneficial. A new appliance may close the deal on a great resident's renewal while increasing the resident satisfaction and improving the apartment.

These are a few ideas that properties can use to begin to steer away and maybe avoid free rent giveaways. While some properties may continue to give away large amounts of free rent, the more savvy management teams will create ways to provide value to prospects and residents and build stronger properties by setting the standard to "Just Say No" to free rent.

"Showing the extra effort on replacing a capital item often can be the difference of an occupied or vacant month of rent."

OPEX continued from Page 2

While Family properties continue to have greater Total Operating Expenses than Senior properties, from 2009 to 2010, Senior properties had a larger increase (4.16% versus 1.18%) in Operating Expenses. The grid below summarizes per unit Operating Expenses based on the age of the property.

PIS Year	Payroll and Related	M&R	Admin	Subtotal - Variable	Mgmt Fees	Real Estate Taxes	Utility Expenses	Insurance	Subtotal - Fixed	Total OPEX
Over 10 years	435	1078	475	1,988	496	385	636	212	1,729	3,717
6 to 10 years	476	1033	522	2,031	491	451	654	239	1,835	3,866
0 to 5 years	477	879	513	1,869	436	461	511	249	1,657	3,526

As expected, older projects have higher Maintenance and Repair Expenses due to the increased needs of older properties. In addition, new projects experience lower Utility Expenses due to improved efficiency appliances and building materials. Note that Utility Expenses are also impacted by the fact that newer projects tend to include fewer utilities in project rents.

As your Partner, we would be happy to benchmark your property against our database. Please contact your Asset Manager for a complimentary analysis.

CREDENTIALS IN AFFORDABLE HOUSING MANAGEMENT

...ARE YOU A PROFESSIONAL?

By Bob Landis

If you are a true professional in the management of affordable properties and committed to this industry in which we all have a role, you should find professional organizations with which to associate so you can compare notes and learn new things from colleagues, peers and mentors who are active affordable housing professionals. Many of those organizations offer professional training and professional designations.

Why should you pursue these credentials?

1. Credentials are an opportunity for you to consolidate all of your knowledge and experience in the industry and have a formal designation that recognizes your tenure and skill level;
2. Credentials are a sign to your clients, partners and other stakeholders in your deals that you are committed to professional education and you are willing to make the effort to pursue them;
3. Credentials serve as a mark of your professional ethics and support of the industry in which you are employed; and
4. Credentials are an excellent way to develop and educate staff and to give recognition of their accomplishments. That accomplishment cements their commitment to your firm and the industry in which they are pursuing a career.

Note: These credentials are no substitute for formal collegiate training, which has different goals and takes a longer commitment to achieve.



What are some credentials and organizations that are worth considering for professionals in the affordable housing industry?

Institute for Real Estate Management (IREM):

Particularly known for Accredited Residential Manager (ARM), the Certified Property Manager (CPM) designation and for Accredited Management Organization (AMO) designations, this organization represents managers of all types of real estate. They also collect apartment operating data and publish a study each year.

National Apartment Association (NAA):

The oldest umbrella organization that serves managers, developers and owners of all classes of apartments in the U.S. They are known for their property management designations for maintenance (CAMT) and site manager (CAM) and regional property managers (CAPS) and leasing professionals (NALP) among others.

National Affordable Management Association (NAHMA):

Known for a number of certifications including Specialist in Housing Credit Management (SHCM) designation, Certified Professional of Occupancy (CPO) and National Affordable Housing Professional (NAHP). This organization is affiliated with NAA but focuses on affordable housing.

National Association of Home Builders (NAHB):

This organization has a range of designations geared toward property managers. The Housing Credit Certified Professional (HCCP) designation is often pursued by compliance professionals, asset managers and property managers active with NAHB.

National Center for Housing Management (NCHM):

Offers many training and certifications including Certified Occupancy Specialist (COS) and Residential Housing Manager (RHM) designations.

Some of the private compliance consulting firms offer training and certifications including Spectrum, Novogradic, TheoPro and Elizabeth Moreland. A.J. Johnson is a well known HCCP trainer for developers, state housing agencies and the IRS.

“Being involved with professional organizations and obtaining recognition for your skills and knowledge are increasingly looked at...”

Our industry has become more and more professional over the years. Being involved with professional organizations and obtaining recognition for your skills and knowledge are increasingly looked at by clients, partners, lenders and state agencies as a sign of your commitment to excellence.

Are you getting credit for your accomplishments?

For further information, visit these websites:

<http://www.irem.org/>

<http://www.nahma.org/>

<http://www.nahb.com/>

<http://www.nahq.org/>

<http://www.nchm.org/>

<http://www.spectrumlihtc.com/>

<http://www.novoco.com/>

<http://www.icomply42.com/>

<http://www.taxcredit.com/>

<http://www.ajics.net/>

WHO IS 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 \$3.6 billion in equity for more than 1,200 properties in 46 states since the inception of the tax credit program in 1986. Our firm has closed over 70 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 New York, California, Texas, Georgia, North Carolina, Washington and Maryland.

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Steve Johnson, VP, Special Asset Management Services

Brian Lynch, Director

Sylvia Perez, HCCP®, Director

Lori Dobson, Asset Manager II

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Caroline Ennis, HCCP®, Compliance Specialist II

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HCCP Training & Exam Offer

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\$350—includes Exam fee—Contact Pamela Rich for more information (800) 438-8088; Pamela.Rich@RaymondJames.com

We're on the Web

www.rjtcf.com

REPORTS CURRENTLY DUE

3rd Quarter Financials	October 31
3rd Quarter Occupancy Reports	October 31
3rd Quarter General Partner Certificates	October 31

UPCOMING DUE DATES

2012 Budgets	November 1
2011 Annual Business Reports	January 31
2011 Tax Returns	February 15
2011 Audited Financial Statements	March 1



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