

OUTLOOK ON ASSET MANAGEMENT

AUGUST 2009

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SPECIAL POINTS OF INTEREST:

- Federal funding for weatherization
- Compliance Corner - submit compliance related questions to RJTCF to receive our perspective
- Manage lease expirations throughout the year to save money and avoid overwhelming your staff
- Per unit operating expense analysis can be used to identify trends and to determine if some of your costs fall above the state or regional averages

FEDERAL FUNDING FOR WEATHERIZATION

What is Weatherization? “It improves energy efficiency and permanently reduces energy bills.” Weatherization focuses on offering long term solutions, such as adding insulation to walls and roofs, to address the main causes of high energy bills.

What is the Weatherization Assistance Program? This program serves low income residents of existing residential and multifamily housing projects free of charge and is designed to implement a comprehensive series of energy efficiency measures. Changes can be made to the heating and cooling systems, electrical systems and electricity consuming appliances among other things.



Additional Federal funding for weatherization, may be available in your state under the “American Recovery and Reinvestment Act of 2009.” Under this stimulus package, funding is provided to allow more low income homes to be weatherized in the next two years.

What are the benefits? Many low income families use a significant amount of their income towards utility bills.

These programs may be invaluable to enhancing the low income housing communities, with the common goal to save energy, promote energy education, improve the quality of life and, most importantly, offer a cost savings to the families by way of improving energy efficiency and reducing energy bills.

To learn more about weatherization programs in your area, please contact your state or local government agencies or visit the following Department Of Energy websites to find out how you and your tenants may qualify, what the application requirements are and if there are any deadlines to apply.

<http://apps1.eere.energy.gov/weatherization/reducing.cfm>

http://apps1.eere.energy.gov/weatherization/what_is.cfm

Works Cited

“DOE Weatherization Assistance Program: What Are Weatherization Services?” *Weather Assistance Program*. 11 March 2009. U.S. Department of Energy, Energy Efficiency and Renewable Energy. 11 Jun 2009
<http://apps1.eere.energy.gov/weatherization/what_is.cfm>.

“DOE Weatherization Assistance Program: Reducing the Energy Burden on Needy Families.” *Weather Assistance Program*. 25 July 2008. U.S. Department of Energy, Energy Efficiency and Renewable Energy. 11 Jun 2009
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Lease Expiration Management Saves Money & Staff



Sophisticated management companies pay great attention to the distribution of lease expirations on their properties. While larger management companies who have invested in advanced property management software have built in tools for this purpose, it is not difficult to schedule out the lease expirations manually on a spreadsheet program and then maintain it manually throughout the year.

Why is this an important issue? It mainly revolves around the capacity of the onsite staff to deal with replacing residents who have given notice and preparing vacated units for new residents. You can staff for average turnover throughout the year, but extremely high turnover will end up overwhelming the onsite staff and will cost the property a lot of money in unexpected vacancy loss, turnover expenses and re-leasing costs.

The first step is to review the historical trends at your property. Is apartment turnover higher in the summer versus the winter? Are there other local factors or property specific issues that influence when residents move? For example, if the property is family oriented, apartment turnover may be driven by local school start and end dates. Some properties may have fewer turnovers at certain times of the year due to climate, such as heavy winters that make moving difficult or extremely hot summers. After making this determination, you can make some assumptions about the ideal distribution of lease expirations throughout the year.

A classic distribution has a goal of limiting apartment lease expirations as follows:

| Month | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEPT | OCT | NOV | DEC | Total |
|-------------|-----|-----|-----|-----|-----|-----|-----|-----|------|-----|-----|-----|-------|
| Lease Exp % | 7 | 7 | 7 | 9 | 9 | 10 | 10 | 10 | 9 | 9 | 7 | 6 | 100% |

In this example, the high turnover months are in the summer. By planning ahead, management can control these expirations by managing the lease expirations of new leases and renewal leases throughout the year. As new leases and renewals are written, the onsite staff can keep track of how many slots they have used up for the future month. Once that goal has been achieved, they should be writing leases for slightly shorter or slightly longer terms that expire in adjacent months, assuming that there are open slots in those months.



Where we have seen properties have trouble is when there are months during the year, for example, where there are 15% or even 20% of the leases expiring in a single month. The property staff becomes overwhelmed with generating enough prospect traffic and rentals to promptly re-release the apartments and typically the maintenance staff cannot keep up with the extra volume of work without costly outside help.

The discipline in sticking to a pre-determined amount of lease expirations in any given month should significantly help the onsite staff to re-lease any upcoming vacancies and prepare the apartments for new residents without becoming overwhelmed. It will also better distribute vacancy and operating costs throughout the year. All it takes is some foresight, planning and implementation of your goals which and then monitoring them throughout the year. "Unstacking" your leases is good property management.

COMPLIANCE CORNER

Don't forget - 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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PER UNIT 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 per unit operating expense analysis. The per unit operating expense analysis is used to underwrite operating expenses for new projects, to bench-mark existing underperforming properties against state and regional averages to identify areas of improvement and to identify trends.

The charts below compares 2008 operating expenses to 2007 operating expenses on a per unit basis.

Total Portfolio per Unit Expense Analysis

| Year | Payroll & related | M&R | Admin | Subtotal - Variable | Net Mgmt Fee | Real Estate Taxes | Utility Expense | Insurance | Subtotal - Fixed | Total Operating Expenses |
|----------|-------------------|-------|-------|---------------------|--------------|-------------------|-----------------|-----------|------------------|--------------------------|
| 2007 | 361 | 894 | 414 | 1,668 | 407 | 410 | 519 | 212 | 1,547 | 3,265 |
| 2008 | 398 | 956 | 451 | 1,804 | 414 | 419 | 549 | 215 | 1,597 | 3,456 |
| Increase | 10.30% | 6.92% | 8.85% | 8.13% | 1.83% | 2.19% | 5.78% | 1.62% | 3.22% | 5.85% |

RJTCF's portfolio experienced an increase in Payroll and Related Expenses of 10.30% from 2007 to 2008, which was the largest percentage increase. The largest increase in absolute value was \$62 per unit in Maintenance and Repairs, which includes Maintenance Payroll Expenses. Maintenance and Repairs make up 27% of total Operating Expenses. Total Operating Expenses increased 5.85% from 2007 to 2008.

Regional Per Unit Expense Analysis

| Region | Payroll & related | M&R | Admin | Subtotal - Variable | Net Mgmt Fee | Real Estate Taxes | Utility Expense | Insurance | Subtotal - Fixed | Total Operating Expenses |
|-------------|-------------------|-------|-------|---------------------|--------------|-------------------|-----------------|-----------|------------------|--------------------------|
| 2007 | | | | | | | | | | |
| West | 626 | 1,079 | 497 | 2,201 | 430 | 452 | 741 | 221 | 1,843 | 4,042 |
| Northeast | 228 | 1,224 | 472 | 1,923 | 432 | 600 | 917 | 250 | 2,200 | 4,269 |
| Central | 317 | 887 | 370 | 1,574 | 422 | 367 | 510 | 203 | 1,502 | 3,113 |
| Atlantic | 403 | 963 | 435 | 1,800 | 431 | 485 | 489 | 228 | 1,632 | 3,457 |
| 2008 | | | | | | | | | | |
| West | 639 | 1,075 | 586 | 2,300 | 423 | 442 | 739 | 224 | 1,828 | 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 |

Properties in the Northeast continue to have the highest Operating Expenses. Operating Expenses increased \$240, or 5.63%, on a per unit basis from 2007 to 2008. This was the highest increase for any region. Properties in the West continue to have among the highest operating expenses. However, the West experienced the lowest increase in total operating expenses from 2007 to 2008 at just \$97, or just 2.39%

RJTCF can provide 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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