

OUTLOOK ON ASSET MANAGEMENT

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Master Keys: Who is Watching Your Place?

By Bob Landis

Years ago there was a segment on one of the popular news documentary shows about lax procedures regarding master keys in the apartment management industry. In a memorable sequence, a reporter managed to buy a master key on camera on the street in front of a Houston property owned and managed by a very well known local company and then, proved it would open the door to a resident's apartment by randomly approaching a resident and asking to try the key in their door. Other portions of this episode reviewed incidents such as horrible crimes that had occurred at very respectable apartment communities and the massive law suits filed by residents who had been harmed because of criminals having unauthorized and easy access to their apartments because of negligent handling of keys.

This show spurred a lot of property managers and owners nationwide to really rethink their approach to premises liability and reasonable steps that could be taken to reduce liability. The most important basic step: virtually all professional property managers today have abandoned the use of master keys as too risky. The insurance industry and the legal profession counsels owners and managers to simply not allow master keys on any property or to be used by any management employee.

The risk of massive liability is just too great if there is gross negligence in the handling of master keys.



What should you do, at a minimum, at your property?

1. Never allow any master keys to be used on the property. The only small exception to this rule to consider is the use of "construction" masters while a unit is being prepared for occupancy and is vacant, but then the lock is changed before the new resident moves in. This can be quite convenient in accessing vacant units only, especially if you are using multiple service contractors to support the make ready process.
2. Locks should be re-keyed or replaced upon every turnover. No exceptions.
3. Keys retained by management should be maintained in a locked key box and preferably in a lockable interior room or closet in the rental office.
4. The key box should be spacious enough that you can visually inventory keys that are checked out. On larger properties, many owners are using computer controlled key boxes that are virtually fool proof in tracking access to keys and who has checked out keys. This solution can be relatively expensive, but arguably cheap compared to a multi-million dollar legal settle-

ment.

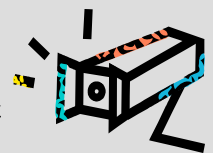
5. Keys retained by management should all be coded and not identified with any part of the actual address of the apartment unit. The code sheet needs to be secured

6. A key log should always be maintained with regard to who has checked out keys and when they are returned. You may want to take something of value as "collateral" that the key is returned, such as a driver's license.

"The risk of massive liability is just too great if there is gross negligence in the handling of master keys."

7. If you have a key machine and key blanks on site, these items also need to be secure.

8. The key box and room or closet containing it needs to be securely locked after hours. Most experts recommend that the rental office also have a monitored security system. Again, the key code sheet should not be kept in the key box or any where near it.



See "Keys" on Page 2

INSIDE THIS ISSUE:

- MASTER KEYS 1
- TAX APPEALS 2
- COMPLIANCE CORNER 2
- PROPERTY SPOTLIGHT 3
- 1ST QTR. TO-DO LIST 4
- SUPPORTIVE HOUSING 4

SPECIAL POINTS OF INTEREST:

- **Who's Watching Your Place?**
- **Can You Lower Your Tax Liability?**
- **Casualty Loss—Credits Claimed?**
- **McKenzie Court—Tuscaloosa, Alabama**
- **Basic Rights—Affordable Housing**

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TAX APPEALS

By Steve Johnson

In many jurisdictions, real estate taxes have been assessed and mailed during the late November–December 2010 period. For many counties, there is a deadline for appealing these real estate taxes—typically during the 2nd Quarter 2011. It is often worthwhile to examine your

taxes on a per unit basis against other comparable properties in your county to determine whether the taxes for your properties have been fairly assessed. Often this information is available at no cost online via your municipal website.



A number of professional services are available to evaluate and appeal your tax liability, many of which are structured on a contingency fee basis. For smaller properties, or those some distance from a major central business district, an owner may successfully appeal taxes during a short meeting with the assessor/collector’s agent, or in some cases even a phone call accompanied by a simple written explanation of the logic behind a request for a lower assessment.

It is prudent to evaluate your particular situation prior to the expiration of any deadline, especially if property values have weakened and your tax liability has remained somewhat static over the last several years. In many cases, tax increases are arbitrary. For instance, a fixed percentage increase over the prior year’s liability without any other consideration for location, age, etc.

The Taxing Authority may be prepared

to lower your liability without significant negotiation. This analysis is worth considering if you wish to lower your per unit operating expenses.

Keys from Page 1

9. Talk to your insurance agent about possible discounts because you have written policies on key control and proof that you have implemented and follow these policies. Electronic key boxes may also qualify for discounts.

10. Most of the major lock companies have resources on their websites with regard to key control and best practices.

If you have master keys on your property today – take steps *immediately* to eliminate this unnecessary risk. Also make sure this process is regularly reviewed as part of your inspection process. Don’t lose the “farm” due to weak management practices!

There are a number of other items to consider beyond key control, for further reading/examples see: handytrac.com – one of a number of companies marketing computerized key control systems. www.crimedoctor.com – general information on crime prevention and controlling risks. Contains a brief article on apartment key control. Your local apartment association for input on best practices in apartment management. For nearby chapters see www.naahq.org.

occupancy as of December 31 credits would be lost for the entire taxable year but the project would not suffer recapture.

This is a complicated issue that doesn’t seem quite fair since by definition a casualty loss is “sudden....unanticipated and unintended.” However, knowing that unit status at the end of the tax year is critical could help prevent loss of credits. In this case, it appears timing is everything.

COMPLIANCE CORNER

Can credits be claimed for a unit that is not available for rent due to a casualty loss?

By Missy Covington

When a casualty loss occurs resulting in units being unsuitable for occupancy it is considered noncompliance with Uniform Physical Conditions Standards (UPCS) and reported on form 8823 to the IRS. In order to avoid recapture, repairs must be completed within a “reasonable period” as defined in section 42(j)(4)(E). While the state agency is responsible for determining what a “reasonable period” is, no more than 24 months is standard.

If a building or unit suffers a casualty loss and is completely repaired, placed back in service and rented to low income tenants within the same tax year there is no recapture or interruption to credits (restored, vacant units could also be eligible if verifiable and reasonable attempts are made to rent them). However, if units are not suitable for occupancy on December 31 credits are not allowed for the taxable year even if repairs are completed within the “reasonable period” as determined

by the state agency (note – there are exceptions related to major disasters declared by the President). This is because credits are determined on a monthly basis only for the first year of the credit period. In subsequent years credits claimed are based on the unit’s status at the end of the tax year which is December 31.

For example, if two projects suffer similar casualty losses that will reasonably take three months to repair, credits may or may not be affected. Property A has a fire in June and units are re-occupied in September. Property B has a fire in November and units are re-occupied in February of the next calendar year. Both have units suitable for occupancy and rented to low income tenants within the reasonable three (3) month period. Property A would experience no recapture and interruption in credits. However, since Property B’s units were not suitable for



If you have a compliance question and would like to know RJTCF’s perspective, please send an email to Missy.Covington@RaymondJames.com with a subject line of “Compliance Corner.” Please note that your question may appear in a future issue of the newsletter.

BUILDING NEIGHBORHOODS

...featuring McKenzie Court

By Sandra Herd

Originally built in 1952 during a 'separate but equal' period for African-Americans, McKenzie Court has a rich history as the largest and second oldest public housing development in Tuscaloosa, AL.

The development was named to honor Dr. Andrew B. McKenzie, one of the first African-American doctors in the City. The property consisted of 340 barrack-styled units, located in the West Tuscaloosa Area. It soon emerged as 'the place to be' for its time, as it made available indoor plumbing and modern appliances.

By the mid 1970's the neighborhood was on the decline, as residents moved to seek advantages of other housing opportunities that resulted from the Civil Rights movement, ultimately resulting in a population shift out of the area. General property conditions deteriorated over time and the area experienced a disinvestment by government and businesses.

McKenzie Court, now outdated and obsolete, contended with inadequate systems, lack of insulation, foundation failures, poor design, inaccessibility, severe flooding and lead based paint to name just a few of the issues.

The Housing Authority studied several options to rehabilitate the property, but found it to be cost prohibitive and unsustainable as a marketable product in the long term.



Almost sixty years later, McKenzie Court was rebuilt from the ground up through the collaborative efforts of developers Doug Hollyhand and Brian Hollyhand, The Tuscaloosa Housing Authority and Raymond James Tax Credit Funds.

Significant funding was made available from a Hope VI Grant through the United States Department of Housing and Urban Development and Low Income Housing Tax Credits syndicated by Raymond James Tax Credit Funds.

The re-built property was constructed in two phases, housing a variety of 256 single and multi bedroom units, a 10,000 square foot community center, a two-acre green space with playground, a pavilion, walking paths and a contemporary leasing office that host numerous amenities and resident services.

While Phase II of the construction is in the final stages of completion, the Weaver Bolden Branch of the Tuscaloosa Public Library is being relocated to the site and is currently in construction. Once completed, residents will have access not only to the library but to inter-

net services and a computer lab.

Today, McKenzie Court is quietly changing attitudes, subtly transforming the social fabric of the neighborhood, revitalizing reinvestment with its presence and revolutionizing the concept of affordable living.

The blend of a modern leasing office/library and traditional architectural buildings at the site imposes an urban presence of significant prominence in the West Tuscaloosa area. The residences are superior in design and quality and are distinctly apart from the norm, exuding an air of luxury, a picturesque setting exceptional to the area and generous features for extraordinary living.

Residents have new reason to have pride in their neighborhood, improved standard of living, lifestyle offering inspiration, accessibility to technology for innovation and limitless opportunities.

Raymond James Tax Credit Funds is a leading sponsor of affordable housing and we take particular pride in our commitment in providing service and dedication to community investment.

McKenzie Court is one of many assets in our portfolio that is changing lives and building neighborhoods.

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 \$2.8 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 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.

FIRST QUARTER "TO-DO" LIST

By Brian Lynch

To help your property and your organization have a great 2011, consider the following "To Do List" for the first quarter of 2011:

- Complete tax returns, audits, and tenant file reviews as specified in your RJTCF partnership agreements.
- Appeal your real estate taxes (see Steve Johnson's article in this newsletter).
- Review your insurance coverage and shop your premium – don't wait until hurricane season!
- Plan your compliance training – NAHB offers HCCP training around the country and easy to attend webinars on LIHTC compliance updates throughout the year; AJ Johnson, TheoPro and Spectrum offer customized training to meet your organization's needs; NAA is hosting its annual conference in June; and your state agency may offer training specific to their expectations.
- Review your emergency preparedness plans, update as needed, and make sure your staff is properly trained.
- Inspect your property and start planning your Spring Clean-up – Winter 2010/2011 was a tough one!



WE LIKE TO HEAR FROM YOU

By Kent Gordon

While we appreciate receiving your quarterly and annual reporting packages, we would also like to know about the following, should they occur, as soon as they occur:

- Casualty loss (insured or uninsured), preferably including dated photos
- 8823s received
- Notice of IRS audit
- Notice of violation of city or state codes
- Down units or down amenities
- Major structural, utility, or plumbing failure.
- Mold or other environmental findings
- Occupancy dips below 90%
- Site and regional staff changes
- Pricing changes (rent or incentive changes)
- Market changes (new competition, competitors changing rents or incentives)

Not only do we need to know about these occurrences in order to provide timely updates to our investors, but we also may be able to help you find a solution.

A NEW FOCUS: SUPPORTIVE HOUSING

By Mary Hammond

Supportive housing has been part of the LIHTC program since its inception. In today's urban LIHTC market, it is rapidly becoming a major focus of new development. Raymond James Tax Credit Funds is part of this trend, with new projects in development and under construction that focus on supportive housing and combating homelessness.

What is Supportive Housing?

It is permanent, independent, and affordable housing which targets populations with special needs that are homeless or at risk of homelessness. Supportive services are available as part of the normal operation of the community through a service provider partner. These projects often include a tenant based rental assistance component through programs like Section 8 housing choice vouchers or Shelter Plus Care, as the target population may be more likely to require assistance to pay for their housing.

Who lives in Supportive Housing?

Special needs populations include but are not limited to the following examples: Homeless persons/families or those at risk of homelessness, extremely low-income persons/families in need of services, chronically ill including HIV and AIDS, physically or developmentally disabled, mentally ill, frail elderly, survivors of physical abuse, at-risk youths such as those exiting foster care, veterans, persons recovering from addiction, and the formerly incarcerated.



States include incentives and set-asides in their annual QAPs (Qualified Allocation Plans) for development of supportive housing. The

State of California, for example, has set-asides for Special Needs Projects and SRO (Single Room Occupancy) Housing. They award additional points on applications for LIHTC allocations for inclusion of certain housing needs (special needs, elderly, SRO, etc.), locations (certain metropolitan areas, close to services and providers), service amenities (service coordination, case management, adult education and skill building, behavioral health services, child care, etc.), proximity to and availability of transit, among others.



An example of supportive housing, picture an SRO community for women in a major metropolitan area, with a percentage of applicants coming from homeless or domestic violence shelters. Residents might have a mental illness, might be recovering from alcohol or drug addiction, or need stable housing while seeking personal/professional growth and employment. Residents live in private single-room apartments, with shared kitchen facilities. Services on-site would be provided by professional social service staff and volunteers, and could include job training, goal counseling, financial management training, a computer lab, and life skills development.

This new focus on the development of supportive housing is founded on the premise that safe, decent, affordable housing is a basic right – one that is often not available to the most vulnerable among us who are homeless or at the greatest risk of homelessness. It is a proactive approach to preventing homelessness that has a proven positive impact on the individuals and families it serves.



IDEAS OR COMMENTS?

TO SUBMIT COMMENTS OR IDEAS FOR FUTURE CONTENT, PLEASE CONTACT:

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