

**Property Management Performance Assessment Review (PAR)**

Background

Multifamily Housing developed an idea with the 2008 Summer Team, and discussed it further with the Partnership group, to develop an objective assessment of the performance of management agents. It was viewed as a way of incentivizing management companies to comply with RD Servicing requirements. If a management company completes 100% of RD's requirements on a consistent basis, they should be rewarded.

On the other hand, we have been unable to utilize any penalties, and that has been a problem: for the field staff, who have limited methods of forcing compliance, and specifically with Improper Payments' (IPIA) compliance.

We plan to automate the entire process; the Multi-Family Information System (MFIS) database can identify every instance of noncompliance, and will determine whether the 100% has been earned. This should not require additional staff time.

This is an objective performance-based evaluation of property managers that perform services for borrowers in Rural Development's multifamily housing loan programs.

The Agency periodically issues occupied-unit management fee data for each state. The Agency permits the manager to earn an add-on fee for certain project characteristics (properties of 16 units or less, properties with scattered sites, properties with more than one type of project-based subsidy, properties in a remote location, and troubled property management take-over). The occupied-unit fee, plus any property add-on fees (calculated on all revenue-producing units), constitute the project's base management fee. It is this figure upon which may be added performance add-ons or deductions as described below.

Managing subsidized multifamily housing to a satisfactory degree requires skill, coordination, patience and dedication. The Agency has implemented a new management fee structure to reward quality performance on the part of property managers.

### **100% Base Management Fee Earnings**

Property managers are entitled to receive 100% of the base management fee if their performance meets all 7 of the following criteria. The Property Management Performance Assessment Review (PAR) will be conducted annually when the budget is submitted and will be calculated over the prior 12-month period from the budget review date. In order to qualify, there must be:

1. No Findings (as defined in the Agency database);
2. No Violations (of Agency regulations, as defined in the database);
3. On-time submission of all tenant certifications, payments, all other required paperwork<sup>1</sup>;
4. No delinquency in the reserve account;
5. No delinquency in property taxes or property insurance payments;
6. 10% or more vacancy decrease or 10% or more income increase or 100% occupancy; and,
7. Average Minimum Occupancy to Qualify for 100% Base Management Fee:  
24 or more units: 90%  
Fewer than 24 units: 75%.

### **Performance Add-On Fee:**

For consistent 100% performance: over 2 years = \$2 performance add-on fee;  
For consistent 100% performance: over 3 years = \$3 performance add-on fee;

Maximum of \$3 performance add-on fee.

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<sup>1</sup> "Paperwork" consists of Affirmative Fair Housing Marketing Plan, Year-End Financials [Audit, Agreed-Upon Procedures, Budget, Balance Sheet, Borrower's Certification], Management Agreement, Management Certification, Management Plan, Project Worksheets, Tenant Initial Certification, Re-Certifications, and Identity of Interest Certifications.

### Reductions Due to Performance

If performance decreases, there will be a concurrent decrease in the base management fee allowed for that year. Any previously-applied performance add-on fee would be eliminated. Further, fee reductions will be made if the following incidents occur over the prior 12-month period, calculated from the budget review date:

1. Servicing letter #2 is sent or there is an open finding for more than 90 days;
2. 10% or more of the Tenant Certifications are late or rejected;
3. The reserve account is delinquent;
4. Taxes or property insurance are delinquent or paid for by RHS;
5. 2 or more late mortgage payments; or,
6. There is a 10% or more vacancy increase or 10% or more income decrease.

If 1 of 6 incidents occurs, the base fee will reduce by 5%

If 2 of 6 incidents occur, the base fee will reduce by 10%.

If 3 or 4 incidents occur, the base fee will reduce by 20%

If 5 incidents occur, the base fee will reduce by 30%.

If 6 incidents occur, the borrower must replace the property manager.

#### **PAR - Example**

60-unit scattered site property with 100% occupancy (all units revenue-producing).

#### **THE BASE FEE FOR THE STATE FROM SURVEY:**

**\$50** per occupied, revenue-producing unit per month (orpu/mo).

#### **THE BASE FEE FOR THIS PROJECT:**

\$50 + scattered site add-on fee \$2 = \$50 + \$2 = **\$52** /orpu/mo

YR 1 = Performs @ 100% = 100% of fee = \$52 x 60 units x 12 = \$37,400

YR 2 = Continues to perform @ 100% = 100% of base fee + \$2 = \$54 = \$38,880

YR 3 = Continues to perform @ 100% = 100% of base fee + \$3 = \$55 = \$39,660

**OR**

YR 2 = Reserve Delinquent + 12% of Tenant Certifications late = 10% reduction

Calculation: \$52 base fee for this project = \$37,440

Minus 2 of 6 incidents (10%) = **-\$3,744**

Fee for YR 2 = **\$33,696**