



## Tax Credits 101: Acquisition/Rehab

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The affordable niche of the multifamily industry is a subset marked by its complexities — from deal structure and financing packages to the compliance burdens that accompany long-term property management. In this Tax Credits 101 article, we focus on the specific challenges associated with managing tenants at acquisition/rehab (“acq/rehab”) tax credit properties.

Managing a property during an acq/rehab can be an incredibly trying time for management, as they’re faced with the simultaneous demands of qualifying existing tenants, managing construction while running a property, and tracking tenant movement to determine credit delivery and reporting. In keeping with the Tax Credits 101 theme, successful acq/rehab deals hinge on two very basic principles: planning and communication.

### **Management Planning and Staffing**

Prior to acquisition, as the owner/developer is planning for the renovation scope and timeline, management should be involved. On-site personnel need to understand the renovation process so that they can plan accordingly, as well as prepare to educate residents.

**New Program Requirements:** On-site managerial staff members should review regulatory documents so they know what programs and requirements will exist, as well as the specifics of tenant qualification that are dictated by the various funding sources. Staff need to be sufficiently trained to handle the compliance challenges associated with new programs and regulations.

**Scope of Rehab:** All management staff should have a good idea of the scope and schedule for renovations. Every acq/rehab poses unique challenges in working around people’s homes and busy offices.

Going into the process, management should anticipate that tenants are going to be heavily disrupted. They’re going to have questions about what their homes will look like. They may be confused about the initial qualification process. They’ll likely have to move at least once, and relocation can be a challenge — especially if there are children or elderly residents in the household.

It’s helpful for all management staff to know how to answer basic questions about the process, and ideally there is a point person who is specifically tasked with managing resident relations throughout the renovation.



**Relocation Specialist:** Whenever possible, we've found it to be a best practice to have a dedicated "relocation specialist" on staff during the renovation. This has a budgetary impact on the project but will help address tenant concerns and handle the extra workload during this time.

The relocation specialist can work individually with residents, take charge of property-wide communication (meetings, notices), and act as liaison between residents and contractor or moving companies. Owners should recognize the benefit of appointing someone to this role because it can go a long way to managing reputation and avoiding public relations challenges from frustrated residents.

### **Tenant Approach: Communication and Assistance**

An acq/rehab project should be an exciting prospect for existing tenants. As long as they qualify to stay, each individual apartment and the overall community will see significant improvements — from accessibility and energy-efficient systems to new finishes and amenity upgrades.

With clear communication and sufficient support, management can help residents through the disruption of renovations. This trying time can be an opportunity for management to build satisfaction and credibility with residents, but it takes intentional planning, patience and care from the entire team.

**Relocation Plan:** The challenge in an acq/rehab is working around people's homes (and a busy management office). In anticipation of the project, an owner may elect to hold vacancies for a period leading up to the rehab to create "hotel units" to house residents during work in their apartments.

Frequently renovations will be done on a floor-by-floor basis or a similar grouping of units that can be renovated simultaneously before moving to the next group. Tenants could be temporarily relocated to a hotel unit within the property, then moved back to their original homes. This has the benefit of avoiding complicated unit transfers, where unit designations would need to be swapped and tracked to follow the originally qualified household. Furthermore, it saves the resident having to change addresses, utility service, etc.

If hotel units are not used and tenants are simply transferred into finished apartments, remember that their qualification follows the household and would be swapped with the status of the transfer unit. This is generally trackable in most leasing software programs, but there may be additional considerations if a tenant is transferring to a different building.



Keep in mind that various stakeholders may require advanced review of relocation plans. During the height of the pandemic, HUD became much more adamant about approving relocation plans at properties with HUD financing (i.e., project-based Section 8 contracts). Acq/rehab projects truly are a carefully coordinated exercise that require collaboration among a multitude of stakeholders.

**Communication:** Communication with residents cannot be overemphasized during an acq/rehab. An initial meeting should be scheduled as soon as possible to explain the upcoming changes to residents. Residents need to hear accurate information so that rumors and alarmism don't overwhelm the property. Owners and management should anticipate tenant concerns and prepare responses accordingly:

- Am I going to lose my home? How do I qualify to stay?
- What will I pay in rent?
- What will my new apartment look like, and what changes will happen to the rest of the property?
- When is the work going to start, and when will it end?
- Who can I talk to with questions about my particular situation?
- What help will you provide to get me through relocation?

An initial tenant meeting will be followed by smaller meetings with groups of residents in advance of their floor/area renovation to help them prepare. The relocation specialist should schedule time to meet with each tenant individually in his or her home to coordinate the logistics of the relocation.

**Moving Assistance:** With advanced planning, the relocation specialist can guide residents in packing their belongings. The owner will want to contract with an established and reputable moving company who can assist in managing the transfers back and forth over the course of the renovation. Boxes and tape can be provided to residents so they have everything they need to vacate their apartment while work is done.

Again, the relocation specialist is key — this person should be checking on the status of packing so there are no surprises on moving day. No one wants the renovations delayed because residents aren't ready to leave their units. The relocation specialist can also work with tenants on household-specific concerns and advise them on best practices, such as packing one small box with items like medications, the TV remote, and other valuables that they don't want to risk losing track of during the move. The small box should be taken by the tenants themselves on moving day so they remain in possession of these important items.



The relocation person will act as liaison between the tenants and the moving company, especially in the event of damage to personal property. The moving company should photograph and document the condition of items before and after the move to avoid later conflict.

Lastly, the relocation specialist should be tracking tenant moves and documenting this for later reference. From a credit delivery standpoint, there can't be any question as to which unit a household initially qualified and where that household has gone. Managing qualified units, vacancies, transfers and temporary housing is an integral part of overseeing the acq/rehab.

**Tenant qualification:** Existing residents in an acq/rehab property can be qualified with a tenant income certification (TIC) effective on the date of acquisition, as long as all documentation is completed within 120 days (*before or after*) the acquisition date. Because this is an initial certification, it requires extensive due diligence — for all existing tenants at the same time. Not only is this a challenging workload for office staff, but it can be more difficult if residents are not accustomed to working through the certification process. The questions and documentation may feel invasive to households, so it's imperative that management educate residents on what is required and why it's necessary.

Tenant meetings are a great place to start on this. If residents understand the “what” and the “why” of the process, they are more likely to cooperate. Recertification meetings can be helpful throughout the life of a property for tenants who have ongoing recert requirements, but they're especially vital when every existing household needs to be qualified at once. Organized and cooperative residents make management's job easier.

Recertification folders can be a great way to help residents prepare for their recertification appointments. A recert folder may contain a general letter discussing the scope and timeline of the upcoming project, as well as certification-specific information, and it gives them a place to consolidate those items. For less than \$1 each, you can put together a packet to contain:

- A folder to collect documents — ideally something bright so it stands out at home and is less likely to be lost in other paperwork.
- A one-page FAQ about the process. Why is management asking for these items? What income limits are in place? How can they schedule an appointment with the office to complete their certification? What's the deadline for them to initiate that appointment? What happens if they fail to cooperate with the process?



- Checklist of all items that may be required for the certification. This will include items they should bring with them to their appointment, as well as forms that they can fill out in advance.

Not all residents will use their folders, but those who do will be several steps ahead in working through an efficient certification process.

**Filling vacancies:** A substantial acq/rehab will take up to a year or more. Ideally, existing tenants are qualified at the acquisition date, so only the “hotel units” remain “never rented” until the end of the interior renovations when final lease-up occurs.

It’s highly likely that some of those qualified units will become vacant during the period of renovations. Management should consider filling never-rented units with new move-ins so they can maximize qualified units. A qualified unit can move into the stock of hotel units, and a never-rented unit will be occupied by a new qualified household. Similarly, at the culmination of the project, management should prioritize assigning never-rented units to accelerate credit delivery before filling previously qualified vacant units.

### **Common Areas and Office Considerations**

Although the focus of this article is managing tenants through the relocation process, owners and management must plan for disruption to normal business as work is done in offices and common areas. Most important, tenant records containing personal identifying information need to remain secured, even as offices are moved or contractors are working in employee spaces.

While common areas are under construction, be mindful of safety concerns. Access to parking and ingress/egress points must be maintained, but other areas may be cordoned off while work is being done. Make sure the construction team adequately marks and secures these areas. Owners and management want to limit liability associated with residents wandering into restricted areas. The safety of staff and tenants, who are living and working in an active construction zone, is paramount.

### **In Summary**

Acq/rehab projects are an exciting opportunity to breathe new life into a property. That being said, the process can feel overwhelming to residents and staff who are trying to live and work through a construction project that lasts months. A successful acq/rehab depends on a thoughtful plan that is carried out by a well-organized team:

- Staff education — share scope of work, schedule and compliance with new programs.



- Relocation specialist — establish a point person to streamline communication and manage the tenant relocation process. Residents should see this person as an advocate and a resource.
- Tenant education — communicate early and often, with a focus on resident impact and what they can expect at each step along the way.
- Unit qualification — qualify existing tenants at acquisition date and assign new move-ins to maximize qualified households and credit delivery.
- Tenant relocation — have a plan in place with the support to make it happen, including a relocation specialist, qualified movers and a system for handling tenant complaints. Track moves to make sure that qualified households match the unit designation for final credit delivery.
- Safety – remember that an active construction zone increases the likelihood of safety concerns. Staff should be vigilant in identifying concerns or potential liabilities.

When the acq/rehab is finally complete, the team can celebrate as they settle back into stabilized operations in a beautiful new property that has preserved affordability for decades to come.

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