

Good Shepherd Housing & Family Services
Summary of Real Estate Strategy & Analysis
February 2008

Good Shepherd Housing & Family Services has been growing and changing rapidly over the last few years. Through this time it has been highly successful in pursuing its mission while executing transformations in the way it handles fundraising, program management, county engagement, and board member participation. As its financial strength has improved, GSHFS has been able to acquire properties to rent out to its clients at affordable rates. Currently Good Shepherd owns 22 properties in its service area and sublets a further 41 for a total of 63 affordable units provided in the community. The GSHFS board has recently undertaken a review of its real estate strategy and objectives in order to ensure a) it is managing its exposure to real estate prudently and b) its real estate activity is fully integrated into its overall strategic plan.

The study considered real estate activity in the context of both the county plan to end homelessness and the overall GSHFS mission. It also included extensive analysis of three aspects of real estate financials: individual transactions, overall portfolio management, and risk management. The output of the study included the establishment of a formal real estate objective and a set of recommendations for the board and staff to consider.

The following real estate objective was established:

*Maximize the number of affordable units GSHFS can deliver to its target clientele,
without undermining the long-term financial strength or stability of GSHFS*

The delivery of affordable units in the community powerfully supports both the county plan and the GSHFS mission. The county is providing clear guidance that maximizing affordable units in the community is a top priority. In fact, increasing the number of affordable units in the community is one of the four headline initiatives in the overall plan to end homelessness.

GSHFS has made some choices to focus its mission more narrowly than the county's plan (for example focusing on working families rather than the entire homeless population), but it is clear that any real estate activity in support of the GSHFS mission will also serve county objectives. Thus it is clear that the more affordable units GSHFS can deliver in the community, the better it will be able to serve its own mission as well as that of the county.

The second takeaway from the community context for GSHFS real estate activity is that money from the county will be tight. Justification of support and strategic integration with the county will be increasingly important to ensure county funding for real estate activity is maintained.

Financial Analysis & Constraints

Understanding individual transaction economics

The study included analysis of the costs and revenues associated with GSHFS's owned and sublet properties. To facilitate this analysis the team developed a Microsoft Excel tool that will help staff and board members analyze specific transactions in the future.

The key takeaways from the analysis were

- **Cash flow needs to be strong** enough on purchased and sublet properties to keep lenders comfortable; this should be a screen on all future transactions
- **A substantial county subsidy is critical** to purchase transactions
- **Minimizing turnover time and refurbishment expense is important**; otherwise GSHFS may easily be net negative on a unit even though it is cash flow positive while occupied
- **Rental economics are different**: rentals have lower expenses than owned units, but the rent owed is typically much higher than the mortgage payment on a similar property (due to the county subsidy)

Overall portfolio management

In addition to having a good understanding of individual property transactions, it is important for GSHFS to manage the overall size and nature of its real estate portfolio. While portfolio-level considerations may require GSHFS to forego some growth or investment at a point in time, the following two controls will help it maintain a balanced and safe financial position:

- 1) The number of purchased properties should be constrained by the amount of debt that GSHFS can safely take on
- 2) The total number of managed properties (purchased and sublet) should be constrained by GSHFS's ability to use its cash reserves to cover property management expenses through tough times

The combination of these two types of guideposts – one designed to ensure it doesn't stretch too far in purchasing properties, and one to ensure its combined real estate activities are not too fragile – will together provide the safety net that GSHFS needs.

Recommendations

The real estate study yielded a large set of detailed recommendations that the board and staff are now pursuing. These include steps to

- ensure incremental real estate transactions are sufficiently cash-flow positive
- manage the overall GSHFS real estate portfolio prudently
- require regular board updates on subjects important to sound real estate management
- ensure staff and board practices are consistent with rigorous real estate management

Together these steps will result in a GSHFS organization that is maximizing its impact in the community while protecting its long-term financial strength.