

October 30, 2013

Mr. Doug O'Brien  
Acting Under Secretary  
USDA – Rural Development (RD)  
1400 Independence Avenue, S.W.  
Whitten Building – Room 205 W  
Washington, D.C. 20250-0701

Mr. Richard Davis  
Acting Rural Housing Service Administrator  
USDA – Rural Development (RD)  
1400 Independence Avenue, SW  
Room 5019  
Washington, DC 20250-0701

**Re: FY2014 Management Fees in Rural Rental Housing Properties**

Dear Mr. O'Brien and Mr. Davis:

On behalf of housing providers and managers who operate rural rental housing apartment complexes across the country, we ask you to reconsider your decision to prohibit hard working management companies from receiving basic, market-driven management fee increases.

We understand that you have determined to not allow any management fee increase for 2014 and have informed the Rural Development (RD) state offices of this decision. We respectfully request that this determination be reversed. This latest decision follows your determination not to allow a management fee increase in 2013 and 2012; and to allow only a limited increase in 2011. These actions do not advance the spirit of public-private partnership that is essential to program success. During these past four years the operating costs continue to rise. Managers must pay for office costs and management company salaries and expenses, like health care costs which are increasing each year.

As you know, each management agent for an RD property must perform and pay for a specified set of tasks out of its management fee. RD calculates allowable management fees using a unique national methodology. HUD's methodology for determining its management fee allows compensation for base fees plus add-ons for services that RD does not allow to be provided to management companies in the form of additional compensation. RD properties are small, on average about 24 units, often remote, and therefore are more costly to manage on a per unit basis than urban projects.

RD Handbook 3560-1, Section 3.18 provides that RD State offices will coordinate and survey management fee data to set the base fee. While you encouraged RD offices to conduct a survey

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for determining 2014 fees, former Administrator, Tammy Treviño in her Unnumbered Letter dated, June 5, 2013 gave states the option to forgo new surveys and instead use results from last year. It is our understanding that only four state offices across the country conducted a new survey, with the remainder using data over a year old.

Our understanding is that your office is not providing an increase due to the impact on the Section 521 Rental Assistance (RA) budget. Rejecting annual increases this way simply shifts the financial burden from the federal government on to the private parties operating in the program, forcing your business partners to pay for the federal government's obligation. A federal agency should not shift its public burden on to private parties.

Further, we believe that management fee levels are extremely cost effective and have a small impact on the RA budget. Our analysis is that management fees are approximately 11% of total rents, with an average management fee of \$50.63 per occupied unit. RA is approximately 42% of revenues, meaning that 4.62% of RA is used to pay for management fees on average. A 5% management fee increase, for example, would equal to a 0.231% increase across the portfolio. While RD has not shared your calculations with us, and while a management fee increase is merited by cost increases, we believe that our calculations demonstrate the overall impact on rents is small.

In the years that state offices conducted management surveys, fees recommended varied from state to state and region to region. RD has also utilized an annual formula adjustment, specifically HUD's Operating Cost Adjustment Factor or OCAF. We respectfully request that RD reconsiders the decision to withhold a management fee increase for 2013 and instead, provide for a reasonable management fee, based on a more thorough survey or an OCAF adjustment.

We appreciate your attention to this matter and would be happy to discuss further with you at your convenience. Please feel free to contact Colleen Fisher, Executive Director of the Council for Affordable and Rural Housing (CARH) at (703) 837-9001 or [cfisher@carh.org](mailto:cfisher@carh.org) to further discuss or schedule a meeting.

Sincerely,

Council for Affordable and Rural Housing  
Institute of Real Estate Management  
National Affordable Housing Management Association  
National Apartment Association  
National Association of Home Builders  
National Leased Housing Association  
National Multi Housing Council  
Stewards of Affordable Housing for the Future