Sawmill Road
Management

BACKGROUND

# Distressed Properties & 8823

No one can miss the telltale signs of a distressed property. Outside you warily navigate leaky drain spouts, glass shards from broken windows and pockmarked concrete sidewalks. Inside, you're repelled by filthy, threadbare carpets, rusty sinks with dingy water, and cracked and discolored toilets. Mice and rats skitter among overgrown weed beds and alleyways. Used syringes and empty beer bottles litter common areas.

Highly distressed homes degrade and diminish a resident's physical and mental health. Whether by creating a breeding ground for fleas, lice or mold, causing accidents due to neglected infrastructure, limiting mobility because common areas or playgrounds can't be used, or contributing to stress, anxiety and depression by making daily existence a struggle, public health professionals rank sub-standard housing as a key factor driving health inequities among those at the lower end of the income scale.

A less visible but also self-defeating consequence of prolonged inattention and delayed remediation is the potential loss of a property's tax credit status.

Most affordable housing properties would never be built nor continue to rent at lower rental rates without federal and/or state tax credits. In fact, estimates from HUD and industry researchers conclude that federal Low Income Housing Tax Credit (LIHTC) financing accounts for approximately 90% of all new affordable rental housing built in the U.S. since 1986. That means of all affordable units created or preserved in recent decades, nine out of ten were tax-credit properties. And Ohio is one of a number of states to supplement federal credits with state tax credits as well.

Generally, tax credits remain in effect for 20 to 30 years, provided that they continue meeting key criteria. Appropriate repair and maintenance rank high among those requirements. When standards are not met for a prolonged period, the agency charged with oversight responsibility, which in Ohio is the Ohio Housing Finance Authority (OHFA), files a form 8823 with the Internal Revenue Service. Form 8823 signals that a property is out of compliance. Without immediate correction, tax credit status may be revoked and the IRS may even recapture past credits, a very costly outcome for owners.

**CASE STUDY**

## SRMC Turn-Around

Against this backdrop, Sawmill Road Management Company (SRMC) was called in to resuscitate a 250-plus-unit, 24-building distressed property on the East Side of Columbus in November 2024. The former property management company had just been dismissed on the heels of an OHFA inspection which resulted in an 8823 finding.

The owner understood that a 30-day emergency correction was mandatory. Without it, the 8823 tax credit would likely by revoked by 2025.

SRMC responded, and in two weeks crafted a detailed Strengths/Weaknesses/Opportunities/Threats (SWOT) analysis. With owner approval secured by late November,

work began and continued throughout the 2024 Holiday Season.

It was arduous, but it worked, says Dan Winter, Chief Executive Officer of SRMC. "Thanks to vendors who understood and adhered to hard deadlines and specific outcomes, the work was successfully completed," he said. "All but one issue was fixed timely, and the remaining issue was fixed within a month once a new tenant was located and in place. The tax credit status was preserved. And now, the entire community is 94% occupied and profitable again."

SRMC also went to work to regain the trust of residents and to ensure that families began once again benefitting from the supportive services that help them become more stable and successful. By necessity, this process had to start with SRMC. When a history exists of managers ignoring or dismissing resident complaints while properties deteriorate, residents lose faith. Many stop caring altogether. They close their doors and stay inside or, worse, act out in frustration.

As Winter explains, "It comes down to allocating extra resources, to going above and beyond the minimum, to inject life back into a community," he said. "There's the work that needs to be done, uncovering and restoring the bones. But there's also the reality that we need to show up and demonstrate that we care, that we will be accountable and then, in turn, that we will hold residents accountable. Once people see we are putting in the effort and resources, then we can collectively begin restoring a sense of pride and community."

A local, respected nonprofit organization provided supportive services to residents and offered additional context into SRMC's value. "When SRMC came in, lots of people were in the throes of eviction. There was confusion. Some residents earned more than the income guidelines, while some had never had their income verified at all. And, of course, the properties were in disrepair," said the senior manager overseeing this initiative for the nonprofit. "SRMC worked with people to help get them caught up and in compliance. They started sending people to us so we could help them become more financially stable."

"Before, we literally had to go door to door to ask if people needed help," he continued. "SRMC instituted a digital form and, together, we streamlined the entire process. As a result, we served 1,600 people in six months versus 1,000 people in the same time period the year before. This meant we reached 62% more people, connecting them to food, health care, job training, transportation and other critical needs. It was a great partnership."

SRMC's leadership team has a long history in turning around distressed properties, dating back to Isabel Toth's work with National Church Residences three decades ago and, of course, her work to make the 1,700 units under the auspices of Community Properties of Ohio great homes and great neighbors to the Near North and Campus areas. This experience, along with a well-executed, time-sensitive strategy and an open, accountable approach to residents, made the difference.