



BGC Advantage

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RAD, Asset Repositioning, and Mixed
Finance

Conversions and Asset Repositioning

- What is a conversion?
- What is Asset repositioning?
- HUD Notices
 - RAD or RAD Blend
 - Section 18 Disposition/Demolition
 - Section 22 Voluntary Conversion
 - Transfer of Assistance
 - Requirement to assess inventory for required conversion/Section 33
- Funding

Notices

- RAD 2012-32 (HA) H-2017-3, Rev 3
- RAD H-2019-09 PIH 2019-23, Rev 4
- Civil Rights/Relo PIH 2016-17
- RAD Supplemental PIH 2018-05/2018-11
- RAD Demo/Dispo PIH 2018-04
- Voluntary Conversion PIH 2019-05
- PHA Closeout PIH 2019-13
- Transfer Notice PIH Notice 2014-24
PIH Notice 2018-04
- Required Conversions PIH 2019-10

What is the future?

- Losing affordable housing
- \$26 Billion capital investment need
- Unpredictable and insufficient funds
- Limited investments in public housing
- Aging housing stock: average PH is 43+ years old



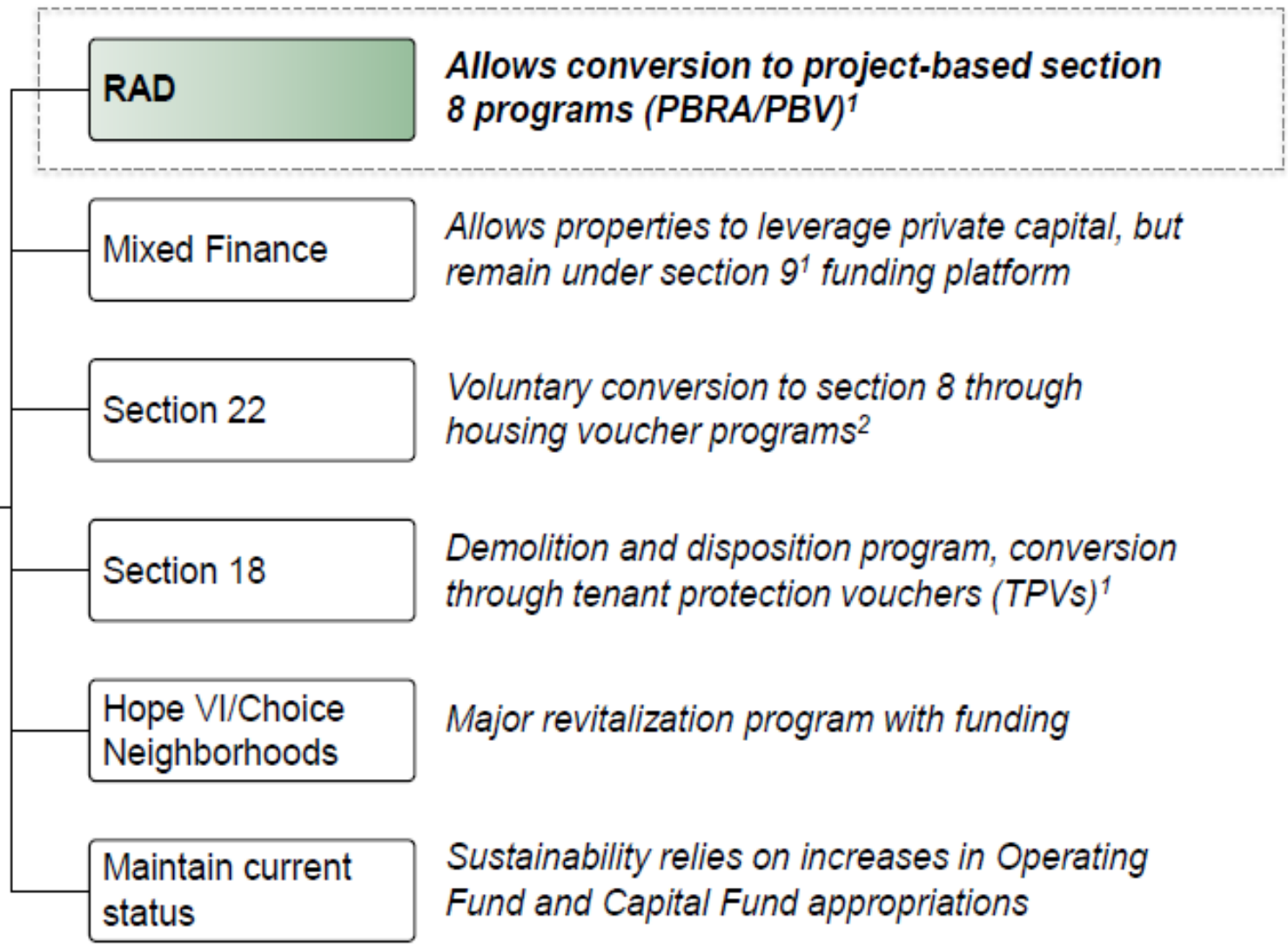
What is the future? (cont'd)

- Marketability and curb appeal
- Rules and regulations increasing
- Under performing PHAs and consolidation
- Funding trends decreasing
- HUDs program consolidation goals



PH Options

Options for the public housing stock



Asset Repositioning

Section 18

- ✓ Justifications:
 - Unsafe/unhealthy location and infeasibility
 - Scattered Sites
 - 50 or fewer units remaining in PH inventory
 - Efficient and effective low-income housing
 - Physical obsolescence
- ✓ Replacement TPVs for any occupied units in past 24 months
- ✓ Can project-base TPVs
- ✓ No replacement housing required
- ✓ Eligible for DDTF and ARF

RAD

- ✓ RAD Contract Rents = Current Public Housing Funding
- ✓ PBRA or PBV
- ✓ Preserve FSS Participation
- ✓ Can use PH \$\$ in development budget to support conversion
- ✓ Long-Term Use Agreement
- ✓ Resident Right to Return
- ✓ Replacement Housing Requirement
- ✓ Not eligible for DDTF or ARF

RAD/Section 18 "Blend"

- ✓ Eligible properties include those whose rehab or construction costs are at least 60% of Hard Construction Cost (HCC) limits, provided not using 9% credits
- ✓ 75% of the units convert through RAD and 25% disposed through Section 18 w/ PBV replacement
- ✓ Project will receive TPVs for 25% of all occupied units
- ✓ Residents receive all relocation and other protections of RAD

Voluntary Conversion

- ✓ Must demonstrate that vouchers cost less than cost of public housing or **have 250 or fewer public housing units and will close-out**
- ✓ Eligible for ARF if action involves demo or dispo
- ✓ Not eligible for DDTF
- ✓ PHA can project-base the TPVs, *but needs voluntary consent of residents*



Goal of RAD

In order to preserve the public housing stock convert its assistance to the project-based Section 8 platform, which will:

1. Stabilize funding
2. Create access to private capital
3. Streamline HUD programs
4. Enhance housing options for residents

In order to convert the entire public housing stock, HUD continues to ask Congress for authority and for funds.



RAD

RAD: Key Features

Rents

- Predictable initial contract rents based on public housing funding
- Rents adjusted by Operating Cost Adjustment Factor (OCAF)

Capital Needs

- Capital Needs Assessment completed
- PHA must secure financing and fund Replacement Reserve to address needs

Tenant Rights

- Resident right of return + prohibition against rescreening
- Public housing organizing and procedural rights continue
- “Choice-mobility” requirement

Public Stewardship

- Ownership or control by a public or non-profit
- Long-term HAP contract must renew at each expiration
- RAD Use Agreement recorded on land

Challenge and tools

CHALLENGE:

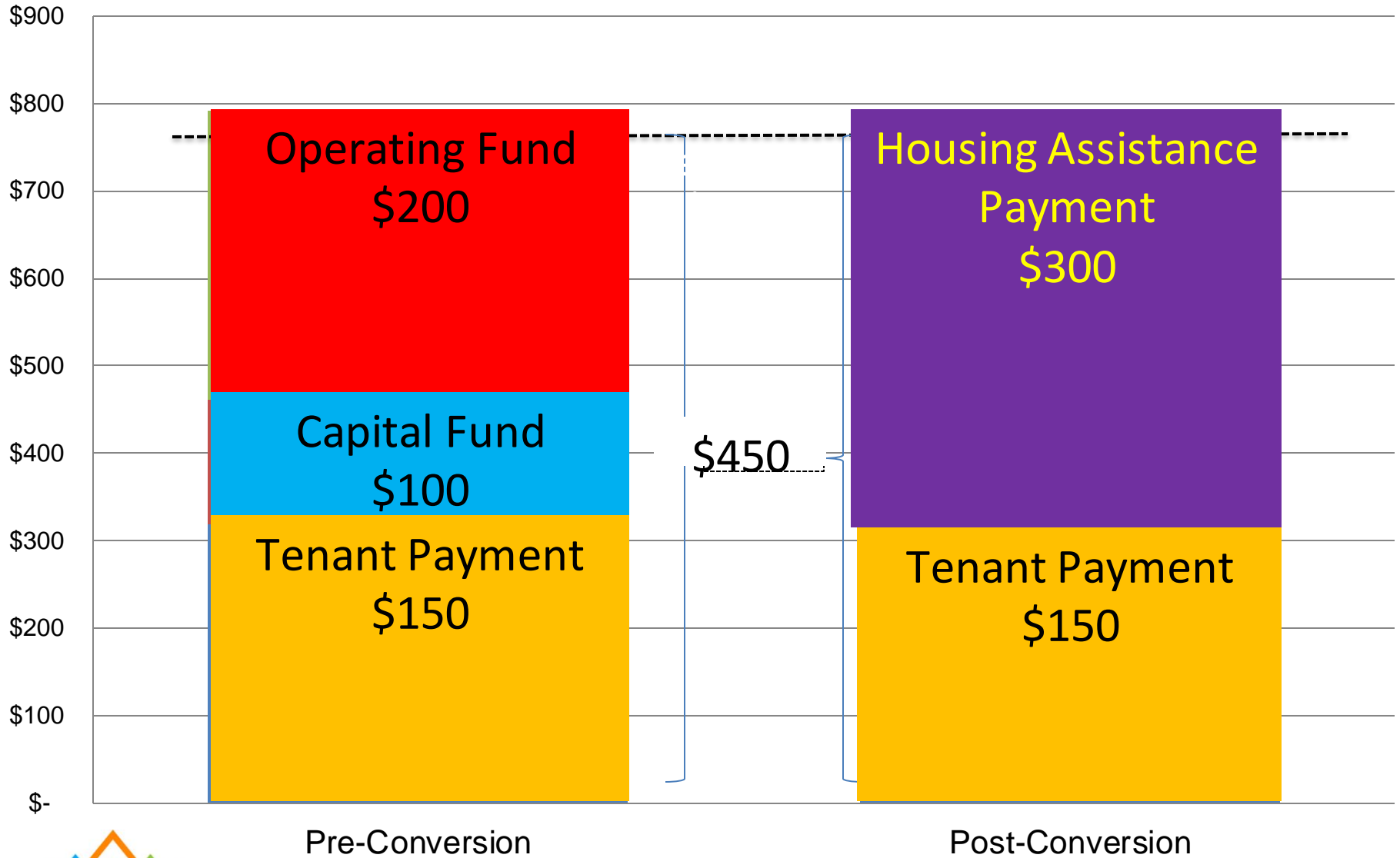
- The Public Housing program has remained underfunded for more than 30 years, leading to ~\$26 billion capital backlog
- The nation's Public Housing stock is struggling, and has significant capital repair needs

NEW TOOL:

- Conversion to the project-based Section 8 programs provides an opportunity to invest billions into the public housing stock
- The **Rental Assistance Demonstration (RAD)** allows PHAs to undertake this conversion for some units
- HUD has achieved its goal of standing up this new tool, attracting many PHAs to participate
- Only 60,000 units in first allocation now cap is at 455,000 units able to convert
- About 90,000 units available on waitlist
- HUD will use FY18 funding levels to calculate the rents.
- \$2.5 Billion in Financing to date
- For every \$1 of public housing, RAD is leveraging \$9 from other sources



Sample Public Housing Conversion Per Unit Monthly (PUM) – Same funding



Why use repositioning and Mixed Finance

- Builds on a more stable funding platform
- Lock in funding
 - Better than Capital Fund Finance, Leveraged Op Sub, or EPC
- Leverage private capital to address physical needs and preserve your units
 - Leverage 4% LIHTC get 30% project equity
 - Leverage 9% LIHTC get 60+% project equity
 - Leverage developer fees, seller take back finance, ground lease
 - Apply for grants HOME, Federal Home Loan Bank
- Provides a great deal of regulatory and reporting relief
 - Saves in reporting to HUD, policies, and oversight more with board and PHA



RAD flexibility

- Transfer assistance from unworkable units prior to conversion
- Market accommodations in meeting 1-for-1 preservation (e.g., convert efficiencies to 1 bdrms; long-term vacant units)
- Combine RAD & agency PBVs or SAC TPVs>PBVs
- Flexibility to reduce densities, replace housing off-site, produce mixed income communities
- Allows PHA to undertake renovations immediately or after conversion, as warranted
- Demolition/New Construction allowed
- Ability to “bundle” project applications for flexibility with initial contract rents



Enhancing Rents

- Check the available rents as of today and what is anticipated.
- Review blends and conversion methods
 - HUD CHAPs
 - Modified 2016, 2018, Or CHAP rents and OCAF
 - Depends on your base year for CHAP
 - OCAF
 - Utility Allowance rent adjustment for resident paid utilities
 - Site based engineered utilities
 - RAD rents increase by 75% of the projected utilities
 - PBV Utility allowance waiver
 - RHF/DDTF
 - Rent Bundling (RAD PBV and non RAD PBV contract rents)
- RAD Rents versus FMR rents from tenant protection vouchers
- Always review Rent Reasonableness (PBV) and Rent Comparability (PBRA)

Blending conversion methods

Section 18 and RAD

- ❑ PIH/Housing Notice 2016-17 and PIH Notice 2018-04
- ❑ Traditional Section 18 Disposition Special Application Center (SAC)
 - Surrounding Area
 - Best Interest and Consistency
 - ❑ Obsolescence
 - ❑ Very Small PHA (50 units or less)
 - ❑ Improved Efficiency On or Off Site Development of Low Income Housing
 - ❑ Scattered Site Units
- ❑ Comprehensive Replacement Through RAD 75% and 25% TPBV
 - RAD and PBV must be substantially rehabilitated or new construction
 - Use HUD worksheet/tool
 - No 9%
 - Eligible for Asset Repositioning Fee (ARF) and Demolition Disposition and Transition Funding (DDTF) as long as you still have public housing
- De Minimis (5 units or 5%)

RAD /Section 18 Blend

- Submit to RAD versus SAC for approval
 - Will require RAD Resource desk and PIC Section 18 application
- Include details for all units in the RAD conversion overview
- Must meet construction hard cost threshold
 - Complete worksheet
 - Rehab work must be 60% more than Hard Construction Costs as published by HUD
- 75% of the units will be RAD 25% will be Section 18
 - Select larger bedroom size for TPV
 - Can request 110% of FMR
- Must have RAD and Section 18 in PHA Plan
- Must Consult with Mayor
- Must have resident meetings for Section 18 and RAD
- PNA, Civil Rights, Environmental for entire project
- RAD First Year Funding for RAD only units
 - Section 18 items required to be submitted to RAD (Site Maps, Consultation with Resident Advisory Board, Mayor Letter, Board Resolutions for SAC and RAD)

Small PHA

■ Under 50 Units

- Streamline RAD Conversion

- PIH 2018-04 Section 18

- Small PHA is a disposition application to SAC

 - For 50 unit of less PHAs

 - Can be used after RAD and once you are a small PHA

 - Seeking Tenant Protection Vouchers (TPV)

SAC Applications

Section 18 Dispo

Project Details
Board Resolution
Environmental Review
Government Letters
Description of Development
Removal Action details
(Survey, legal description, value of property)
Relocation Plan
Resident Consultation

Request TPV that can be
PBV 30-60 days before

Commit to PH closeout

Voluntary Conversion SAC Application

Project Details
Board Resolution
Environmental Review
Government Letters
Description of Development
Removal Action Details
Relocation Plan
Resident Consultation

Request TPV but must offer Tenant Based
and they can choose PBV or TPV

HUD Office shall be on resident meetings

Commit to PH closeout

RAD Similar and Different to mixed finance

- Similarities:

- Real Estate Transaction same
- Rent/Income
- Reporting to 3rd parties
- Physical needs assessment is a driver

- Differences:

- PHAs want to self manage
- RAD PCNA tool
- Complicated HUD regulations
- Lower Income to project
- Expenses higher may need to be adjusted
- Type of 3rd party reporting HUD versus Investor

- Benefits of PHA Partner

- Invested in community
- Familiar with social services
- Knows the community partners
- Has managed PH inventory on shoestring budget
- Familiar with compliance



RAD Rev 4 Highlights

- Resident Protections
 - All RAD protections extended to non RAD PBV residents
 - Additional RAD resident meetings required (Prior to FP and between RCC and closing) Can be more if FP extensions requested
- Pooling PHA resources
- Increased rent in creases for PBRA in Opportunity Zone
- Modified portfolio awards for ease of conversion
- Streamline capital needs
- Concept call introduced
- EIV debt from EOPs
- Broadens tired ER
- RAD rents established every two years
- Section 3 priorities
- Hope VI can convert even if less than 10 years
- Priority categories changed to opportunity zone priority

Roundtable Discussion



Repositioning and Transaction Concerns

- Timing and PH funding
- Tax credit compliance versus HUD compliance
- Rent calculation and income qualification
- Boards and their role changes
- Limited knowledge of mixed finance
- Management and preserving public housing
- Ownership changes impact pilot and taxes
- Investors and HFA unfamiliar with PHAs
- RAD rents are low
- HUD conversion requirements
 - PBV/PBRA
 - PHA Plan
 - Site and neighborhood
 - Elderly designation
 - Environmental
 - Relocation (URA)
 - Affirmatively Furthering Fair Housing