

Repositioning Options from Section 18 to the Rental Assistance Demonstration (RAD)



Outline

- What is “repositioning” and do you want to consider it?
- Section 18
- Streamlined Voluntary Conversion
- Rental Assistance Demonstration
- Choosing among your options
- Illustrations
- Questions and Answers

What Does “Repositioning” Mean?

- Maximize the availability of affordable housing and rental assistance, either through physical units or vouchers.
- Preserve, rehabilitate or replace needed physical units by increasing access to financing for capital needs.
- Establish a sustainable physical and financial trajectory for your assisted housing portfolio.
- Provide residents with flexibility to move to places of opportunity.
- Improve residents’ quality of life.
- Find the regulatory platform that best meets the needs in your community.



Why Consider Repositioning?

- Public housing has a large and growing backlog of capital needs. In 2010, it was estimated at \$26 Billion. Today, estimates vary... \$35 Billion, \$70 Billion or more.
- The Section 8 platform allows you to stabilize project revenue, access debt and equity to finance capital needs, and simplify program administration. Some PHAs have found it to be a useful platform.
- Public housing remains an option.
 - Many PHAs operate successful public housing programs with well-maintained units.
 - PH units still have access to CFFP, OFF, EPC, etc.



Public Housing Options



Considerations: Project-based vs. mobile, functionality, condition, location, financial sustainability, agency business model

- Continue as Public Housing
 - CFFP, OFF, EPC
 - Mixed-Finance
 - Choice Neighborhoods
 - Section 30 Mortgages
- Homeownership (Section 32)
- Required Conversion (Section 33)
- Voluntary Conversion (Section 22), including Streamlined VC
- Rental Assistance Demonstration (RAD)
- Demolition or Disposition (Section 18)
 - Scattered Sites (1-4 units)
 - Agencies under 50 units
 - Obsolescence
 - 75%/25% blend of RAD and Section 18

Roles and Decision-Makers

**The decision to reposition is
voluntary & entirely up to
the PHA in consultation with local stakeholders**

- HUD's role is to make sure PHAs are aware of all available repositioning strategies and to provide technical assistance to help communities weigh their options
- PIH Field staff stand ready to assist you
 - Initial conversations to explore ideas and assemble key information
 - Introductions to expeditors and subject matter experts to consult on strategy and help move things forward

Potential PHA Objectives

- Conversion to PBRA or PBV has allowed PHAs to:
 - Stabilize property revenue
 - Streamline operations
 - Modernize aging family & elderly properties
 - Substantially rehab deteriorated properties
 - Transfer assistance to better neighborhoods
 - Demolish and redevelop distressed and obsolete properties
 - Thin densities and mix-incomes
- Conversion to HCVs allows PHAs to provide more resident mobility.
- What are the PHA's goals in your community?



Section 18

Demolition and “Disposition” Approval

What is Section 18?

- Section 18 of the Housing Act of 1937 authorizes the demolition or disposition of public housing.
- Approval requirements are outlined in PIH 2018-04. HUD will generally approve a Section 18 request if the property or building is:
 - A health and safety concern for residents
 - Physically obsolete
 - Scattered site (1-4 units) with operational challenges
 - Owned by a PHA with 50 units or less
 - A less efficient and effective way to provide affordable housing than the alternative
- FHEO review makes sure vouchers can be used in the market

Section 18 and PBV

- New Tenant Protection Vouchers (TPVs) are issued to the PHA for income-qualified households and units <24 months vacant
- Section 18 can be used as a preservation and redevelopment tool or for actual demolition/disposition of assets
- “Disposition” includes transfers from the PHA to an affiliate
- Per HOTMA, vouchers can be project-based (i.e., PBV) at the former public housing site at standard PBV rents
 - Property is exempt from PBV “income-mixing” requirement
 - Property does not count against PHA’s PBV program cap (20%)
 - Competitive selection is not required if the former public housing property will be owned at least in part by the PHA that administers the contract and if the property will be improved

Section 22

Streamlined Voluntary Conversion

What is Voluntary Conversion?

- Section 22 (Voluntary Conversion) authorizes conversion to housing choice vouchers where it costs less to assist residents with vouchers than through public housing – 24 CFR 972
- **Streamlined Voluntary Conversion (SVC)** waives the cost test for PHAs with 250 units or less that wish to close out their public housing program. See PIH Notice 2019-05.
- Tenant Protection Vouchers (TPVs) are tenant-based
- Residents may consent in writing to project-basing of TPVs
- Residents have a right to remain in the property with TPVs if the property will continue to be used for residential purposes
- FHEO review makes sure vouchers can be used in the market

Section 18 & SVC: Key Distinctions

Rents

- Tenant Protection Vouchers (TPVs) issued for units occupied within 24 months
- Standard voucher-program rent setting (up to 110% of FMR or rent reasonableness)

Project Basing?

- PBV only – no PBRA. Must have a voucher PHA involved.
- Mobile vouchers for Streamlined Voluntary Conversions – PHA needs tenant consent to project base

Tenant Rights

- Standard PBV rights – not the more extensive RAD resident protections and resident rights
- No long-term use agreement

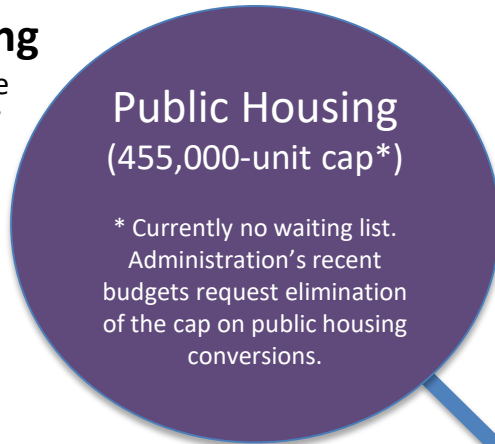
Impact on the Agency

- Must close-out public housing program in some cases
- Unspent balances in operating reserves and capital fund are returned to HUD

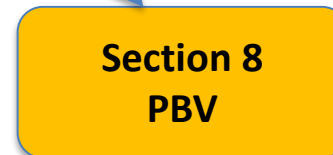
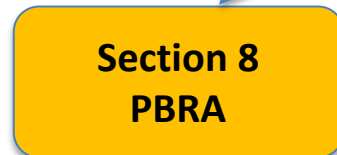
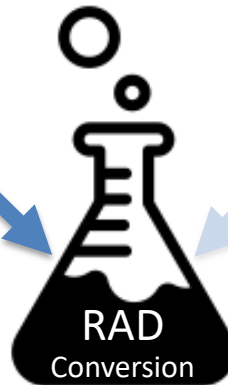
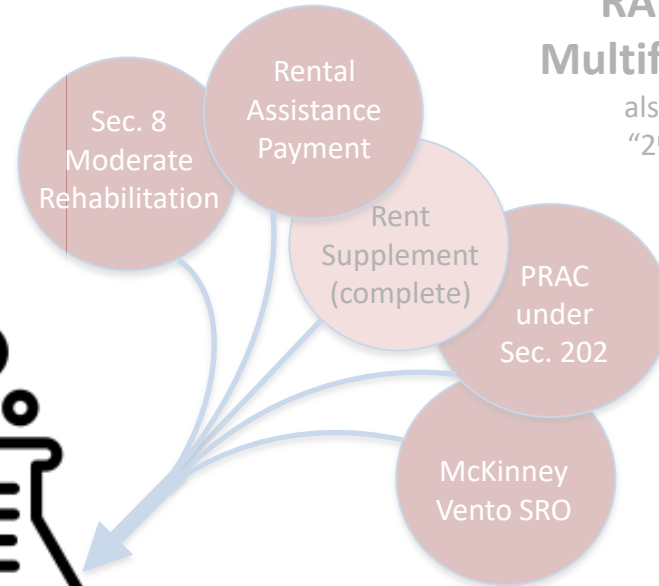
Rental Assistance Demonstration (RAD)

Structure of RAD

RAD for Public Housing also known as the "1st Component"



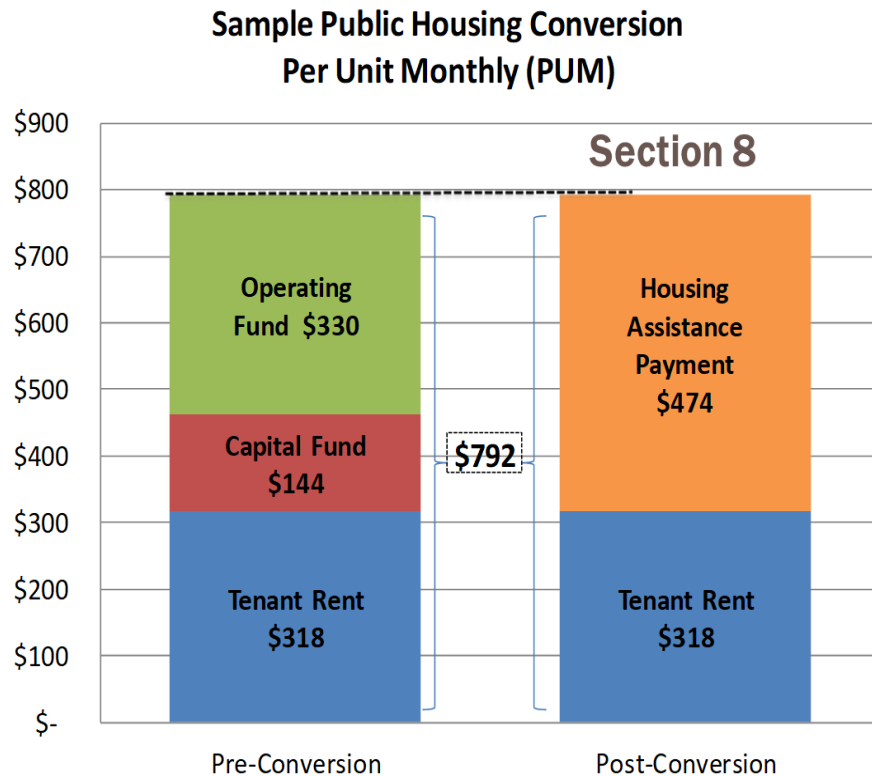
RAD for Other Multifamily Housing also known as the "2nd Component"



Why RAD for Public Housing?

- Allows PHAs to convert their existing public housing subsidy into a project-based Section 8 subsidy – either Section 8 Project Based Voucher (PBV) or Project Based Rental Assistance (PBRA). This is a shift of regulatory platform.
- Proven to facilitate access to resources for capital improvements and improving conditions for residents
- Preserves prior federal investment in place-based affordable housing
- Provides flexibility, creativity, and local control for PHAs
- Voluntary and budget-neutral
- Balances interests of PHAs, private partners, residents and other stakeholders

Public Housing Conversions



- Section 8 Contract Rents based on “current” public housing funding ([“2018 RAD Rents” now available](#)) with certain flexibilities available
- Existing public housing funds can support conversion (i.e., pre-development costs, rehab, establish property reserves, etc.)
- PHAs can rehab the existing site, demolish & rebuild, **or** transfer assistance to a new location
- Streamlined conversion process for very-small PHAs (50 units or less)
- Over **117,000 units** have converted, in over 1,000 transactions, generating over **\$7.6 Billion** in construction investments.*

* This figure doesn't include acquisition, soft costs, reserves & developer fee.

Key Features of PH Conversions

Rents

- Predictable contract rents initially based on Sec. 9 funding
- Potential to adjust initial rents with other PHA resources
- Rents adjusted by Operating Cost Adjustment Factor (OCAF)
- Long-term contract facilitates access to capital (LIHTC, debt)

Capital Needs

- Capital Needs Assessment identifies short- and long-term (20-year) needs
- PHA must secure financing and fund Replacement Reserve to address 20-year needs

Tenant Rights

- Resident right of return and prohibition against rescreening
- Public housing organizing and procedural rights continue
- “Choice-mobility” requirement
- Fair housing and Section 3 requirements

Public Stewardship

- One-for-one hard unit replacement (with de minimis exception)
- Ownership or control by a public or non-profit
- Long-term HAP contract must renew at each expiration
- RAD Use Agreement recorded on land

Common RAD PH Financing Sources

First Mortgage Debt

- FHA-Insured Debt
 - 223(f) for light or moderate rehab
 - 221(d)(4) for substantial rehab or new construction
- Conventional Debt

Equity

- 4% LIHTC
- 9% LIHTC
- Historic Tax Credits
- State Tax Credits
- Depreciation/Losses
- Other (NMTC, OZ, energy)

Public Housing and PHA Funds

- Operating Reserves
- Capital Funds
- Demo/Dispo Transition Funding
- Sales Proceeds
- Non-Federal Funds

Other Financing

- HOME
- CDBG
- Housing Trust Fund
- Federal Home Loan Bank AHP
- State and local funds

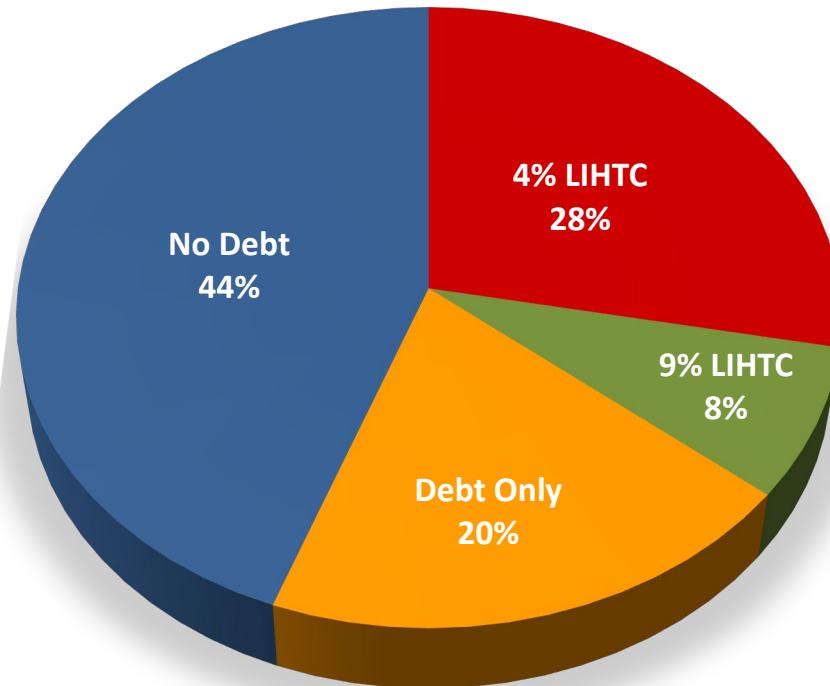
RAD Public Housing Conversions

No debt and debt-only transactions

are 64% of the RAD conversions.

They are typically owned by PHAs or their wholly-owned subsidiaries.

These tend to be the transactions with more modest to mid-level investment per unit.



Tax credit transactions

are 36% of the RAD conversions.

They require an equity investor.

Either the PHA or a developer partner can have operational control.

These tend to be the higher dollar-per-unit investments.

RAD and Section 18 Blend

RAD conversions involving new construction or substantial rehabilitation without using 9% LIHTC can get 25% of units approved under Section 18. Vouchers that are issued are subsequently project-based to increase project revenue

Sooner Haven (Oklahoma City)

- 150 unit garden-style property
- Substantial rehab: \$94k/unit
- RAD/Section 18 blend created ability to leverage additional \$2 million in debt



RAD vs. Section 18 Considerations

- When a property qualifies for Section 18 (obsolete, scattered site, PHA under 50), RAD might still make sense if:
 - RAD rents are comparable or higher to PBV rents
 - PHA wishes to convert to PBRA
 - PHA has no voucher program and cannot find partnering agency
 - PHA has large amount of public housing Capital funds & Operating Reserves
 - PHA seeks to adopt RAD resident protections

PH Conversion Process

Strategic Planning	<ul style="list-style-type: none">• What does the PHA want to do with the asset and what tools are available?
RAD Application	<ul style="list-style-type: none">• Confirm project eligibility• Ensure resident and board consultation
CHAP Award	<ul style="list-style-type: none">• Reserves conversion authority under the cap• Sets forth the contract rents
Pre-Financing Plan Approvals	<ul style="list-style-type: none">• Upfront civil rights review; transfer of assistance; PHA Plan; EPC/CFFP
Concept Call	<ul style="list-style-type: none">• Review of plans with Recap staff to ensure the transaction plan is sufficiently developed to warrant a Financing Plan submission
Financing Plan	<ul style="list-style-type: none">• Demonstrate physical and financial viability and compliance with program requirements
RAD Conversion Commitment (RCC)	<ul style="list-style-type: none">• HUD approval of the Financing Plan• Sets out terms of closing and construction
Closing & Conversion	<ul style="list-style-type: none">• Removal from Public Housing ACC and DOT• Entry into Section 8 HAP Contract & RAD Use Agreement
Rehabilitation/ Construction	<ul style="list-style-type: none">• Work specified in the RCC completed in accordance with the terms of the RCC

Common Myths About RAD

- “RAD doesn’t work for this [fill in the blank – geography, type of property, age of property, etc.]”
 - RAD-participating properties are similar to the overall PHA inventory by many measures.
- “RAD only works for high/low needs properties.”
 - 42% of transactions result in over \$25,000/unit in construction; less than that at 57%.
- “The PHA will lose control of the property.”
 - Over 64% of transactions are owned by the PHA directly or by a wholly-owned subsidiary.
- “RAD is a privatization program.”
 - Any decision to involve private parties is a local one.
- “RAD doesn’t ensure the ongoing affordability of the property.”
 - RAD properties are subject to perpetual affordability requirements.
 - There is no change in the population to be served.

Choosing Among Your Options

Option Side-by-Side

Section 18

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

Voluntary Conversion

- ✓ Justification, either:
 - Must demonstrate that vouchers cost less than cost of public housing; or
 - Have **250 or fewer public housing units** and commit to closing-out public housing program
- ✓ Replacement TPVs for any occupied units in past 24 months
- ✓ PHA can project-base the TPVs **only with** the voluntary consent of residents
- ✓ Emphasis on mobile vouchers, not hard units
- ✓ Not eligible for ARF or DDTF

RAD

- ✓ Justification not needed; PHA may elect to participate for any reason
- ✓ 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

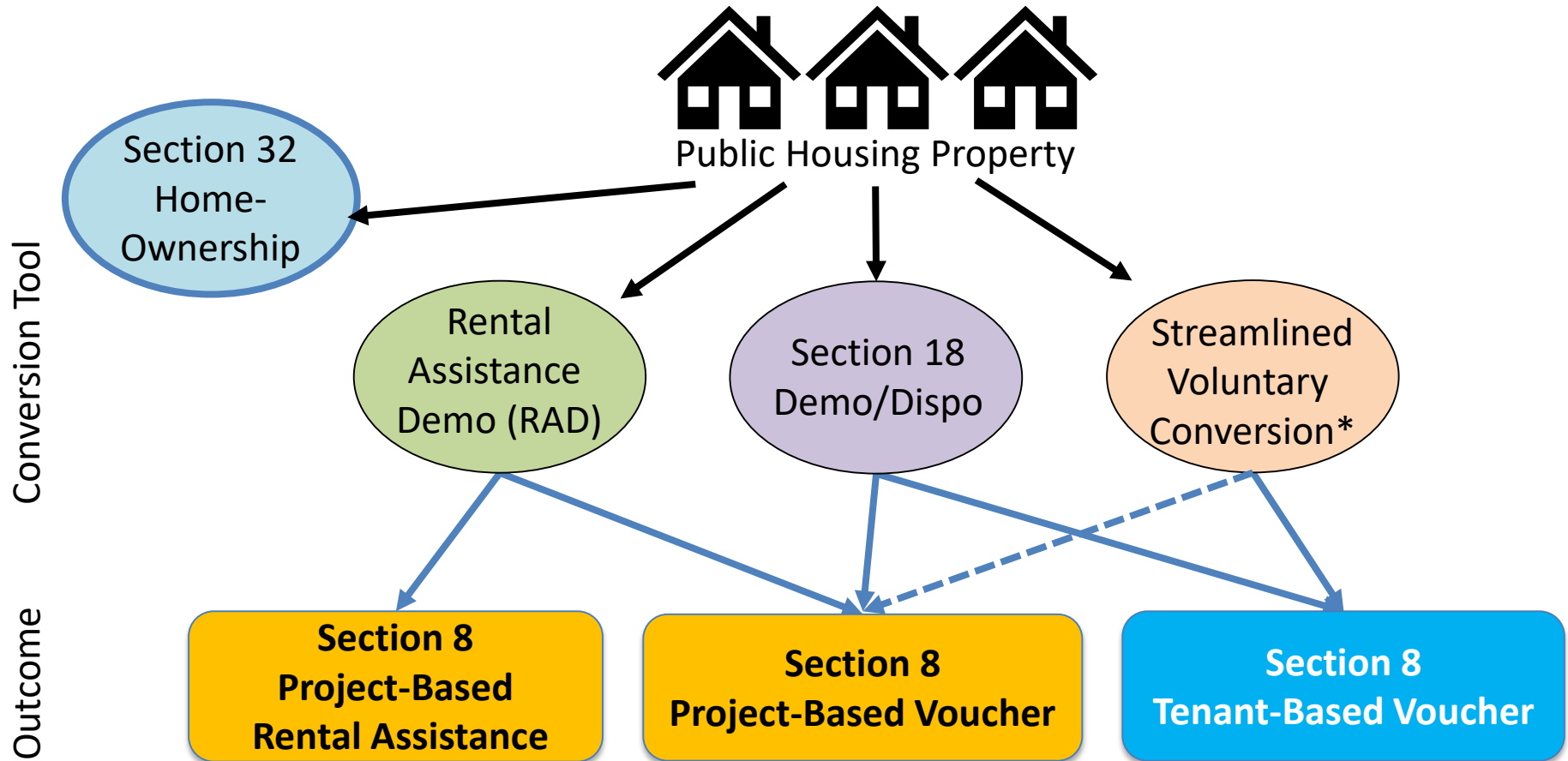
RAD/Section 18 "Blend"

- ✓ Eligibility limited to those properties 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
- ✓ Other RAD rules apply
- ✓ Section 18 application folded into RAD process

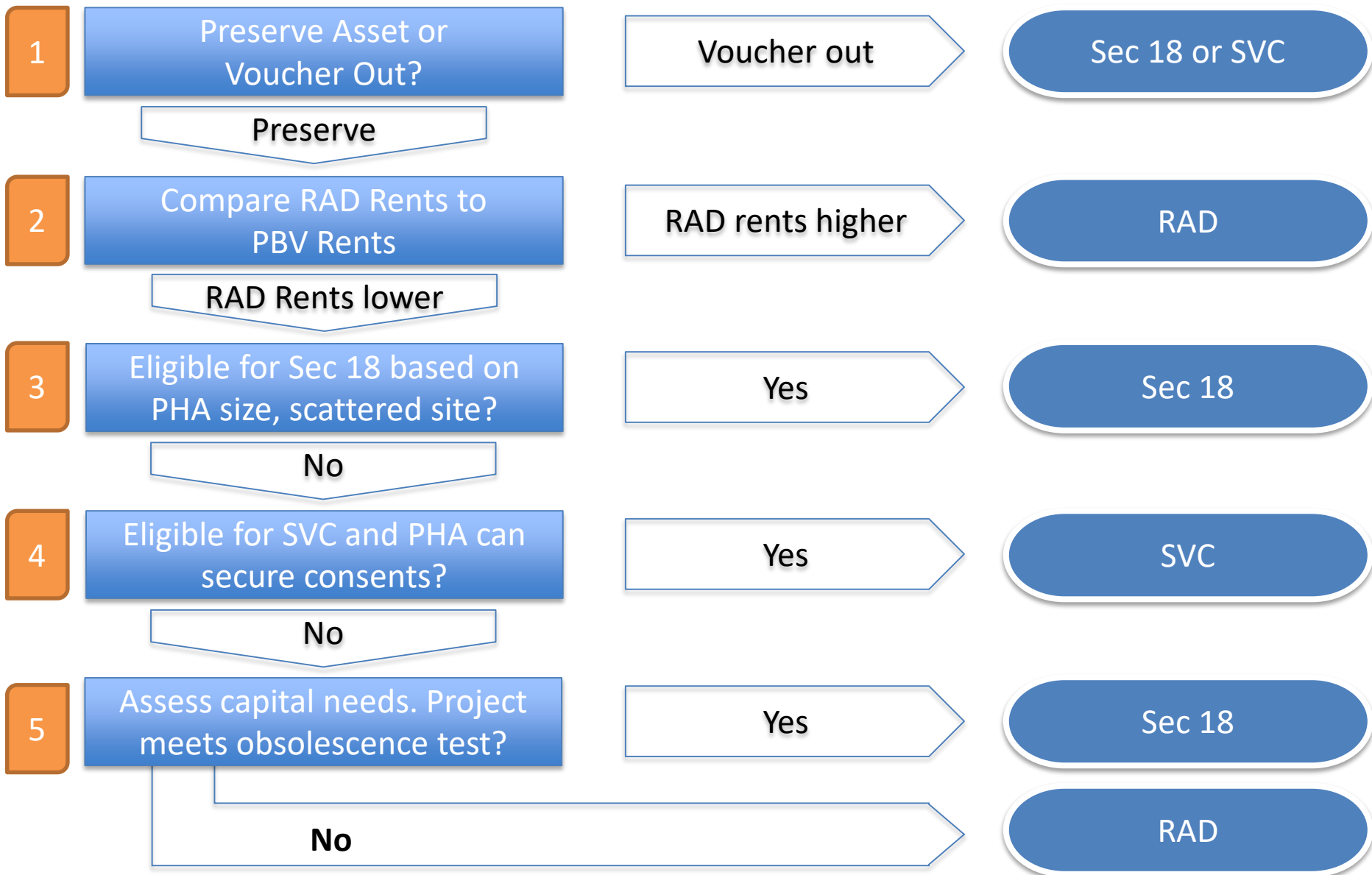
Small and Very-Small PHAs

- PHAs operating **250 or fewer public housing units** are eligible for a streamlined Section 22 voluntary conversion
- PHAs operating **50 or fewer public housing units** are eligible for a streamlined RAD approval or Section 18 disposition
 - Streamlined RAD approval does not require a Financing Plan or a physical needs assessment
 - PHA may also keep title to property under RAD and Section 22
 - PHAs approved under Section 18 or Section 22 qualify for TPVs
 - PHAs must commit to terminating, transferring, or consolidating their public housing program
 - If approved under Section 18 or 22, possible to attach PBV to project after conversion/disposition (tenant-consent required for Section 22)

Public Housing Repositioning Options



* Under Voluntary Conversion tenant protection vouchers must first be offered to residents as tenant-based assistance but may be project-based with tenant consent.



Step #1 – Preserve Asset or Voucher Out?

- Does the PHA want to dispose of the physical units and provide residents with tenant-based vouchers?
 - Some sites are poor locations for affordable housing, are too expensive to maintain, or are in markets with an excess supply of housing
 - Original property can be sold and proceeds can be used to support rehabilitation or redevelopment of other properties
- Will residents be able to find housing that accepts vouchers?
- Homeownership also an option in lieu of preservation as affordable rental

Step #2 – Compare RAD Rents to PBV Rents

- Compare the RAD Rents to the regular PBV rents (calculated as the lesser of 110% of FMR, less utility allowance, or the reasonable rent)

- RAD Rents: hud.gov/rad
- FMRs: HUDUser.gov
- Reasonable Rent:
Evaluated by the PHA

RAD Rent	PBV Rent
\$600	110% of FMR = \$800 - UA = \$100 <hr/> 110% of FMR, Less UA = \$700 Reasonable Rent = \$900 PBV Rent = \$700

- If RAD rents are higher (~20% of all public housing), stick with RAD (unless the PHA wants to voucher out the assistance in mobile form; see Step #1)
- If RAD rents lower, consider Section 18 where eligible

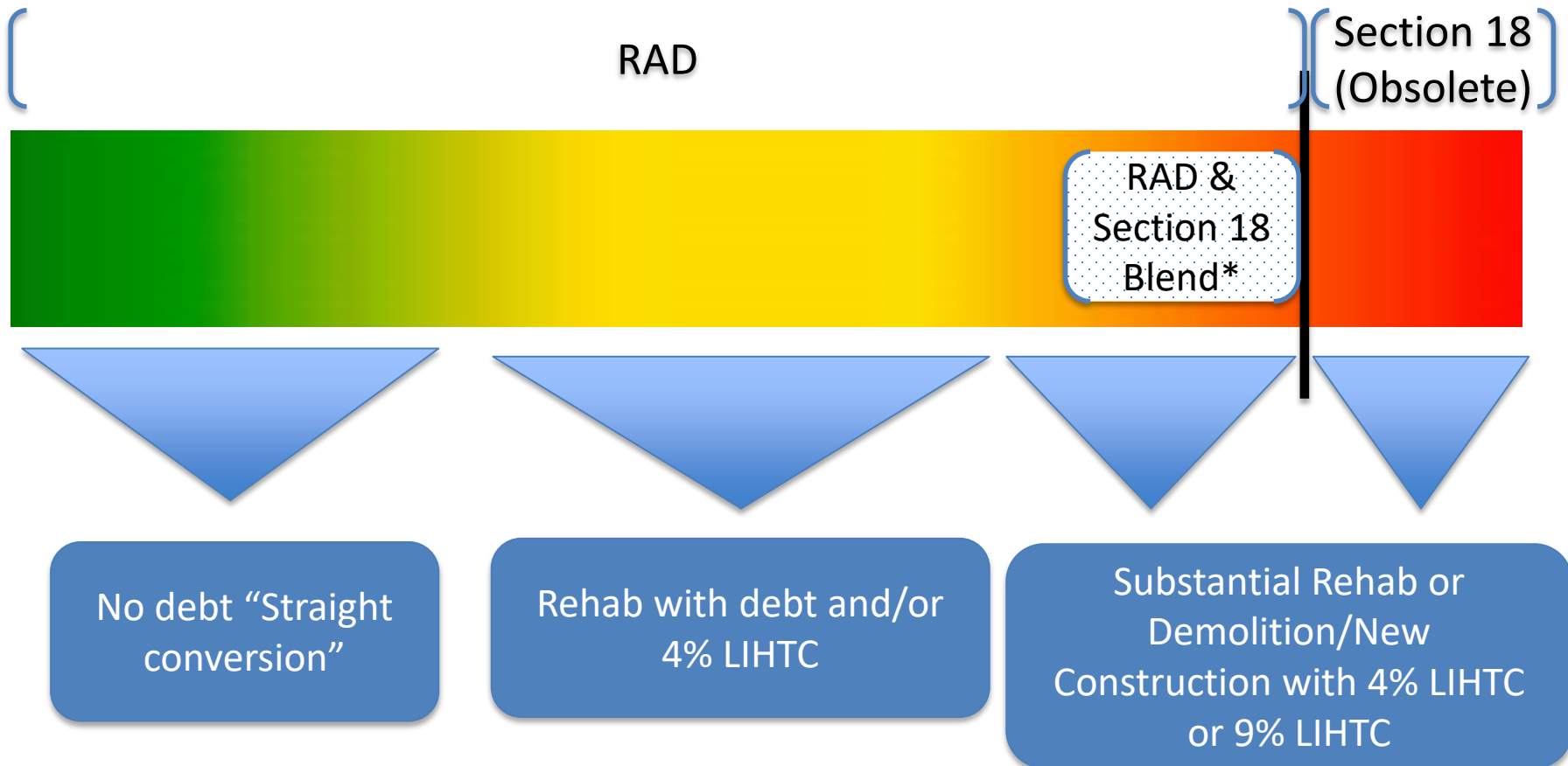
Step #3 – Scattered Sites or <50-unit PHA?

- Scattered site (1-4 non-contiguous units) with operational challenges can qualify under Section 18 without demonstrating “obsolescence”
- PHAs with 50 or fewer units (including last 50 units of a larger portfolio) can qualify under Section 18 without demonstrating obsolescence
 - Note: HUD has also created a streamlined RAD conversion for PHAs with 50 or fewer units
- If the property is eligible for both Section 18 or SVC, Section 18 provides more flexibility to the PHA. It is the PHA’s choice to PBV or give tenants vouchers.

Step #4 – <250-unit with Consents?

- PHAs with 250 or fewer units (including last 250 units of a larger portfolio) can qualify under Streamlined Voluntary Conversion without demonstrating cost-effectiveness
- SVC is a good option if:
 - The PHA can secure resident consents to project-base the assistance, either immediately or over time
 - The PHA wants to voucher out and dispose of the property for non-rental use (see Step #1)
 - The property doesn't need financing or the PHA wants to manage a mixed-income property

Step #5 – Assessing Capital Needs



*Under the RAD/Section 18 blend, a RAD conversion undergoing new construction or sub rehab with 4% LIHTC gets approved for 25% of units under Section 18. The vouchers are subsequently project-based, typically at higher rents.

One Size Doesn't Fit All

Many PHAs will need a combination of repositioning tools to meet their community's housing goals. Don't be afraid to mix and match!



Tools to Assess Your Portfolio

- Go to www.hud.gov/RAD/library/notices
- [2018 RAD Rents](#): The table includes HUD's calculations of RAD Contract Rents for each public housing property based on the latest appropriated levels, with a comparison of local Fair Market Rent (FMR) rates. These rents will form the basis of the conversion rents for properties awarded CHAPS or with amended CHAPs on or after January 1, 2019. For additional information on the process of revising RAD rents for existing CHAPs, the "[FAQs on Securing RAD Rents](#)" document is also available.
- [RAD Conversion Guide for Public Housing Agencies](#)
- RAD Inventory Assessment Tool

Resources

Reading

- RAD Notice Revision 4 – H 2019-09/PIH 2019-23
- RAD Fair Housing, Civil Rights & Relocation Notice – H/PIH 2016-17
- Section 18 Notice – PIH 2018-04
- Streamlined Voluntary Conversion Notice – PIH 2019-05

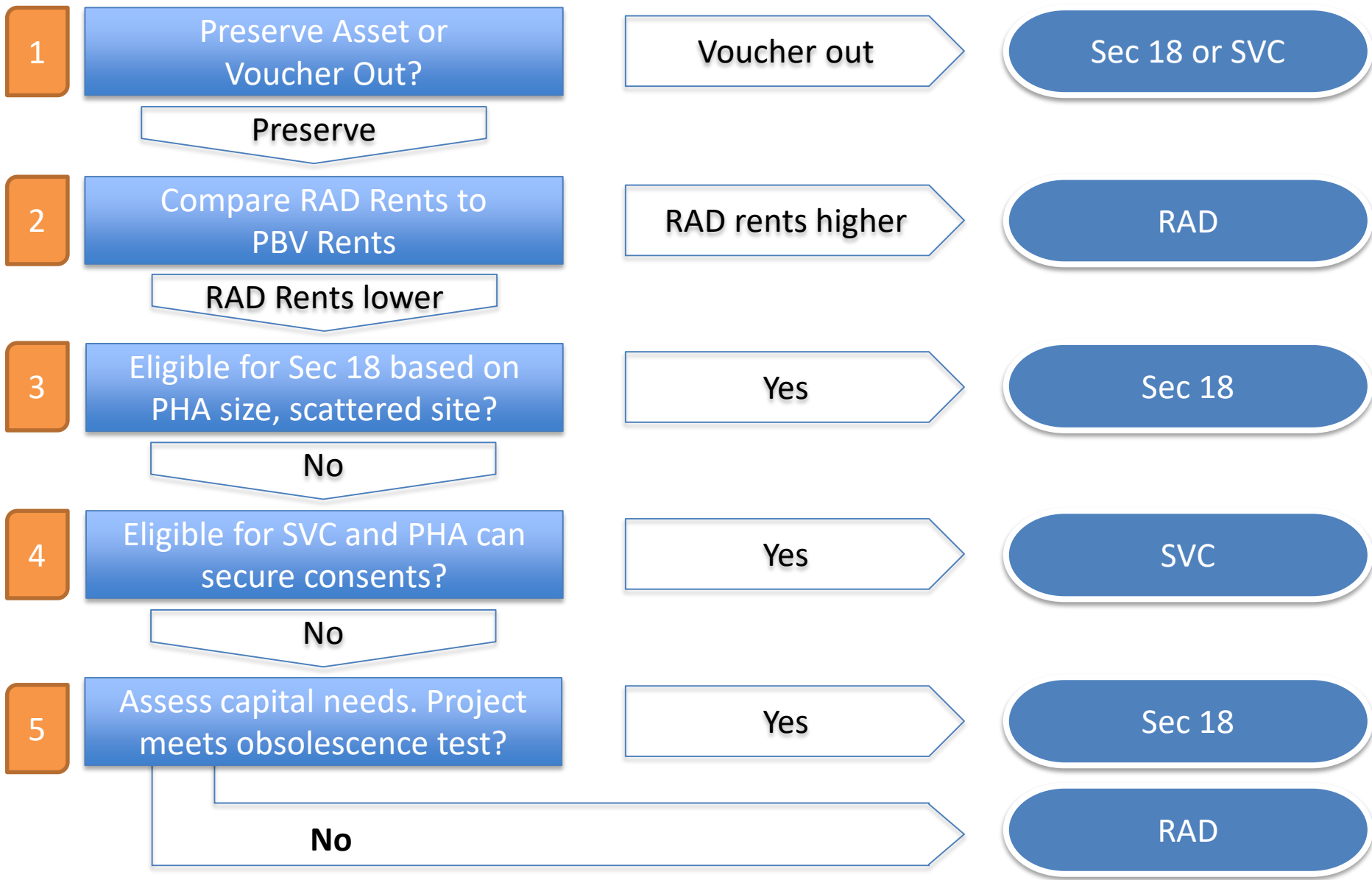
Talking/Listening

- Repositioning Panel discussions – sign up with your field office
- Webinars and materials on www.RADresource.net

Acting

- RAD Application – www.RADresource.net
- Section 18/ Voluntary Conversion application - PIC

Illustrations



Case Study #1

- PHA has 86 units: 44 scattered site duplexes/single family homes and an elderly complex with 42 units.
- The PHA has an existing HCV program with 1,211 HCV ACC units
- The scattered site units have minor repair needs, the repair needs at the elderly building is moderate (\$1-2 million)

	Public Housing Units							Rent Calculation		
PROJECT NAME	Public Housing Units	0-BR	1-BR	2-BR	3-BR	4-BR	5+-BR	2018 PUM Capital Fund	2018 PUM Tenant Rents	2018 PUM Op Fund
STOUGHTON HSG/SCAT SITES	86	0	24	20	35	5	2	\$139	\$314	\$107

2018 Contract Rents									
2018 PUM Contract Rent (weighted)	Estimated Average Utility Allowance*	Estimated Gross Rent*	RAD Rents as a percent of FMR	0-BR RAD Rents	1-BR RAD Rents	2-BR RAD Rents	3-BR RAD Rents	4-BR RAD Rents	5-BR RAD Rents
\$559	\$109	\$668	51%	\$331	\$398	\$469	\$655	\$782	\$1,173

2018 Fair Market Rent (FMR) Comparison						
110% of FMR (Weighted) PBV Rent Cap	120% of FMR (Weighted) PBRA Rent Cap	0-BR FMR	1-BR FMR	2-BR FMR	3-BR FMR	4-BR FMR
\$1,430	\$1,560	\$769	\$924	\$1,091	\$1,522	\$1,817
						\$2,726

Case Study #2

- PHA has 1,520 units in 10 properties.
- Capital needs vary widely from \$5,000/unit to some which require moderate-to-significant rehab
- The PHA has an existing HCV program with 1,975 HCV ACC units
- The PHA has 260 scattered site units, at least 100 of which are single family homes on non-contiguous sites

Project Identifier	Public Housing Units							Rent Calculation		
PROJECT NAME	Public Housing Units	0-BR	1-BR	2-BR	3-BR	4-BR	5+-BR	2018 PUM Capital Fund	2018 PUM Tenant Rents	2018 PUM Op Fund
SOUTHBRIDGE	183	0	36	83	56	8	0	\$196	\$39	\$560
Northeast	297	0	30	129	90	48	0	\$208	\$53	\$729
CRESTVIEW APTS	191	41	92	16	42	0	0	\$188	\$304	\$428
BAYNARD APTS	113	14	95	4	0	0	0	\$181	\$289	\$311
Scattered Sites North	120	0	0	4	86	28	2	\$227	\$272	\$420
Mid City	330	120	174	26	10	0	0	\$181	\$293	\$295
Scattered Sites South	140	0	6	33	63	23	15	\$228	\$113	\$660
NEW VILLAGE OF EASTLAKE	70	0	0	19	51	0	0	\$121	\$396	\$257
22nd and Heald Street	11	0	0	2	9	0	0	\$129	\$359	\$277
Lincoln Tower Mixed Finance Development	65	0	63	2	0	0	0	\$93	\$354	\$147

Case Study #2, continued

2018 Contract Rents									
2018 PUM Contract Rent (weighted)	Estimated Average Utility Allowance*	Estimated Gross Rent*	RAD Rents as a percent of FMR	0-BR RAD Rents	1-BR RAD Rents	2-BR RAD Rents	3-BR RAD Rents	4-BR RAD Rents	5-BR RAD Rents
\$796	\$111	\$906	67%	\$523	\$620	\$750	\$940	\$1,058	\$1,587
\$989	\$160	\$1,149	81%	\$613	\$726	\$878	\$1,101	\$1,240	\$1,860
\$920	\$0	\$920	80%	\$707	\$838	\$1,014	\$1,271	\$1,431	\$2,146
\$781	\$0	\$781	76%	\$667	\$791	\$956	\$1,199	\$1,350	\$2,025
\$919	\$193	\$1,112	68%	\$494	\$586	\$709	\$888	\$1,000	\$1,500
\$769	\$0	\$769	75%	\$665	\$789	\$954	\$1,196	\$1,346	\$2,020
\$1,001	\$191	\$1,192	73%	\$539	\$640	\$773	\$969	\$1,092	\$1,637
\$774	\$145	\$919	61%	\$456	\$540	\$653	\$819	\$922	\$1,383
\$765	\$130	\$895	59%	\$442	\$524	\$633	\$794	\$894	\$1,341
\$594	\$62	\$656	62%	\$498	\$590	\$714	\$895	\$1,008	\$1,511

2018 Fair Market Rent (FMR) Comparison							
110% of FMR (Weighted) PBV Rent Cap	120% of FMR (Weighted) PBRA Rent Cap	0-BR FMR	1-BR FMR	2-BR FMR	3-BR FMR	4-BR FMR	5-BR FMR
\$1,478	\$1,613	\$883	\$1,047	\$1,266	\$1,587	\$1,787	\$2,681
\$1,568	\$1,710	\$883	\$1,047	\$1,266	\$1,587	\$1,787	\$2,681
\$1,264	\$1,379	\$883	\$1,047	\$1,266	\$1,587	\$1,787	\$2,681
\$1,138	\$1,241	\$883	\$1,047	\$1,266	\$1,587	\$1,787	\$2,681
\$1,805	\$1,969	\$883	\$1,047	\$1,266	\$1,587	\$1,787	\$2,681
\$1,123	\$1,225	\$883	\$1,047	\$1,266	\$1,587	\$1,787	\$2,681
\$1,802	\$1,966	\$883	\$1,047	\$1,266	\$1,587	\$1,787	\$2,681
\$1,650	\$1,800	\$883	\$1,047	\$1,266	\$1,587	\$1,787	\$2,681
\$1,682	\$1,834	\$883	\$1,047	\$1,266	\$1,587	\$1,787	\$2,681
\$1,159	\$1,264	\$883	\$1,047	\$1,266	\$1,587	\$1,787	\$2,681

Resident Voices



Ms. Botsio-Boakye, Resident,
Bohn Tower, Cleveland OH

“I watched it being done. I helped with it along the way. But when it was all done; when I walked into the space with everything, I just thought: this is incredible; this is amazing; and this is my home.”



Ella Broadway, RAB President,
O'Donnell Heights, Baltimore MD

“But now, you know, we hear things from residents like, ‘Oh, I didn’t know my child could live like this!’ And that is wonderful.”

Thank You.

For more information visit
www.hud.gov/rad