U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Public Housing Repositioning Tools: Decision Matrix

Kentucky Housing Association

June 11, 2019

Why reposition public housing?

Large and growing backlog of capital needs in public housing, estimated at $26 billion in 2010

Conversion to long-term, Section 8 rental assistance contracts:

- Stabilizes project revenue
- Provides access to debt and equity to finance capital needs
- Simplifies program administration

PHA Objectives

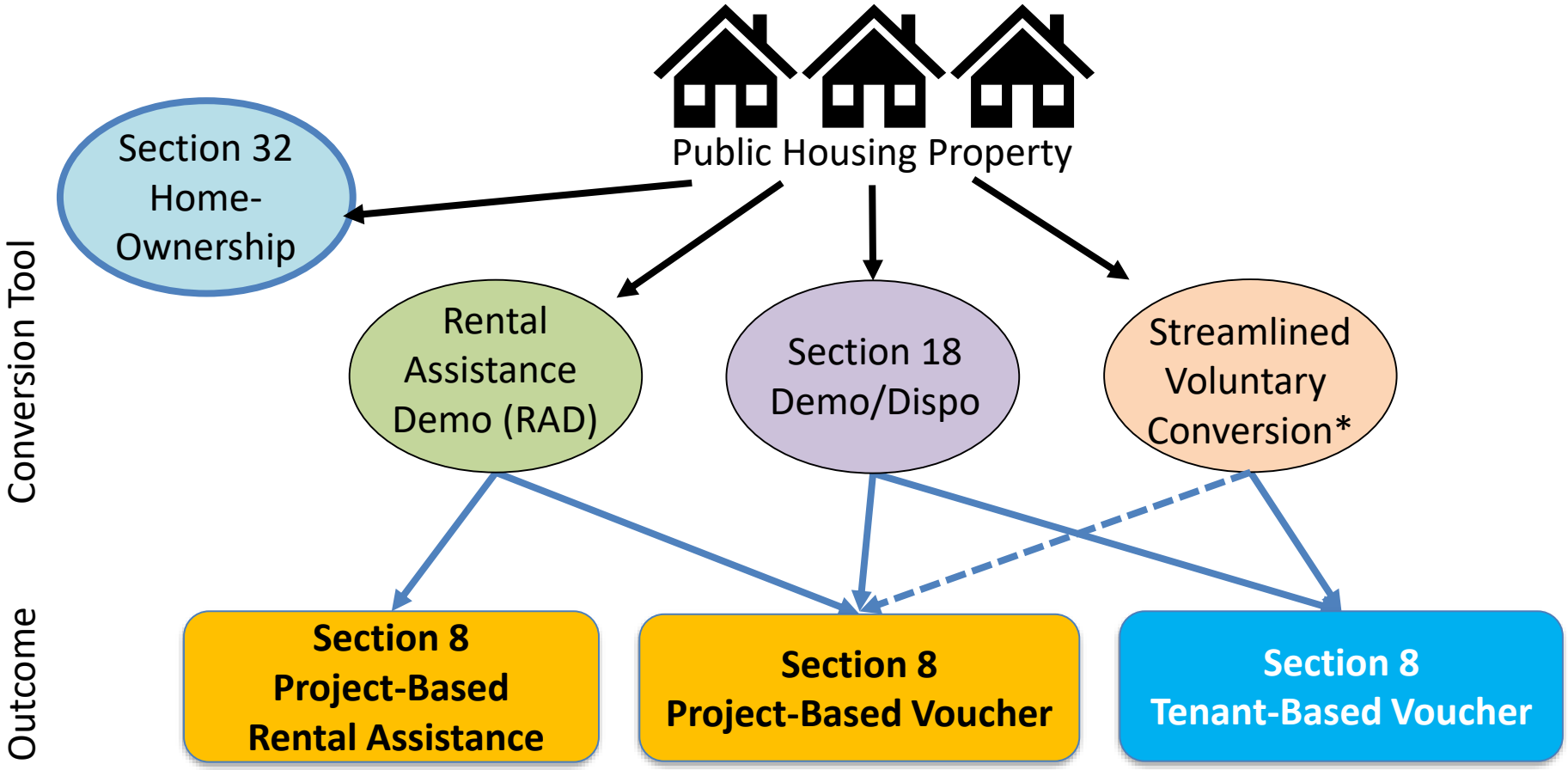
Conversion to PBRA or PBV has allowed PHAs to:

- Modernize aging family & elderly properties
- Substantial rehab of deteriorated properties
- Demolish and redevelop distressed/obsolete properties
- Stabilize property revenue
- Transfer assistance to better neighborhoods
- Thin densities and mix-incomes
- Streamline operations

What does this mean for residents?

- Units that are in better physical condition
- Continued availability of affordable housing and rental assistance in their local communities
- Additional flexibility to move to better housing and/or places of opportunity

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.

RAD: Key Features

Rents	• Predictable initial contract rents based on public housing funding – "2018 RAD Rents" based on FY 2018 levels • 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	• 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

What is Section 18?

- Section 18 of the Housing Act of 1937 authorizes the demolition or disposition of public housing.
- Requirements outlined in PIH 2018-04. HUD will generally approve a property under Section 18 if it is:
  - Physically obsolete
  - Scattered site (non-contiguous) with operational challenges
  - Owned by a PHA with 50 units or less
- FHEO Review to make sure vouchers can be used in market

Section 18 and PBV

- While Section 18 can be used for “pure” demo/dispo of assets, it is often also used as a preservation and redevelopment tool
- HUD issues new vouchers (Tenant Protection Vouchers) to PHAs following Section 18 approval
- 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 not required if former public housing property will be owned at least in part by that PHA that administers the contract and property will be improved

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

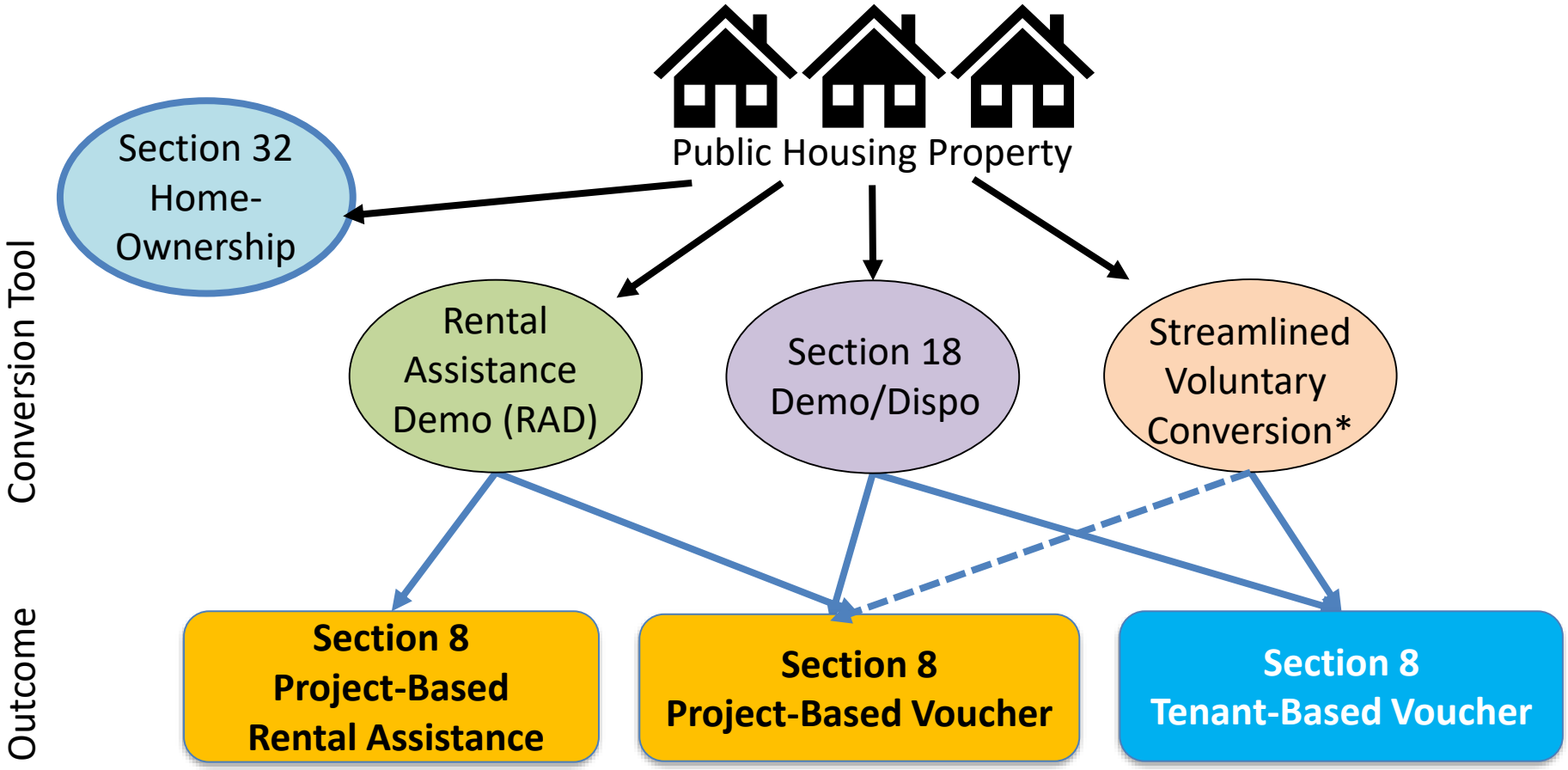
<u>Sooner Haven (Oklahoma City)</u>

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

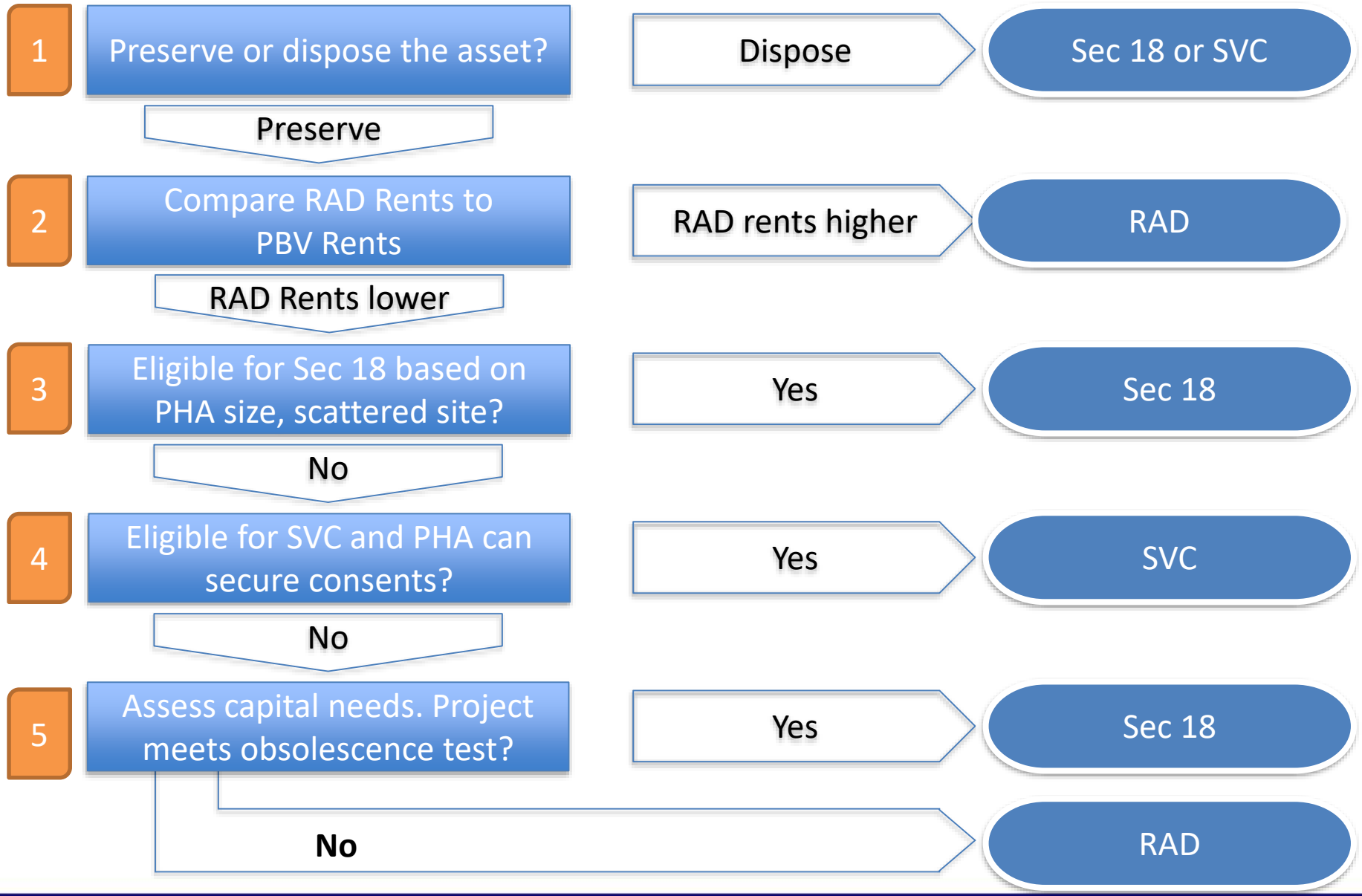
What is Voluntary Conversion?

- Section 22 (Voluntary Conversion) authorizes conversion to vouchers where demonstration that it costs less to operate the property with vouchers than under public housing
- **Streamlined Voluntary Conversion (SVC)** waives the cost test for PHAs with 250 units or less
- Tenant Protection Vouchers are tenant-based; residents may provide written consent to permit project-basing
- Residents have a right to remain in the property with tenant-based voucher if the property will continue to be used for residential
- FHEO Review to ensure vouchers can be used in market

How to identify the best tool



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


1
Preserve or dispose the asset?
Dispose
Sec 18 or SVC
Preserve
2
Compare RAD Rents to PBV Rents
RAD rents higher
RAD
RAD Rents lower
3
Eligible for Sec 18 based on PHA size, scattered site?
Yes
Sec 18
No
4
Eligible for SVC and PHA can secure consents?
Yes
SVC
No
5
Assess capital needs. Project meets obsolescence test?
Yes
Sec 18
No
RAD

#1 Preserve vs Dispose

- Some sites are poor locations for affordable housing, are too expensive to maintain, or are in markets with excess supply of housing
  - Dispose and provide residents with tenant-based vouchers (Section 18 or Streamlined Voluntary Conversion)
  - Or, if does not qualify for Section 18 or Streamlined Voluntary Conversion → RAD Transfer of Assistance
- Original property can be sold and proceeds can be used to support RAD rehabilitation or redevelopment
- Homeownership also an option in lieu of preservation as affordable rental

#2 Compare RAD to PBV Rents

- Compare the RAD Rents vs. the regular PBV rents (lesser of 110% of FMR, less utility allowance, or reasonable rent)
- If RAD rents higher (~20% of all public housing), stick with RAD (unless wish to voucher out)
- If RAD rents lower, consider Section 18 where eligible

<u>Data Sources</u>

RAD Rents: hud.gov/rad

FMRs: HUDUser.gov

Reasonable Rent: PHA

RAD Rent	PBV Rent
$600	110% of FMR = $800 - UA = $100 110% of FMR, Less UA = $700 Reasonable Rent = $900 **PBV Rent = $700**

Determinations:
- **Preserve**
- **PBV Rents higher**

#3 Eligible for Section 18 based on PHA Size or Scattered Site?

- Scattered site (non-contiguous) 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 property is eligible for Section 18 or SVC, Section 18 provides more flexibility to the PHA
  - PHA's choice to PBV or give tenants vouchers

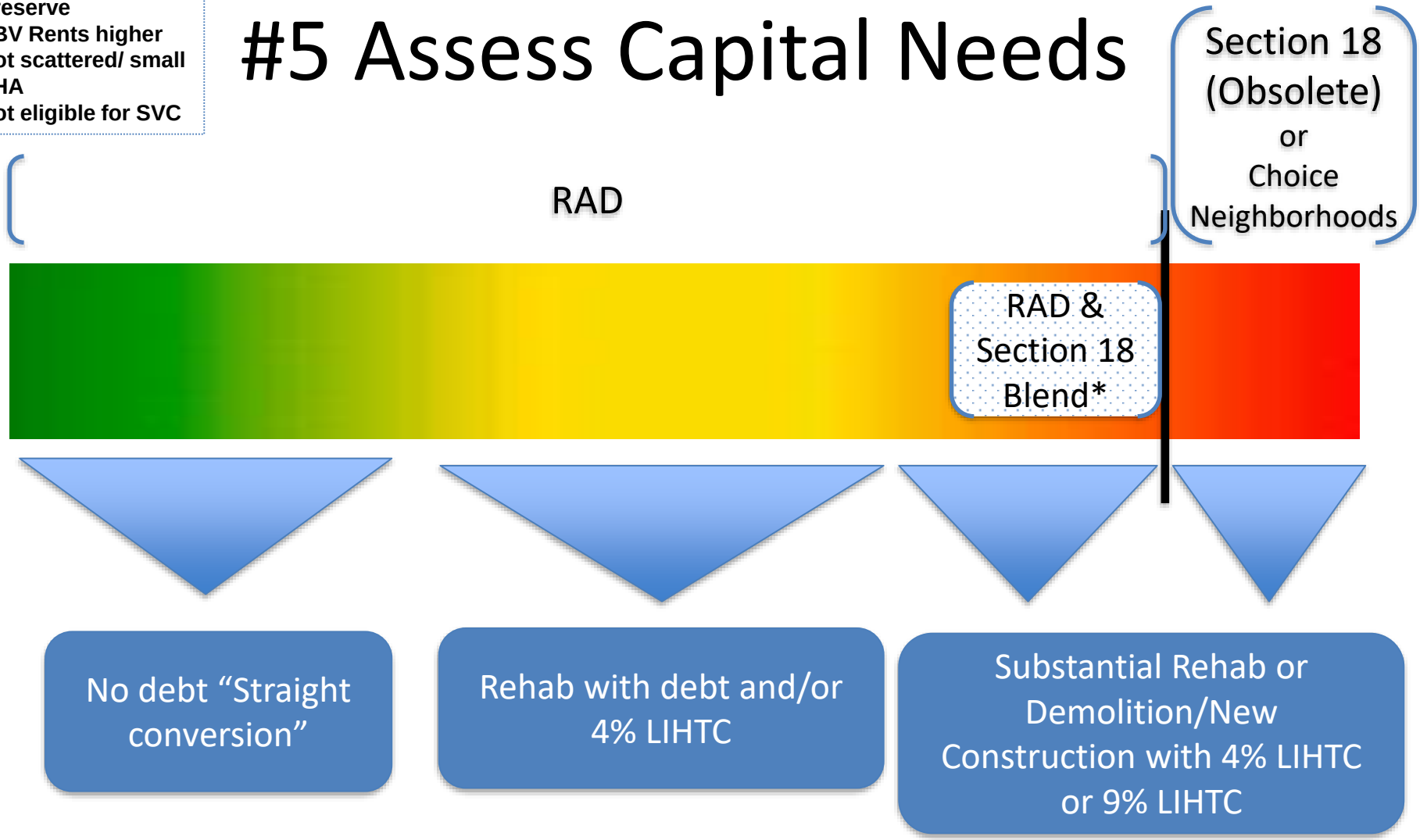
Determinations:
- **Preserve**
- **PBV Rents higher**
- **Not scattered/ small PHA**

#4 Eligible for SVC and PHA can secure 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 a good option if:
  - PHA wants to voucher out dispose of the property for non-rental use
  - PHA can secure consents
  - Property doesn't need financing or PHA wants to manage a mixed-income property

Determinations:
- **Preserve**
- **PBV Rents higher**
- **Not scattered/ small PHA**
- **Not eligible for SVC**

#5 Assess 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

Financing Sources

1st Mortgage Debt

- FHA-Insured debt:
  - 223(f) (light/mod rehab) or
  - 221(d)(4) (sub rehab/new construction)
- Conventional debt

Equity

- 4% LIHTC
- 9% LIHTC
- Historic Tax Credits
- Opportunity Zone

Public Housing Funds *(RAD only)*

- Operating Reserves
- Capital Funds, DDTF, RHF
- Sales Proceeds

Other Secondary Financing

- HOME
- CDBG
- Housing Trust Fund
- Federal Home Loan Bank AHP
- Deferred Developer Fee
- Seller takeback financing
- CNI Grant

RAD vs Sec 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

Other Considerations

What if a PHA wants to transition a property to PBV, but does not have a voucher program?

- Partner up!
- Convert to PBRA under RAD

What if nothing seems to work?

- Repositioning Panels
- Section 18 “More efficient and more effective”

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!

Resources

Reading

- RAD Notice – H 2017-03/PIH 2012-32 Rev 3
- Section 18 Notice – PIH 2018-04
- Streamlined Voluntary Conversion Notice – PIH 2019-05

Talking

- Repositioning Panel discussions – sign up with your field office

Acting

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

Thank You.

For more information and case studies visit
www.hud.gov/rad