RAD Workshop
For
Pittsburgh Community Reinvestment Group Conference

Tuesday, May 21, 2013
• **What is RAD?** HUD demonstration program that combines public housing operating and capital subsidy into a Section 8 HAP contract

• **What kinds of developments are being done with RAD?** Minor rehab; major rehab; new construction; mixed income; off-site replacement housing

• **How do I determine if I have a project/portfolio that would be a good candidate for RAD conversion?** Use the RAD Inventory Assessment Tool in the Resources section of www.hud.gov/rad

• **How would RAD affect:**
  • Residents: No change; 30% of income for rent
  • PHA Functions: Dependent on cash flow, fees, strong management; puts them on the more secure Section 8 funding platform; Gives them the affordable housing tools of other nonprofit developers

• **Resources:** [www.hud.gov/rad](http://www.hud.gov/rad); [www.radcapitalmarketplace.com](http://www.radcapitalmarketplace.com); [www.radresource.net](http://www.radresource.net)
At closing, funding is converted to a Section 8 contract rent.
## Key Provisions

- Public Housing & Mod Rehab
- Convert at current funding only
- PBRA or PBV
- Cap of 60,000 units
- Choice-Mobility, with limited exemptions
- Extensive waiver authority to facilitate conversion
- First come, first served after close of initial competitive window (10/25/2012)
- All applications must be received by 9/30/2015
RAD Contracts & Post-Conversion Terms

- Option of PBRA or PBV contracts
- Long-term renewable use & affordability restrictions
- Secretary shall offer & the owner shall accept renewal of the contract
- Public or non-profit ownership or control, except after foreclosure, etc., or to facilitate tax credits
- Transfer of assistance to replacement units
- Public Housing Section 18 Demo/Dispo application not needed for conversion of substantially all units
- Requirements for assistance established through contracts, use agreements, regulations, etc
- Waiver authority for PBV, PBRA, Operating Fund, Capital Fund
- Evaluation
# PUBLIC HOUSING CONVERSIONS

## Resident Provisions

### No Re-Screening of Residents at Conversion

### One-for-One Replacement
- Must convert all or substantially all units in covered project

### Family Self Sufficiency
- Current FSS participants continue in program

### Resident Participation & Funding
- PHA must recognize legitimate tenant organizations
- PHA must provide $25 per occupied unit annually for resident participation ($15 per occupied unit > legitimate tenant organization)

### Resident Procedural Rights
- Consistent with Section 6 of the 1937 Housing Act
- **Resident Relocation**
- Consistent with Uniform Relocation Act
RESULTS OF THE COMPETITIVE ROUND

• Initial Public Housing Awards
  • Total applications: 113
  • Total awarded public housing projects: 110
  • Total awarded PHAs: 68
  • Total awarded Public Housing Units: 11,910

• PHA Size*
  • 32% Small (<250 Units in Inventory)
  • 52% Medium (251-1,249 Units in Inventory)
  • 16% Large (1,250+ Units in Inventory)

• *Based on 68 awarded PHAs
RESULTS OF THE COMPETITIVE ROUND

- **Geographic Distribution:**
  - Received applications in all four geographic areas and all sizes of PHAs in those areas
  - Largest # of awards in the South: 63 awards for 7,645 Units

- **Capital Needs**
  - 22% New Construction
  - 78% Rehab
    - 24% proposed Greater than $50k in Rehab
    - 23% proposed $30K to $50K in Rehab
    - 21% proposed $10K to $30K in Rehab
    - 32% proposed Less than $10K in Rehab
RESULTS OF THE COMPETITIVE ROUND

- **Type of Section 8 subsidy (by project)**
  - 54% Project Based Vouchers (PBV)
  - 46% Project Based Rental Assistance (PBRA)

- **Type of Section 8 subsidy (by Unit)**
  - 44% Project Based Vouchers (PBV)
  - 56% Project Based Rental Assistance (PBRA)
$977 Million in Total Financing Sources

- $74 million PHA supplied (Operating; Replacement Housing Factor Funds, Cap Funds, etc.)
- $257 million 1st Mortgage
- $409 million in 4% and 9% LIHTC
- $237 million in second mortgages and soft financing: HOME, CDBG, AHP, etc.
NONPROFIT DEVELOPER OBJECTIVES

• Partner with PHAs to:
  • Modernize aging family & elderly properties
  • Substantial rehab of deteriorated properties
  • Demolish/replace severely distressed/obsolete properties
  • Thin densities/mix incomes via RAD HAPs and transfer authority

• Place RAD HAP contracts in off-site units in high amenity locations
  • Increase QAP scoring by serving more VLI families
  • New 20 year HAP contract funding
CHOOSING THE TYPE OF SECTION 8

**PBRA**
Provided to owners by HUD’s Office of Housing via a HAP (Part of HUD Multifamily)  
Projects monitored by PBCA’s  
No administrative fee to PHAs  
20 years  
Subject to annual appropriations, but strong history of full appropriations

**PBV**
Component of PHA’s Housing Choice Voucher Program in which the PHA attaches a voucher to specific units via a HAP (Part of HUD Public Housing)  
Voucher funding administered by PHA  
PHA can earn administrative fee  
15 years (up to 20 with approval of voucher agency)  
Subject to annual appropriations but with a history of appropriation reductions
CHOOSING THE TYPE OF SECTION 8

**PBRA**
- 20 year RAD Use Agreement
- Choice mobility option can be limited to 15% of the RAD project units and/or 33% of the PHA’s annual HCV turn-over
- Contract rent setting: Lower of current funding and 120% FMR minus utilities (higher with RCS)
- No direct Board approval requirement on-going
- No HUD social services requirement

**PBV**
- 20 year RAD Use Agreement
- Choice mobility option unlimited: if annual HCV turn-over is insufficient to meet CM, departing RAD residents go to top of HCV’s waiting list.
- Contract rent setting: Lower of current funding; reasonable rent; 110% FMR minus utilities
- Annual Board budget approval
- If PBV>50% social services mandatory in family projects
- Waiver of provisions regarding deconcentration of poverty
Quantifying Rehabilitation Needs

- For RAD application, use best available information on rehab needs, 5 year PNA, etc.
- Within 60 days of Commitment to enter into a Housing Assistance Payments Contract (“CHAP”), contract with a qualified Physical Conditions Assessment (“PCA”) contractor and file the completed PCA with HUD.
- PCA components:
  - Compares traditional and green rehab; (Forensic research for buildings > 30 yrs. Old
  - Energy audit
  - Integrated Pest Management (IPM) Inspection
  - RPCA guidance on Hud.gov/rad
  - Not required for demolition and new construction
Unlike Section 18 demo/dispo, no additional new Section 8 vouchers are available with RAD

Must be done in compliance with URA

RAD HAP contract funds at construction closing

Residents cannot be involuntarily permanently dislocated

The cost of temporary relocation
  - factored into the development budget
  - Partially offset by funding of Section 8 rents during construction
Threshold issues

- **Capital Fund Financing program (CFFP)**
  - Can be pre-paid, depending on loan terms
  - HUD will waive the 5% change restriction (but lenders can enforce)

- **EPC**
  - Typically smaller amounts
  - Shorter loan terms
  - Can be subordinated
Determining a PHA’s RAD Rent

- [www.hud.gov/rad](http://www.hud.gov/rad)

- “Resources”
  - PHA Conversion Guide
  - RAD Inventory Assessment Tool
    - Fill in PHA #
    - Populate
    - Fill in basic financing assumptions
    - Top rent in **BOLD** is RAD rent

- Feasibility with debt only

- Feasibility with 4% LIHTC & 9% LIHTC
## RAD Inventory Assessment Tool for PHAs

### Global Inputs (Affecting All Properties)

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Enter the following inputs, which will be applied to all projects in the PHA’s inventory. Each global input can be modified for individual projects on the Inventory Overview sheet.

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RAD FINANCING

Debt
• Conventional
• Soft secondary
• Credit enhancement

FHA Insurance
• FHA Mortgagee Letter for RAD transactions
• LIHTC Pilot

LIHTCs
• 4% availability & considerations
• 9% availability & considerations
Section 223(f)
- Refinance or acquisition
- Minor/moderate repairs ($6,500/unit * high cost factor)
- Permanent debt with repair escrow - up to 35 years

Section 221(d)(4)
- Substantial rehab: 2 major building systems
- Construction/permanent debt all in one - initial/final closing
- 40-year financing

Mortgagee Letter for RAD Transactions issued 10/12
- Eligibility, underwriting criteria, processing & materials
Streamlined-Enhanced FHA 223(f) & LIHTCs

- Rehab expenditures of up to $40,000/unit
- Tax credit or Bond Cap allocation in hand
- Processed in Multifamily Hubs
- Using MAP lenders approved for the Pilot
- Goal of 3-4 month turnaround on applications
RAD & LIHTCs

RAD Sweet Spot—Debt Only

• Abt study—$24k/unit average capital need

• Opex at $4,500 pupy + $300 replacement reserves

• FHA debt at 3.45%; 1.2 DCR

• Feasible with RAD rents above ~$610/month
RAD Sweet Spot—4% LIHTCs

- Rehab needs above $24k/unit to ~$40k/unit
- Ease of meeting 50% test with RAD rents
- Available P-A Volume Cap
- Non-competitive
- QAPs favoring preservation, green
- Evolving, accessible short-bond structure
- Historically low borrowing rates
Short Bond Structure for 4% LIHTCs

• At Closing
  – TE bonds with 24 month term issued (1.25%)
  – FHA 221(d)(4) or 223(f) closes

• During Construction
  – Construction draws: Standard GNMA certificates
  – Bonds paid down & paid off at construction completion
  – Reduces negative arbitrage costs

• Long Term
  – Project benefits from 40-year loan at FHA rate of 3.45%
RAD Sweet Spot—9% LIHTCs

- Targeted prospects for substantial rehab & replacement housing
- No Section 18 review
- Income mixing
- Split project (AMP)
  - 9% LIHTC used to help cover relo/demo/first phase
  - 4% LIHTC for balance of site
- RAD HAP contract(s) for off-site replacement
  - Acquisition/rehab
  - New construction
New Approach to Mixed-Finance

- Same LIHTC ownership structures
- Thorough PCA

Standard Mixed Finance

- Section 18 Demo/Dispo process
- 1-1 replacement goal, but not required
- Screen for re-entry
- Often large gap financing requirements

RAD & LIHTCs

- No Section 18 Demo/Dispo, but no relocation HCVs
- 1-1 replacement with de minimus changes,
- Right to return, no re-screening
- Choice Mobility
- Less gap financing needed with RAD rent structure
MANAGING OPERATING EXPENSES

- Lower, post-rehab
- Will have separate replacement reserves per project
- Compare to other local, nonprofit operated affordable housing
- Powerful impact on the ability to leverage
  - Compare RAD rents to revised opex: If opex are 60% or less of rents, significantly increases feasibility
- Retaining real estate tax PILOT arrangements
- Section 8 rent includes utilities; incentives to PHAs to reduce utilities by incorporating green measures
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<tr>
<th>Description</th>
<th>Current ACC</th>
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<td>Assume a 100 unit project, new const, $120K/unit</td>
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<td>Per unit per month</td>
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<td>Property Mgmt Fee</td>
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<td>Annual difference</td>
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<td>15 year difference</td>
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<td>Developer Fee (15% of $12M)</td>
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<td>Payment on PHA financing ($10k annually)</td>
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<td>$1,950,000.00</td>
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<td>Net unrestricted funds to the PHA over 15 years</td>
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Each development stands on its own
PHAs have the tools of other affordable housing developers
Property Managers can be empowered to manage their own operating budgets with their own replacement reserves
Significantly more private leverage
Properly structured projects generate unrestricted cash from cash flow, developer fees and loan payments
Funding is more predictable
RAD units:
  • Require no Annual Plan
  • Are not in PIC
  • Staff follow one set of requirements – either PBV or PBRA
  • Site based waiting lists
THE APPLICATION

- Simple, start with basic pro forma [www.hud.gov/rad]
- Application
  - Two resident meetings
  - Board meeting and approval
  - Financing letters
    - Lender
    - Investor
  - If 9% credit, letter from HFA or self-scoring
- Choice Mobility: Letter for PBRA; ability to administer for PBV
  - If converting a project that is currently mixed-finance, need signatures of all parties
  - Fix “Fatal Error” issues
- CHAP Award
CLOSING PROCESS

• Post CHAP
  • DAY 1: CHAP Issued; Transaction Manager assigned
  • DAY 30: Information on Development Team
  • (“One Round” allowance for LIHTC; schedule subject to oversight by TM)
  • DAY 60: Firm Financing Letters
  • DAY 180: Submit Financing Plan
  • DAY 360: Closing and Conversion; Section 8 begins to fund

Post Conversion
  • Temporary Relocation (if necessary)
  • Demolition (as necessary; no Section 18 approval required)
  • Rehabilitation or New Construction
  • Re-occupancy
Welcome to the Rental Assistance Demonstration Capital Marketplace (RAD Capital Marketplace). The site is designed to encourage contact and information sharing among housing authorities (PHAs) and multifamily owners considering a RAD conversion and the lenders, investors, development partners, financial intermediaries, professional financing advisors, consultants, that offer services and products that PHAs and owners may wish to use in preparing their application and/or financing plan.

The site has been developed collaboratively by National Equity Fund, Inc. (NEF), Council for Large Public Housing Agencies (CLPHA) and Enterprise Community Investment, Inc. One of the goals of RAD (Notice PIH-2012-32) is to demonstrate how the conversion of current assistance to long-term project-based Section 8 rental assistance contracts can generate access to private debt and equity to address immediate and long-term capital needs of the public housing stock and Rent Supp, RAP and Section 8 Mod Rehab multifamily housing at risk from being lost from the affordable stock. The Initial Application Period for the limited, competitive component of RAD for public housing and Mod Rehab properties opens on September 24, 2012 and closes October 24, 2012. Owners of eligible Rent Supp, RAP and Mod Rehab properties may submit conversion requests for Section 8 Project Based Vouchers only on a rolling basis. Program rules and application instructions are outlined in the Notice, which can be found on the RAD webpage: www.hud.gov/rad

If you would like to post your information please choose the type of Entity that you are:

- PHA/Owner
- Lender
- Investor/Syndicator
- Consultant/TA
- Developer/Co-Developer

Search

Search by company type:  
Search by State:  

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RAD Notice, application materials, and additional resources can be found at

www.hud.gov/rad

Email questions to radresource.net