



OFFICE OF HOUSING

# Smart Strategies for Converting Your Portfolio

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June 13, 2023

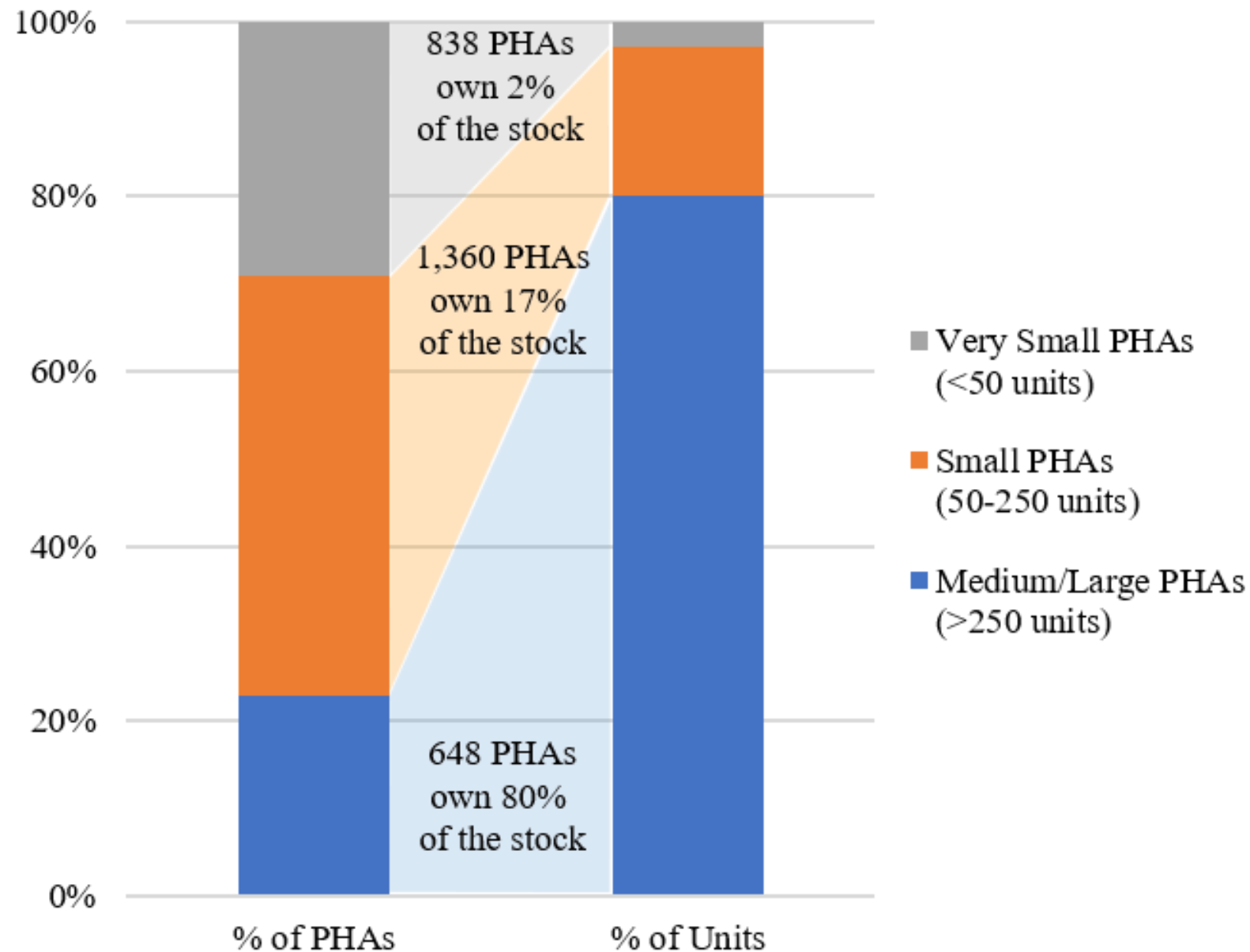


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# The Public Housing Portfolio and Its Preservation and Redevelopment Tools

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# Portfolio Distribution and Capital Needs



In 2010, the capital needs of the public housing portfolio was estimated to be \$26 billion

But what is it now???

\$50 billion?

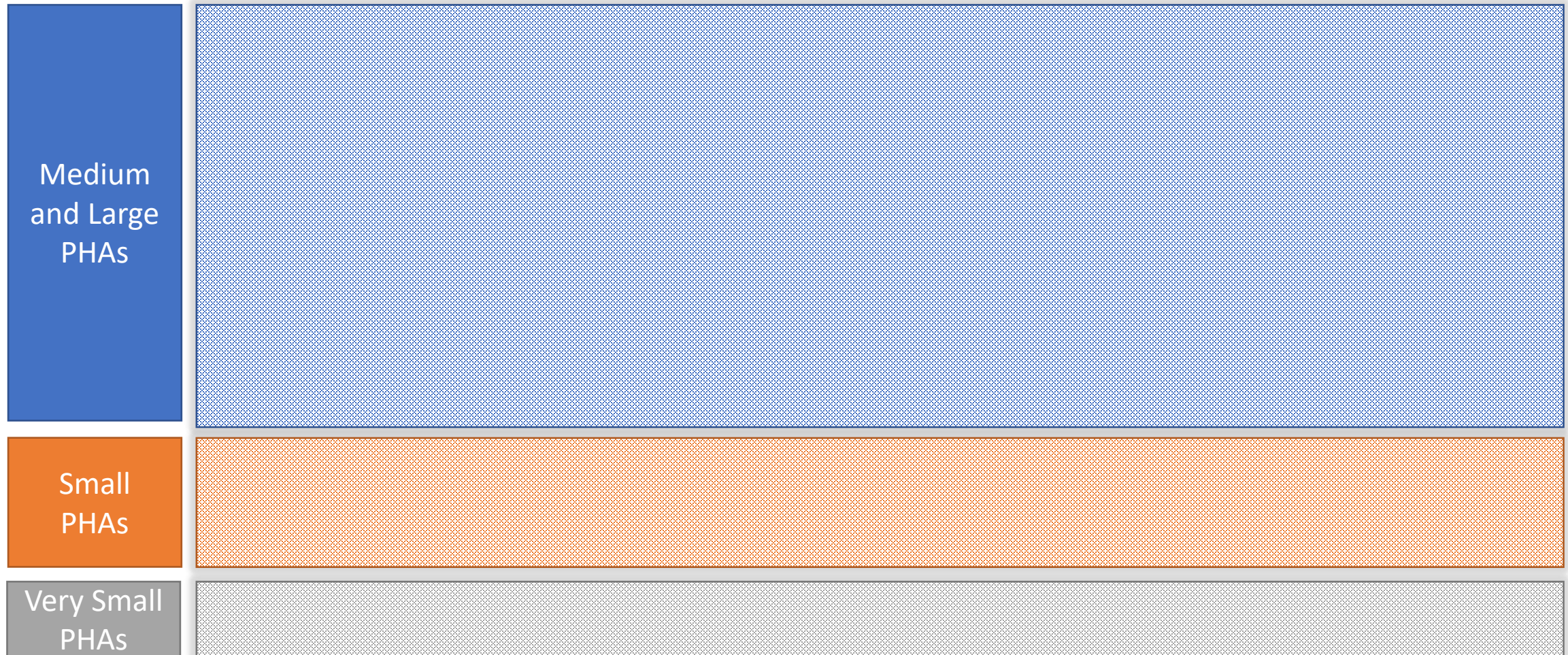
\$75 billion?

\$100 billion?

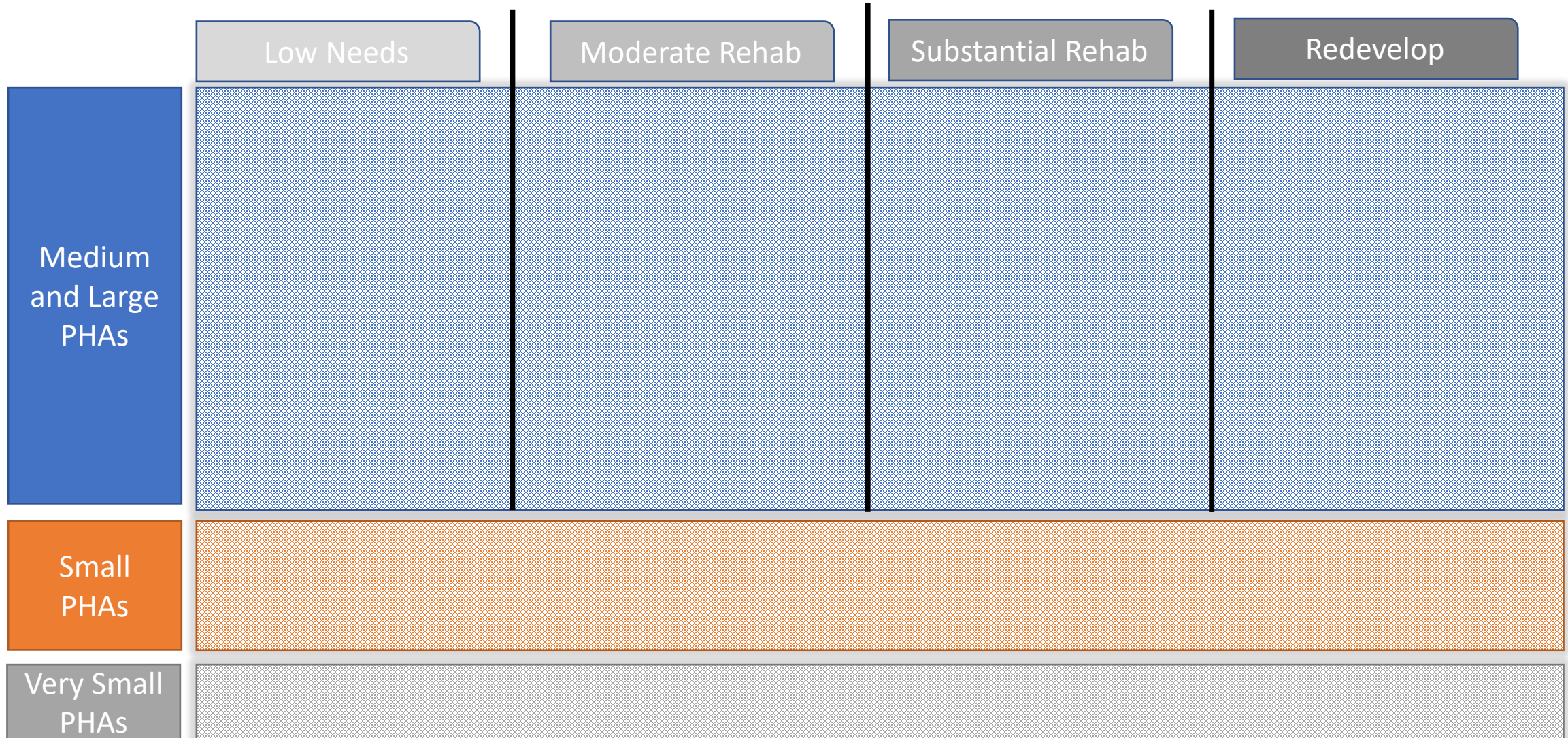
### Fun Fact!

If the remaining public housing stock achieved similar success as the 170,000 units that have converted to-date, the portfolio could raise \$71 billion towards rehab/construction

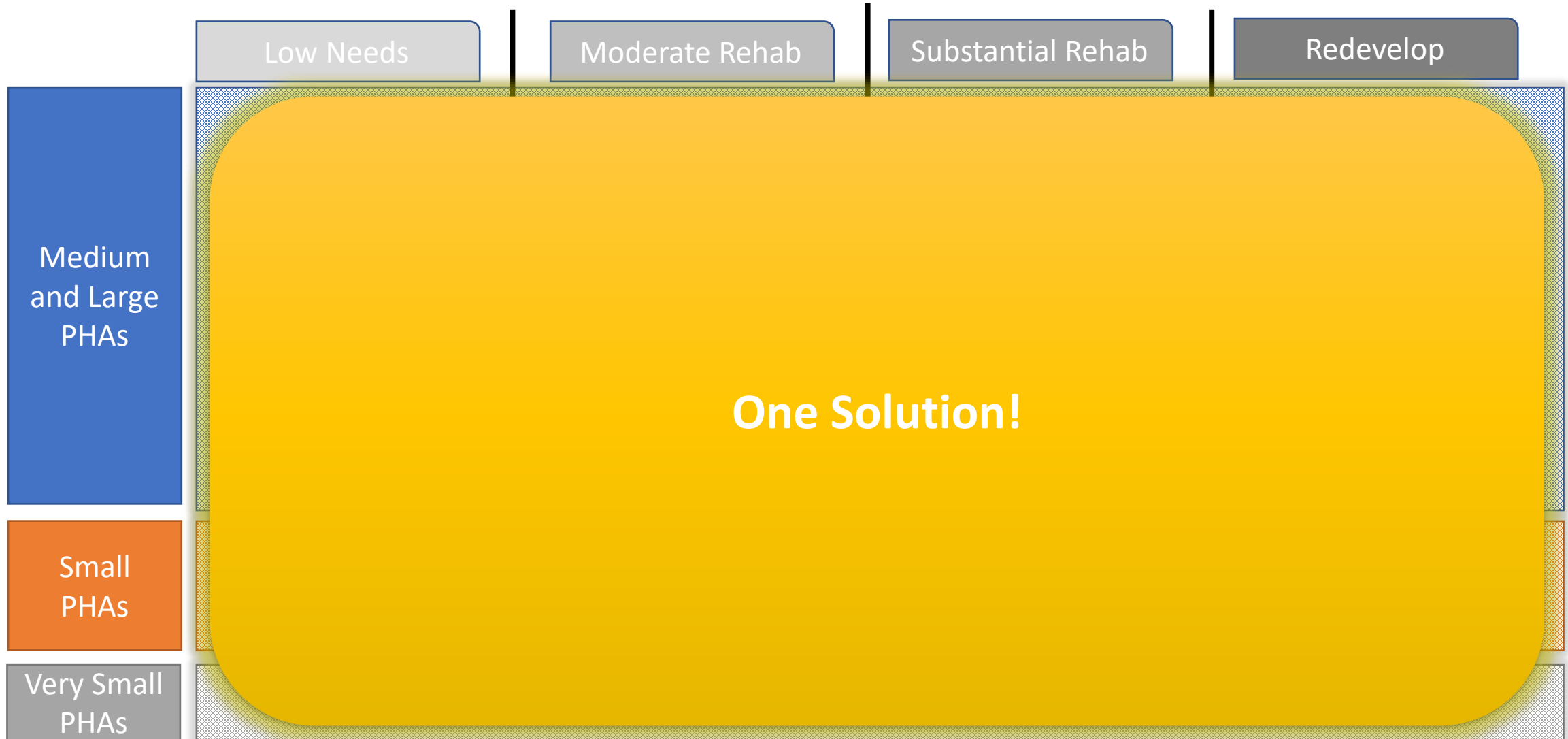
# The Public Housing Portfolio



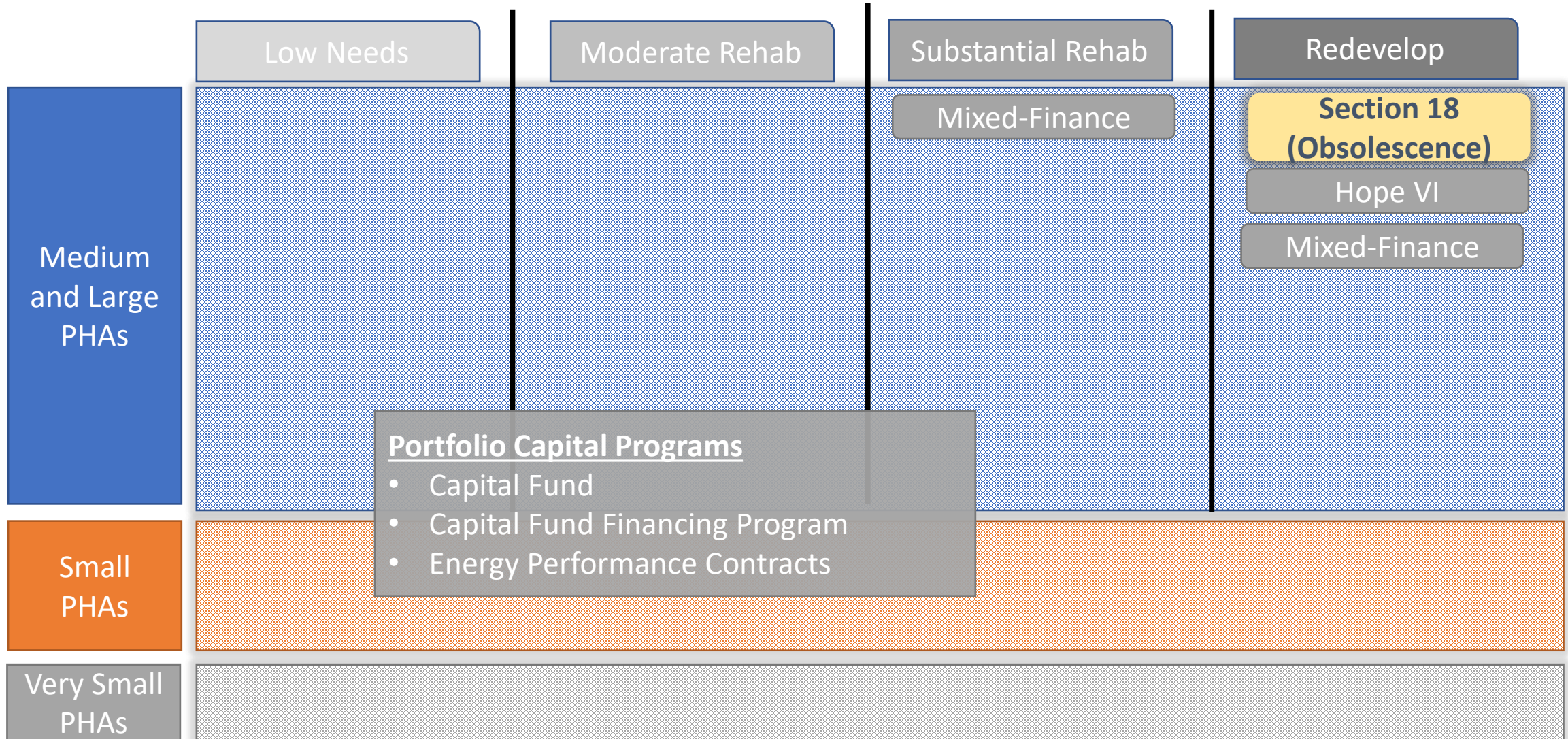
# The Public Housing Portfolio



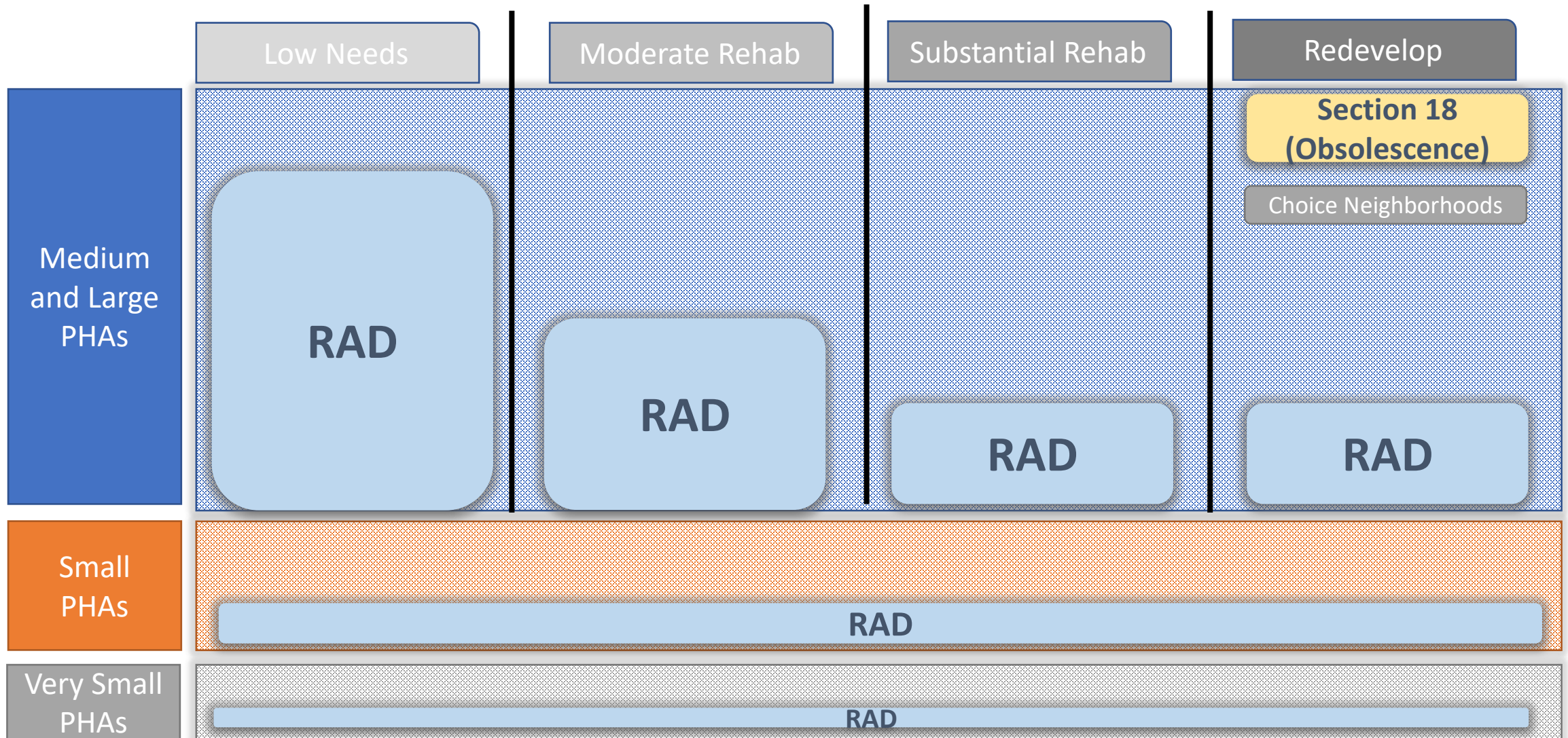
# Preservation and Redevelopment Tools: *The Dream*



# Preservation and Redevelopment Tools: *Pre-2012*

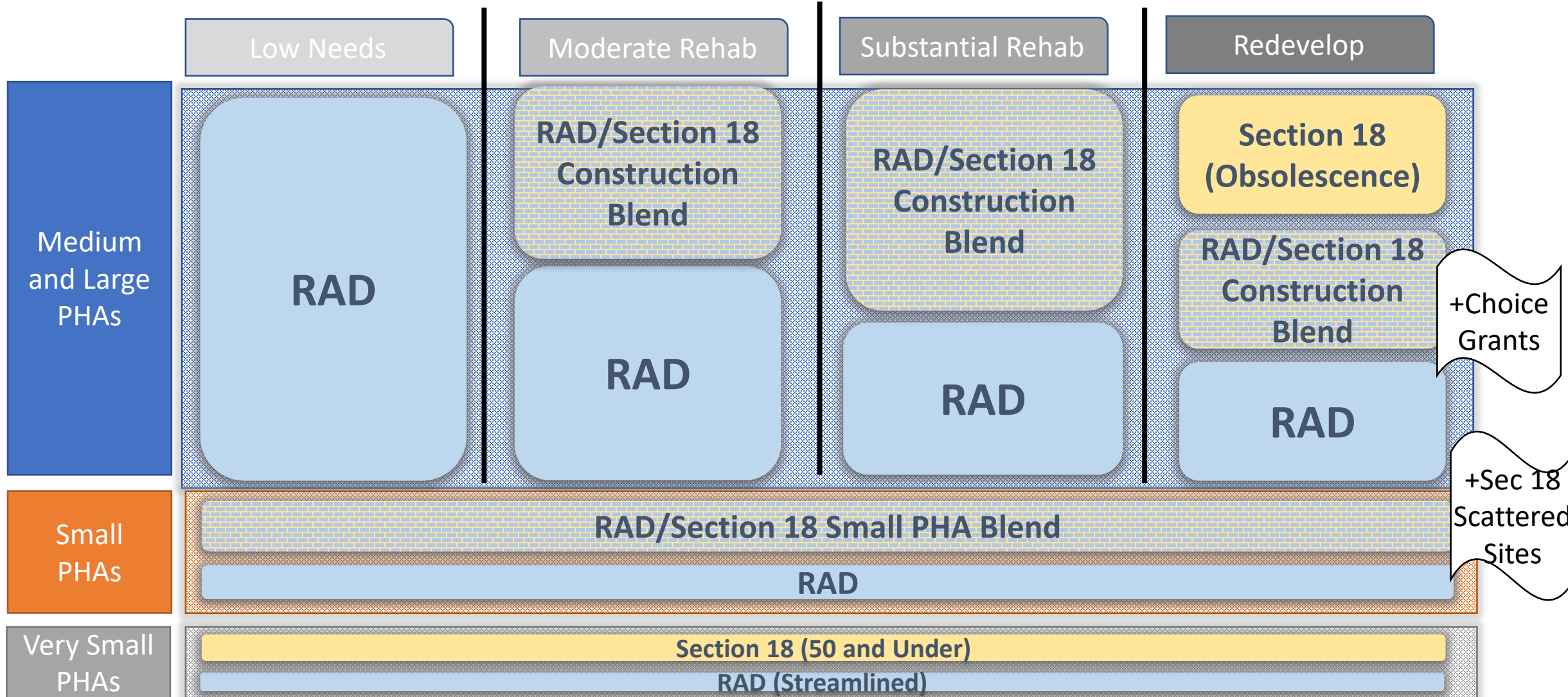


# Preservation and Redevelopment Tools: *2012 - Congress Authorizes RAD*





# Preservation and Redevelopment Tools: *Now: RAD +*





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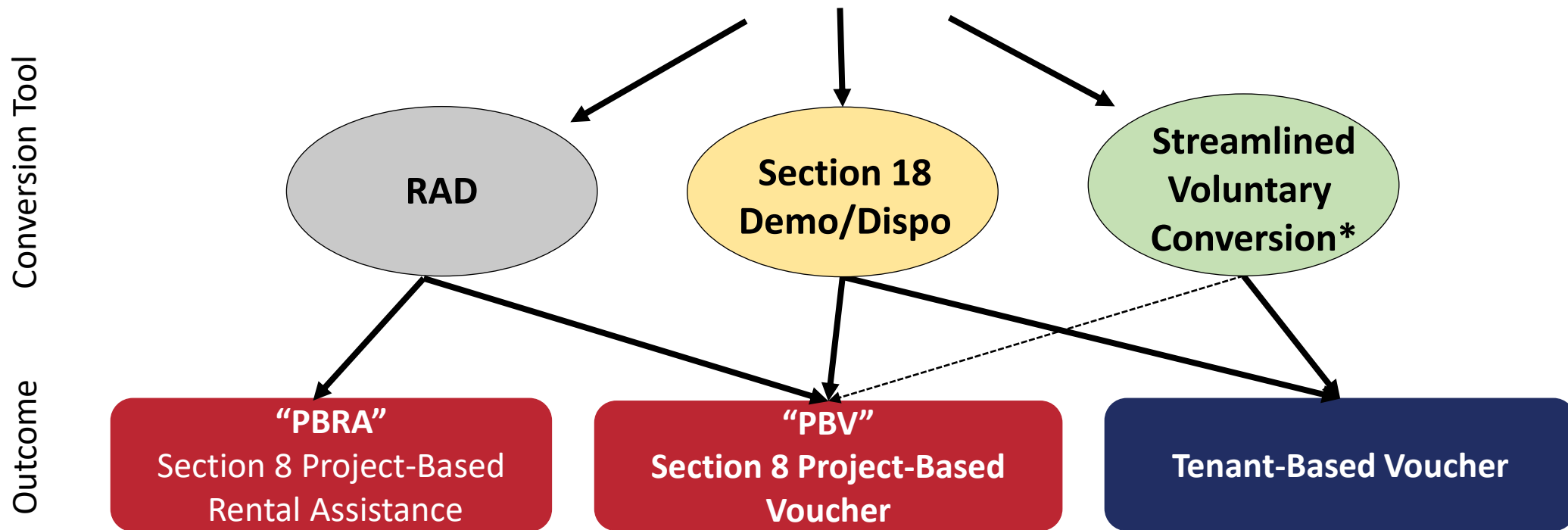
# Quick Review of the Repositioning Tools

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# Public Housing Repositioning Options



Public Housing Property



\* 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 Contract Rents

- Initial RAD Contract Rents for properties proposed for conversion are re-set every two years. We are currently using **FY 22 RAD Rents**, which reflect all-time high Capital Fund + Operating Fund levels.
- Once a PHA applies to RAD for a property or a portfolio award they “lock-in” the RAD rent base year and the rent is adjusted each year before conversion by HUD’s published Operating Cost Adjustment Factor (OCAF)

	PUM		
Operating Fund	\$442		
Capital Fund	\$268		
Tenant Rent	\$302		
<b>RAD Rent</b>	<b>\$1,013</b>	<b>X 2023 OCAF</b>	<b>\$1,078</b>

# Pop Quiz

***Using the FY 22 RAD Rents, what is the national average RAD Contract Rent?***

\$762

\$888

\$1,013

***What % of public housing has RAD Rents over 100% of FMR?***

3%

13%

29%

***What % of public housing has RAD Rents over 90% of FMR***

6%

22%

44%

# Pop Quiz

**Using the FY 22 RAD Rents, what is the national average RAD Contract Rent?**

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22%

**44%**

## **Fun Fact!**

With RAD alone, we estimate that the portfolio could raise +\$45 billion in first mortgage debt

# Key Decisions

*For a PHA that is trying to shift to the Section 8 Platform:*

- When is RAD likely your best option?
  - ✓ The RAD rents are strong relative to FMRs, or
  - ✓ You ultimately want a PBRA contract, or
  - ✓ The PHA has substantial public housing reserves, or
  - ✓ The property doesn't qualify for any other repositioning tool.
  
- When should you consider other repositioning tools?
  - ✓ You want to preserve or re-develop the property and the RAD Rents are low relative to FMRs or
  - ✓ You are trying to “voucher-out” and eliminate/reduce project-based assistance

# Section 18 Disposition and Demolition

- “Section 18” refers to the authority under which PHAs can demolish or dispose of (sell) public housing property. See PIH Notice 2021-07
- ***Not all properties qualify*** – a property must meet eligibility criteria
- Following Section 18 approval, the PHA is eligible for new “***Tenant Protection Voucher***” (TPVs) funding
- The PHA can project-base the TPVs (“***Project-Based Vouchers***”)



# What Properties Qualify for Section 18?

## Most Common

- Physical obsolescence
- Scattered-site
- PHAs with 50 public housing units or less
- RAD & Section 18 Blends

## Less Common

- |  |   |
|--|---|
| <ul style="list-style-type: none"><li>• Surrounding Area<ul style="list-style-type: none"><li>• Health and safety</li><li>• Infeasible operation</li></ul></li><li>• Non-dwelling property</li></ul> | <ul style="list-style-type: none"><li>• “More efficient/effective”</li><li>• De Minimis (Demolition only)</li></ul> |
|--|---|

# What happens to the asset after Section 18 approval?

## Options

- 1. Preserve or redevelop** the asset
  - Project-Based Vouchers (PBVs)
  - Rehab with other financing (e.g., debt or LIHTC)
- 2. Sell the asset** at fair market value
  - Give residents tenant-based vouchers
  - Generate proceeds to facilitate other affordable housing development



*In Minneapolis, the PHA disposed of 717 scattered site units and placed the PBVs on the same units.*

# RAD & Section 18 Blends

PHAs can use RAD and Section 18 together!

**Construction Blends:** Units qualify for Section 18 based on project scope of work; more work → more Section 18 & PBVs

**Small PHA Blend:** 80% of each project's units qualify for Section 18 because the PHA has 250 PH units or less



## Benefits

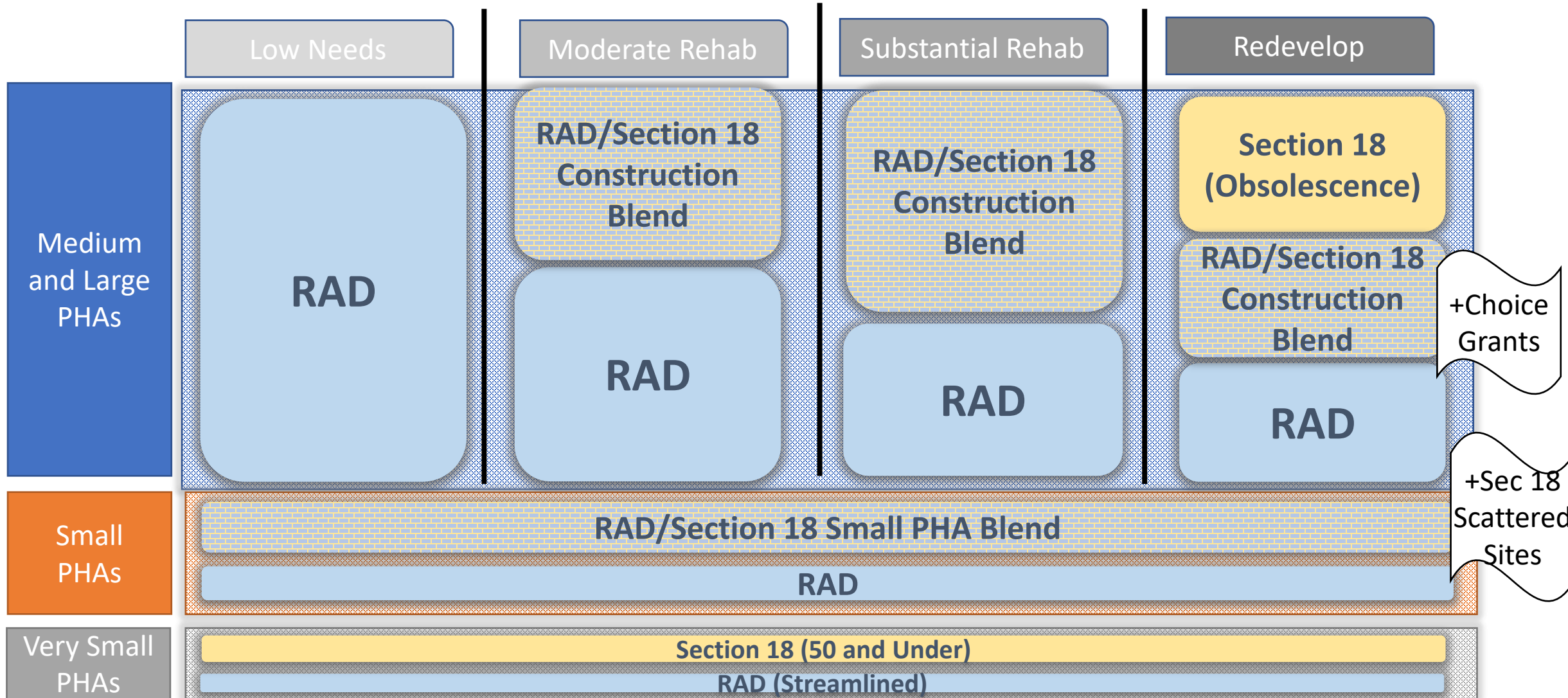
- Higher contract rents support greater financing
- Robust resident rights
- RAD one-for-one replacement reqs apply (w/ de minimis)
- Public housing funds can be used in project conversion
- HUD underwriting of entire project to ensure project viability

# Streamlined Voluntary Conversion

- **Under Streamlined\* Voluntary Conversion (SVC)** a PHA replaces its public housing assistance with new Tenant Protection Vouchers
- 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

\*Section 22 (Voluntary Conversion) authorizes conversion to vouchers with demonstration that it costs less to operate the property with vouchers than under public housing. Under “Streamlined Voluntary Conversion” HUD waived the cost test for PHAs with 250 units or less

# Preservation and Redevelopment Tools: *Now: RAD +*





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# Discussion

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# Construction Investment

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# Pop Quiz

How many units have been replaced with newly constructed units through RAD?

- A. 800
- B. 2,500
- C. 8,000
- D. 14,500

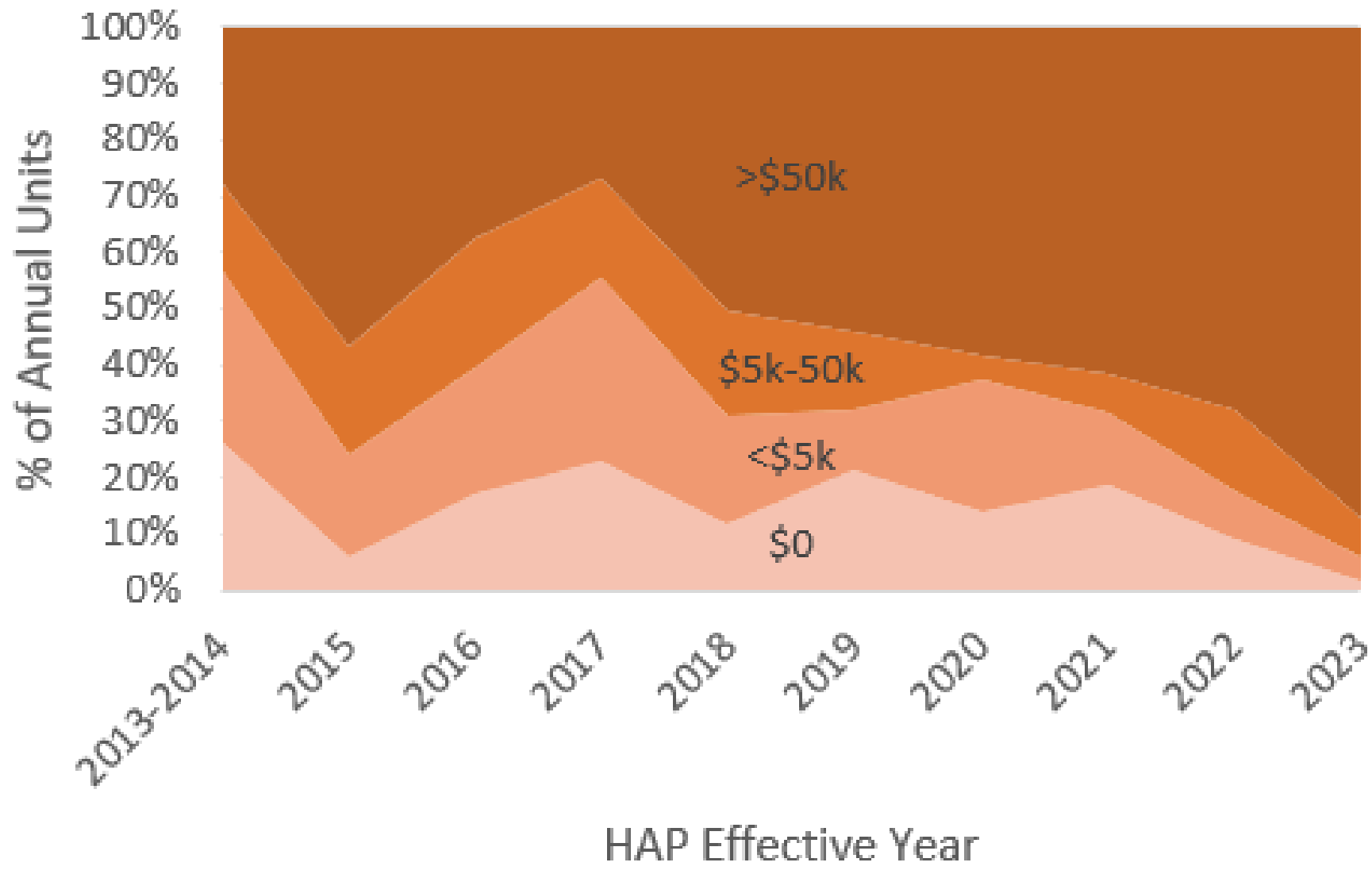


# Pop Quiz

How many units have been replaced with newly constructed units through RAD?

- A. 800
- B. 2,500
- C. 8,000
- D. 14,500**

# Annual Construction/Rehab Cost Per Unit





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# Forthcoming Policy

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# FY 24 President's Budget

- *Eliminate September 30, 2024 application submission date*
- Increase RAD Cap of 455,000 public housing units
- *Treat Section 18 units included in RAD/Section 18 blend as part of the RAD conversion*
- Direct Support for Small PHAs/owners
- RAD Supplemental Funding
- *Tenant Protection Vouchers*
- Maintain full access to supportive service funding (Jobs Plus, ROSS)