

## Public Housing Comes Out Of Its Shell

When Rental Assistance Demonstration (RAD) was launched eight years ago, the public housing world was encased in its own hard shell: HUD officials speaking at NAHRO or CLPHA conferences to explain and cheerlead for the program were greeted with skepticism and suspicion only a skosh short of hostility. Though I was the rarity who thought the program would be a great escape hatch for some public housing properties<sup>1</sup>, neither I nor anyone else foresaw what RAD would become—the program that would crack the public housing carapace—from the inside.

Today, RAD hasn't merely revitalized hundreds of public housing properties; it hasn't even merely reshaped public housing authorities' inventory. RAD today is fundamentally remaking the public housing ecosystem by enabling housing authorities to evolve themselves into a wholly new species, the Essential Housing Authority, one the country urgently needs.

What's remarkable, if not more so, is that this rapid evolution of housing authorities now happening symbiotically with stimulus, encouragement and feedback responses from HUD itself, via the successive RAD Revisions (now up to Revision 4) and most recently the Administration's Fiscal Year 2021 budget and legislative proposals.

The impact on properties and public housing practices has already been enormous. RAD swiftly blew through its originally authorized 60,000-apartment cap, which was then lifted to 185,000, then 225,000 and is now at 455,000, which when achieved (it's no longer an *if*, but a *when*) will represent 40 percent of the whole public housing inventory. Properties closed total over 100,000 apartments converted to Section 8 (Tenant Protection Vouchers, Project-Based Vouchers and Project-Based Rental Assistance, which the Administration is proposing to allow to be combined) and have tapped over \$12.6 billion of non-federal funding. The 295-plus housing authorities doing RAD transactions, including virtually all of the nation's largest or its most innovative ones, have adapted quickly to the privatized capital environment. They have made active use of all the tools the rest of the affordable housing ecosystem has developed, including Low Income Housing Tax Credit equity, 38.6 percent of the funding; seller (housing authority) take-back financing, 19.2 percent; commercial non-FHA loans (likely tax-exempt bonds or Fannie/Freddie), 11.2 percent;

state and local funding, 6.3 percent; plus public housing agency (PHA) operating subsidy and capital funds, deferred development fees and another eight resource types. RAD housing authorities (HAs) are transacting like developers, acting like developers and thinking like developers.

Equally compelling is the change in HUD's mindset. HUD has been a hothouse for seedling HA developers, encouraging them to grow in their own ways with a nutrient mix of education, deregulation and devolution. In Revision 4, HUD has opened an intra-housing-authority swap meet in existing public housing resources by providing "increased flexibility for PHAs to partner and find mutually beneficial exchanges of resources and/or capacity to broaden the viability of public housing conversions." As Tom Davis, HUD's director of the Office of Recapitalization, put it, "While any resource is of value, and all of these transactions need more resources, agencies may differentially value what they have relative to what they need and can now trade with others to maximize the utility of what they have."

Among these resources, and to me one of the most exciting, is "transfer of available land under the Deed of Trust." Think infill development, for income mixing, revenue generation or diversity of use (e.g. grocery stores); think healthcare or educational service centers located within the footprint of a housing authority campus. In short, with Revision 4, RAD has boiled HUD's imperatives down to a simple three-part essence: *Be budget-neutral, sustain affordability and protect the residents; for everything else, go to town.*

The new species emerging out of the encrusted shell of legacy PHAs is the Essential Housing Authority. Such an entity, which I presaged in a 2007 article for NAHRO's *Journal of Housing and Community Development*, acts like a locally based nonprofit affordable housing development and ownership company, which can partner with for-profit entities for new development or redevelopment; can contract with or subcontract to them; and can pool, manage and shift its resources internally to maximum

<sup>1</sup> As a panelist recruited to NAHRO gatherings by HUD, I was astonished at how tough a sell it was. Even though I'd spent six years introducing myself to the public housing community, I was still perceived as an arriviste and potential carpetbagger, my presentations or conversations often greeted with defensive statements that external insight was irrelevant because public housing was *different*.

impact. Today, there are over 100 Essential Housing Authorities that have converted all their legacy public housing units into something else.

These new post-RAD Essential Housing Authorities are easily spotted. They're reaching into mixed-income properties, broadening their business lines, hiring in new staff from the affordable housing sector, and in some ways the most revealing of all, rebranding themselves with new forward-looking names. Most remarkably of all, within the tax credit and affordable housing world, emerging Essential Housing Authorities and their partners are where the action is.

Never in my four-and-a-half decades in this business has a program that started from such modest beginnings (no fiscal resources, minimal visibility, no stakeholder groundswell of support) grown so quickly, to the point where the changes it has made both in the inventory and in the public housing ecosystem have reached their tipping point.

In 2012, when RAD launched, I published HUD's *RAD-ical reinvention*, which concluded with three predictions:

1. RAD will provide pilot properties that will allow HAs and their advisors to showcase how creativity can serve the ongoing mission of affordable housing;
2. RAD will generate innovative transactions and change the capital markets' perception of public housing, increasing capital availability and improving capital terms; and
3. RAD should provide valuable input that will enable Congress and the Department to expand RAD from a small demonstration into a program that will transform and reinvigorate public housing throughout America.

Check, check and check. **TCA**

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