Public Housing Repositioning Case Study

RAD/SECTION 18 BLEND

Sooner Haven Apartments, Oklahoma City, OK

This case study illustrates one repositioning option from public housing to a Section 8 funding platform.

Property Name	Sooner Haven Apartments
Units	150
Age Restriction	None: Family Property
Local PHA	Oklahoma City Housing Authority
Repositioning Option	RAD/Section 18 Blend
Does PHA administer HCVs?	Yes
Proposed Rehab	Substantial: $93,925/unit

Sooner Haven Apartments 2018 Rents After Conversion				
Units	Bed	RAD Rent	Sec 18 TPV Rent	Annual Rents
16	1	$448		$86,016
60	2	$571		$411,120
21	3	$769		$193,788
37	3		$1,025	$455,100
16	4	$929		$178,368
150		**Annual Income:**		**$1,324,392**

PROPERTY DESCRIPTION & BACKGROUND

Sooner Haven Apartments is a 150-unit garden style property in Northeast Oklahoma City. Built in 1970, it received modest capital investments but now needs extensive improvements. The property did not qualify under the Section 18 obsolescence test. Consequently, the Oklahoma City Housing Authority (OCHA) sought to convert its public housing assistance to Section 8 under RAD. The agency tried to recapitalize the property by combining RAD with 4% Low Income Housing Tax Credits (LIHTC), but the subsidies/revenues were not enough to make this option feasible. A RAD/Section 18 blend requires a project to undertake substantial rehabilitation, which is what Sooner Haven needed. This repositioning option allows 25% of RAD project units to qualify for the Tenant Protection Vouchers (TPVs) associated with Section 18 approvals.

OCHA elected to replace 37 RAD 3-bedroom units (25% of the total project units) with 37 Section 18 TPVs. Converting these TPVs to project-based vouchers (PBVs) resulted in an increase in rental income of $113,644 annually enabling OCHA to meet the project's rehabilitation financing needs. This rental income increase allowed the PHA to support a larger first mortgage ($93,925/unit in construction costs) and an annual replacement reserve of $450 per unit per year. The following chart summarizes costs and revenues:

Pro Forma	Annual	Per Unit Monthly
Potential Rent Income	$1,354,392	$752.44
Misc. Income (Laundry, etc.)	$30,000	$16.67
5% Vacancy	$(67,720)	$(37.62)
Annual Expenses	$(658,728)	$(365.96)
Net Operating Income	**$627,945**	**$348.86**
Debt Service	$(546,307)	$(303.50)
Cash Flow	$81,638	$45.35
Debt Service Coverage	*1.15*	

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REPOSITIONING PROCESS

OCHA started this process by submitting a RAD Application for the property (including both RAD and Section 18 units) through the RAD Resource Desk. The RAD application required OCHA to host two resident meetings and secure Board approval. After receiving RAD approval, OCHA worked with their HUD-assigned RAD Transaction Manager and the HUD Special Application Center (SAC) staff to process the Section 18 units through a PIC Removal application.

DEVELOPMENT BUDGET

The two main sources of financing were a HUD-insured FHA loan and 4% LIHTC equity. OCHA also sold the property (not the land) to a partnership and then offered seller take-back financing in the same amount. The FHA loan is for $8,991,000 at 5.05% interest.

Sources	Total	Per Unit
HUD-Insured Mortgage: 221(d)(4)	$ 8,991,000	$ 59,940
PH Operating Reserves	$ 1,879,369	$ 12,529
PH Prior Year Capital Funds (Capital Fund Loan)	$ 117,000	$ 780
PH Replacement Housing Factor Funds	$ 197,136	$ 1,314
4% LIHTC Equity	$ 7,951,082	$ 53,007
Seller's Note (Take Back Financing)	$ 5,400,000	$ 36,000
Construction Period Income	$ 550,000	$ 3,667
Bond Interest Income	$ 323,000	$ 2,153
Deferred Developer Fee	$ 150,000	$ 1,000
TOTAL	**$ 25,558,587**	**$ 170,391**
Uses	**Total**	**Per Unit**
Acquisition	$ 5,400,000	$ 36,000
Construction Costs & Contingency	$ 15,497,686	$ 103,318
LIHTC, Loan & Construction Fees	$ 2,355,150	$ 15,701
Developer Fee	$ 1,250,000	$ 8,333
Relocation & Reserves	$ 1,055,751	$ 7,038
TOTAL	**$ 25,558,587**	**$ 170,391**

CONCLUSION

Sooner Haven Apartments was the first **RAD/Section 18 blend** property in the nation. Under the RAD/Section 18 blend, up to 25% of units in a RAD transaction can receive Tenant Protection Vouchers, in this case the 37 3-bedroom units.

The Sooner Haven Apartments needed more capital investments than could have been accomplished with Public Housing funding through a traditional RAD conversion. The increased cashflow due to the TPVs that were project-based at the property now allows the owner to adequately cover physical needs and more flexibly manage the property going forward.