RENTAL ASSISTANCE DEMONSTRATION

RAD Spotlight on Franklin, Virginia

U.S. Department of Housing and Urban Development

RAD Spotlight on Franklin, Virginia: Full Conversion of a Small Portfolio

The Franklin Redevelopment and Housing Authority is a small public housing agency located in Franklin, Virginia, about three hours south of Washington, DC. The FRHA's public housing portfolio is composed of 150 total units, all in need of significant repairs and upgrades. According to the FRHA's Executive Director Philip Page, Jr., the housing authority's public housing stock was at a "tipping point." The FRHA had two options, either continue using capital funds for a few more years to maintain the properties at their current state, or completely renovate the portfolio, giving the units another lease on life.

In 2013, the FRHA was receiving $196,000 per year in capital funding for all of their public housing units, an amount that was insufficient to address its $7 million dollar capital needs backlog. The housing authority knew that continued reliance on capital funds would not afford them the ability to deliver quality affordable housing to its residents. However, in June 2013, the FRHA was awarded 9% low-income housing tax credits (LIHTC) by the state, which provided a springboard for rehabilitation.

With the LIHTCs in hand, the FRHA needed a tool that would enable them to effectively leverage the tax credit equity to make much needed repairs to their portfolio of public housing units. The Rental Assistance Demonstration (RAD) provided a path forward. RAD allowed the FRHA to use both tax credit equity, as well as conventional financing and debt, to generate enough capital to place their entire public housing portfolio on a stable funding platform. Converting under RAD enabled the FRHA to address its backlog of capital needs, thereby providing their residents with long-term stability, affordability, and high quality housing.

The State of FRHA's Portfolio

The FRHA's public housing portfolio is composed of three properties— Berkley Court Apartments, Pretlow Gardens, and Old Town Terrace—totaling 150 units. With the oldest development built over forty years ago, the FRHA found itself needing to conduct repairs and provide improvements of upwards of $47,275 per unit, an amount that far exceeded the $196,000 it received in capital funds.

WHAT IS RAD?

The Rental Assistance Demonstration (RAD) allows public housing agencies (PHAs) and owners of HUD-assisted properties to convert units to project-based Section 8 programs, providing an opportunity to invest billions into properties at risk of being lost from the nation's affordable housing inventory. The "first component" of the program allows properties funded under the Public Housing and Section 8 Mod Rehab programs to convert their assistance to long-term, project-based Section 8 contracts. The "second component" of RAD allows owners of projects funded under HUD's legacy programs (Rental Supplement, Rental Assistance Payment, and Moderate Rehabilitation) to convert units to Section 8 project-based vouchers.

The 1.2 million units in the Public Housing program have a documented capital needs backlog of nearly $26 billion. As a result, the public housing inventory has been losing an average of 10,000 units annually through demolitions and dispositions. Meanwhile, the 38,000 units assisted under HUD's legacy programs are ineligible to renew their contracts on terms that favor modernization and long-term preservation. The current conditions of many of these properties inhibit investment and recapitalization efforts in the communities with the most need. By drawing on an established industry of lenders, owners, and stakeholders, RAD allows PHAs and owners of HUD-assisted housing to preserve and improve affordable housing units that could be subject to vouchers and demolition. RAD creates greater funding certainty while allowing increased operational flexibility to empower PHAs and owners to serve their communities.

As of December 10, 2014, 110 RAD applications have closed, covering 11,433 units and representing over $500 million in new investment. PHAs have submitted over 1,000 applications covering more than 185,000 units. RAD's initial statutory authority set a cap of 60,000 units of public housing and Mod Rehab housing that could seek to convert under RAD's first component. PHA demand exceeds RAD's current authority and HUD has requested that Congress lift the cap on eligible units to allow more PHAs to participate in the program.

Due to the age of the properties and the growing unmet needs of the residents served, the FRHA's communities were in desperate need of immediate repairs, as well as a path to addressing long-term capital needs in the future. RAD affords public housing authorities (PHAs), like the FRHA, with the ability to utilize a variety of financial resources to facilitate renovations and, in some circumstances, new construction. Additionally, RAD provides PHAs with the ability to create a pool of funding to draw from for future capital needs.

Renovation Plan

Converting an entire portfolio requires close attention to the relocation needs of the residents and the requirements set out in the RAD Relocation Notice. The FRHA's planned renovations for each property require that no more than three to five buildings are renovated at a time, ensuring adequate vacancies throughout the renovation process. This will require temporary relocation for up to ten families at a time. The FRHA will move the tenants temporarily into vacant units in other developments owned by the authority, or cover temporary hotel expenses if other units are not available. When the units are completed, the FRHA will move those tenants back into their prior residences and begin the process over with the next ten tenants. It is anticipated that it will take three to four weeks for each grouping of units, and all of the residents will be back in permanent, renovated homes within seven to nine months. For each transaction, the development budget includes a provision for relocation expenses (estimated at $50,000 for each transaction). This will be used to cover temporary moving expenses, storage expenses and hotel expenses if necessary.

Financing Overview

The rehabilitation will provide for $51,060 per unit in construction costs. Debt, equity, grants and soft loans, along with $526,000 in public housing capital funds combined provide $68,580 per unit in sources, covering the hard and soft costs of the transactions. This transaction leverages FRHA's capital fund contribution to raise over $9.7 million in other sources, a ratio of $18.55 for every $1 in capital funding. In addition to initial repair funds, the FRHA is also able to contribute $45,000 per year, or $300 per unit per year, to an annual contribution to replacement reserve which will allow the housing authority to make needed capital repairs in the future.

A small PHA and a complex transaction

For smaller housing authorities like FRHA, pulling off a successful portfolio conversion requires collaboration between the housing authority staff and the development team, as well as a commitment by all involved to preserve long-term affordable housing. The FHRA's development team helped the agency navigate the complexity of redeveloping its entire public housing portfolio. The FRHA's Executive Director, Philip Page, was formerly the Director of Development for a mid-sized PHA, but the team also included many sophisticated and experienced small firms that acted as an extension of the housing authority. FRHA worked with an architect on design and construction issues, a development consultant for financing and grant applications, and a local attorney with experience in tax credit and mixed-finance transactions.

Converting the entire portfolio of public housing units through RAD was the FRHA's plan from the start. For Page and the FRHA, RAD presented itself as a life line to the authority's public housing units. The FRHA's ability to bring together an experienced development team committed to preserving affordable housing combined with designing comprehensive relocation and financing plans led the way to a successful RAD conversion.

"The prime reason we chose to convert our housing using RAD was that it gave us the ability to reposition ourselves, and our housing stock, for the future. The numbers had to work, and they did, but the biggest benefit was being able to reposition away from the perceptions of dilapidated public housing into modern, high quality housing that just happens to be affordable."

- Philip Page, Jr., Executive Director