



# RENTAL ASSISTANCE DEMONSTRATION

RAD Spotlight on Southern Nevada Regional Housing Authority

U.S. Department of Housing and Urban Development

## RAD Spotlight on Southern Nevada Regional Housing Authority: Navigating the RAD Process

Southern Nevada Regional Housing Authority's (SNRHA's) AI Landsman Gardens development consists of 100 units of family housing in Henderson, Nevada developed in 1971. The property is located in a neighborhood where residents have access to on-site services including a community learning center, a subsidized childcare center, and a Women, Infants, and Children (WIC) nutrition program. Including Landsman Gardens, the SNRHA manages 20 public housing developments equaling 2,882 units that are home to over 7,600 residents.

In 2012, dangerous levels of mold and the presence of asbestos and lead-based paint forced SNRHA to vacate the property while the agency searched for a way to cover remediation costs. Every option proved infeasible, and the housing authority began to consider



demolition of the property, meaning the loss of high demand affordable housing units in the City of Henderson. Initially, the SNRHA was unsure whether the RAD program would be the best option for rehabilitating Landsman Gardens. However, after participating in several instructional webinars about the RAD program and its processes, the SNRHA was confident that RAD provided the best alternative. RAD allowed the housing authority to

combine several sources of funds to develop a financing plan that provided the SNRHA with the tools to raise the capital needed to preserve Landsman Gardens and secure a stable, affordable, and high quality housing stock for the community.

Due to the capital needs of the transaction, the SNRHA needed to pull together a complex mix of funding, including 4% low-income housing tax credits (LIHTCs), an FHA-insured mortgage, as well as other soft debt and grants. Several elements of this plan posed time constraints and programmatic difficulties that complicated the project. However, without these critical components, the SNRHA would be unable to bridge the financial gap, thereby limiting their ability to bring back this valuable affordable housing development. As such, this complex and time sensitive transaction required the SNRHA to navigate the RAD process efficiently to ensure that all the components were carried out successfully and without delay. As a result, the SNRHA encountered a few challenges with the Landsman Gardens RAD conversion, including assembling the right team, the timing of the deal, coordinating the FHA financing, and filling the financing gap.



**Assembling the Team:** While RAD offered the SNRHA an opportunity to save this affordable housing resource, a successful RAD conversion required the housing authority to assemble

### 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.

an experienced development team to navigate the RAD process efficiently. As a result, the SNRHA secured legal and financial consultants, with extensive experience in public housing mixed-finance development, strategic planning, and economic growth initiatives, to ensure that all materials met the RAD program guidelines and deadlines. Furthermore, the housing authority chose to self-develop, with the help of their consultants, utilizing its non-profit instrumentality, Affordable Housing Program, Inc. (AHP).



**Timing:** The Difficult to Develop Area (DDA) designation for the site, which provides a 130% boost to tax credit allocations, was due to expire at the end of 2013. This deadline created a tight window of opportunity for the SNRHA to obtain tax credits and close their RAD transaction. With the help of AHP, SNRHA submitted a RAD application in late August 2013, as well as applications for numerous other sources of funding.

Ultimately, the project received the 4% LIHTC allocation at the same time it received a commitment to enter a housing assistance payment (CHAP) award from HUD. In a rush to beat the deadline to preserve the DDA, the SNRHA and its team faced a tight closing timeline that they were able to overcome and ultimately, SNRHA was able to utilize the designation to raise valuable capital to restore Landsman Gardens.

**FHA Financing:** Landsman Gardens was the very first RAD transaction to use FHA mortgage insurance, making the housing authority and its team trailblazers in this financing design. Since this type of financing had never been used in the RAD program before, the transaction was used as a model for developing a process around utilizing this financing method. As a result, the Landsman Gardens project put in place a financing tool that works to benefit subsequent RAD conversions that elect to use FHA financing to supplement their funding.

**Filling the Gap:** LIHTC and FHA financing significantly reduced the funding gap, but the housing authority still had to secure additional funds to make the transaction work. The housing authority secured HOME funds, FHLB AHP funds, as

well as a private grant and a bridge loan. Additionally, the SNRHA decided to incorporate green design elements that will dramatically reduce energy consumption and will yield utility rebates in the future.



### Implementing the Redevelopment

The rehabilitation of Landsman Garden is currently underway, and residents began returning in October 2014. The effort has a total development cost of nearly \$23.57 million. The SNRHA has made a significant organizational commitment to saving the property, deferring more than half of the developer fee and committing other funding to ensure sufficient financing. The SNRHA sources are:

SNRHA Financial Commitment	
Source	Amount
Seller Note + Public Housing Funds Note	\$2.98 million
Deferred Developer Fee	\$1.5 million
<b>Total</b>	<b>\$4.48 million</b>

The housing authority contributed nearly \$5.3 million in capital funds, Replacement Housing Factor (RHF) Funds, and excess operating reserves to support the project. Additionally, SNRHA raised \$1.3 million in Federal Home Loan Bank Affordable Housing Program and additional HOME program funds post-closing to further reduce its own financial commitment:

Public Housing Funds Used	
Source	Amount
Capital Funds	\$3.2 million
Replacement Housing Factor (RHF) Funds	\$2.0 million
Housing Authority Operating Reserves	\$60,000
<b>Total</b>	<b>\$5.26 million</b>

For every public housing dollar used, the transaction leverages \$2.60 dollars from other capital sources, which includes the following:

Other Capital Sources	
Source	Amount
FHA 221(d)(4) Mortgage Insurance	\$4.0 million
4% LIHTC	\$8.3 million
FHLB AHP Funds	\$1.0 million
City HOME Funds	\$435,000
Wells Fargo Grant	\$90,000
<b>Total</b>	<b>\$13.8 million</b>

"The RAD program has provided to the SNRHA the flexibility needed to respond to the capital needs of an aging and tired property, and more importantly, protecting and offering choices to the Landsman Gardens families. The SNRHA is looking forward for a positive response from Congress by approving the removal of the 60,000 units cap under this program so other SNRHA's properties and families can benefit from the RAD program." - John Hill, Executive Director