Rental Assistance Demonstration

RAD Spotlight on Lexington, Kentucky

U.S. Department of Housing and Urban Development

Secretary Julián Castro

RAD Spotlight on: Lexington, Kentucky
Innovative Financing & Resident Engagement

Centre Meadows, formerly known as Pimlico Apartments, is of one of the first RAD transactions with an FHA 221(d)(4) mortgage—FHA's mortgage insurance for new construction or substantial rehabilitation of rental housing. The 206-unit apartment complex is currently undergoing redevelopment by the Lexington Housing Authority (LHA). Comprised of 11 buildings, Centre Meadows was initially developed in the early 1970s in the southeastern portion of the city of Lexington. The surrounding neighborhood includes primarily single-family and multifamily housing, as well as schools and commercial developments. Historically, the neighborhood has experienced consistent high occupancy rates for multifamily residential properties due to the proximity of commercial amenities and access to public transportation.

Leveraging Capital

LHA chose to pursue a RAD conversion because it opened multiple sources of financing opportunities to make repairs and upgrades; something it could not do as a traditional public housing unit. The property had significant capital needs and LHA's Capital Funds were insufficient to meet those needs. This project was in such deteriorated shape that at the time of the RAD application, it was thought to be housing of last resort for people who had no other housing options. Without RAD, it was quite likely that the project was simply going to be demolished. A portion of the units had subsurface and foundation issues. Approximately 20 units—or 10 percent—were in danger of losing federal subsidy due to poor physical condition. Through RAD, LHA was able to obtain an FHA-insured

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. RAD 1st component transactions cover Public Housing units as well as Section 8 Moderate Rehabilitation projects. Units that fall under this component are subject to a unit cap and are limited to current funding. RAD 2nd component transactions cover Rent Supplement (Rent Supp), Rental Assistance Payments (RAP), and Section 8 Moderate Rehabilitation projects. Unlike 1st component transactions, 2nd component transactions are not subject to the cap, but are constrained by the availability of tenant protection vouchers (TPVs). Both components allow housing programs to convert their assistance to long-term, project-based Section 8 contracts, providing a more stable source of funding.

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 a result of the FY2015 appropriations bill, the Department has the statutory authority to convert up to 185,000 units through RAD's first component, representing a significant increase from the program's initial 60,000 unit cap. The additional authority will widen program participation, enabling more PHAs and HUD-assisted property owners to ensure access to quality, affordable housing for our nation's low-income families.

mortgage to finance physical improvements to the property and preserve the asset as long-term affordable housing.

The $30.3 million development budget was funded by cash-collateralized tax-exempt bonds (with the FHA loan as the permanent first mortgage), 4 percent low-income housing tax credits (LIHTCs), seller financing, LHA funds and HUD HOME funds. The loan leveraged significant funds to undertake comprehensive rehabilitation that the property desperately needed. LHA pursued 4 percent LIHTCs due to the simple and efficient award process in order to secure financing in a swift and streamlined manner. In addition, LHA contributed a significant portion of its available capital to fund the rehabilitation of the development. Planned improvements to residential units include new drywall, fresh paint, new kitchen cabinets, new windows, HVAC system upgrades, and a complete exterior transformation that is expected to be a catalyst in the neighborhood for increased property values, and is an important contribution to local neighborhood revitalization efforts.

Resident Focus

LHA took a proactive approach at engaging residents early in the RAD process. Initially, LHA held all-resident meetings followed by smaller, more narrowly focused meetings to ensure all residents had an opportunity to ask questions, express concerns, speak with LHA staff directly, and understand the goals of the RAD conversion. In all of the resident meetings, senior LHA staff were present along with representatives from the Lexington Fair Housing Council, a local non-profit service provider. To further facilitate community engagement, LHA invited local school officials and elected officials to attend resident meetings. Throughout the application and conversion process, LHA made it a priority to provide residents with timely and detailed information. The Housing Authority recognized the importance of ensuring residents had complete information in order to make the best decision for their individual families.

LHA closed on the financing in March 2014 and relocated residents temporarily off site immediately after closing. Some residents moved to another public housing site in LHA's portfolio, and all residents are guaranteed the right to return to the property post-rehabilitation. In other cases, residents opted to receive housing choice vouchers to permanently relocate and waived their right to return to the property. Individual on-site meetings were arranged with residents who waived their right to return in exchange for a housing choice voucher to give the resident a private setting to ask questions and ensure the resident had full understanding of the voucher program and the transition process. LHA's mission to preserve this asset was in a large part due to the stability of the surrounding neighborhood and ease of access to nearby schools and public transit for residents. Preservation of the asset also meant preserving the community of Centre Meadows for existing residents and their right to return.

LHA also held weekly staff meetings with legal counsel to assure full compliance with all regulations related to relocation whether temporary or permanent. Throughout the process, LHA's open door policy gave residents reliable access to staff for information and resources.

LHA is planning a grand re-opening of the property when all rehabilitation is complete, which is anticipated to be in the Spring of 2016. LHA expects there will be abundant community interest in the fully-renovated property once complete, and lease up will span 60 days or less. The substantial rehabilitation made possible by the FHA insured loan, tax credits, PHA funds, and other sources of financing, will reposition this property and provide resident families with a high quality of life for decades to come.

"LHA is very proud to have successfully executed a preservation plan Centre Meadows. Knowing the immense physical and capital needs at the property, our team initially believed the only way to preserve this project was through a demolition and new construction with Choice Neighborhoods grant funds and 9 percent LIHTCs. However, when neither of those sources were a viable option, we quickly learned all that was needed was a few adjustments to our strategy and we had a sound financing plan that preserved all 206 units at Centre Meadows."

-Austin Simms, Executive Director, Lexington Housing Authority