RENTAL ASSISTANCE DEMONSTRATION

RAD Spotlight on Lexington, North Carolina

U.S. Department of Housing and Urban Development

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Financing Substantial Rehabilitation

The Lexington Housing Authority (LHA) in North Carolina is converting all 268 of its public housing units. Although the LHA has maintained its properties well, persistent cutbacks in the Capital Fund program have created an extensive capital needs backlog, estimated currently at over $41,000 per unit in hard construction costs. RAD presented the LHA a way to raise private debt and equity necessary to finance these substantial repairs. Without RAD, the LHA feared it may lose one of its properties, which would seriously impede its ability to meet the affordable housing needs of Lexington's low-income residents.

Portfolio Strategy: The LHA submitted applications for all three of its projects with the goal of accessing the financing necessary for substantial rehabilitation of their public housing units. For each project, the PHA will be combining Section 8 project-based assistance through RAD with tax-exempt bond financing, FHA mortgage insurance and 4% Low-Income Housing Tax Credits. Through RAD, LHA will have the funding and stability necessary to make significant repairs that are responsive to the needs of their residents.

Terrace Lane: The present Eastview Terrace (100 units) and Helen Caple Village (38 units) will be combined into one project, Terrace Lane Apartments. The Eastview Terrace buildings were constructed in 1981, and Helen Caple Village was constructed in 1984. Units range from one-bedroom to four-bedroom family apartments. A physical needs assessment identified $4.83 million in immediate capital needs at the time of LHA's application for RAD.

Both properties are located in stable neighborhoods. Helen Caple Village recently received new metal roofs, HVAC systems and some appliances. The Eastview Terrace units will be converted to all-electric HVAC, with new roofs and kitchen cabinets. Both properties will have new windows, doors, insulation, flooring, painting and substantial landscaping to better meet the needs of residents.

Southside Village: This complex contains 130 units, 66 one- and two-story buildings constructed in 1963. Units range from efficiencies to five-bedroom family apartments. A physical needs assessment identified $4.62 million in immediate capital needs at the time of LHA's application for RAD.

The property is in a stable neighborhood, immediately adjacent to an elementary school and close to a Wal-Mart Super Center. Financing through the RAD conversion will allow LHA to upgrade all-electric utilities, install new roofs and kitchen cabinets, new windows, doors, insulation and new landscaping.

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 program and Section 8 Mod Rehab 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 affordable housing units which would otherwise 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 August 2014, 58 RAD applications have closed, covering some 5,123 units and representing over $150 million in new investment. PHAs have submitted over 1,000 applications covering close to 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.

<u>Rehabilitation Process</u>: The rehabilitation for all three properties will be performed in phases, estimated to be **12-15** weeks each. Prior to closing, the authority ceased leasing up units and has established about **20** units of vacancies. Residents in the early stages of the rehabilitation will be moved out of their units into vacant units on site, to accommodate the rehabilitation, and then back into a completed unit. After the first phase, it is expected that the majority of residents will be moved only once from their current location into a completed unit. LHA has adopted a comprehensive relocation plan and LHA's CEO Terrance Gerald, in a prior position with the Wilson Housing Authority, successfully executed a similar relocation plan in conjunction with that authority's Capital Fund Recovery Competition-financed rehabilitation. LHA is committed to meeting the needs of their residents throughout the relocation process.

<u>Financing Overview</u> : Overall, the conversion will provide for about **$41,000** per unit in hard construction costs. The major sources of financing are: **$1.0** million in LHA Capital Funds; a **$500,000** grant from the Affordable Housing Program of the Federal Home Loan Bank of Atlanta; **$10.2** million in first mortgage financing from Wells Fargo; **$5.6** million in low-income housing tax credit equity, and **$0.9** million in interim income. These sources provide **$67,900** per unit, which will cover all the hard and soft costs of the transactions. The loan is at **3.85%** interest, with a **34**-year term. This transaction leverages LHA's **$1,000,000** in capital fund contribution to raise over **$20** million in other sources, a ratio of over **$20** for every **$1** in public housing capital funding.

Financial Impact:

Sources and Uses	Terrance Lane	Southside Village	Totals
Sources			
HUD First Mortgage	5,100,000	5,100,000	10,200,000
LIHTC Equity	3,240,297	2,422,572	5,662,869
Grants and Soft Loans	2,650,000	1,750,000	4,400,000
Interim Income	320,787	538,029	858,816
Total Sources	$11,311,084	$9,810,601	$21,121,685
Uses			
Construction Costs	4,998,900	5,018,815	10,017,715
Architect	183,911	179,901	363,812
Other Fees	82,687	83,000	165,687
Construction Interest	292,600	196,350	488,950
Contingency	504,810	466,662	971,472
Taxes, Insurance, Title, Financing	444,451	432,671	877,122
Legal, Organizational, Audit	219,420	196,985	416,405
Acquisition	2,407,800	1,196,048	3,603,848
Developer Fee	1,155,252	1,156,965	2,312,217
Addt'l Non-Mortgagable Costs	1,021,253	883,204	1,904,457
Total Uses	$11,311,084	$9,810,601	$21,121,685

The authority will receive **30%** of the developer fee and **50%** of future cash flow. The authority will also hold notes from the partnerships in non-cash transactions to finance the partnerships' initial payment under the lease. This structure increases the basis in the developments and significantly increases the tax credit equity received. LHA will also receive **1%** bond origination fees of **$51,000** per project. The vouchers received from RAD will be under the project-based voucher program, and the authority will manage them as part of its housing choice voucher program.

<u>Ownership and Control</u>: As part of the tax credit transaction, the agency is retaining ownership of both the land and the buildings (the structures), which it is leasing to the partnership. Within the partnership, the LHA has **51%** interest and the managing general partner has **49%** interest.