HOT TOPICS IN REVITALIZING PUBLIC HOSUING; RECAP FINAL REPORT

On March 15, David Smith, Chairman at Recap Real Estate Advisors (Recap), both moderated and presented on the panel discussion, "Hot Topics in Revitalizing Public Housing." Other panelists included: Greg Byrne, Senior Project Manager at HUD; David Leopold, Senior Vice President, Tax Credit Equity Executive at Bank of America; Jodie Harris, Policy Specialist, Office of the Director within the Community Development Financial Institutions (CDFI) Fund at the Department of Treasury; and Kevin Warner, Vice President for Investments at Emerald Cities Collaborative.

Smith started off the panel by presenting Recap's final broad data analysis report, "Conversion of Public Housing to Project-Based Assistance." The report was commissioned by CLPHA in collaboration with PHADA and NAHRO and funded by HAI Group. Smith reported that 29 housing authorities submitted self-reported data for 123 properties, with a total of 25,200 apartments. Much of the data came from large housing authorities in large metropolitan areas. Financing assumptions used to analyze the dataset included standard Fannie Mae/Freddie Mac/FHA terms at 115 percent coverage, 4.5 percent interest rate, and a 35-year term. The following conclusions were reached:

- At FY2010 Funding Levels, 39% of properties (37% of units) are categorized as "Current Rehab (or Current)" in that they can finance their entire Capital Backlog (which includes years 1-5 of future needs).

- If the properties were able to move their rents up to 100% FMR, the number of both Current Rehab properties and units increases to 70%.

- Within the Current Rehab category, 11% of properties (8% of units) are "Forward Rehab (or Forward)" properties in that they can finance their entire Capital Backlog and future capital needs (Future Capital Needs or Future Needs) at FY2010 Funding Levels.

- If converted to 100% FMR, the number of Forward Rehab properties increases to 47% (56% of units).

Additionally:

- At FY2010 Funding Levels, 25% of properties (19% of units) are categorized as "Partial Rehab (or Partial)" in that they will generate positive Net Operating Income (NOI) and can finance some, but not all, of their Capital Backlog.

- If converted to 100% FMR, 21% of properties (25% of units) fall into the Partial Rehab category.

Lastly:

- At FY2010 Funding Levels, 36% of properties (44% of units) are "Social Assets" in that they would generate negative NOI (operating costs are greater than effective gross income), have no excess cash flow to pay debt service, and could not finance any of their Capital Backlog.

- At 100% of FMR, 9% of properties (5% of units) are Social Assets.

- In order for all of the Social Assets in the analyzed dataset to generate positive NOI and thus convert, they would need rents above FMR (Exception Rents), up to approximately 113% of FMR.

The full report can be found here.

Next, Byrne briefly presented on the recent Rental Assistance Demonstration (RAD) Notice. He explained the basic tenets of the program, and reiterated that the Notice is open for comment and strongly encouraged CLPHA members to submit comments to improve the Notice. Byrne stated that he thought there would generally be three reasons why housing authorities might apply for a conversion of their properties under RAD: the numbers pencil out and the deal makes financial sense for a given property or properties; the opportunity to leverage capital; and reducing administrative costs and burdens by moving away from public housing rules and regulations.

Leopold stressed that most lenders will lend against post-conversion (post-rehab) NOI, and will want to know what the quality of the asset is and how well it will be managed. He thought RAD was a very promising approach, and believed that housing authorities should try to combine debt with tax credits and other opportunities to leverage as much opportunity to rehab their properties as possible.

Harris spoke about the CDFI Bond Guarantee Program, and indicated that this could be a good funding opportunity should a housing authority already have or will establish a relationship with a CDFI. The Bond Guarantee Program can only be guaranteed through a CDFI, and will not be sold in the capital market. Jodie noted that Treasury has approximately $2 billion in authority to provide this long-term capital to CDFIs, who will then issue awards to their partners. Eligible uses for the funding include affordable housing.

Warner discussed recapitalizing public housing in conjunction with deep energy retrofitting that results such benefits as: substantial reductions in green house gases, energy and water consumption; creating high roads jobs and career pathways for residents and communities; and a flexible financing platform that can leverage RAD, LIHTC, and other potential opportunities. Emerald Cities envisions pooling recapitalization/deep retrofit projects in order to attract large scale capital investors and reduce overall overhead costs.