Public Housing Repositioning Wednesday - Developing a Repositioning Strategy

Caila Prendergast: Good afternoon, everyone, and thanks for joining today for the first session of our "Public Housing Repositioning Wednesday" webinar series. Today's topic is "Developing a Repositioning Strategy." My name is Caila Prendergast and I'm one of your hosts today from Enterprise Community Partners. Chad Ruppel and Greg Byrne will be leading today's presentation.

And before I hand it over to them I have a few housekeeping items that I want to address. The first part of our -- (audio break, pause) --

Greg Byrne: Caila, if you can hear me, I think we may have lost you for a bit.

Chad Ruppel: Caila, are you on?

Caila Prendergast: Hi. Can you hear me now?

Chad Ruppel: Yes.

Greg Byrne: Yes.

Caila Prendergast: OK. Sorry about that. So where did you lose me?

Greg Byrne: Pretty soon. Pretty early in.

Chad Ruppel: Yeah. Right at the housekeeping.

Caila Prendergast: OK. So the first -- so housekeeping items I want to address. So the first part of the presentation will be a presentation from Chad and Greg and then we'll leave all remaining time at the end for questions from the audience.

There are a few ways you can ask questions. The first way is that you can indicate in the chat box on the right-hand side that you have a question that you would like to ask out loud. And I will go and unmute your line and you can ask your question and have it answered. If you don't have audio capabilities or aren't comfortable asking a question out loud, that's OK too. You can simply type your question in the chat box and I will read the question aloud in the order received.

Everyone is muted upon entry and so you don't have the option to mute or unmute your line on your own, which is why I have to go in and unmute everyone's line. If you're having any technical difficulties, please send a message in the chat box or send me an email. All of you guys should have my email from the login instructions.

So now I'll hand it over to Chad and Greg for today's presentation.

Greg Byrne: Thanks, Caila.

Chad Ruppel: Yes. Thanks, Caila. So I just wanted to introduce myself. I'm Chad Ruppel. I'm from the Office of Public Housing in the Office of Field Operations.

Greg Byrne: And Greg Byrne from the Office of Recapitalization. This is going to be our -- so bear with us. This will be the first time doing this sort of remotely. But also for me -- those who have been at other sessions -- I tend to use a whiteboard as a crutch. I don't know how it's going to go since I don't have a whiteboard in front of me. And it's always more interactive and fun when you can sort of see the people in the audience and see their reactions and stuff. But I think we have a great session for you. So Chad, back to you.

Chad Ruppel: All right. Thanks, Greg. OK. So why are we here? So today's discussion is really going to be focused on developing a repositioning strategy. It's going to cover a number of things. We're going to talk about HUD's repositioning resources that are available. We'll discuss reasons why a PHA might want to reposition.

And then I'm going to hand it over to Greg who will talk more about developing a repositioning strategy process. He'll go over a case study and then we're going to open it up for your questions and answers.

And we hope to have at least an hour at the end, really, to do a dive into any of your PHAs. So if you questions about developing a strategy or if you want us to just help look at your portfolio itself and maybe give you some recommendations, we're hoping to be able to do that near the end of this call.

As Caila mentioned, this is the first of our Wednesday webinar series. We have a number of these scheduled throughout the summer and fall. Each one is really designed to focus on a particular area of repositioning that we've seen a lot of questions come up. So you'll see I think a good mix of topics here. If you are thinking of a topic that maybe isn't on this list, please email repositioning@hud.gov and we're happy to consider it and hopefully add it.

For all of these, we're going to be recording them. They'll all be posted on HUD Exchange. So if you can't attend at a certain time, don't worry; it'll be available probably within a week or so after the meeting occurring.

And if you have any -- I don't know, a number of you may be PHA representatives. But if you see any of these topics that would be interesting for your board, other PHA staff, your residents, or even if you have people working with you on repositioning, please feel free to invite them. We've made these really available to a lot of people and we want to hopefully get these topics out to a lot of people. So please keep this in mind and hopefully it'll be something we can look forward to over the summer and fall.

Also, as a ground rule, I just wanted to make sure you were all aware of some of the other tools and resources that are available. So we've been coordinating this webinar introduction to public housing repositioning -- it's a four-part webinar series -- for the past few months. We have a recorded version available already on HUD Exchange. And so if you want just a full experience of repositioning from the very beginning all the way to the end -- again, a four-part series -- it is available. Please check it out at HUD Exchange.

We do have a live version planned for August and if you're interested in that, again you can go to HUD Exchange. This will give you much more in depth for all of these different topics, versus today's call which is going to be really focused on developing a strategy.

We also have our public housing repositioning website. So if you haven't checked that out lately, the link is here. You can also find it by going to the PIH website. Within this website you can find training videos on all sorts of different repositioning topics. You can find links to key notices and regulations. There are case studies there, additional guidance materials, and then also links to other HUD websites and resources such as the RAD site, the RAD resource desk, and the Special Application Center site.

So just to get a few things out of the way. First is, what do we mean by repositioning? So in this context what we're really talking about is taking federal public housing inventory and converting it from the Section 9 -- this is public housing assistance -- to Section 8 assistance. So moving from one form of HUD assistance to another. As part of this we're really preserving affordable housing availability and really using the project-based units or the housing choice voucher program.

So I know there's -- repositioning can be a lot of different terms, but in this context we're really talking about really moving this assistance from public housing over to Section 8 assistance.

And we've seen -- and many of you are probably familiar with this -- but housing authorities have really been able to do some amazing things as a result of repositioning. We've seen housing authorities use it to modernize aging properties, stabilize property revenues, conduct substantial rehabilitation at properties. They can demolish, redevelop distressed or obsolete properties. It also helps increase resident access to neighborhoods of opportunity. Housing authorities have used repositioning to thin densities and mix incomes. And then finally, also repositioning helps a lot of housing authorities streamline their operations.

A lot of good things. A number of key ones where HUD and PHAs really have these shared goals. Again, all of them are, I think, great. But we have some particular goals here around improving physical condition of properties, stabilizing financial performance and long-term operations for housing authorities, and then securing improved access to affordable housing for years to come.

So you might be asking yourself, what is HUD's role in all this? And yeah, our role, for the most part, is just making sure that you're aware of the resources and tools, regulations, everything that's available to help you make these local decisions. So we want to make sure that you understand the strategies, the tools that are available.

And then we also want to provide technical assistance to communities when they're weighing their options. So if you need help -- and we'll get into this later on in the discussion -- but we have a lot of tools available and we're happy to help make sure that communities and housing authorities understand what their options are with regard to some of the repositioning tools and regulations that are out there.

I think the other key thing to note is that this is entirely voluntary. Like, we have no plan, as far as I'm aware, of ending of the public housing program. This is not -- HUD doesn't have a plan of forcing PHAs to reposition. This is entirely a voluntary, local decision. We just want to make sure that you know what's available.

The existing tools that PHAs use within the public housing program, things like the Cap Fund Financing, Operating Fund Financing, energy performance contracts, all those things -- those existing tools -- are still going to remain in place. We just want you to know about the tools -- the other repositioning tools that are available. So please don't feel like you're being forced into repositioning. This is, again, entirely a voluntary, local decision.

And with that I'm going to hand it over to Greg.

Greg Byrne: OK. Great. Thanks. So on this page, just -- where do we start, you know? And a lot of this stuff surely needs to be framed as, well, what are you really trying to do with your PHA and with your property? And is it -- are you trying to preserve stuff? Or do you want to do homeownership? Or do you want to do mixed income housing? Or do you want to voucher your units out? Or maybe you're interested in neighborhood stabilization.

Now, that -- everything's going to differ from PHA to PHA and by project by project. You don't pick -- you don't start by picking the tool; you figure out what it is you want to do and then decide which tools make the most sense for you. And obviously, which are the programs -- and we'll go through some of these -- that -- which you'll be eligible for.

And the third item, sort of what conversion program will generate the most potential project rent. And we'll spend some time on that today. This is where HUD is sort of unabashedly supportive of PHAs both being aware of then picking options that may get you higher rent.

And that's an odd thing, right? To say, well, HUD's actually going to encourage me to take something that's going to cost -- provide them with more subsidy? And we are. Yeah. We want you to make the right choice for yourself. And rents aren't always the main decision that you make. But when it comes to real estate, it's often a pretty darn important one.

So we want you to be aware of what your options are and what those contract rents would be under whichever conversion option. And clearly, you need to know what your capital needs are for your properties in terms of being able to make these decisions. But today we'll sort of deal with a little bit of a higher order.

Now, before I go through this sort of next slide here, I want to say that we're starting this webinar series with somewhat of a big picture. And we're jumping right into some of the key strategic issues before we really dove into the program specifics. We're not, for example, starting, say, with an overview of what RAD is or what Section 18 or streamline voluntary conversion is.

There's a bit of a presumption here that all of you in the call generally get these programs and concepts. Later lessons will go into more specifics on things. But today, this is more about sort of the exercise of putting the pieces of the puzzle together. And we'll save some of the details for later.

And it's important to say that this process of sort of public housing repositioning planning, it really is a little bit like a Rubik's Cube. You may solve the problem for one property, but then you find that you've just now caused a hole in your budget or your plans for another property. Because indeed, some of this stuff really is dealing with a sixth spot.

Now, obviously there are other times -- there are some -- when there are some limited and finite resources. So what we're going to talk about today and then for the series over the next couple of months is how do you apply these tools and these resources and what's the sequence of which you do it? Which is, as we'll learn, is very, very important.

So just a couple other quick notes before we explain this very busy-looking slide in front of you right now. That one, just again, repositioning, planning, and what not is -- this is obviously a more complex exercise the more properties you have. Because once again, the more that -- once you do one property, it's going to end up likely affecting what you do -- what decisions you make for another property.

Second, that sort of a full disclosure, which is what we're going to go through with you today and over the summer series and all that, is we don't pretend that this is a complete suite of tools. We only wish that we had an answer for all your repositioning, planning issues. We've asked for a lot of authority from the Congress to give us, whether it's more funds or more tools.

But what you've seen at HUD over the last couple years is a real dedicated effort to try to provide, within the legislative and regulatory framework that we have, as many tools as we can give you. And I think we've done a pretty good job collectively, even taking some of those tools and making it look even more like it's a coherent strategy.

But the truth is, there are some legislative restraints we're dealing with. And so therefore, sometimes you run into situations where we don't have an answer for you for a particular property or whatever, because we just don't simply have all the resources and the tools that we would like to. But again, I think that what we've done is been able to put things together in better ways and now given you more flexibilities than you ever have had as a public housing authority. And so -- and sometimes these are exciting times.

And the last little preliminary comment I want to make is PHA size matters. It matters immensely because the PHAs with 50 or fewer units have the clearest path to repositioning in terms of sort of getting on the Section 8 platform. As we use the term "repositioning," as Chad said earlier, one definition of it is moving from public housing to Section 8.

And so PHAs with 50 and under have the most direct route. And then PHAs with 51 to 250 have the next sort of most direct route. But then as you get higher up the food chain, then the tougher it becomes to walk through all your properties and actually say, well, I've solved it for every one of them.

So anyway, those are just some preliminary notes.

So on this page here, this slide 12 is a -- sometimes we use this term; it's a decision matrix. And so let's just kind of walk through this to see what are we trying to do here. And the first question is, on item one, am I -- what's my goal? Am I trying to preserve the asset? Meaning, long-term subsidized housing, which is really sort of what my office -- the Office of Recapitalization -- is about, really about preservation.

But there are other tools and other things that PHAs may want to do, whereas maybe you're not trying to preserve the asset. Maybe really what you want to do is you want to sell the unit to homeownership or you really have a desire, for whatever reason that is important locally, to voucher out the stock.

And so if it's not preservation and it's really about homeownership or it's about vouchering out, then there are two vehicles for that. And if it's homeownership, you can -- if you qualify, you could go through Section 18. For example, if you have units that qualify for scattered sites, then that -- and you wanted to sort of make those scattered sites a homeownership program, you could go through Section 18 for scattered sites but create homeownership through the Section 18 program. Dispose of them and do it through that.

Or of course we have the Section 32 homeownership program that's on the books. So either way, there's a path towards homeownership and you can pick which vehicle makes the most sense for you if really your goal is homeownership.

But maybe your goal is, again, not preservation. It's not homeownership but it's you really want to voucher out. And in a couple slides we'll talk about why would someone want to voucher out as opposed to preserve the asset. And similarly, you've got two choices. You could -- if you qualify for Section 18, you could give the residents the vouchers and dispose of the property and do something else. Or of course you could do streamlined voluntary conversion, which the -- really the main sort of intent of that program was to voucher out.

So the first decision you make is, what am I trying to do? Am I trying to preserve, or am I trying to lead towards homeownership or vouchering out? So let's presume -- and it's probably the case -- that 95 percent or more of the situations or the properties that housing authorities have, what they're trying to do is preserve.

And so now we say, OK, I want to -- my goal is preserve. What's the best option for me? And the rest of this chart is really about the main driver -- if the main driver for you is rents. And again, rents isn't always the only factor that you would want to weigh your decision on. And we'll talk later about what other factors might be in terms of what repositioning option you'll take.

But for the rest of this chart, if you're saying what I really want to do is I want to preserve the asset, but I want to choose the option that gives me the highest rents. And so your first thing to do is say, well, I'm going to compare the RAD rents to the -- this is PBV rents, but the non-RAD PBV rents, meaning what you could possibly get if you went through Section 18 or streamlined voluntary conversion.

And if those RAD rents are higher, then you do RAD. You stop there. You say, if I can go through RAD and RAD would give me a higher rent than I would get under Section 18, assuming HUD would give me tenant protection vouchers or streamlined voluntary conversion, then HUD would give me -- (inaudible) -- vouchers.

But if I'm already getting a rent from the public housing program that's higher than what I would get under Section 18 or streamlined voluntary conversion, then that's your decision. You say, that's it; I'll stop there. I'll convert to rent because they're on RAD. Because if I'm trying to preserve the asset and the RAD rents are higher, I should do RAD.

But what if those RAD rents are lower? And around the country our modeling says that about 80 percent of the cases, if you could qualify for Section 18 and if you're eligible for streamlined voluntary conversion, those options actually would give you a higher rent than under public housing. So at 80 percent of the cases -- somewhere around -- RAD rents are going to be lower.

So then you say, OK, so if they're going to be lower, let me see if I can convert under Section 18 or streamlined voluntary conversion. Let me see if there's a preservation option that's not RAD that's open to me.

So you say, OK, let me first see under Rule 3, would I be eligible under Section 18 based on either PHA size or scattered site? So those are two fairly new and easy decisions, which are the Section 18 program now says, hey, anybody that's got 50 or fewer units, you can just raise your hand and you can go through -- you can convert under Section 18. In which case you would then likely take your tenant protection vouchers that HUD would give you and you'd project-base them.

So either because I've got 50 or fewer units, or I've got scattered sites, and scattered sites being four or fewer units that are noncontiguous. So it's again, if my rents are lower but I'm eligible for Section 18 based on 50 or fewer or on scattered sites, then you go Section 18, you're done.

But if I don't qualify for those two, then you say, OK, what's my next option? My next option is, well, what about this -- and I want to do -- again, I want to preserve the asset. What about streamlined voluntary conversion? This sort of new program, only been around since early last year. And it's open for PHAs with 250 or fewer units and there's no cost test, just any PHA with less than 250 units is automatically eligible for streamlined voluntary conversion.

But because I'm down now by step four, which means I've already defined that because I'm going down this chart I'm trying to preserve the assets. Streamlined voluntary conversion is -- how is that preservation tool? Well, it's a preservation tool if you decide to take those vouchers -- those tenant protection vouchers -- and project-base them. But the streamlined voluntary conversion program lets you do that but only if you get tenant consent.

So if you think you're eligible for streamlined because you're either already under 250 or you've taken some other actions to then get you under 250, then -- and you feel that you'd be able to get the tenant consents, then your answer is do streamlined voluntary conversion. You've now chosen a preservation tool that has the highest rent, meaning these rents would be higher than under RAD.

But if it's not scattered sites, it's not your last 50, it's not streamlined voluntary conversion where you don't think you can get the tenant consents, then really the next major option is do I -- can I meet the Section 18 obsolescence test? And that test basically being if it's an elevator building, then 62.5 percent of total development cost; or if it's a non-elevator building, 57.14 percent of total development cost. If the property is so far gone that it has such large capital needs, then if you can meet that test then, yeah, you can get Section 18.

And many PHAs, even when they meet this test, find that they can still preserve the property because the Section 18 tenant protection voucher rents, when they project-base them, would be high enough combined with other things, like 4 percent credits, in order to repurpose and save the building.

But if I've gone down through this matrix and my goal was preservation and I can't qualify under any one of those Section 18 or streamlined voluntary conversion categories, then I'm back to RAD. Then I'm back to, OK, those options are now off the table for me. How far can I go in terms of preservation with RAD? And I might have been able to do more if I'd gotten those higher rents under Section 18 or streamlined voluntary conversion. But now let me see what I can do with RAD in terms of making it work.

OK. Let's go to the next slide. So fundamental to, again, making these decisions about whether I convert under RAD or whether I convert -- choosing between RAD or Section 18 or streamlined voluntary conversion, particularly if you're talking preservation, if your goal is I want to keep this asset as long-term affordable housing, then doing the basic math in terms of which ones -- rents are going to give you the higher rent are essential.

So on this slide it says compare RAD rents to PBV. What we really mean is compare the RAD rents to the Section 18 or streamlined voluntary conversion rents that if you project-based the tenant protection vouchers. So let's remind of ourselves of when you can do that.

So under Section 18, if you somehow get through that Section 18 door -- which means you're less than 50 units, you're a scattered site, your property is obsolete, any of those categories that you qualify for Section 18 -- then HUD will give you tenant protection vouchers for every unit that's been occupied over the past 24 months. And you can, on your own as a PHA, choose to project-base those tenant protection vouchers. You do not need tenant consent to project-base. You have sort of the authority to project-base them.

Or again, if you move -- if you converted them to streamlined voluntary conversion, you could take the tenant protection vouchers and project-base them, but you'd need the tenant consent.

So let's assume under whichever way that you got there -- or you think you could get there -- is you want to figure out, well, which rent is higher? So if I go into RAD, generally, unless you're subject to the RAD rent caps -- and we won't go through the details of RAD rent caps, but very few properties bump up against that -- but under RAD, generally you're talking about current funding.

So we're saying in this case, current funding for this hypothetical project is $600 per unit per month. And remember, under RAD the current funding is you add up your tenant rents and your operating subsidy that you received and you add your capital fund allocation for that project. And just hypothetically we're going to say it's $600 here for this property.

Well, how does that compare with the rent that I might get if I went through Section 18 or streamlined voluntary conversion and I project-base those TPVs -- tenant protection vouchers? How does the rent calculate in the project-based voucher program? Well, the rents under the project-based voucher program are set at the lower of the reasonable rent for the property, whatever the so-called street rent is -- what's the reasonable rent for those units -- or 110 percent of the FMR adjusted for utilities. It's always the lower of that.

So in this case here, we say, well, let's say the RAD rents were $600. And let's say 110 percent of the FMR is $800 and the utility allowance is $100. So the net of utilities is -- adjusted utilities is $700. And the reasonable rent is $900 for this property. If $600 is the RAD rent, if the TPV -- 110 of the FMR adjusted for utilities is $700, and the reasonable rent is $900, then I'd get the lower of the two. I'd get $100 more per unit per month under the -- if I project-base those Section 18 or streamlined voluntary conversion project-based vouchers.

And so that's this new exercise that every PHA around the country is now attuned to, which is which numbers work best for me? And whatever you're doing with repositioning planning, it's essential to know where am I now? Am I an agency that's funded but I tend to be funded more than either the reasonable rent or 110 of the FMR, which is the maximum I could get under the project-based voucher program? Or am I funded at way less than that?

So we know, just like across the board, pretty much every housing authority in the great Northeast is funded at substantially less than FMRs. But those rents are very strong there. So any PHA in the Northeast that's able to qualify for Section 18 or streamlined voluntary conversion, that's a slam dunk. Those rents are going to go up dramatically.

That's not necessarily the case if I'm a PHA in Nebraska or Arkansas with many, many very small PHAs, where often times those fair market rents are pretty low and the public housing funding actually might be the best deal. So anyway, it's really essential for PHAs to sort of know the basic math of which program's better.

OK. So where can you get some of this information? So the recap office publishes these rents for every public housing project around the country. I'm guessing most people on the phone are aware of this table. But we call it the "2018 RAD rents" file and that file lists every -- about -- there's, what, somewhere close to 7,000 public housing projects around the country. It lists the property fund allocation, the capital fund, tenant rents for every property in 2018.

It also includes what we tend to at least be aware of the utility allowance for each property, based on what is reported in PIC, and then we compare those -- that so-called RAD rent with what the FMRs are and what the 110 and 120 FMR is.

So you can -- what we don't have -- what HUD does not capture is any information on the reasonable rents for housing authorities. That's a piece of information we just don't know. And so we're not able to say to you, here's a table to tell you exactly what your rents will be in any conversion option. Because we don't know what the reasonable rent is for any property and that's going to greatly affect what you would get under the different scenarios. So at least this table gives you everything -- every key piece of information with the exception of that, which is reasonable rent.

OK. On this next slide, so let's talk a little bit about eligibility for Section 18 based on size or scattered sites. So we mentioned, hey, if you can be -- if you're eligible for these and the rents are going to be higher, then why wouldn't you want to do that? Assuming there's -- unless there's some other reason driving your planning process or decision making process.

So what's a scattered site? Scattered site being something noncontiguous, four or fewer units on -- that provide some operational challenges, such as having to send my maintenance staff out all over the city to maintain these units. And it's incredibly inefficient to have to do that, particularly at the public housing funding levels. And so that would be generally a solid sort of rationale for why you would want to convert or be eligible to convert this under Section 18 scattered sites.

We also mentioned that if you're a PHA with 50 or fewer units that you're automatically eligible for Section 18. But it also -- that includes what we tend to call the RAD Section 18 close-out blend, which is it's not just when you finally get down to 50 units. But if you have more than 50 units and it's part of a RAD transaction, you can include those last 50 units of Section 18 in your RAD financing plans.

So I'll use an example. I've got 130 units as my last property in the public housing program. It's a senior high-rise building of 13 stories. OK. You could propose to HUD -- or say to HUD, I'm going to close this out under a RAD transaction, where 80 of the units are RAD-converted units and the remaining 50 units would be Section 18. And we call that the RAD Section 18 close-out plan.

So it's when you get down to your last 50 or it's part of a RAD transaction that includes your last 50 that you can go out under Section 18. And it doesn't apply just to those today who have 50 or fewer units; it's whenever and however you get down to your last 50, you're eligible. So there's some 800 to 900 PHAs today that have 50 or fewer units. Conceivably there are small and medium and large PHAs that at some point -- and we've seen it already, that they finally get down to their last 50 and then they go out under this category.

So if -- and again, if a property is eligible to sort of meet the definitions for Section 18 or streamlined voluntary conversion, if I'm a PHA that's got 50 or fewer units I could either do Section 18 or I could do streamlined voluntary conversion. I sort of get to the same place in terms of choosing between -- or being eligible to remove units and get tenant protection vouchers.

But more often, Section 18 -- if you're trying to do preservation, that Section 18 is probably going to be a better choice over streamlined voluntary conversion because there's no requirement to get tenant consent. As the housing authority, you can make that decision. You don't need the tenants' consent in order for you to project-base the tenant protection vouchers.

OK. And of course, but if you are eligible for streamlined voluntary conversion and you can get the tenants' consent -- so sometimes we hear -- this is still all quite anecdotal, but it's not unusual for some PHA to be in contact with us and say something like, I've got a family property. It needs a lot of work. It's going to be really hard for me to get the tenant consents from the percentage of the residents because they would prefer to take their voucher and move somewhere.

But I've got this 100-unit elderly high-rise, another PHA might say, and the residents are pleased with us as the owner and management company and they don't really want to move. They don't have as much desire for choice mobility or what not, and they expect that they wouldn't have difficulty getting the tenant consent.

So for some PHAs this requirement to get tenant consent on a streamlined voluntary conversion doesn't seem like much of a barrier. So if in those situations where you can easily secure the tenant consents, the streamlined voluntary conversion could be a good option because if you don't want to do preservation, you can dispose of the property. You can just really voucher out.

But if you're trying to do project-based -- and even if you don't get 100 percent tenant consent, either you, if you operate a voucher program or if you're working with one of the voucher agencies, often times a PHA, let's say, had 100-unit property and 10 residents weren't able to give you tenant consent. Either you as the voucher agency or whoever you use as the voucher agency might be able to backfill and say, OK, as those tenants use their vouchers and leave the property, we're willing to sort of supplement or add to your half contract the units where people left on their own.

The other nice thing about streamlined voluntary conversion, if you can get the tenant consents, is that there's no requirement to dispose of the asset. So Section 18 is inherently a disposition program. You are allowed to remove units from inventory but you have to dispose of the units.

Now, most PHAs tend to dispose of Section 18 units when they're trying to do some preservation action by disposing to a related nonprofit. But they still have to be a disposition. Streamlined voluntary conversion there's no requirement whatsoever for any disposition. So if you have a property that you're interested in preserving, if you're not needing to go out and recapitalize it now and you really don't have an interest in sort of going through the exercise of creating a new legal entity to own the asset, the nice thing about streamlined voluntary conversion is you can just continue to own it under the umbrella of the PHA.

OK. So those are some considerations between when you do Section 18 versus streamlined voluntary conversion. The other is why choose RAD versus Section 18? What would you choose one versus the other? And even -- so clearly if the rents are higher under Section 18 or -- that you'll be probably motivated to do Section 18.

But as we mentioned, sometimes under RAD there's probably 20 percent of the public housing inventory where actually the RAD rents are going to be higher because the RAD funding is actually higher than the market rent for those units. And so you're better off staying under RAD.

Also under RAD, RAD's your only option for any PHA who wants to do project-based rental assistance. And so under Section 18 or streamlined voluntary conversion, you --

Hey, so, either Caila or Chad, one of you might be typing. Just check your mute.

So RAD's the only option for anybody who wants to move to project-based rental assistance as opposed to moving towards PBVs. And so if you happen to already own or operate some PBRA properties, and you want to sort of stay with that program, then that might be another reason you might do RAD.

We've seen a few smaller PHAs that have converted. And even though their rents would have been higher if they went through Section 18 and they were eligible for Section 18, they chose to do RAD because they either already had some PBRA properties or there was something about the PBRA program that they felt a little more comfortable with the stability of that program because it's been around longer than the PBV program.

And then clearly if you have large amount of reserves in your public housing program, then the -- under RAD there's such special statutory authority that allows you to use your operating reserves to assist with any conversion and to sort of put into the development budget. And that was specifically provided under the public housing program in the legislation for RAD. And that just doesn't exist when you convert to streamlined voluntary conversion or you convert to Section 18, that there's no authority that we have now.

We know this has been a real contentious issue for some housing authorities. The reason I qualify for Section 18, 50 or under. Or I quality for streamlined voluntary conversion but I have these operating reserves and I'd like to carry those reserves over to the converted property. But we don't have really any authority to allow that right now.

So if you have significant operating reserves that you think are not going to be spent out before you convert, that's another reason why a housing authority might choose to do RAD because the RAD program allows you to carry over those operating reserves.

So bear with me just a sec as the technology has just sort of bumped me off. So I need to sign back on. So hold on just a second. (Pause.)

Caila Prendergast: Hey, Greg. This is Caila.

Greg Byrne: Yeah.

Caila Prendergast: Yeah, I don't know what happened. For some reason it -- (inaudible) -- it won't let me switch you back --

Greg Byrne: What's that?

Caila Prendergast: -- which is why it took me off mute for a sec.

Greg Byrne: OK. So I'm going to just -- (inaudible) -- since -- it is giving me -- as long as you can hear me, then we will -- I'm going to sort of go to the document and just have Chad move it forward. I won't promote the slide. All right?

Caila Prendergast: Chad, let me pass over those privileges to Chad really quick.

Greg Byrne: Yeah.

Chad Ruppel: I think I have --

Greg Byrne: Thanks, everyone, for just bearing with us here.

Caila Prendergast: OK. There you go. It should be good to go.

Greg Byrne: Yeah. Hold on just a moment. (Pause.)

Chad Ruppel: Greg, do you see which slide we're on?

Greg Byrne: OK. I can't see because for some reason it's cut me off. But I'm going to go into our -- just I have a copy of the PowerPoint and I'm just going to go to the last item on this RAD slide.

The last item is remember also that RAD brings with it certain kind of protections that don't come with a streamlined voluntary conversion or the Section 18 program, the most important being that RAD has an -- everyone has an absolute right to return and there's no rescreening.

So sometimes we've seen PHAs that have converted to RAD over Section 18 or streamlined voluntary conversion when -- either when the numbers are higher under Section 18 or streamlined voluntary conversion because they're trying to keep these extra tenant protections. And let's say a family is over-incomed for the Section 18 program or Section 8 program, but under RAD we would grandfather that family in. Sometimes under Section 18 you can't, and so people choose the RAD program.

OK. So those are some preliminaries. So let's go a little bit to the next slide which is the Middleton case study example. And these properties that are in front of us here are actually names of properties that we did a video that we posted about a month ago on the website that kind of walks through some of the various repositioning options.

And we did a medium-sized PHA that had one, two, three, four, five, six, seven -- seven different properties. And we're not going to try to remember each of the properties here. But just for a moment just say -- let's do a little thought exercise where you have a PHA that's got seven properties. In this particular case it's got 650 units.

While I can't say that these pictures actually all come from the same PHA, I would probably place this PHA somewhere in the Midwest, particularly with the sort of lower-density property picture to the far right.

OK. So let's just say we've got this property and your agency has got 650 units and different types in its portfolio. So Chad, let's go to the next slide.

So really when we see different PHAs and different PHA advisors and consultants prepare some pretty nice planning matrices for PHAs in terms of sort of trying to slot properties. And this is one of the -- sort of the bigger sort of points that we sort of like to get across to everybody is this exercise of public housing portfolio planning is -- here you have those seven properties appear here on the left.

Go down, starting with (north ?) side in Abbott Heights, and then you have your repositioning options to the right. So what are those repositioning options? So let's start with RAD again.

So there's the standard RAD which is available for every PHA. And then the next is streamlined RAD, which is much like there is a Section 18 for 50 or fewer units, there's also a streamlined RAD for PHAs with 50 or fewer units. It doesn't give a PHA any more authority. It doesn't give them any more funding. But what it does is greatly simplify the RAD's financing plan submission requirements for any PHA with 50 or fewer units. For example, there's no requirement for an independent physical needs assessment for PHAs with 50 or fewer units.

And once again, like PHAs who are going through Section 18, 50 or fewer, for RADs 50 or fewer it doesn't matter whether you started with 50 or fewer units or through various removal actions you're now down to your last 50. Whenever you get down to your last 50, you can go through streamlined RAD.

Then we have what we call the RAD Section 18 blend, now these days calling it the Section 18 75/25 blend. And this is this great little feature that says, hey, we really want to give you a pat on the back if you are trying to make RAD work and you have construction costs that exceed 60 percent of HUD's housing construction cost or HCC standards. So our total development is of course the total development cost and then there's, as a component of that, the housing construction cost, which is generally the hard cost -- also known as the hard cost.

But we're saying if you were doing at least 60 percent of HCC and -- as long as you're not using 9 percent tax credits, then we'll let you remove 25 percent of the units in a RAD transaction via Section 18. So you are essentially blending Section 18 with RAD for 75 percent of the units and Section 18 for 25 percent.

And our very first transaction where this occurred was Oklahoma City where they had one of the properties and -- a little more than a year ago -- and it's now caught on like wildfire. And PHAs have really taken to this as another way of sort of trying to boost the bottom line for their transactions. And again, works great if you happen to do a lot of rehab and you're not relying on 9 percent credits.

We also, with the latest version of the RAD notice, introduced this concept of the O-zone boost, where anybody is doing -- it's got to be a PBRA transaction because that's where the funding comes from, out of the PBRA account. But once again, if you are in an O-zone and you are doing 60 percent of HCC costs, if you can demonstrate the need you'll get $100 PUM increase in the RAD rents. Which is really a nice sort of flood there of additional revenue that can help you support more first mortgage proceeds and whatnot.

So under RAD you've got -- those are the basic options that you have. Standard RAD, streamlined RAD, Section 18 75/25 blend, or the RAD O-zone boost with additional $100 PUM if you're going PBRA and you're doing substantial rehab.

And then you have Section 18. So Section 18 there is obsolescence, there's health and safety, there's scattered sites, there's 50 or fewer. And then there's one last sort of version called more efficient-and-effective, where actually HUD will allow you if you can prove that whatever you are repositioning, it is going to be more efficient and effective than what was there before -- there's no obsolescence test. You don't have to prove that it meets 62.5 percent for an elevator building or 57.14 percent for a non-elevator building.

But rather than giving you 100 percent TPVs for every unit occupied in the past 24 months, under efficient-and-effective, because you didn't pass an obsolescence test, HUD only will give you tenant protection vouchers for 25 percent of those public housing units in that property.

So this is really a last sort of -- last choice, last option for a PHA that really wants to reposition and redevelop a property. And even though it won't get 100 percent replacement vouchers from HUD, it's willing to still move forward. So not that many PHAs are really that inclined to this because it really is sort of cannibalizing your inventory. But from time to time people have an asset that's so undesirable or they really want to redevelop it and -- even if it means they're going to lose some inventory.

And then lastly, the last two columns are you either have Section -- streamlined voluntary conversion or you have Section 32.

So you can see in this grid that really a PHA would go through its properties and begin to say, well, I think this is a simple RAD no-debt deal. Or I think this is a RAD debt-only deal. Or this was a scattered sites, so let me go through Section 18 scattered sites with this property. Or this is a property that certainly would meet obsolescence or would meet health and safety criteria and I could remove those units through Section 18. Or a PHA decides I want to remove units through streamlined voluntary conversion. If they're eligible, that's their choice. But you would walk through every property and try to sort of firm up what the basic strategy is.

And of course, it's lovely when you go through this exercise and you find an answer for every property. And that happens once in a while. So when I said earlier -- I started my talk that we're not pretending we have an answer for every property in the public housing inventory. We wish we did. We have more tools than we've ever had available. But it still may be when you go through this exercise that you have holes, to which you may still be scratching your head saying, what do I do with this particular property or these two or three properties?

But we've certainly worked with housing authorities that have been able to run the table, where they are able to absolutely reposition with the tools that are there. And isn't that sweet when that happens? But there are times when it doesn't and don't feel as if you're alone if you go through that exercise and you're still missing a solution for one or more of your properties.

Chad, go ahead, go to the next slide.

So some key points with all that is -- and sort of consistent with the theme of this very first webinar -- is we really encourage PHAs that when you go through this is try to look at your whole portfolio at once. From time to time we see PHAs either submit applications for us under RAD in which they may have just picked two properties to do RAD. Which is fine; we love the work. But it wasn't part of a coherent plan.

And not that you have to prove to my office that you have a coherent plan. We look at properties one by one. Is this particular transaction -- is it financially feasible? Can you preserve that asset the next 20 years? That's a basic sort of test we do. And we're like, sure, but we don't ask the question, what about the rest of your portfolio? We just really believe that that's good business practice, that you really should.

And the bigger the portfolio, the more necessary it is, is try to analyze all of it and then if some of the units you apply for us, great; and some you go to the (SAC ?), great, whatever. But that you really have a strategy for -- have you looked at the whole?

Also, clearly that the tools and process is going to be different depending on PHA size. Again, if you're under 50 units or you're between 51 and 250, those may -- you've got different options and requirements the smaller you are for an agency.

Three, this really is an iterative process. It's hardly ever we've run into an agency where they've got it right on the first pass, that it's really constantly sort of erasing the -- what you've got up on the board and saying, well, this one will do RAD. And then you look at another property and you're like, maybe that's the one we do RAD and this one instead we do streamline voluntary conversion, or what have you. It's only after you look at the whole picture that you -- several times that it seems to sort of come together.

And timing and sequencing also is important. Timing being, do I do all of it at once or do I do it over several years? And how much patience do you have in sort of sitting on things and waiting many years in order to sort of get converted or get repositioned, versus like some people certainly have -- (inaudible) -- under RAD have wanted to sort of do it all at once. So try to get as much converted in just one year or two years as possible and really kind of rip the Band-Aid off.

And other PHAs saying, we just don't simply have the capacity or bandwidth to do that all at once and we're going to stage this over several years. And moreover, we may need to really stage this over several years because we've got to rely on either 9 percent credits for some of these transactions and that's going to take a while to get that, or my state has (volu cap ?) issues so I'd like to do 4 percent tax credits but I can only get so much bond cap in any one year. So I have to do this over several years.

And also that for some PHAs, the sort of how you do it depends if you're above the 250 limit, then you may be taking some actions so that -- let me do the first couple under RAD and the last ones I'll do under streamlined voluntary conversion. Or I'll do the first couple under RAD and then I'll do some under Section 18 and then I'm down to my last 50 units. And so figuring out how that best works for you is critical.

Of course, identifying the different financing options and just remembering there's all sort of conversion types. So under RAD, of course, there's no dead deals where you think that the property, let's say, was renovated under our stimulus grants 10 years ago, that property may be in really good shape and doesn't need any debt and you can convert -- make that an easy conversion. And there are going to be some that you require debt and from that require tax credits. And so it sort of all depends on which option.

And of course, that's -- if you're going through RAD, you're going to have to prove to us that you have the wherewithal to meet the capital needs of that property and be financially feasible the next 20 years. If you go Section 18 or streamlined voluntary conversion, you never submit a financing plan. You don't have to prove to the SAC -- the Special Application Center -- what the post-conversion feasibility of the property is.

Instead, when you -- really when you're applying to the SAC and -- for streamlined voluntary conversion or Section 18, it's very different. It's really, do I simply qualify for those two programs? What you do afterwards is really your decision. The SAC doesn't really say, well, I see where you're going to convert this Section 18 -- these scattered sites under Section 18 -- moving to Section 18 scattered sites. But you don't have to submit to the SAC a feasibility -- 20-year pro forma of how those units are going to perform. You're eligible.

So SAC doesn't ask you that question for pro forma. So there's no financing plan submitted when you go through Section 18 or streamlined voluntary conversion; it's really under RAD that we sort of look to see -- prove to us that you can preserve this asset for the next 20 years.

So OK. Chad, you want to go to the next slide?

Chad Ruppel: Yeah, Greg. So thanks for that. I know -- I'm sure there's plenty of people excited to really dive into their questions and talk about their portfolio. Just wanted to just remind folks of a few more resources that are available.

As I mentioned earlier in the presentation, we do have the Public Housing Repositioning website, so here's that link again. And from there you can get to all sorts of other HUD websites. There's great training videos there. You can also link to our previous more in-depth introduction to repositioning training series. So please consider using that website as a starting spot.

We also have your local field offices. So all field offices really have been growing in their capacity and work in repositioning. So many of them I'm sure you're already working with towards your repositioning goals. They also can request things. We call this a repositioning assistance panel, where we get a group of program experts from HUD headquarters, Greg being one of them, together on a conference call and we can do more in-depth discussion of your portfolio and what some of the repositioning options are. So if that sounds like something you would like, please talk to your field office and they can set that up for you.

And then finally we have just a general catch-all email box, repositioning@hud.gov. So if you have questions there, we'll make sure it gets routed to the correct people and hopefully it's an easier email box for you all to remember.

So this is I think hopefully the exciting part of the conversation here, where we really want to turn it over to you all. You've been listening. And Greg I think has done a great job of explaining kind of the thought process behind a repositioning strategy. And now we'd like to know from you all if you have questions about your strategy. If you'd like us to look at your portfolio, we'd be happy to do that. We have another hour reserved.

I will say, I'm sure many of you have very detailed questions about some of the program tools that we've talked about, maybe requirements around the PBV program or how to use streamlined voluntary conversion. And for some of those things we may want you to just hold off until we have those specific webinars. As we talked about earlier, we have a whole schedule of them coming up over the summer and fall. But if you have strategy questions or you want to talk about your overall portfolio, I think this is a great time to do it.

And so Caila, I don't know if you want to moderate and go from there?

Caila Prendergast: Yeah. So just doing a quick check the audio's OK. WebEx is being difficult today. So can you hear me, Chad?

Chad Ruppel: Yep, I can hear you.

Caila Prendergast: OK. Perfect. So we had a few questions come in while Greg was talking. So I'm just going to unmute the line on someone who had a question. Mr. Edward, I'm going to unmute you now.

Ed Mayer: Very good. Thank you. Can you hear me? This is Ed Mayer. I'm the director of the Housing Authority of the County of Butte in Northern California. A couple quick questions.

Mentioned the RAD rents and the RAD rent table. And I went and took a look at it and I saw that the rents in the rent table are two years old and our current picture here for our authority is very different than what those numbers reflect. That seems to be a very basic component to this RAD rent analysis. Is there any way to use more current rents -- more current FMRs?

And the second question has to do with the Middleton case study. It would be great to see that matrix at least filled out -- (inaudible). I'm confused whether a scoring matrix is really something that is a checkmark? Is it a score 0 to 10? Is it a -- (inaudible) -- analysis? What is actually being completed in the table? So I just wanted to see an example .

Those are my questions. Thank you.

Greg Byrne: Great questions. Yeah. So let me first do the rents. So rents -- we're still a demonstration program so sometimes there's a limit to sort of our capacity to change things so rapidly and whatnot. So one of the things that's a huge exercise for us is coming up with these -- calculating these rents as the public housing subsidies change every year.

So the basic approach we've taken with the most recent publication of our RAD notice, so-called revision four, is that we're going to aim to recalculate the rents every two years. So that means they were last calculated in 2018. They'll be recalculated in 2020, this year.

And we've also said that when we repost the rents -- in other words, we will always give the PHA the option, if you're already in the program, of if your older rents are higher and each you get an OCAF or an inflation factor, you can keep your 2018 rents. But if the rents have gone up somehow with the most recent 2020 numbers, you always -- you get to pick the higher; you get to use the 2020.

So anyway, so you'll be doing that this year. We'll be posting new rents. I can't tell you exactly when that's going to be. But for the meantime know that if you've got a CHAP -- commitment to enter into housing assistance payment contract -- then at whatever point you close, if we've increased or if we've modified or published the new rents and they've gone up, you can just substitute them. You won't be in any way harmed by that.

But also that 2018 rents table has the 2018 FMRs. And so yeah, you have to make sure that when you're comparing the -- you'll know what your 2018 rents are. You know that you can apply two years of an OCAF to that. But then when you compare it, make sure you compare it with your most recent Section 18 rents in your market to know how your rents compare to the FMRs.

And if you're -- mostly likely anywhere in California that it's almost always the case that if you get qualified for Section 18, your rents would be substantially higher than if you do RAD. But that's almost always the case in California because rents generally throughout the state are so high and generally much higher than the public housing rents.

Let me talk about the second question then, which is kind of that table and how people use it. So you asked, do I give it a numeric score? Is it a narrative score? So that's a fascinating question. And what we've seen is PHAs do all sorts of things like that. There are all sorts of combinations. What we put on there was really just more kind of illustrative for you and visual.

But certainly use it however way you think works best for you. A 1 or a 2 -- score between 1 to 5, or some other thing. Or you may even cross out one column altogether because there's no way you want to do efficient-and-effective; you're only interested in getting as many PBVs as you can. And that option may not be even on the table for you.

So yeah, people have used different ways of trying to give a big picture and scoring which one they'd be eligible for or which one seems to make most sense in their community.

Caila Prendergast: OK. Thanks, Greg. So the next question that I had come in is kind of about the current situation and how that's affecting repositioning, specifically related to the disruption of -- (inaudible) -- markets and pricing.

Greg Byrne: Yeah. So lots of larger forces are wreaking sort of pain for everybody. Clearly all the challenges that residents have today, all the challenges of housing authorities to provide services to residents and keep them safe during this period. But then -- and then more mundanely, while we have these various requirements, for example, for tenant consultation and how do you do tenant consultation when people are in lockdown?

So from our position, that we have essentially said we'll be as accommodating as possible with respect to certainly milestone extensions. So whatever is reasonable, we'll get you a milestone extension if that's what you need.

In terms of tenant consultation, we're not waiving the need to consult with residents, because we think that that's still really at the heart of this program. We will consider alternatives to in-place meeting, so through teleconference or something else; that's permissible. But still the basic need to meet the residents, whether it's before you apply or after you get an RCC or something, is still essential. And again, if that means that it has to delay your financing plan, we're fine in giving you whatever extensions.

In terms of what it means for the different equity or debt markets -- that clearly the interest rates are as low right now as we've ever seen them, so now's a good time, clearly, for anybody considering long-term mortgages as a source of capital. In terms of the impact on pricing for tax credits, we have less a handle of that. (We've heard ?) a lot of static. We understand that some places have pulled back a little bit and the pricing isn't as good as it was when things were more stable a few months ago. But we're hoping that things will at some point settle down as they did the last time we faced this a few years ago.

So I don't have any real crystal ball that I'm going to be able to share with people. But the best thing we can do right now is just simply allow people, if they need more time, more time.

Caila Prendergast: Great. Thanks, Greg. So I have one more -- (inaudible) -- question I'm going to unmute -- (inaudible) -- and then we have -- (inaudible) -- portfolio look.

Greg Byrne: Caila, say that again?

Caila Prendergast: I have one more kind of topical question I'm going unmute someone's line for and then we'll move into someone who wants to do a portfolio kind of review.

Greg Byrne: Yeah.

Caila Prendergast: Great. Just -- OK, Charleen, I'm going to unmute your line now.

Charleen Regan: Hi. This is Charleen Regan. I'm working with the Boston Housing Authority. Thanks so much, Greg and Chad.

This is really super helpful as we think through working on pretty diverse portfolio. But I had a kind of general question about Section 18 and obsolescence, where the pendulum has swung a bit at HUD on the ease of getting that and the usefulness of it. and I'm wondering how solid is the commitment to it surviving a change of administration or -- because we're sort of lining up things for the next decade in terms of our volume cap in Boston, et cetera. And so I know -- we want to be flexible about how HUD is looking at it. And it's great right now and just is that likely to survive? That's putting you on the spot, I know.

Greg Byrne: Yeah. Right. Yeah. How dare, you Charleen. No. (Chuckles.) So much of what we're doing is -- with all these tools to reposition public housing and whatnot, particularly the move into Section 8 and tapping into Section 18 in ways that possibly weren't as more fully (explored ?) before, you could say, though, that these really are just extensions and permissions that are inside the 2016 HOTMA legislation -- Housing Opportunities Through Modernization Act -- which had wide bipartisan support.

So in there you see lots of language about project basing of Section 8 tenant protection vouchers in formally-assisted properties and in public housing properties. And so I think there's a -- really a growing awareness of sort of both the need, in many cases, for housing authorities to have contract rents that are higher than the current public housing when you're really talking about major redevelopment and repositioning, and -- but again, we really are stealing or using tools from that 2016 legislation.

So I would hope that indeed that people -- no matter what administration comes in sees that this platform of Section 8 is just essential for PHAs to address these large backlogs. So that's my shot at answering your question.

Charleen Regan: Great. Thanks. That's super helpful. And just one more, if I could. And that is on the streamlined voluntary conversion, as it existed in the 2008 notice that was available for PHAs over 250 units, is that still an option that you think about at all? I know it's been complicated to use, but it's helpful for those -- yeah.

Greg Byrne: Yeah. So streamlined voluntary conversion is a subset of Section 22 of the Housing Act, which -- (inaudible) -- legislation of '98 created, which was voluntary conversion. And voluntary conversion has now been on -- so it's been on the books for almost 22 years.

And if there's been a handful of properties that have converted under voluntary conversion, I'd be surprised if there's even that many. And part of it is because it was so complicated to figure out the math of it. And we had this incredibly complicated worksheet or Excel spreadsheet that no one could really figure out.

And then the basic premise of voluntary conversion was -- and I think it was Connie Mack from Florida who actually introduced the legislation. Where he sort of liked the idea where if a PHA said it costs us less to voucher out than it is to continue the public housing property under current funding. If a PHA wants to, why don't we just let them voucher out?

So that program is unaffected by streamlined voluntary conversion. So voluntary conversion -- so-called the standard -- still exists. But it's more challenging because you have to do a cost test and that cost test has to sort of show that it actually would cost you less to get someone a voucher than it would be to continue to maintain it under the public housing program.

So for anybody who's trying to do redevelopment, you don't want to go there, right? Because if -- RAD allows you to at least keep the public housing funding. If you were to do streamlined voluntary conversion, you're making a case that it's supposed to be costing us less. And so -- but it's still on the books and some PHAs looked at it, but again not many.

So streamlined voluntary conversion is just this sort of subset where HUD said we have this enormous flexibility under the statute to create certain categories of PHAs. And the department decided that we'll waive the cost test for PHAs under 250. But certainly anybody above 250 can still try their hand --

Charleen Regan: Try to do it.

Greg Byrne: Yeah. Right.

Charleen Regan: OK. Good. Thank you.

Greg Byrne: Yeah. Sure.

Caila Prendergast: OK. Thanks. Now I'm going to unmute Jane's line. She wanted to look at a property MN077. (Inaudible.) OK. Hi, Jane.

Jane: Hi. We were wanting -- we're looking at doing repositioning. We have 126-unit, 8-story high-rise. And then we have 50 scattered site houses. The 126-unit high-rise was respaced, like, 20 years ago, but there's an issue and to tuckpoint it we're looking at over $1 million. And we are currently in the process of an elevator modernization project that's about $568,000.

Greg Byrne: And you say your PHA code is MN074?

Jane: 77.

Chad Ruppel: If you want, Greg, I can -- do you want me to pull it up on the RAD rent table here?

Greg Byrne: Yeah. Yeah.

Chad Ruppel: All right. So hopefully what you all see right now is the RAD rent table. This is -- I think Greg had referenced it. It's available on the RAD tools website. It's also available publicly. I am going to search for -- what's it again? MN077, did you say?

Jane: That's correct.

Chad Ruppel: OK. So it looks like your two buildings are under one AMP, the Shady Oaks project name?

Jane: Yes. That's correct.

Greg Byrne: And so you are -- and if your RAD rents are at least, from 2018, $567, when you add your utility allowance of $33, gets you up to $600. And you're just about at the FMR. And so that means you've got -- if you were to go through a Section 18 or a streamlined voluntary conversion option, you've got some capacity to grow those rents. You could go up another $60 bucks at most, as long as you could prove that those were at least reasonable, about 110 percent of the FMR.

So again, you're not like a PHA -- Charleen was talking about working with the Boston Housing Authority. If they get through Section 18, every unit they get through Section 18 is hundreds of dollars higher in rents than under public housing. And so in your case, it's a modest. Now, that modest might mean a huge difference for you or it might not be worth it.

But your -- so is -- do you have a sense yet -- have you sort of gone through the exercise of trying to figure out, well, if I were to project-base these I have a good sense of what -- and if I went through Section 18 I have a good sense of what my rents -- my reasonable rents would be? And would I be able to command 110 percent of the FMR? Do you know yet on that? How does -- if today your gross rents are $600, does your property compete well on the market or what? Tell us a little bit about your property and how it sits and the rent reasonableness and stuff.

Jane: OK. Currently we are at about 80 percent FMR is what we're charging. Just at 80 percent FMR for our rents in the high-rise building. We are -- on the market we are -- in our voucher program we are using 105 percent of the FMR as our payment standard. And had actually not -- we didn't have a good lease up percentage for a while, but we've seen raising the FMR up, it could go as high -- we could easily get the 110 percent.

Greg Byrne: OK. And just a side note, not to get too far into the weeds on this, but the PBV program is -- the payment standard's irrelevant. It's always the maximum of 110 percent of the FMR and you don't factor in the payment standard when you make --

Jane: Oh, OK.

Greg Byrne: -- when you determine. Yeah. Now for some reason our data shows that you're just about at 100 percent of the FMR. So I'm not sure whether our data's old or whatever. But from what you just said, looks like you'd have a lot of growth potential to do it. So these would be RAD versus going through Section 18 or streamlined voluntary conversion, and it seems like you'd be better off financially going through Section 18 or streamlined voluntary conversion.

So then the question is, well, can you -- are you eligible for those two programs? Well, clearly you're eligible for streamlined voluntary conversion. Would you be eligible for Section 18? Sounds like while your property is finishing up some roof work and some other stuff, that it's nowhere near something that would qualify for Section 18 obsolescence. It probably -- you've done a good job keeping the property up, so there's no real health and safety that would cause that property to need to be disposed of. It's not less than 50 units, so it doesn't qualify for that. It's not scattered sites.

So your options really are I do RAD or I do streamlined voluntary conversion, which is sort of the other side of -- (inaudible) -- where all 176 units would be eligible for tenant protection vouchers. But of course, you'd need to get tenant consent to project-base them, which you might either decide, oh, it's no big deal. Or you might decide, I don't even want to project base. I'm happy vouchering out and just letting people stay there and not stay there.

So your two extremes, based on what you just said, would be all RAD or all streamlined voluntary conversion. Or you could split it almost -- not quite in the middle, but you could also do a RAD Section 18 blend where you do RAD for 126 units as long as it's part of one transaction for all 176. And that's 50 of them go Section 18 under the so-called RAD Section 18 close-out blend.

So that's a mouthful right now, but just -- and again, if we're all sitting in a conference, sitting in a room we could see each other, it'd be sort of fun to engage others in the audience to say, what would you be advising for this PHA? But from that very quick -- and we can certainly follow up more with some follow-up calls. But what's your gut tell you that what are you most likely leaning towards and how we might be able to help you?

Jane: Well, we were leaning towards the RAD on the 126 units. And then on the scattered site houses, if we did the -- I think it was the Section 18 on those.

Greg Byrne: Yeah. OK.

Jane: The question on those, is there --

Greg Byrne: Yeah. So those -- (inaudible) -- charts. Sorry to interrupt you, but for those 50 or so units that you call scattered sites -- scattered site happens to be in the public housing PIC system the most common name of a property in public housing. Unfortunately, the name itself isn't an appropriate enough description or characteristic to associate with four or fewer units on noncontiguous sites. So are these truly single-family homes or duplexes scattered throughout the community? Or are they on two or three different sort of sites, in which case they wouldn't qualify for the Section 18 definition of scattered sites? How would you best describe your 50 units?

Jane: It would be there are some of them -- they're single-family homes or duplexes. And some of them are along -- like there might be five of them on a street and then somewhere else in town there might be a couple. There might be --

Greg Byrne: OK. But even those five on a street, these five on a street are they lot by lot right next to each other? Or are they -- one's on the bottom of the street, one's in the middle, one's on the other end?

Jane: No, they would be right beside each other.

Greg Byrne: OK. All right. So what you'd want to do is you'd want to go through that inventory and see how many of these really would meet the Section 18 definition of scattered site? Again, four or fewer units that are noncontiguous. And let's say you said there's 50, that's all together scattered sites. And I'm just going to throw out a number for you and say 20 of them meet this definition of four or fewer units on noncontiguous sites.

Then my recommendation for you would be to say, OK, let me first qualify for whatever Section 18 I can. I'll take those 20 units. So now I'm down to 156. Then the next thing I'd be eligible for is do the remaining number of units under the RAD Section 18 blend, where you could pull out -- if the sites configure that way, pull out the remaining inventory with 50 converting under Section 18 and the rest under RAD.

So in other words, you could probably get up to 76 Section 18 units in your portfolio, based on what you just said. And that would be OK.

Jane: OK.

Chad Ruppel: I would also add, so we know a lot of PHAs will go this route, right? Like, converting Section 18 -- converting scattered site units to Section 18 is a really easy next step. And it also -- you get this benefit of the DDTF and our funding that comes with the Section 18 removal.

And because we know it's so popular, it's actually the topic of our very next Wednesday webinar. So if you're interested, if you want to learn more and really do a deep dive of some of these scenarios, on June 3rd we're going to have some experts from the SAC on as well as some PBV experts to really walk through all the different iterations of how you can convert over scattered site units.

So obviously, if you're more anxious than that, we can work with your field office and set up a repositioning panel, or do all sorts of things to provide you technical assistance. But for anyone listening, our very next topic is going to be focused on this exact type of scenario of converting scattered site units.

Greg Byrne: And it's worthwhile saying at this moment -- I think Charleen from -- she had the question from Boston and when you mentioned it, Chad, about processing, that just give enormous credit to PIH and the Office of the Special Application Center there. That things have just -- it's a sea change in terms of what's happened in terms of processing of Section 18 applications.

And so for years many people thought, oh, my gosh, going for Section 18; that's murderous. I don't want to do that. It'll take forever. And the SAC office really does turn this stuff around quickly. You have a complete application, you will largely get approved within 60 days.

But the ones that even take less time if they're complete applications are these 50 and under and scattered sites, because there's not much for the SAC to do. I mean, they still have other sort of checklists to do and they have to talk to FHEO and those things. But it's much less complicated doing one of those than doing an obsolescence one. But even the obsolescence one, if the application is clean, they can get it out their door in 60 days.

So I just want to make sure that no one sort of still has this image of the SAC from many years ago where it was much more difficult sort of trying to get an application through. You qualify, you'll get approved, and you'll get approved in pretty fast time for -- certainly for government standards.

Jane: Thank you for your help.

Greg Byrne: Yeah. Yeah.

Caila Prendergast: OK. Thanks. Have another question from someone who was unable to unmute their line. "I found an excerpt from a RAD blast." She kind of wants some clarification on it, so I'm going to read it out to you, Greg. Is that OK?

Greg Byrne: Yeah. You're going to read it or you're going to post it? What are you going to do?

Caila Prendergast: Yeah, I'll read it. I'll read it.

Greg Byrne: Yeah. OK.

Caila Prendergast: So, "Authorizing PHAs that use Section 18 in conjunction with RAD -- i.e., RAD Section 18 blends -- to convert the Section 18 units to defray contracts in lieu of awarding (grant protection voucher assistance ?). Currently the voucher is awarded following a Section 18 approval can only be used to support a project that's PBV -- (inaudible). This new option will simplify administration by HUD, PHAs, and donors." And it looks like she just wants some clarification there. If this is better suited to a webinar, that's OK. I just -- (inaudible).

Greg Byrne: OK. So Caila, again, so some of it was a little bit hard for me the whole. But are they asking the RAD Section 18 blend and sort of how the processing works and how the two offices coordinate to make sure we don't trip up? Or what's the -- help me with the question again?

Caila Prendergast: Yeah. So it's more just kind of explaining that extra -- basically, the difference between PBRA and PBV and if the new option will simplify administration by HUD or housing authorities -- (inaudible).

Greg Byrne: And sorry, just one more thing. The reference to the notice is what paragraph again?

Caila Prendergast: They didn't give me a section, just --

Greg Byrne: Yeah. (Cross talk.)

Caila Prendergast: Maybe I'll ask if they can type in a clarification we can have them send that in and then I'll come back to it.

Greg Byrne: Yeah. That'd be great. Yeah. I'm sorry.

Caila Prendergast: OK. No worries.

Greg Byrne: Unless, Chad, you somehow understand it.

Chad Ruppel: No.

Caila Prendergast: OK. So I'm going to just ask folks again, if you want Chad and Greg to go over your portfolio, to write a note in the chat box. We have about 20 minutes left, so 25 to go over a few more. But I'm not seeing anything in my -- on my end right now. Chad or Greg, I don't know if you got any messages in your chat box.

Chad Ruppel: I don't see anything in mine.

Caila Prendergast: OK. So here is a question. Let me read it really quickly. I'm going to send it over chat box to you too, Greg, so you can see it.

Greg Byrne: Yeah, I've been kicked off so --

Caila Prendergast: Oh, you're not -- OK. Right. OK. So the question is from Veronica Rebel (ph). She says she's spoken to you before. And her question is -- her statement is -- "Our strategy was to partner with some voucher agencies when last 50 units in our 368 portfolio to get higher rents to support some -- (inaudible) -- repairs. However the RAD blast says we can now do 75/25 with PBRA so we want to reconsider and do entire portfolio PBRA with 25 percent paying the higher rent. Do we have to meet the -- (inaudible) -- greater than 60 percent of HCC to do this strategy? RAD rents won't support -- (inaudible) -- and we're missing the tax credit -- (inaudible)."

Greg Byrne: OK. So this is probably not the answer you were hoping for, but I think to understand what you're saying I'm going to try to repeat it. But remember I said that we're doing everything we can to help PHAs sort of meet their repositioning needs. But sometimes our tools still aren't enough. And we don't like that, but sometimes that happens.

So under the newest notice we have this sort of special $100 PUM rent boost that if you're going RAD and you're going PBRA and you're in an opportunity zone and you're doing at least 60 percent of HCC in terms of your rehab or construction costs, we'll give you $100 bucks PUM. And again, that requires you to do RAD for the units and it requires you to do a certain level of rehab. And that $100 rent boost is really pretty good.

It still may not be enough for you to recapitalize that property. If your property has just extensive needs or you're trying to tear down and build new and it still may not match, depending on the market you're in, what you could get if you went through Section 18 or streamlined voluntary conversion.

So it might be that if you went streamlined voluntary conversion or you went Section 18, maybe the rents or $200 or $300 higher than public housing, not $100 higher. And so in that case, if you could qualify under Section 18 or under streamlined voluntary conversion, by all means, do it, because it's better off.

But if you don't qualify for those two and you -- yeah. This option is available. But we're not saying that it would make it financially feasible. You may still need to go back to the drawing board and do something else with the design of the property or you may have to still seek other sources of financing. It's extraordinary what PHAs have done over the last five or six years with RAD in terms of different places where they've been able to find funds.

But yeah, unfortunately, we still can't guarantee financial feasibility.

Caila Prendergast: OK. Thanks, Greg. So not seeing anything else in the chat box right now. Oh, just -- I just got another one. "So can a housing authority get the staff to release deed of trust on non-tenant assets to sell and use proceeds of equity on adding affordable housing?"

Greg Byrne: So non-tenant I presume they mean non-residential. So yeah. That's a pretty standard disposition request for housing authorities, which is you've got some land or commercial building or something that's not an ACC unit. And yeah, you -- the process for removing them is to go through the SAC. And if you have one of those, you should definitely give the SAC a call and have a preliminary conversation with them and they'll help you get there. And those are pretty -- relatively easy sort of removal requests.

And if you -- certainly you can sell the property for fair market value, in which case you have to use the proceeds for provision of public housing or Section 8 housing. Or you can decide to dispose for less than fair market value, as long as you're providing commensurate public benefit, which often the department defines as housing needs of people below 80 percent of median.

So yeah, if you have an asset that is not an ACC unit and you want to somehow sell or dispose of that to support your broader mission, that -- those are common requests by housing authorities and you should definitely call the SAC and have a conversation with them on that.

Caila Prendergast: OK. Thanks, Greg. I'm not seeing anything else on my end. Any last words or thoughts?

Greg Byrne: Yeah. Just I'd say thank everyone for chiming in and being patient with us as we try to do all this stuff remotely and all. And I said before, for those who have been in the public housing program for a decade or more, that these are much better times.

Certainly if you're doing RAD, the higher appropriation over the last couple years in the public housing program has made the RAD rents much more robust than they were before. And so people who looked at the RAD program seven or so years ago, if you haven't taken a look, you'd be surprised at sort of how much more the RAD rents get you.

But just all the other suite of tools that, while again it's not a complete set, there are more things now that PHAs can do than they've been able to do before. And I think we -- you also have some really terrific staff throughout PIH and the office of recap. We're all -- kind of work together to find ways to get you to solve some of your capital planning needs and stuff. So by all means, reach out to us. And there's different ways you can reach out to us. And let us see what we can do to help you.

Chad?

Chad Ruppel: Just echo a lot of what you said, Greg. I appreciate everyone calling in today. I hope that you all have seen our schedule for the upcoming topics and you get a chance to register for that. I'm only hoping here, but I feel like as we gain experience our technical capacity here is going to grow.

And as I said earlier, this call was recorded. So if you missed some of it or you just want to relive the experience, it will be available on HUD Exchange in about a week or so.

Caila Prendergast: Yeah. And I echo Chad and Greg there and I -- just so everybody knows, at the end when you -- (inaudible) -- out of this session, you should get a pop-up to complete a survey. Let us know how we did, any thoughts you might have, anything we can do better. We'll take a look and try and incorporate what we can into our next session.

And again, just thanks everybody for being patient. Technical difficulties sometimes I think -- now that everybody's online, the server gets overloaded and just randomly kicks people off.

So appreciate your patience and look forward to seeing some of you again on the 3rd.

Greg Byrne: Great. Thank you all.

Caila Prendergast: Thanks, everybody.

Chad Ruppel: Thanks.

(END)