



Welcome to Preservation:

Strategies to Preserve and Refinance HUD Supported Affordable Rental Properties

The Office of Recapitalization
HUD Office of Multifamily Housing Programs
December 2, 2014

Webinar Format

- Webinar will last no more than 60 minutes and is being recorded.
- Materials will be available on HUD Exchange Training and Events page. <https://www.hudexchange.info/training-events/>
 - Webinar PowerPoint slides (available now)
 - Recording of the presentation (within 2 weeks)
 - FAQs, fact sheets, glossary of preservation terms (by end of December)
- Use Question Box to submit questions at any time during the webinar.
- Use Question Box to request assistance with technical difficulties.
- Feedback survey link will be emailed.

Presenters

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Overview of Webinar

- HUD Welcome
- Making the Case for Preservation
- Understanding Your Options
- Case Study
- Resources
- Next Steps
- Q & A

HUD WELCOME MESSAGE

THANK YOU

Multifamily Properties:

- Your stewardship and property management are critical to the success of HUD's affordable housing mission.
- Your properties have met the affordable rental housing needs of millions of low-income tenants for decades.
- HUD and your tenants still need you.

Multifamily by the Numbers

All Section 236 Mortgages	Projects	Units
Total Historical Production	4,496	565,320
Currently Affordable (IRP, FHA-insured, Rental Assistance OR Use Restriction)	3,067	413,105
No Longer in HUD Portfolio	1,429	152,215
At Risk (Maturing Between FY 2015-2020)	547	102,646

Multifamily by the Numbers

All Section 202 Mortgages	Projects	Units
Total Historical Production	4,682	265,075
Currently Affordable (202, FHA-insured, Rental Assistance OR Use Restriction)	4,313	252,220
No Longer in HUD Portfolio	369	12,855
At Risk (Maturing Between FY 2015-2020)	211	24,343

Why Preservation?

Growing Need for Safe, Decent Affordable Housing:

➤ Substantial Rehabilitation Needs of Existing Housing Stock

- Renter households with worst case needs increased from 7.10 million in 2009 to 8.48 million in 2011.

➤ Eroding Availability of Affordable Rental Housing

- Between 2003 – 2011, the number of affordable and available rental units decreased:
 - From 80 to 65 units per 100 very low-income renters
 - From 41 to 36 units per 100 extremely low-income renters.

Source: Worst Case Housing Needs 2011: Report to Congress – Summary. U.S. Department of Housing and Urban Development, February 2013 (http://www.huduser.org/portal/publications/affhsg/wc_HsgNeeds11.html)

Join the Preservation Movement

What's at Stake?

- HUD does not have the budget resources to support new construction to replace older properties.
- Once Section 236 and Section 202 mortgages mature, preservation options essentially vanish.
- Thousands of low-income elderly, special needs, and other households are at risk of losing affordable housing.

What Can We Accomplish?

- Work together to secure the affordable housing gains we have made over the past 40 – 50 years.
- Preserve critically-needed affordable housing assets across the country.

HUD Can Guide You Through the Process.

MAKING THE CASE FOR PRESERVATION

What Does Preservation Mean?

Preservation means successfully recapitalizing affordable rental housing in order to:

- **Safeguard** long-term rental assistance for current and future generations.
- Improve **and modernize** properties through capital repairs.
- **Stabilize** properties by placing them on solid financial footing.

Which HUD Programs Are We Talking About?

**HUD 202
Direct Loan**

**Section 236
Insured Loan**

Other HUD Assistance:

Rental Assistance Payment Contract (RAP)

Rent Supplement Contract (Rent Supp)

Section 8 Project-Based Rental Assistance (Section 8)

Flexible Subsidy Loan



Built in the 50's to mid-80's, HUD 202 or 236 assistance, FHA or state HFA financing, Section 8, and built to last...



Look familiar?

Outdated fixtures and cabinets

Units Are At Risk

Section 202 and Section 236 loans are maturing, which means:

- End of regulatory agreement that controls rents
- Last opportunity to seek Tenant Protection Vouchers for unsubsidized renters

Expiration of rental assistance contracts results in:

- Loss of subsidies for low income residents
- Loss of income stream that could leverage capital funds for renovations

What Are Reasons an Owner May Want to Preserve a Property?

- Achieve the **mission** by ensuring the property is affordable for future occupants.
- Be good **community stewards** by taking care of the assets.
- Stabilize the community by addressing **capital improvement** needs.
- **Refinance debt** to increase income and derive cash.
- Lower operating costs by **improving systems**.
- Improve **energy efficiency**.
- Protect the **rental subsidy income**.

- Are you wondering how to preserve above market rents at a Section 202 building?
- What will happen when your loan is paid off, especially that “debt service” line in your HUD Section 8 budget?
- Does your property have mounting maintenance needs?
- Are your property's outdated systems imposing serious constraints on cash flow and reserves?
- Are your current Section 8 rents well below market?

**Your property
is nearing its
loan maturity
or your rental
assistance
term is
expiring.**

- Is your Rental Assistance Payment (RAP) or Rent Supplement (Rent Supp) contract expiring?
- Do you have a Flexible Subsidy Loan balloon note due?
- Are you tired of owning your property but want to make sure it continues as affordable housing with a new owner?
- Are you confused about your preservation options and where you can go for useful information?

**Your property
is nearing its
loan maturity
or your rental
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expiring.**

HUD has created a number of tools to make it easier for owners to **refinance and stabilize** their property, as well as **incentives** to urge them along a path of preserving their valuable affordable housing inventory.

**Your property
is nearing its
loan maturity
or your rental
assistance
term is
expiring.**

Understand that preservation **actions** can improve your property and your residents' lives.

Know how to move forward with the best **options** for you and your property.

Your property is nearing its loan maturity or your rental assistance term is expiring.

Find the ***simplest path*** to your goals.

UNDERSTANDING YOUR OPTIONS

Issue:

After the original loan matures, I am worried about potential mark-down of the Section 8 rents since there is no more debt service.

Solution:

Leverage the income to refinance the property with new debt.

**All options
take time.**

**Start
planning
now.**

Issue:

The property has so many capital upgrades needed, and the old systems are inefficient.

Solution:

Leverage the income to refinance the property with new debt. Proceeds from the new loan can be used for capital upgrades and repairs.

**All options
take time.**

**Start
planning
now.**

Issue:

Section 8 rents are below market and the current income does not leverage enough debt to address repair needs.

Solution:

Increase rental income through the **Mark-up-to-Budget** or **Mark-Up-to-Market** process and then refinance.

**All options
take time.**

**Start
planning
now.**

Issue:

I have a Section 202 property and my rents are over market. How do I protect them?

Solution:

Prepay the Section 202 loan **under the applicable Notice H 2013-17** to ensure continued ability to retain over-market rents.

**All options
take time.**

**Start
planning
now.**

Issue:

My Rent Supp and RAP contracts are expiring, and HUD does not have the authority to renew or extend them.

Solution:

Convert the contracts through **Rental Assistance Demonstration (RAD) Component II** to create a long-term stable rent subsidy.

**All options
take time.**

**Start
planning
now.**

Issue:

My fully deferred Flexible Subsidy Loan is due. HELP!

Solution:

Defer and re-amortize the Flexible Subsidy Loan through HUD; utilize the income stream to recapitalize.

**All options
take time.**

**Start
planning
now.**

Issue:

We have “board fatigue” and would like to get out of the affordable housing business, but we want to protect affordability for the tenants of our Section 202 property.

Solution:

Sell to or joint venture with an entity with a preservation mission.

**All options
take time.**

**Start
planning
now.**

Issue:

Can I help my current residents who are not receiving rental assistance in my Section 236 property?

Solution:

Prepay the Section 236 loan and it may be possible to receive **Enhanced Vouchers** for unassisted residents.

**All options
take time.**

**Start
planning
now.**

Issue:

My mortgage is maturing and my Section 8 contract is expiring soon. What can I do in this short period of time?

Solution:

Renew the Section 8 contract to continue the subsidy, and leverage income to refinance and preserve property. Call HUD for guidance.

**All options
take time.**

**Start
planning
now.**

CASE STUDY

Senior Towers

Case Study Background

- Originally financed with a HUD Section 202 loan in 1976.
- 100% Section 8.
- Took out a Flexible Subsidy Loan in the 1990's; principal and interest deferred until maturity of the Section 202 loan.
- Nonprofit owner desired to refinance the existing Section 202 loan to payoff the Flexible Subsidy Loan and to recapitalize the property.

Senior Towers

Case Study Preservation Strategy

- FHA 223(f) loan was best fit to address capital upgrade needs.
- New loan allowed owner to pay off Flexible Subsidy Loan and to complete approximately \$10,000 per unit in upgrades.
- Section 8 rents were at market. Executed a new 20-year HAP contract when closed on the new loan.
- Increased surplus cash is being programmed for additional improvements over time.

**Senior Towers Kitchen
BEFORE**



**Senior Towers Kitchen
AFTER**



Senior Towers Kitchen – AFTER



- New cabinets, granite, fixtures, lighting, flooring
- Kitchen opened up to living room to allow natural light



Senior Towers Bathroom - AFTER



- New sink
- New low flow, comfort height toilet
- New fixtures and accessories
- Tile and paint

Preservation Timing

There are many components to a successful preservation, and the timing of each needs to be coordinated carefully to work with the overall strategy. To consider:

- Board education and agreement on the best strategy
- Assembling the team
- Understanding the details
- HUD approvals required
- Applications for new funding
- Timeline for new funding

RESOURCES

HUD Preservation Resources

- Office of Recapitalization home page:
http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh/hsgmfbus/aboutahp
- 202 Prepayment Notice (HUD Notice H 2013-17)
<http://portal.hud.gov/huddoc/13-17hsgn.pdf>
- Multifamily Preservation Resource Desk - For Section 236 projects
<http://www.hudmfpreservation.net/>

HUD Preservation Resources

Multifamily Housing
Preservation Mailing List:
<https://hudexchange.info/maillinglist>

- Subscribe to receive emails with news, events, training, and information about how to maintain affordability.



HUD Exchange Mailing List

The HUD Exchange Mailing List provides email updates on resources, trainings, events and announcements for all HUD programs, as well as updates on the functionality of the [HUD Exchange](#).

Click to view the [HUD Exchange Privacy Policy](#).

Please select from the list below the topics for which you would like to receive email updates.

Email Address

HUD Preservation Resources

Future Website: <https://hudexchange.info>

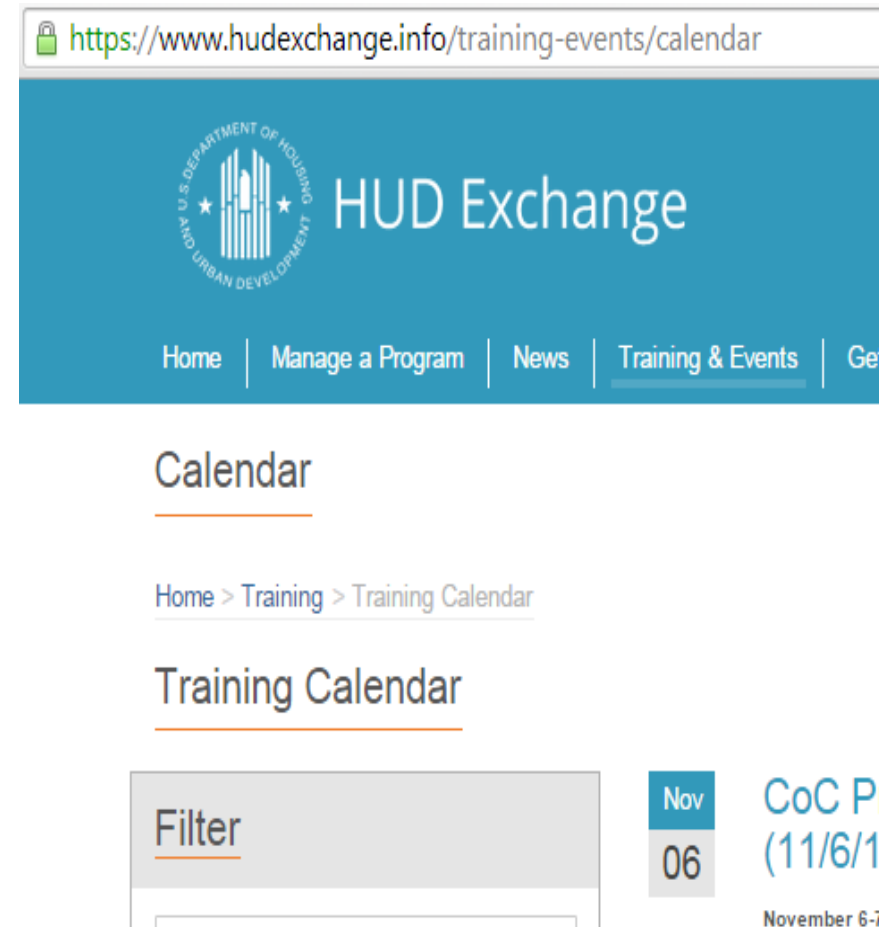
- Housing Preservation webpages to be launched on the HUD Exchange.
- Webpages will consolidate and link existing web-based materials into easy to access and searchable formats.
- Webpages will include new fact sheets, guidance, and webinar materials.

HUD Preservation Resources

Preservation webinars planned on basic and advanced topics in 2015. For information:

- <https://hudexchange.info/training-events>
 - Webinar dates and times
 - Slides, recordings, and instructional materials
- Announcements made through the Multifamily Housing Preservation Mailing List. (See slide 41.)

**Next webinar:
“Section 236 Basics”
in January 2015.**



NEXT STEPS

Agree to Start Now

Why?

- Favorable changes in HUD regulations
- Favorable financing
- Expiring subsidies force action
- Maturing balloon notes must be addressed

What Are My Next Steps?

1. Stay informed and get educated (see HUD resources).
2. Understand the details and hurdles for your property.
3. Agree on your desired outcomes.
4. Decide the best path to meet your desired outcomes.
5. Assemble your team and proceed.

What Are My Next Steps?

- Contact HUD as soon as possible. Email HUD with property name, property address, mortgage maturity date, and primary contact person/contact information as follows:
- For Section 202 properties, email Section202@hud.gov
- For Section 236 properties, email 236Preservation@hud.gov

Form Your Team

Gather a team of professionals who are familiar with and specialize in the preservation process.

- HUD Program Staff, Headquarters and/or Field Office
- Lender
- Attorney
- Consultant
- Architect
- Contractor

Do not do this alone!

- ✓ Sign up for the mailing list on the HUD Exchange.
- ✓ Know your project – its financing, subsidies, and capital needs.
- ✓ Talk to your board.
- ✓ Talk to your HUD representative.
- ✓ Stay informed.
- ✓ Ask for information and assistance.

Start now!

Summary

Questions & Answers

Use Question Box in GoToWebinar dashboard to submit written questions.

For specific project questions, contact your HUD representative or email to:

- For Section 202 properties

Section202@hud.gov

- For Section 236 properties

236Preservation@hud.gov

PLEASE GIVE US YOUR FEEDBACK

Feedback survey link will be sent after the webinar.

U.S. Department of Housing and Urban Development
Office of Recapitalization

Thank You

