RAD Resurrection: Preservation instead of Rehabilitation
By Robert E. Hazelton, President of Dominion Due Diligence Group
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After two years working with HUD's Rental Assistance Demonstration (RAD) Pilot much has been learned, but there is still much more to learn! The original 60,000 units subscribed to RAD were found to have a wide range of capital needs, extending from newly constructed housing to 50+ year old apartment buildings. In our experience assessing the needs of over 19,000 RAD units, there is little uniformity within the public housing portfolio, and each project needs to be viewed independently with a kaleidoscope of options.

Affordable housing finance specialists and developers may propose a myriad of RAD strategies to Public Housing Authorities; however, often they are lauding the low-income housing tax credit (LIHTC) markets. While I agree the LIHTC equity markets are valuable in creating dollars necessary for low-income housing rehabilitation; I also remain pragmatic and know that the LIHTC process can present challenges and confusion. First of all, it is important for PHAs to understand that mixed financing and LIHTC have their own strict regulatory and reporting requirements and your exit from HUD oversight is unlikely. Secondly, it is important for PHAs to understand that some developers are motivated to maximize rehabilitation, whereby increasing basis and potential developer fees.

My firm has experienced many instances in the past 24 months where the initially-proposed financing plans have collapsed. The causes in many of these *stalled* RAD projects include: (a) false expectations, (b) excessive rehabilitation, (c) disproportionate expense ratios, and (d) impending milestones and deadlines. Whatever the reason may be, a significant number of the original RAD units are mired in the process and some Executive Directors have gone so far as to request HUD revoke their CHAP. Hearing of these decisions pains me greatly, especially based upon our recent success stories in the resurrection of dead-on-arrival RAD deals.

I want to reiterate that I consider these mired CHAPs to be only stalled and not products of failure. Substantial rehabilitation may or may not be the best answer for a particular property. We have repeatedly experienced success in converting false expectations into positive outcomes and subsequently saved the CHAP awards. I feel this is best explained by a recent case study where a LIHTC rehabilitation was abandoned in favor of a self-funded RAD conversion:

Example Property: 7 Scattered Sites, 466 total units, Construction Dates 1951 to 2010

<u>Background</u>: D3G was contracted to perform a RPCA of two (2) distinct loan portfolios/packages, with direction of a 4% LIHTC project using FHA Section 221(d4). The rehabilitation design included not only baseline repairs identified by our Needs Assessor, but also elective improvements (e.g., *betterments*). Fast forward nine months and the developer/housing consultant advised the PHA that the financing plan does not work based upon a combination of capital requirements and current expense ratios.

Solution: D3G's Needs Assessor determined that the property was in generally good physical condition, having been well-maintained and effectively managing the use of ARRA stimulus funds. The PHA additionally had a comfortable reserve account on hand and proposed contract rents could be calculated. After discussions with the HUD RAD team and the PHA, the determination was made to abandon the 4% LIHTC scheme and prepare the RAD Excel Tools based upon principles of housing preservation (e.g., "If it isn't broken, why replace it now?"). The RPCA was reworked based upon "End of Cycle" replacement strategies, and the concept of front-loaded rehabilitation to create basis was dismissed, effectively mitigating prevailing wage construction cost increases. Subsequently, a successful preservation strategy of a large initial deposit to the reserve combined with a healthy annual per unit per annum proved financial viability.

Conclusion: In this case study, abandoning the LIHTC and 221(d4) loans in favor of a self-financed preservation strategy proved successful for the PHA. Not only did this creative process save the CHAP and facilitate a RAD Conversion Commitment (RCC), but it also afforded the PHA the time necessary to properly plan a future 4% or 9% application on their own schedule and not within the rigidity of the CHAP milestones.

In conclusion, it does not take an MD to perform CPR of a RAD project that is DOA. (Is that enough acronyms for you?) But what it does take is a Needs Assessor who (a) listens to your objectives; (b) understands both mixed financing and preservation; and (c) can think outside the box in order to achieve success. Want to hear about other preservation deal savers? Give me a call, as I love to rave about our RAD success stories.