

The unannounced revolution picks up speed

We all want to change the world. While some revolutions are announced; others arrive with so little fanfare that by the time they seep into the public consciousness they're all but inescapable. Such a revolution is quietly overtaking public housing: while the legacy program of HOPE VI remains on the books but zero-funded (except for occasional Choice Neighborhoods grants), the whole structure of public housing is being reinvented via HUD's Rental Assistance Demonstration (RAD).

You say you've got a real solution. In roughly a year and a half, HUD has approved Commitments for Housing Assistance Payments (CHAPs) for 14,400 public housing apartments. This will allow these properties to escape from the anachronistic public housing dependency model, under which they have operated for up to seven decades, and into the freedom of being able to finance, refinance, and operate like any other affordable housing property owned by a mission-driven organization. Another 6,000 apartments are in the pipeline, and HUD has a further 40,000 apartments' worth of demonstration authority to approve.

RAD resources available

For more than a year and a half I've published analysis, recommendations, and updates on RAD.

If you'd like these materials, email me at dsmith@recapadvisors.com.

We'd all love to see the plan. Public housing's standard regulatory covenant traps a local authority as a capital-starved dependent on distant HUD: unable to sell or finance property or generate positive net operating income (NOI). In short, the authority is condemned to watch its public housing property gradually obsolesce, atrophy, and fail.

Public housing today is home to more than 1,300,000 American families of low and very low income. The inventory, much of it situated in great urban locations with immense development potential, represents probably more than \$100 billion worth of depreciated replacement cost, and faces a capital backlog that is probably in the



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range of \$40-45 billion – and rising.

As I've written multiple times since 2006, the public housing system was – and still is – broken.

Revolution was needed.

You ask me for a contribution. RAD offers a clean way out. Any property that wishes to transform itself from legacy public housing into affordable housing can do so via two linked actions:

1. Removing the RAD property from the standard HUD-PHA regulatory agreement, and replacing it with a typical property-based use agreement; or,
2. Converting the public housing operating subsidy and modernization funds into a property-based Section 8 contract at the same aggregate income levels.

Simultaneously with this decontrol, the public housing authority owner funds necessary rehab (approved by HUD), using the financing of a normal affordable housing transaction – a HUD Section 223(f) mortgage, volume-cap bonds and 4% low-income housing tax credits, allocated 9% housing credits, or whatever works.

There's your blueprint for revolution.

Guru, continued on page 25

We're all doing what we can. Amazingly, while people like me called RAD revolutionary and worthy from the get-go, the deeply skeptical public housing community (with some justification) largely greeted RAD's early-2012 inauguration with anywhere from indifference to suspicion. Back then, RAD's proponents were rare, and it took all we could do to persuade a few early adopters to start into HUD's extraordinarily user-friendly and flexible RAD application and intake process.

Though the revolution is picking up followers, even today RAD's doubters far outnumber its proponents.

You tell me it's the institution. A quarter century ago, on a panel discussing the former LIHPRHA program, I observed with black humor that every HUD program in my experience has gone through six stages, namely:

- *Conceptualization.* A program idea surfaces, is debated, and gains support.
- *Enactment.* The program launches via a demonstration or pilot with limited time, volume, or eligibility.
- *Chaos.* Pilot phases emphasize objectives and speed over rules and process. That's heady stuff, but it can be chaotic, with the rules changing as properties go through the program.
- *Codification.* After the early experiences, the regulator decides on a set of principles, a cluster of recognizable property or transaction types, and hence a decision tree of operating procedures to handle these acceptable transaction types.
- *Scandal.* Either someone in the political opposition finds a case that can be presented as a scandalous outcome, or the political power structure changes, such that the new people are inclined to condemn the previous crowd's policies and decisions.
- *Shutdown.* Because of real or perceived scandal, or simply program fatigue, Congress either eliminates the program or stops funding it (e.g. HOPE VI).

The best time to enter a program, I told the laughing audience, is in Chaos; it maximizes opportunity for the smart and decisive.

Three years later, many of those same folks were no longer laughing – the application window for LIHPRHA had closed and the program was defunded.

You better free your mind instead. The RAD revolution remains open for business: HUD still has 40,000 apartments' worth of demonstration authority (and funding for it).

Here is a HUD program that not only allows deregulation and innovation, but also accepts walk-in service by people who want to make the transaction work.

You say you want a revolution? **TCA**

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AFFORDABLE DEBT

RECENTLY CLOSED TRANSACTIONS



\$54,416,000
Freddie Mac Affordable
New York, New York

\$37,500,000
Freddie Mac Affordable
New York, New York

\$8,446,000
Freddie Mac Affordable
Salinas, California

FANNIE MAE | FREDDIE MAC | FHA/HUD

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