HUD Spotlight

Foxfire Apartments is a 160-unit development in Jackson, MI that recently converted under the second component of RAD. The conversion allowed the project to preserve its subsidy to maintain its affordability—now in the form of a Section 8 Project-Based Voucher (PBV) contract—and included a Section 236 Interest Reduction Payment (IRP) decoupling, and re-financing with an FHA 223(f) refinance loan. This also positioned the project to leverage a competitive 9% Low Income Housing Tax Credits (LIHTC) allocation for making important repairs. We caught up with Mark Dominick, Michael Polsinelli, and Joseph Davis, the staff in the Detroit HUD office, to talk about their experience in preserving this property through RAD.

What made Foxfire eligible for RAD?

Foxfire Apartments was originally built under the Section 236 program in 1975. The project was also awarded a Rental Assistance Payment (RAP) contract, something of a precursor to the Section 8 program, around that time. The RAP contract was set to expire in 2016. Because the owner was planning to pre-pay the 236 mortgages, thus triggering the termination of the RAP contract, they were eligible for RAD under the initial notice.

What would have happened if RAD had not been available at the time of contract termination or expiration?

Unlike Section 8 projects, HUD never received the authority to renew Rent Supplement (Rent Supp) or RAP contracts at expiration. Normally, when a RAP contract terminates or expires, all tenants at the project receive a Section 8 Tenant Protection Voucher (TPV). Those families could either remain at the project or they could use their voucher to lease elsewhere. But there would be no long-term affordability of the project itself; both the subsidy and the use agreement would be lost. Under RAD, we were able to convert all the TPVs to project-based vouchers (PBVs), which is what enabled us both to preserve the hard units as affordable housing for the term of the contract and also seek the long-term financing to make the needed repairs and improvements to the property.

How much work was required?

A lot! It was determined that the projected needed about $45,500/unit in repairs to preserve the units for the long-term. How were you able to finance those repairs?

By project-basing the vouchers to a long-term Section 8 contract, we were able to secure long-term mortgage financing to cover around $2,400/unit in repairs through a FHA 223(f) loan. But we still had a sizable gap given the extensive repair needs at the property. Consequently, we combined the RAD section 8 rents with 9% Low-Income Housing Tax Credits, to leverage an additional $43,100 per unit in repairs, totaling approximately $45,500 in upgrades for each unit.

What are the benefits to the owner?

From a community standpoint, the owner created more affordable units and was able to preserve the affordability that the Section 236 mortgage and the RAP contract provided, thereby providing housing to many low-income families. From a financial perspective, the owner was able to pre-pay the 236 mortgages (which triggered the termination of the RAP contract) and receive project-based vouchers in lieu of tenant-based vouchers, so the income stream remained steady & secure because it was attached to the property. Investors are willing to make a bigger investment because of the reliability of the project-based rental assistance contract. Under the normal procedures for pre-payment, the tenants could have gone elsewhere, taking their steady rent payments with them. The level of rehabilitation and the owner's ability to compete for 9% tax credits were enabled by the RAD conversion.

What partnerships helped to get this deal to close?

There were many players that helped bring this deal together. The owner is Foxfire Apartments LDHA, LLC, and the principal is Laurence Tisdale. The FHA lender is Pillar Capital Finance and the tax credit investor is AHP Housing Fund 20, LLC (Affordable Housing Partners is a division of Berkshire Hathaway). From HUD, Multifamily's Office of Asset Management and Office of Multifamily Development in the Detroit field office worked together from the start because of the complexity of the deal. Multifamily also worked closely with staff from the Office of Public and Indian Housing to coordinate the vouchers, and to lead resident information sessions. The field staff was in consistent communication with the RAD team in HQ as well. Another partner was the Michigan State Housing Development Authority (MSHDA), who played an integral role in the process: they were chosen to administer the PBV contract, and they played a key role in securing the financing and tax credit allocations.

What was your role as HUD field office staff?

The Asset Management team handled the decoupling and the senior underwriter reviewed the initial RAD application. Working with the Office of Development, they reviewed the application for the 223(f) loan and took the project to closing, which included an FHA insurance endorsement. The field office also worked with the lender and helped with the regulatory agreement, use agreement, and checking the sources of funding. In the field office, the operations officer and asset management account manager worked together in every step of the transaction.

In what ways will the property be different after conversion?

Between the repairs they will accomplish through their 223(f) financing and the tax credit allocation, Foxfire is going to be a significantly improved project for residents to live. Plans include a sports court as well as new HVAC systems that will be energy star-rated. In fact, the entire project will meet Enterprise Green Standards. Altogether, with the 223(f) closing, and the LIHTC's, the owner will make approximately $7,280,000 in total repairs.

What kind of communication was there with residents?

There was quite a bit of engagement with residents through the conversion process. Especially important was communicating the new rent structures that applied to residents. Residents who are income-eligible for Section 8 vouchers, under the Section 236 program would have had to pay a basic rent, which in some cases was as much as 70% of their income. But with the project-based vouchers (PBVs), their rents will be capped at 30% of their income, so the income-eligible tenants will be protected with a greater level of subsidy. Of course, during the meetings, some residents expressed their concerns about the disruptions the changes would cause, but we also heard from many residents that they are excited about the improvements and the benefits of the PBV subsidy. Ultimately, the HUD staff was able to accommodate resident concerns by providing details of the proposed rehabilitation, explaining the voucher application process with the assigned public housing authority

(PHA) and options for residents that might not be income eligible for a PBV. For these tenants, they were informed that they could not be involuntarily displaced due to RAD, however, if they or other tenants with existing Housing Choice Vouchers (HCV) chose to move within three years, a future resident could be backfilled to receive the benefit of a PBV.

What advice do you have for others who would like to implement RAD?

We believe this is a great way to preserve Rent Supp and RAP assets (particularly ones with a Section 236 mortgage), and we encourage any owner that is eligible to participate to apply. RAD preserves the affordability on site, and enables the refinancing of these properties through the stable long-term project-based rental assistance contracts. If you are working on your first RAD deal, we encourage you to reach out to the HQ team through RAD@hud.gov. If you are working on a complex deal that involves a mortgage prepayment, a decoupling, or an FHA refinancing, we also encourage you to reach out to the field offices, like Detroit, that have already gone through the process. To contact those who worked on this deal, Joe Davis, Senior Underwriter and RAD Transaction Manager, 313-234-7495; Mark Dominick, Supervisory Project Manager at 313-234-7513; and Mike Polsinelli, Director of Operations, 313-234-7502.