The Good, the Bad and the Ugly of Section 8 PBRA

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Presenters

- **Stan Houle**, Program Manager, HUD Office of Housing Assistance and Grant Administration
- **Zoe Weinrobe**, Director of Real Estate Innovation, Jewish Community Housing for the Elderly
- **Steve Niles**, Partner, Klein Hornig LLP
SECTION 8’s Critical Role In Affordable Housing Development -- “The Good”

Section 8 PBRA and Voucher = 64% of FY ’16 HUD Budget ($47.2B)
  o Funding for PBRA was $10.6B in FY ’16

PBRA Assists 1.2 Million Low Income Households -- but only 25% of eligible households
  o Average Household Income Below $12K per year
  o 56% of Households include Elderly or Disabled Person
  o Tenants paying 30% of their adjusted income

Assistance to Residents in over 17,000 properties throughout US
Maximizing HAP Contracts

Important/valuable “asset” to Owner/Investor/Lender

Owners Using HAP Contract Renewals for:
  o Preservation/Stabilization of Rental Income
  o Rehab
  o New Construction
  o Equity Take-Out
Maximizing HAP Contracts and Project Value

How HAP Renewals Help

- New 20 Year Subsidy Contract – backed by Fed. Govt. (Full Funding in years past)
- Rent Increases to “As Is” Market Rents
- Rent Increases to “Post Rehab” Market Rents
- Preservation, in some cases, of Above Market Rents
- Potential to Receive Increased/Unlimited Distributions
- Mechanism for Annual Rent Adjustments (OCAF, BB, Market)
- Use Replacement Reserves and Residual Receipts
“Skinny Budget” – Will this Be “Bad/Ugly”? 

**Government Operating Under CR Through April 28, 2017**
- For FY ’17, Funding at FY ’16 Levels
- Even at Current Funding, Shortfall of $300-500 Million on PBRA
- HUD Indicates Some Contracts Will Be Funded For Less Than 12 Months
- Trump Administration Proposal for FY ’17 (Cut $1.5B from CDBG)

**Trump Administration FY ’18 Budget Cuts over 21% from HUD Affordable Housing Programs (over $6.7B)**
- How to Pay For the Wall, Defense Increases and Tax Cuts
- Eliminates Funding for CDBG, HOME and Choice Neighborhoods
- Significant Reductions for Public Housing; Cuts for HCVs
- Scope of PBRA Cuts -- Unclear
  - “Subject to Appropriations”
  - Even Constant Funding Means Shortfall
More “Bad/Ugly”?

Proposals To Reduce Budget Outlays
- Increase tenant payment (e.g., 35% of adjusted income)
- Skew to Higher Income Tenants (Work Requirement)
- Restrict Ability To Get Rent Increases (e.g., MUTM, BB, OCAF)
  - BUT, over 50% of S8 Projects have FHA-insured/HUD-held loans

2-For-1 Regulatory Replacement
- What stays and what goes?

Hiring Freeze – Attrition Plan
- Further Limiting HUD Resources/Morale
- Unfilled and “Acting” Positions
Know What You Have And What You Can Do

Different Types of PBRA
- NC, SR, LMSA, PD – and now RAD
- Look for Original Contract and Renewal Contract(s)
  - “Old Reg” and “New Reg”
    - Distributions
    - Residual Receipts
    - Replacement Reserves
    - Requirements for AFS
  - Affordability Requirements

Look for HUD Use Agreements
Look to Debt Documents
MAHRAA Renewal Options

“Renew” most terms of original HAP contracts
  – Distributions

Options:
  Option 1 -- Mark-Up-To-Market**
    ➢ Chapter 15 (Post Rehab)
    ➢ Non-Profit MUTM
  Option 2 -- OCAF or BB
    ➢ Chapter 15 (Post Rehab)
  Option 3 -- Mark-Down-To-Market
    ➢ M2M Debt Forgiveness/Assignment
    ➢ 10/1/17 Sunset, unless extended
  Option 4 -- “Exception Projects”
  Option 5 -- Preservation and Demo
  Option 6 – Opt Out
MAHRAA Renewal Options

Renewal Options – Key Piece in Preservation/Redevelopment Transaction

- Often significant rent increases upon renewal – “as is” and “post rehab” market rents
- Leverage new first debt (FHA and conventional) and soft debt
- New LIHTC equity (4% and 9%)
- Using distributions, replacement reserves and residual receipts to fund repairs/improvements
- Reduce monthly replacement reserve funding going forward
MAHRAA Renewal Options

Issues to Consider

- Early Termination of Existing HAP Contracts
  - Flexibility to Pursue Different Options
- Existing Contract Rents Relative to Market
- Rehab Potential/Required
- Utilization of Distributions
- Market Rents Relative to 140% Zip Code Rents
- Ability to get Vouchers for Unassisted Tenants
Transferring HAP Contracts/Budget Authority – “Slice and Dice”

Tool for Redevelopment Off-Site – Used for NC or Rehab
• Section 8bb (permanent)
  o Transfer S8 budget authority from one project to other(s)
• Section 212 (through 9/30/17?)
  o Transfer HAP contract, HUD debt and HUD use restrictions
• Issues
  o Physical Obsolescence or Financial Nonviability (212)
  o Location of “Receiving Property”
  o Plans for “Transferring Property”
  o Tenants’ Rights – Right to Return, URA
  o Changing Unit Mix
  o Budget Neutrality
  o HUD Commitment
  o Use in Abatement Context/Opt Outs*
Section 8 Pass-Through

Useful for Relocation -- Rehab, NC and Transfer
• HUD Permits S8 Subsidy to Continue During Off-Site Relocation
• Tenant Continues to Pay Tenant Share, Landlord Pays Balance of Rent
• Issues
  o Tenant Right to Return
  o Tenants Must Voluntarily Agree
  o Owner Pays Moving Expenses
  o Permanent Relocation under URA if beyond 12 months