Mixed Income Development: Leveraging Faircloth-to-RAD

Center for Public Enterprise

July 2024

Q2 Public Development Community of Practice Leveraging Faircloth-to-RAD

Center for Public Enterprise

July 2024

Agenda

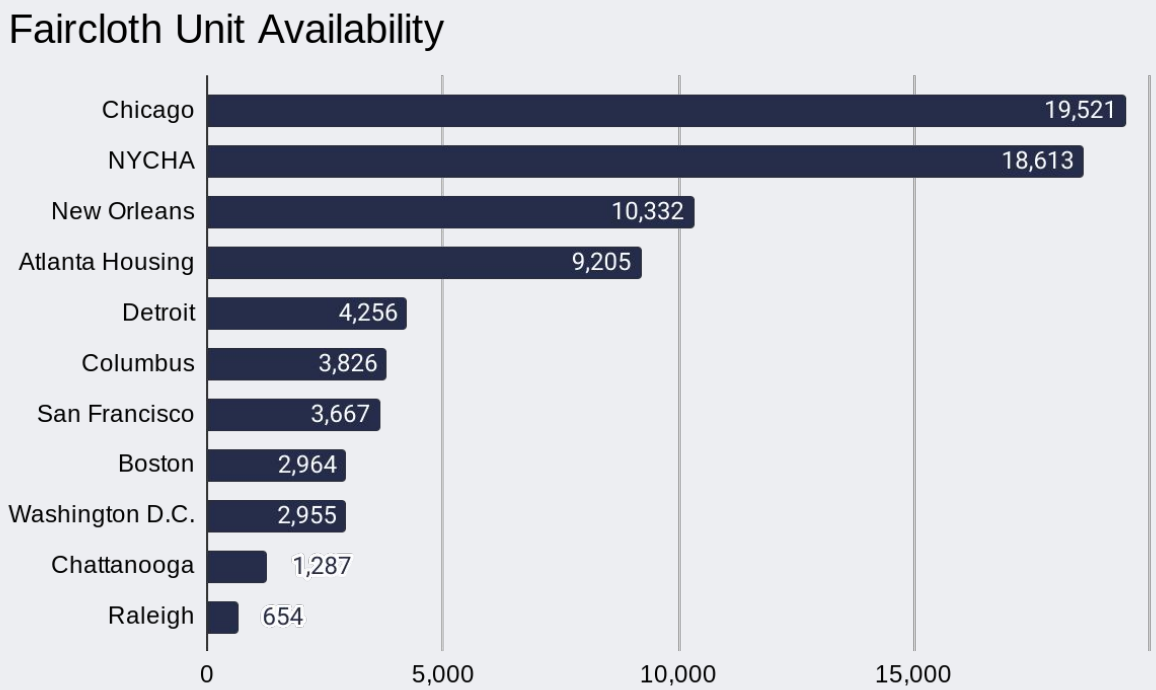
1. What is Faircloth Authority?
2. How does Faircloth-to-RAD work?
3. What are known challenges?
4. Strategies for development

What is Faircloth Authority?



- Amendment to the Quality Housing and Work Responsibility Act of 1998.
- Limits PHAs to the number of public housing units they had as of October 1, 1999.
- Between 1999 and today, PHAs have fallen well below that limit due to demolition and disposition of public housing.

Faircloth Authority



Center for Public Enterprise

Source: HUD, Office of Capital Improvements: National List of Maximum Number of Units Eligible for Capital Funding & Operating Subsidy by PHA (12/31/2023)

~250,000

The number of units that could be built given today's available Faircloth.

The Concept

Faircloth Authority + Mixed Finance Development + RAD Conversion =

Faircloth-to-RAD

- Build a new public housing unit under the existing Mixed-Finance process that will immediately convert to a project-based Section 8 contract once you reach construction completion.

- HUD will provide new subsidy for the Faircloth units brought online and will tell you up front what those rents will be, allowing you build your deal around a guaranteed rental assistance amount.

- A way to “turn back on” rental subsidy from HUD and use it to build or acquire new deeply affordable housing.

See for more information: HUD Faircloth-to-RAD Guide (2023)

How it Works



Process

Pre-Development

1. Request a Notice of Anticipated RAD Rents (NARR) from Recap
2. Prepare and submit Mixed Finance Development Proposal (MFDP) to PIH
3. Receive MFDP approval
4. Receive a conditional RAD conversion approval from Recap

Construction

1. Mixed-finance closing; construction begins
2. 90 days out - submit construction completion update and begin uploading RAD closing documents
3. Request a date of full availability (DOFA) from your Field Office - precursor to the unit being entered into PIC/HIP

Conversion

1. Recap issues a commitment to enter into a HAP contract (CHAP) and the RAD conversion commitment
2. Complete RAD closing

For more information see: Faircloth-to-RAD Guide (2023)

Challenges

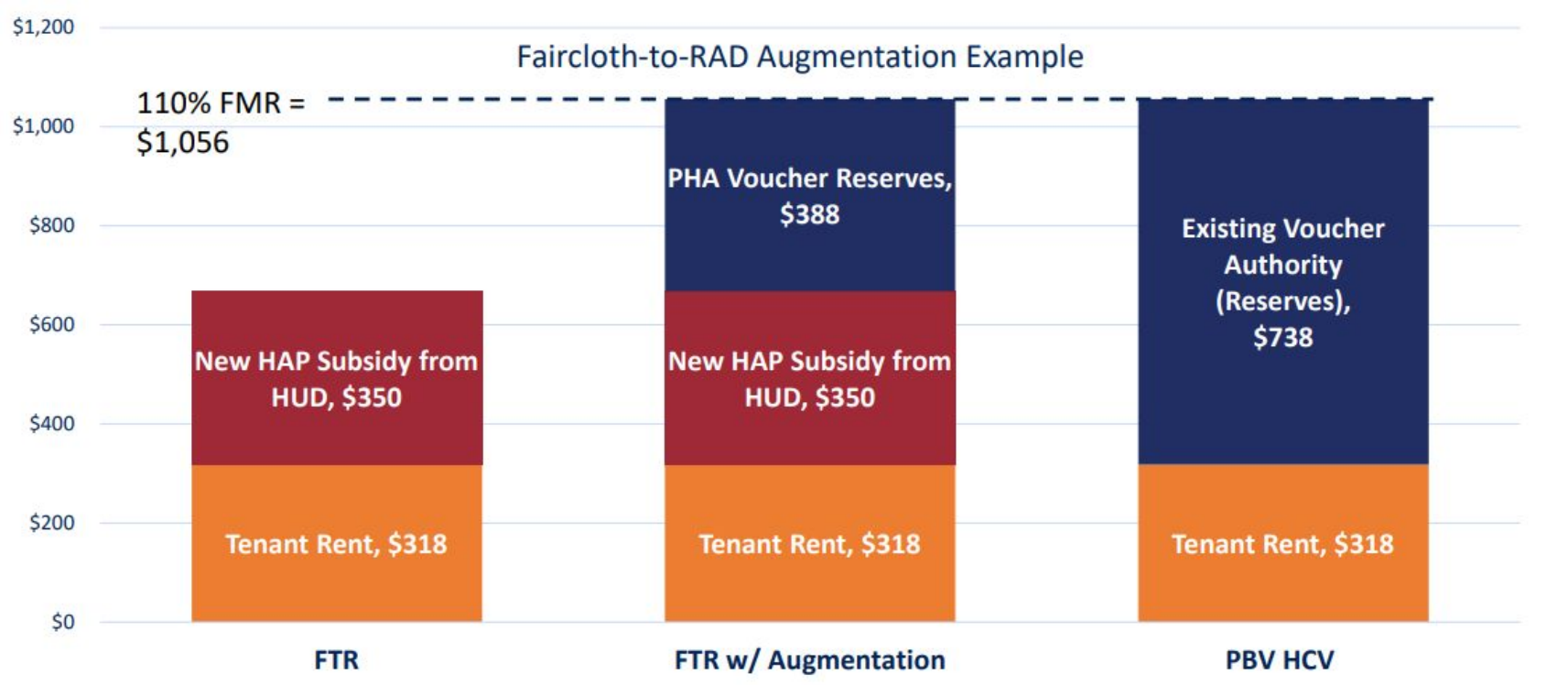
1. Faircloth-to-RAD rents are **low**.
   a. Expect rents lower than RAD rents, 10-20% lower. For new construction, the formula essentially assumes $0 in capital fund dollars.

2. Property needs to be “public housing” before it can convert via RAD.
   a. Must meet all PH requirements (Accessibility - UFAS, Davis Bacon, Site & Neighborhood Standards)

3. Two closings required
   a. Mixed Finance Closing to start construction & RAD closing to convert to Section 8

4. Timing of Public Housing & HAP Payments
   a. HAP payments start January of year following conversion, i.e. best to close during December.
   b. Need to be in PIC by summer to be eligible for operating fund subsidy

Rent Augmentation



Center for Public Enterprise

Source: Faircloth-to-RAD Wednesday Webinar (2023)

Rent Augmentation

- MTW agencies can augment by right with their MTW funds.

- Non-MTW agencies would need to demonstrate that the project is in a low-vacancy area (<4%) and that the residents will be eligible for services OR cap the number of FTR units at 25% or 40% (if in a low-poverty area).

See Section 1.6.B.5f of the RAD Notice v4B for more information.

Strategies for Development

1. Use rent augmentation to bring rents up to 110% FMR

2. Partnerships across PHAs and entities with shared jurisdictions. E.g., one provides Faircloth the other provides HAP reserves for augmentation.

3. Add Faircloth-to-RAD units to a LIHTC project to get deeper affordability.

4. Issue an RFP to outside developers to solicit interest given specific rent levels.

5. Acquire an existing building and attach Faircloth-to-RAD units to preserve affordability.

6. Use Faircloth-to-RAD as a subsidy base for building mixed-income developments.

Resources



Resources

- **Faircloth-to-RAD Overview**- A Sept. 2023 overview of Faircloth-to-RAD
- **Faircloth-to-RAD Guide** - Step-by-step instructions for completing a Faircloth-to-RAD development.
- **List of Available Faircloth Authority** (2023) - A list of available Faircloth authority by PHA.
- **Mixed Finance Development Process** - A presentation on the Mixed Finance process.
- **Gainesville, GA Faircloth-to-RAD Overview** - Presentation on how Gainesville, GA is leveraging FTR
- **Cambridge, MA Faircloth-to-RAD Overview** - Presentation on how Cambridge, MA is leveraging FTR

HUD's Office of Urban Revitalization
OUR@hud.gov

Contact for more information on Mixed Finance Development Process

HUD's Office of Recapitalization
RAD@hud.gov

Contact for more information on requesting your Notice of Anticipated RAD Rents, or the RAD conversion components of a Faircloth-to-RAD development

Questions, Thoughts, Ideas?

Ashwin.Warrior@PublicEnterprise.org