

# Preservation Tactics for Senior Properties

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# BIG IDEAS FOR TODAY....

- I. Rental Subsidy –
  - Section 8 - Are you maximizing and protecting?
  - RAP/Rent Supp – CONVERT!
- II. Prepay 202 & 236 for better options?
- III. FHA MAP changes benefitting senior housing

# Maximize and Protect your Section 8 Contracts

# WHY MAXIMIZE?

“Maximizing” means making sure the Section 8 rents are as high as possible. This increases NOI, which can be used for:

- *Additional Capital Repairs*
- *Equity take-out*
- *Developer Fee*
- *Service Enhancements*

Option 1, Option 2  
Contract and the new  
Preservation Chapter...

# Section 8 Renewal Options

Owner Type	Eligible for Option 1 (MU2M)	Eligible for Option 2 (MUTB)	Eligible for Option 4 (Exempt)
Nonprofit Owner	Maybe*	Yes	Yes
For-Profit / Limited Dividend Owner	Yes	Yes	No
For-Profit / Limited Dividend Purchaser	No	Yes	No
For-Profit Purchaser	Yes	No	No

**\*\* BIG CHANGE:** The new Renewal Guide now allows certain properties owner by non-profits to renew under Option 1b.

# MARK-UP-TO-MARKET ELIGIBILITY CRITERIA (Option 1A)

- ❖ REAC score >59
- ❖ No exigent EH&S
- ❖ Profit-motivated or limited distribution owner
- ❖ Market rents at least 100% of the FMR
- ❖ No low- or mod-income use restrictions that cannot be eliminated by the owner

# MARK-UP-TO-MARKET ELIGIBILITY CRITERIA (Option 1B)

*Must meet one of the following conditions:*

- ❖ Vulnerable Populations (>50% senior/disabled/large family)
- ❖ Vacancy Rates (<3%)
- ❖ Community Support (state/local gov't funding)

*Note: Discretionary MU2M requests must be reviewed and recommended by the HUD field office and forwarded to HUD headquarters for final approval.*



# MARK-UP-TO-BUDGET ELIGIBILITY CRITERIA (Option 2)

- ❖ Same as for MU2M (Option 1)
- ❖ Rents must be below RCS market rents
- ❖ Budget must support request

# MU2B BUDGETS

- ❖ Use the debt service for the *new financing* in budget
- ❖ HUD allows “debt service coverage” up to 1.20 (*NEW*)
- ❖ HUD allows lender’s vacancy loss in budget
- ❖ RCS will cap the rents
- ❖ Future annual rent adjustments are OCAF, with five year resets using an updated RCS.

# Chapter 15 - PRESERVATION

- ❖ **Purpose:** Transferring ownership or funding capital repairs. (*BIG CHANGE:* Focus is the use of “post-rehab” RCS rents.)
- ❖ **Rents setting:** Capped by RCS; can be MU2M or MU2B
- ❖ **Eligible Entities:** NP and FP entities are both eligible. (*BIG CHANGE:* For profits don't need waiver)

# Chapter 15 REQUIREMENTS

- ❑ RCS (as-is and post-rehab)
- ❑ Capital Needs Assessment
- ❑ Environmental Phase I Study (*NEW*)
- ❑ Sources and Uses Statement
- ❑ Description of transaction

# Chapter 15 CONTRACT TERMS

- ❖ Always 20 year term
- ❖ Requires Use Agreement as well
- ❖ “Preservation Exhibit” attached extending for the balance of years left on current contract

# NEW RCS RULES

- ❖ If median RCS rents are less than 140% of mean zip code rents, **no HUD RCS required**
- ❖ HUD will cap the new rents at 150% of the FMR or the RCS rent on Option 1A renewals (no FMR cap on Option 1B or Option 2)
- ❖ RCS rent is lower of owner's or HUD's RCS + 105% of HUD's RCS.

# KEYS TO SUCCESS

- ❖ Owner's RCS should not violate the 140% rule
- ❖ Non-profit owners with rents under-market may benefit from Option 1B if they qualify
- ❖ Pros and cons of "Preservation" renewal (Ch. 15)
- ❖ Discuss with Contract Administrator early.

# Option 4 Contracts...



# OVERVIEW

- ❖ Typically found with 202s and some 236 properties
- ❖ Allows for above market rents
- ❖ Renewal rents: *Lesser of* BBRI or OCAF adjusted

## THE CONCERN

202/236 Loan  
Matures

Use Agreement, Loan  
payment, and R4R  
deposit go away

Rents decreased  
at next renewal

## REFINANCING TO RETAIN RENTS

- ❖ Lender/HUD require new 20 year HAP contract
- ❖ Refinancing uses new debt service in budget
- ❖ New R4R deposit supports over-market rents.

**TIP:** To retain over-market rents plan to execute a new 20 year HAP and refinance to replace old debt service with new debt service.

## RE-REFINANCING

- ❖ Re-refinancing with FHA debt may result in loss of Option 4 status & over-market rents at HAP renewal.
- ❖ To retain their Option 4 contract and above-market rents they must either:
  - ❑ Refinance with a non-insured conventional loan.
  - ❑ Opt for an “Interest Rate Reduction Program” lowering of their interest rate. This does not allow for equity take-out or repairs.

Don't let the RAP/Rent  
Supplement Expire...

# RAD 2 FOR RAP/RENT SUPPLEMENT

- ❖ Rent Supp/RAP contracts cannot be renewed.
- ❖ RAD 2 converts to PBV or PBRA contract.
- ❖ New long term contract can secure new financing and subsidy for long term.

Prepay and refinance  
the 202 and 236 loans...

# Why prepay and refinance your HUD Loan?

- ❖ Lock in another 20-Year Use Agreement
  - *Better FHA underwriting terms*
  - *Option 4 HAP secured*
- ❖ Take advantage of low interest rates
- ❖ Tackle needed capital improvements
- ❖ Improvements for aging-in-place
- ❖ Extract cash for other projects
- ❖ Refinance your Flexible Subsidy Loan

# 202 Prepayments

- ❖ **Refinance to Reduce Interest Rate.** For projects financed between 1975 and 1990 (“new” 202 loans).
- ❖ **Refinance to Make Repairs** even if no debt service savings are anticipated. For projects financed before 1975 (“old” 202 loans).
- ❖ **No Approval Needed.** Some Section 202 projects approved from 1977 to 1982 don’t require HUD permission to prepay.



# 236 Prepayments & Decoupling

- ❖ Prepayment to receive vouchers for unsubsidized residents
- ❖ Decouple IRP subsidy for new loan

# 236 Prepayments & Decoupling Process

- ❖ Download eTool from [HUDExchange.info](http://HUDExchange.info)
- ❖ Submit to [236Preservation@HUD.gov](mailto:236Preservation@HUD.gov)

...don't forget the  
Flex Sub Loan!

# Deferment of Flex Sub Loans

**HUD Notice H 2011-05** *(made perm in Notice H 2013-13)*

- ❖ Pay off within later of 20 years or term of new loan.
- ❖ Evidence that Flex Sub cannot be paid off
- ❖ Accept new 20 year Use Agreement

Changes to MAP that  
benefit senior housing

# MAP changes impacting Senior Housing Preservation

- ❖ Mandatory meals – changed to allow no more than one mandatory meal per day for certain 202 projects
- ❖ Increased “sub rehab” limits – Could make 202 prepayment for old 202 deals difficult; need clarity
- ❖ FHA Refi allowed for ALCP grants – less than 75% of the units
- ❖ No waiver needed for “elderly housing”

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