Written Statement by

Steven C. Hydinger, BREC Development, LLC

Before the

Insurance, Housing and Community Opportunity Subcommittee November 03, 2011

Chairman Biggert, Ranking Member Gutierrez, members of the Subcommittee, my name is Steven C. Hydinger. I want to thank all of you for your time, your efforts, and the opportunity to express my views pertaining to the Rental Assistance Demonstration (RAD) program. I am pleased to see the efforts of so many coming closer to reality and feel Secretary Donovan and his team are to be congratulated on pushing everyone to think "outside the box" to address a huge housing issue impacting so many.

For over 35 years, my parent company, SPM, LLC of Birmingham, Alabama has been involved in all forms of rental housing. Over that time, this has included development, management, construction and finance. Much of this has involved Section 8 programs for family and elderly tenants (HUD 202 or 236). In late 2004, we decided to create a specific firm specializing in renovations, acquisitions, and new developments called BREC Development, LLC. While some of BREC's activity is related to conventional multi-family housing, many of these developments have involved non-profits with HUD programs and funding. BREC has completed over 30 developments utilizing FHA programs including 223(f) renovations and 221(d)(4) substantial renovations/new construction. BREC has worked on projects in Alabama, Florida, Georgia, New York, Texas, Minnesota and Tennessee. Multiple projects have coupled 9% Tax Credits, 4% bonds and hybrid financing in order to renovate properties. I have seen first-hand public and private dollars work together for the betterment of thousands of tenants. It is my background as a for-profit developer that I would like to express my opinions related to RAD. I would never profess myself to be an expert in the company of so many knowledgeable people who have contributed to this plan. I prefer to take a more direct path with my opinions hoping to represent many for-profit developers across the country.

Highest and Best Use:

Everyone in real estate professes to know one of the most basic laws related to the industry. Highest and best use of a property is that which results in the highest present value and brings in the greatest net return over a given period for the foreseeable future. I think it is imperative lawmakers involved with RAD keep this squarely in mind while evaluating properties for consideration. Not all Public Housing Units (PHU's) need to continue as housing stock. While not a popular opinion with certain Public Housing Authorities (PHA's), this is an economic reality. I do not condone a one-for-one mentality related to rehabilitation or demolition and new construction. Each market, sub-market, and demographic must be evaluated to assure the best overall fit in the community. The measure should be quality of product and quality of life for tenants, not simply quantity.

Private Mentality:

In my mind, one of the best pieces of the legislation being considered is allowing each PHA to pledge the real estate as collateral affording it the opportunity to structure various real estate transactions. Since this was never possible in the past, many opportunities simply could not be undertaken. At the same time, I am hopeful some of the historical regulatory handcuffs will be removed allowing PHA's to sell certain properties that may no longer be in their economic best interest. Allowing PHA's to sell certain properties more easily will give that same PHA fresh capital to build new or renovate other units in their footprint. Most private investors know when to take profits, or losses, and move on to other opportunities. I believe PHA's need more flexibility to operate as a business and bring in fresh capital when it is prudent.

Low Income Housing Tax Credits (LIHTC):

Whether one agrees with the program or not, the LIHTC program has been around since 1986 and is a current, viable program in the marketplace related to affordable housing. I say viable because the private sector continues to purchase the credits year after year. If the private market saw no value, they would not continue to participate. Regardless, I do <u>not</u> support PHA's having preferential treatment in the 9% tax credit cycles. I do not support any preference because there are not enough tax credits to go around now and, if you add another preference, it means other projects deserving of tax credits lose. Plus, the sheer size and age of most PHA projects will not be feasible under the deal volume caps in each state. The market should choose the best projects based on, location, costs, age of project, scoring etc… If the PHA has a good project, it should compete on the same playing field with all developers seeking funding.

However, I would support a separate pool of 9% credits for PHA projects each year above and beyond each state's allocation of credits. This is really the best way to assure that PHA's receive a fair opportunity for funding and also not diminish other projects in great need of funding. An additional amount of 9% credits for funding each year would expedite units being renovated or constructed, heighten interest in PHA properties, and assure units are being brought back on-line in a timely manner.

4% Credits are also another option, but that program needs some refinement. For example, as with 9% credits, 4% credits should bring full face value of 4% and not be tied to an ambiguous moving target percentage. Most states already have excess bond caps and would be able to facilitate bonds being used in this capacity. The 4% programs may also alleviate the need for such tight proximity scoring affording more PHA's to be awarded funding.

Dollars and Sense:

I believe it is critical for realistic construction estimates to be considered when evaluating renovations of certain projects. I have read estimates requesting as low as $3,500 per unit in repairs and renovations. This is simply not a realistic figure and makes no sense. Whether one believes in the current LIHTC program or not, it affords some very rational guidelines in certain areas. One such area is the value related to minimum investment per unit on a renovation deals and also minimum scopes of work. Since private capital purchases the tax credits, most mandate a minimum of $20,000 per unit in repairs. They do this to assure most of the major capital items are replaced to alleviate ongoing operating expenditures that adversely impact the property for years to come. In my opinion, it makes no sense to undertake such an exciting new program and not assure the proper repairs are completed during the initial renovations.

Changing Population:

One of the most dramatic changes in PHA stock is the change in demographics as so many in our nation age in place and live to be much older. The vast majority of PHU's contain many stairs, do not meet current ADA guidelines, do not incorporate Universal Design and are simply functionally obsolete. The aging population boom is just now beginning and more and more housing must be prepared to house the elderly for extended periods of time. While the term "crisis" is certainly overused these days, I would support that term to describe housing for seniors in the coming years.

Project Based Section 8:

Simply stated, I fully support Project Based Section 8 (PBS8) Rents. PBS8 rents coupled with 20 year extended HAP contracts are widely accepted in financial markets. This is paramount to the program succeeding and gaining relevance in the industry.

Summary:

While there are many details to address in a program such as this, I believe that many current programs offer beneficial guidelines. Much of what has materialized over the years related to LIHTC deals and HUD 221(d)(4) underwriting offers a great roadmap. In my mind, some of the major components are already in place for successful implementation. Some of the positive attributes of the program include:

Product: PHA's have an abundance of both existing housing stock and land that is ready to be evaluated. Many of these sites are in prime locations to be re-developed.

Participants: I know many for-profit developers are anxious to work with existing PHA officials to vastly improve the quality of life and quality of product currently in stock. If done correctly, PHA officials should not feel threatened to work with private developers related to their land and/or buildings in a collaborative effort.

Private Dollars: For-profit developers will be the best solution to work with PHA's in an effort to attract private investment to couple alongside agency dollars and debt. With apparently many dollars "on the sideline," now would be an opportune time to approach the market with good projects.

Portability: Addressing resident choice/mobility is wise and will be received well in the communities.

Funding: I am enthused the conversion to PBS8 is becoming a reality. As stated earlier, I feel long term PBS8 HAP contracts are crucial to success and acceptance in the private marketplace.

While there are so many positive factors in place, I am compelled to mention a few areas that will need special attention in order to be successful.

Program Speed: HUD is swamped with transactions now. A processing time of 18-24 months is not acceptable for a program such as this. Either a vastly expedited 221(d)(4) program is needed or HUD should amend the current dollar and major system limits and allow these specific PHA transactions to be processed as 223(f) deals. It will be critical for the success of the programs to have 35 or 40 year fully amortizing debt on these properties.

Environmental: Due to the age of so many of these projects, abatement of environmental hazards such as asbestos will be an issue. This will impact construction pricing in a negative manner.

Code issues: Due to the age of so many of these projects, few of them meet all the current ADA and Fair Housing guidelines, few of them are up to current City or International Building Code Standards (IBC) and few of them are GREEN. This will impact construction pricing in a negative manner.

I, and many others, are supportive of the RAD initiative and want to express appreciation for being allowed the opportunity to give feedback on this program. Again, I want to thank Secretary Donovan, his entire team at HUD, and the members on this committee who have worked hard to make this plan become a reality.

United States House of Representatives
Committee on Financial Services

"Truth in Testimony" Disclosure Form

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	**2. Organization or organizations you are representing:**
Steven C. Hydinger	BREC Development, LLC

3. Business Address and telephone number:

[redacted]

4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	**5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?**
☐ Yes ☑ No	☐ Yes ☑ No

6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.

To be clear, I am not representing any particular client. I am testifying in my role at BREC Development, LLC. However, I have been paid as a 3rd party developer for clients who have received either tax credits or ARRA Exchange Funds since 2008. The funds were not in my name, nor my firm, but rather in the client's name and none of the funds received were tied to any Public Housing Projects.

7. Signature:

Please attach a copy of this form to your written testimony.