

Recap Advisors

**The future of public housing:
Grim prospect, insoluble problem?
Or time for a breakthrough?**

Presented to NAHRO's annual conference
David A. Smith, CEO/ Recap Advisors, LLC

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About Recap Advisors, LLC and David A. Smith




- Recap Advisors, LLC
 - Financial services for multifamily residential properties
 - Asset management, transactions, advisory
 - Advisory for housing authorities, non-profit owners
 - Capital planning via On-site Insight (acquired 8/08)
 - Housing authority 'portfolio baselining' analysis for HUD
- David Smith
 - 33+ years finance of affordable housing
 - NAHRO's Lange Award for work in the international arena
 - Affordable housing blog, <http://dasblog.org>




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Ghost of Christmas Yet To Come: the housing authority system is busted



- Looming stock obsolescence
 - Capital backlog: *at least* \$18-20 billion
 - 2009: HUD/ On-site Insight portfolio baselining update
- Structural negative NOI
 - Op Subsidy and Mod Funds, short-funded
- Funding below sustainability (indefensible but reality)
 - "I have a budget deficit so *you* must become more efficient..."
 - "... Even though I refuse to allow you flexibility to do so"
- Rejection of the pure-public model
 - End of the command-and-control paradigm



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The Gordian knot: the economics of dependency



- **The current system is engineered to fail**
- “You can’t win, you can’t break even, you can’t get out of the game”
 - You cannot sell or go market, to free up resources for use elsewhere
 - You can’t break even, you have negative NOI
 - To house these people requires *ongoing income subsidy*
 - You can’t get out of the game
 - Deed covenant
- Dependency on HUD is unhealthy
 - Orients to Washington
 - Not to own resources, local situations



The Essential Housing Authority: Being an owner



- **Think like an owner**
 - Maximize NOI ... without sacrificing mission
 - Maximize affordability across the portfolio
 - Swap out bad properties, swap in good ones
- **Operate like an owner**
 - Retain essential functions (next slide)
 - Contract technical functions
 - Manage your own capital needs
- **Finance like an owner**
 - Tear up the HUD deed covenant
 - Refinance and tap capital



The essential housing authority: contract the technical functions



- **Essential versus technical functions**
 - *Technical* = can be performed as well by a purely private third party
 - Requires particular known or learnable skills
 - Performance can be reliably measured after
 - *Essential* = necessary for the mission
 - Non-delegatable, rests on character
- A housing authority has **one** goal
 - Maximizing housing affordability for the poorest of the poor
- A housing authority has **one** essential function
 - Receive public moneys and disburse them according to the public trust





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