The Rental Assistance Demonstration (RAD) program

Overview

The federal Rental Assistance Demonstration (RAD) program provides a mechanism for public housing agencies (PHAs) and private owners to convert public housing and certain types of project-based rental assistance to project-based housing choice vouchers or Section 8 project-based rental assistance.

This conversion enables applicants to tap into a wider variety of financing sources, including private sources, to help meet long-standing capital improvement needs that threaten the ongoing viability of these properties.

Participation in RAD by PHAs and private owners is voluntary, and the number of public housing units that may be converted is currently capped at 455,000 (an increase of more than 200,000 units over the prior limit, authorized through passage of the FY 2018 omnibus appropriations act). The bill also extended eligibility for the RAD program to Section 202 properties with Project Rental Assistance Contracts (PRAC) for the first time. There is no cap on conversion of Section 202 PRAC projects and other eligible privately-owned developments, which include those supported by “legacy” programs for which HUD no longer authorizes new projects, including the Section 8 Moderate Rehabilitation, Rent Supplement, and Rental Assistance Payment programs.

Approach

The RAD program aims to support the long-term availability of deeply affordable housing in two ways. The first is through the conversion of public housing to long-term project-based contracts. Public housing conversion is competitive and limited by statute to a total of 455,000 units, with successful applicants selected by HUD. (According to a presentation by HUD, as of July 2018, nearly 80 percent of the 455,000 units had been reserved and roughly 97,000 units remained). Proposals to redevelop physically or functionally obsolete public housing developments receive priority consideration, along with those that are part of a comprehensive neighborhood revitalization plan and properties in imminent danger of losing financing (as evidenced by a 9 percent credit award).[1]
The flexibility afforded by RAD also helps make it possible to preserve certain privately owned HUD-assisted housing developments. Unlike public housing redevelopment, this program component is offered to property owners on a non-competitive basis. Eligible developments participate in programs that have ended or been replaced or otherwise have limited options to renew their contracts or attract preservation financing. The new subsidy stream extends affordability by an initial term of up to 20 years (which must be renewed), and enables owners to access long-term financing to make needed capital improvements and continue providing affordable housing.

Public housing agencies and private property owners may choose to convert their current assistance to Project-Based Vouchers (PBVs) that are administered by the local public housing agency or Project-Based Rental Assistance administered by HUD. For PHAs that choose to convert to PBVs, caps that limit the number of PBV-assisted units in a project to 25 percent are increased to 50 percent, and units occupied by elderly and/or disabled families and families receiving supportive services do not count against the cap. In addition, public housing assistance converted to PBVs under RAD does not count against the 20 percent limit on the amount of Housing Choice Voucher budget authority that may be project-based by a PHA.

While conversion through RAD does not increase the subsidy level the property receives (which is based on pre-conversion operating and capital subsidy amounts), either option provides a predictable, long-term funding stream that expands the ability of PHAs and owners to borrow from private sources to address capital needs, as well as to tap into other funding sources such as CDBG funding, FHA insurance, and tax credit equity. This conversion is particularly important for public housing developments since they cannot easily access private financing while they remain public housing. To the extent that operating expenses are reduced following RAD conversion (through greater administrative efficiencies, upgrades that improve the efficiency of the property’s mechanical systems, or other mechanisms), additional operating income may be freed up to help cover additional improvements.

PHAs and private owners interested in converting properties under RAD should consider the full range of available capital sources before determining which alternatives will be most feasible and effective for addressing project needs. Local jurisdictions can play an important role in facilitating access to complementary financing (see The local role, below). In many cases, multiple funding sources will be required in order to finance the rehabilitation of a property.

Four percent Low Income Housing Tax Credit and tax-exempt bonds are particularly useful resources for covering the cost of rehabilitation since they are more easily accessed than 9 percent credits, which are highly competitive in many states. It may
be possible to combine smaller properties in a single pooled portfolio to lower the relatively high fixed costs associated with tax-exempt bond transactions and streamline reporting requirements.

**Eligibility**

Eligibility for conversion under RAD is limited to a capped number of public housing units as well as multifamily properties that receive assistance through the Section 202 PRAC, Section 8 Moderate Rehabilitation, Rent Supplement, and Rental Assistance Payment programs. Several factors should be considered when determining whether individual properties are good candidates for conversion.

- **Owner interest** – As noted above, private owners of affordable properties will likely be interested in the flexibility afforded by participation in the RAD program. However, communities may need to provide technical assistance to help owners successfully complete the conversion.
- **Depth of unmet capital needs** – Without supplemental funding, properties with deep capital needs may not be the best candidates for RAD, particularly if they are located in high-cost markets. The funding generated through the program generally will not be sufficient to rehabilitate properties that would otherwise be candidates for demolition or disposition. Local jurisdictions can help to make complementary financing available, either for direct investment or as gap financing to pursue Low Income Housing Tax Credits – see *The local role*, below.
- **Location** – A recent evaluation of RAD found that participating properties tend to be located in high-cost markets with lower rates of poverty and higher housing cost burdens — that is, relatively stable areas with a greater need for affordable housing. Properties in these areas are more likely to be able to attract private financing after conversion. In addition, stable low-poverty neighborhoods tend to be resource-rich areas where communities seek opportunities to develop and preserve affordable housing.

Resident engagement is also a key component of the RAD program. Concerns raised in connection with the program focus in large part on tenant protections, including the potential for rent increases and displacement of existing tenants while properties are developed. Some also question whether the guarantee of a “right to return” will be fulfilled. In order to apply for participation in RAD, PHAs are required to conduct at least two tenant meetings. Residents’ comments, along with the PHA’s response, must be submitted in writing with the RAD application. PHAs are required to hold at least one more tenant meeting before HUD approves the conversion.
The local role

It’s the responsibility of PHAs and private property owners to determine whether to convert existing assisted properties to a new subsidy program under RAD. Local jurisdictions can help facilitate these transactions by ensuring property owners are aware of their options and taking steps to make a RAD conversion more feasible. Cities, towns, and counties can:

- **Conduct outreach to private owners of assisted housing eligible for conversion under RAD.** Owners of HUD-assisted properties may be aware of RAD, but unfamiliar with eligibility requirements or program details. Local jurisdictions may wish to develop an initial list of properties that appear to be good candidates for conversion, including those where conversion would help to support other community development goals. Outreach to owners of these properties may help to stimulate interest in the program.

- **Deliver technical assistance.** The RAD process can be very complicated, with multiple parties involved in structuring the transaction and significant requirements for resident relocation. Once owners express interest in the program, a lack of expertise or knowledge in how to structure the conversion can prevent them from taking the next steps. Local housing department staff can provide technical assistance to help property owners determine the financing structure that will work best for the development given existing capital needs and available resources. In some cases, this may mean pooling smaller properties into a single transaction to lower fixed costs for individual owners. Local jurisdictions can help to identify these opportunities and facilitate next steps.

- **Make available complementary funding.** PHAs and private owners need to analyze whether conversion under RAD is feasible given their operating subsidy levels and the rents they would need to support debt. The availability of subsidies or other local financing can change this calculation. Local jurisdictions can reach out to PHAs and owners to discuss whether they might be able to provide complementary funding through local sources that might make conversion under RAD feasible. Among other uses, local funding can serve as gap financing to help make a Low Income Housing Tax Credit project feasible.

Other considerations

- **Resident involvement** – RAD program regulations include a number of provisions intended to protect residents and involve them in the conversion process. Owners and PHAs will need to take steps to comply with these requirements, as well as to address resident concerns in advance of conversion under RAD. Communities will also need to consider whether they are able to provide robust mobility counseling to
residents who exercise their “choice mobility” option to use a tenant-based voucher to find a new unit (rather than staying in the converted development), or whether there is a local partner the PHA can work with to assist residents.

Examples

- By November 2014, the housing authority of Broward County, Florida had converted its entire 373-unit public housing portfolio to project-based rental assistance through the RAD program. As part of this process, the housing authority installed energy-efficient and water-saving appliances and fixtures at all properties. The housing authority has also created a life cycle replacement schedule that plans for replacement of all major building components and systems within 20 years and funds reserves for this purpose from property operations. HUD has recognized Broward County for its effective resident engagement process, particularly at two senior housing developments where the RAD conversion process was discussed at monthly resident meetings. After two years, families can use available Housing Choice Vouchers to find other housing if they choose. See more here.

- In Lexington, Kentucky, a 206-unit affordable development formerly known as Pimlico Apartments had deteriorated significantly, with nearly 10 percent of units at risk of losing their federal subsidy due to their poor physical condition. The Lexington Housing Authority converted the property under RAD to make physical improvements and keep the development, now known as Centre Meadows, available for occupancy. The financing package used to support the improvements included tax-exempt bonds and 4 percent Low Income Housing Tax Credits, funds from the housing authority, and HOME funds. View a case study here.

- The San Francisco Housing Authority used RAD to convert nearly 3,500 units of public housing across 29 projects in 8 neighborhood “clusters.” The conversion affected 5,600 residents and took place in two phases over three years. Only a small number of unsafe units were demolished, with the rest redeveloped with an in-kind replacement policy (i.e., 2-bedroom apartments were redeveloped to include the same number of bedrooms) to allow original occupants to return. SFHA selected the owner/manager teams to develop, own, and manage the converted properties, and required each of these teams to include a neighborhood- or community-based non-profit partner and neighborhood-based services partner. Due to high costs and comparatively low rent payment standards at public housing developments in San Francisco, additional resources were needed to make the $2.2 billion conversion financially feasible, including $815 million in Low Income Housing Tax Credit equity provided through a single pooled deal, $331 million in permanent tax-exempt debt, and nearly $500 million in financing from the housing authority. Long-term affordability at redeveloped sites will be ensured through the use of 99 year ground
leases from the Housing Authority. See a presentation by the City for more here.

**Related resources**

**General**

- Rental Assistance Demonstration pages here and here, U.S. Department of Housing and Urban Development – These web pages are maintained by HUD and include links to program resources as well as the latest program developments.

**Implementation**

- Evaluation of HUD’s Rental Assistance Demonstration (RAD): Interim Report, U.S. Department of Housing and Urban Development (September 2016) – This report describes RAD implementation at PHAs across the country, including the characteristics of projects proposed for RAD conversion, reasons that PHAs participate in the program, and sources of financing.
- The Rental Assistance Demonstration (RAD), National Housing Law Project – This webpage collects a series of materials focused primarily on tenant protection at RAD sites. The site also links to a variety of resources on RAD implementation.
- The Rental Assistance Demonstration Project: A Health Impact Assessment, Human Impact Partners, Advancement Project, and National People’s Action (February 2012) – Describes potential positive and negative health impacts associated with participation in the RAD program.

**Local examples**

- Rental Assistance Demonstration Case Studies, U.S. Department of Housing and Urban Development – This web page links to case studies of RAD implementation in more than a dozen communities across the country.

2. “RAD at 3,” by Patrick Costigan, Affordable Housing Finance, April 28, 2016.