



## Summary of Proposed Major Changes to REAC

March 2019

### **REAC Overhaul: Background**

In late 2018, NAHMA and our industry partners learned that HUD leadership plans to undertake a wholesale evaluation and restructuring of its physical inspection process across its subsidized housing programs: public housing, vouchers, and multifamily housing. HUD has stated that the impending REAC overhaul is intended to meet two key goals: Adjusting the notification timeframe of physical inspection to improve the *year-round* condition of the portfolio (to take effect in the near-term); and adjusting the inspection protocol, model, and scoring to improve the REAC tool as a reflection of the portfolio (to take effect over the long-term).

### **Industry Engagement: HUD Listening Sessions**

HUD formally began an overhaul of the REAC model and protocol with a PIH Notice released on February 20<sup>th</sup>, 2019 to shorten the inspection notification timeframe to 14 days, effective 30 days after publication. The next day, HUD held its first listening session to discuss with regional stakeholders the intended short-term and long-term efforts of a REAC overhaul. Further listening sessions are planned throughout the country.

During its first regional listening session, HUD national and regional leadership engaged with stakeholders on both the short- and long-term proposed REAC overhaul. The listening session was held in the Philadelphia Regional Office with DJ Lavoy, the Deputy Assistant Secretary for the HUD Office of Public and Indian Housing, as well as Daniel Williams from HUD's Real Estate Assessment Center (REAC), Joseph de Felice, the Regional Administrator; and Richard Ott, the Deputy Regional Administrator. NAHMA staff, members, industry colleagues, and regional stakeholders were present to participate in the session.

### **REAC Overhaul: Short-term and Long-term Changes**

In its efforts to overhaul the physical inspection model and protocol, HUD has identified changes to take effect in the near-term and the long-term for its subsidized portfolio.

#### **HUD plans to make the following changes in the near future (applicable to the entire portfolio):**

- **Shorten the inspection notification timeframe to a strict 14 days, effective March 20<sup>th</sup>, 2019 per a PIH notice released on February 20<sup>th</sup>, 2019**
  - If an owner/agent/landlord/housing authority declines the inspection or the inspection timeframe, the property will receive an automatic score of "zero"

- The property then has 7 days to rectify the score by rescheduling the inspection (otherwise, the “zero” score is maintained)
- **Update the UPCS standards to require the presence of a carbon monoxide monitor in all units with combustion (gas appliances, etc)**
  - Effective date TBD

The stated goals of these changes is for the agency to be aware of the condition of its subsidized portfolio at any given moment, as opposed to the current sometimes months-long inspection notification timeframe. While the agency has acknowledged that the vast majority of properties (95% of the subsidized portfolio) meet the decent, safe, and sanitary condition requirement set out by statute year-round, there are a number of properties that may fall below standard *until the REAC inspection is scheduled*. Shortening the notification timeframe is intended to amend what the agency perceives as owners “performing to the test” through the use of inspection consultants and work orders that are lined up once the inspection has been scheduled, as opposed to maintaining the portfolio *year-round*.

**HUD has proposed the following changes over the long-term (applicable only to the areas described)**

- **Launch a limited two-year demonstration (“pilot”) program for physical inspections in Region 3**
  - To begin in the 4<sup>th</sup> quarter of FY19 (approximately July), with the demonstration inspection model to be released over the summer
  - Applicable to Region 3 states and territories (Pennsylvania, Virginia, Maryland, Delaware, and Washington, D.C., but excluding West Virginia)
  - Every property in Region 3 will receive an inspection during this timeframe under the new model
  - Scores will be advisory during the demonstration; in the meantime, HUD intends to “carry over” scores from before the demonstration for administrative purposes
- **During the demonstration program, the UPCS will be waived for inspections occurring in Region 3**
  - The UPCS will be replaced by a new model and scoring for inspections
  - HUD will test the new model throughout the demonstration and accept feedback
- **Following the demonstration program, HUD intends to roll out the new inspection protocol nationwide**
  - Goals include improving how well inspections reflect the status of a property
  - New model to shift toward living conditions and functionality
  - Bigger sample size of units may be inspected
  - Inspectors will utilize new model for physical inspections
  - Owners will also be required to “self-inspect” 100% of units annually

The stated goals of the demonstration program are to test a new model and scoring method for physical inspections. While the new model is still in the “design and build” phase at the agency, REAC staff have stated that they intend to replace the current inspection model, which emphasizes property “curb appeal” and appearance, with a new model that emphasizes tenant living conditions and functionality.

**Demonstration program for Region 3 - “Resident-Focused” Physical Inspection Model:**

1. **Health and Safety Issues** (Is the unit safe to live in? Are there health hazards resulting from mold, lead, pests, dangerous conditions, etc?)
2. **Functionality/Repair** (Do the sink and appliances work? Is the unit in good repair?)

3. **Condition of the property** (Is the property in good condition? What is the appearance of the outside of the building and the common areas?)

The agency has stated that within the new model, 50% of the inspection will consist of the unit, meaning that properties must pass this portion in order to pass the inspection. The outside of the property will account for only 25% of the inspection to represent the shift away from a “curb appeal” emphasis. In addition, the new model will likely shift away from deficiencies that are currently evaluated at a “level one,” such as rust, etc. Instead, the model will emphasize deficiencies that present a health and safety hazard for residents.

### **Demonstration program for Region 3 – New Inspection Protocol:**

1. **Owners Self-Inspect Annually**

The agency will require owners to self-inspect 100% of units at any point each year or throughout the year; owners will utilize software enabled by HUD to report any deficiencies found in all of their units; there will be no levels to the deficiencies, but rather a recording of whether or not a deficiency exists. These reports will have no bearing on the scheduling or scoring of physical inspections, and they will not result in any repercussions from the agency. The agency has stated that it intends to shift the self-inspection toward a submission of work orders as software is enabled throughout the demonstration program. The agency has also stated that they do not intend owners to incur costs, but rather intend to provide software to owners, or to allow owners to utilize their own software.

2. **Contract Inspectors Conduct Risk-Based Inspections**

As with the current inspection model, contract inspectors will be utilized to conduct physical inspections on the risk-based model (every 3-years for high-performing properties; every 2 years for middle-performing properties; and every year for troubled properties); however, the agency intends to enhance the risk-based model by shifting toward inspections every 4 - 5 years for the highest-performing properties. The agency also intends to shift away from the reverse action method; instead contract inspectors will be selected through a competitive bidding process.

3. **Agency Inspectors Conduct Quality Assurance Inspections**

As with the current inspection model, the agency will send a quality assurance inspector to re-inspect a property if significant health and safety hazards are suspected.