

NAHMAanalysis

NATIONAL AFFORDABLE HOUSING MANAGEMENT ASSOCIATION

Ensuring NAHMA Members Receive the Latest News and Analysis of Breaking Issues in Affordable Housing

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Final Report on RAD Evaluation

Background

When the Rental Assistance Demonstration (RAD) program was launched in 2012, Congress mandated that HUD evaluate its impact “on the preservation and improvement of public housing, the amount of private sector leveraging as a result of such conversion, and the effect of such conversion on tenants.” In HUD’s recently published [Final Report: Evaluation of HUD’s Rental Assistance Demonstration \(RAD\)](#), HUD finds that the physical and financial condition of RAD converted properties has improved. The report states, “RAD supports the preservation of affordable housing by improving the physical and financial conditions of public housing.... More importantly, the majority of tenants surveyed have confirmed that the physical condition of their units and their developments was better after a RAD conversion.”

This NAHMAanalysis highlights key findings from the report, and in addition, HUD has shared these findings in recent industry meetings and highlighted them in their recent *RADblast!* publication.

About RAD

RAD allows public housing authorities (PHAs) to apply to the U.S. Department of Housing and Urban Development (HUD) to convert their public housing stock to a Section 8 platform, either project-based voucher (PBV) or project-based rental assistance contract (PBRA). This conversion allows PHAs to address their housing stock’s capital needs and preserve affordable housing over the long-term, along with protecting tenant rights and enhancing mobility opportunities. In regards to conversion, the report states, “by leveraging their projects’ PBV or PBRA subsidies after conversion, PHAs can finance debt and access other external funds; those funds could include grants and private-sector equity investment, including investment through Low-Income Housing Tax Credits (LIHTCs) and other tax credits or incentives.”

PHAs can then use those funds, in conjunction with internal resources structured as grants or “soft loans,” to recapitalize, rehabilitate, or replace projects. Some properties use RAD for repositioning onto a new regulatory platform, often funding replacement reserves for future rehabilitation costs. Other projects use RAD to pay for upfront construction expenses to

rehabilitate existing buildings or, in the case of new construction, to demolish dilapidated structures and build new ones in their place. In some circumstances, the PHA can transfer the Section 8 contract to a different property; HUD calls that a “Transfer of Assistance.”

Table 15. RAD Activity by Statutory Cap Period, PHA Size, Census Region, and Section 8 Contract Type Through October 2018

	60,000-Unit Cap (Nov. 2011 to Dec. 2014)	185,000-Unit Cap (Dec. 2014 to May 2017)	225,000-Unit Cap (May 2017 to May 2018)	455,000-Unit Cap (May 2018 to Oct. 2018)	All Periods (Nov. 2011 to Oct. 2018)
CHAPs Issued in Period	342	921	187	103	1,553
PHA Size (Number of Issued CHAPs)					
Small PHAs	49	129	35	18	231
Medium PHAs	145	312	50	30	537
Large PHAs	148	480	102	55	785
Census Region (Number of Issued CHAPs)					
Northeast	31	119	32	8	190
Midwest	40	169	38	19	266
South	205	465	93	60	823
West	66	138	24	16	244
Section 8 Contract Type (Number of Issued CHAPs)					
PBRA Conversions	170	295	67	45	577
PBV Conversions	172	626	120	58	976

CHAP = Commitment to Enter into a Housing Assistance Payment. PBRA = Project-Based Rental Assistance. PBV = Project-Based Voucher.

PHA = public housing authority.

Notes: Withdrawn and revoked CHAPs are not included in this table. CHAPs continued to be issued beyond October 31, 2018. CHAPs can change their Section 8 contract type before closing. See Appendix E: Glossary of Terms and Acronyms for the definition of the four statistical regions as defined by the U.S. Census Bureau.

Source: RAD projects with active or closed CHAPs through October 31, 2018

Congress initially capped the amount of RAD conversions at 60,000; however it has raised the unit cap multiple times. Today, RAD conversions are capped at 455,000 units. This demonstrates the success of the program. As of October 2018, the report finds “over 100,000 units of public housing have been converted to the Section 8 platform under RAD and over \$12.6 billion was raised, with significant leverage, from numerous sources to improve the physical and financial condition of properties, which would have otherwise continued to decline.” (See Table 15)

Key Findings

HUD’s report provides substantial evidence that RAD is allowing PHAs to leverage financing, improve the physical and financial condition of properties, and mitigate negative impacts on tenants from development and rehabilitation of units.

Tenant Relocation and Conversion Satisfaction

The report finds that RAD conversions have not lead to displacement of residents from their housing. As part of the evaluation, HUD surveyed 298 residents at 18 RAD-converting properties. The report finds that over 75% of tenants who responded to the survey were living in their original unit after completion of the RAD conversion; 63 percent did not move at all; an additional 18 percent of respondents ended up in a different unit at the same property, and other households moved to new rent-assisted properties under RAD’s “transfer of assistance” authority.

Leveraging Financing

HUD’s report finds that RAD has been very successful at attracting capital to stabilize and improve public housing. From November 2011 to October 2018, the report finds a total of 956 public housing projects with 103,268 units of public housing converted to Project-

Based Section 8 (PBRA) or Project-Based Vouchers (PBV). In total, \$12.6 billion of capital was raised to convert these project, with an average of \$121,747 per unit. (See Table 1)

Table 1. RAD Funding Sources

RAD Funding Source	Number of Projects	Percentage of Projects (%)	Total Amount (\$)	Percentage of Total Amount (%)	Average Amount per Project (\$)
Total	956	100.0*	12,573 million	100.0	13.2 million
Public Housing Operating Reserves	459	48.0	342 million	2.7	0.7 million
Investor Equity (including tax credits)	389	40.7	4,858 million	38.6	12.5 million
Public Housing Capital Funds	387	40.5	391 million	3.1	1.0 million
Commercial Non-FHA Loan	295	30.9	1,411 million	11.2	4.8 million
Deferred Developer Fee	284	29.7	240 million	1.9	0.8 million
Seller Note/Take-Back Financing	275	28.8	2,410 million	19.2	8.8 million
Public Housing RHF Funds	179	18.7	216 million	1.7	1.2 million
State or Local Funds	154	16.1	792 million	6.3	5.1 million
Sponsor or Partner Funds	152	15.9	99 million	0.8	0.7 million
PHA Non-Federal Funds	134	14.0	286 million	2.3	2.1 million
Commercial FHA-Insured Loan	127	13.3	888 million	7.1	7.0 million
Other ^b	372	38.9	639 million	5.1	1.7 million

FHA = Federal Housing Administration. PHA = public housing authorities. RHF = Replacement Housing Factor.

Note: *Projects can have multiple funding sources, so the Percentage of Projects column sums to more than 100 percent.

Source: Funding sources data provided by HUD for 956 RAD projects with closed Commitment to Enter into a Housing Assistance Payment (CHAP); through October 31, 2018

Improving the Physical and Financial Condition of Properties

HUD selected and sampled 17 properties to be representative of RAD conversions. The report finds that the properties in the RAD sample “improved their physical condition, as measured by a reduction in their short-term and critical capital needs. On average, the sample projects had per-unit short-term needs of \$12,981 before conversion and \$4,608 afterwards—a 65 percent reduction. A comparison sample of non-RAD projects over the same period had, on average, \$3,740 in short-term needs before conversion and \$8,710 afterwards—a 133 percent increase. After conversion, the RAD projects studied have substantially lower critical needs (deficiencies concerning health, life, and safety such as accessibility deficiencies, structural defects, asbestos or lead-based paint).” (See Table 4)

Table 4. Change in Average Short-Term Capital Needs Per Unit: RAD and Non-RAD Sample Properties

RAD Project Type	N (Projects)	Initial PCA Short-Term Capital Needs (\$) (A)	Followup PCA Short-Term Capital Needs (\$) (B)	Change in Short-Term Capital Needs (\$) (B-A)	Percent Change (%)
RAD					
Nonconstruction Conversions	3	3,133	3,164	31	1
All Rehabilitation	14	15,036	4,917	- 10,119	- 67
Shallow Rehab	9	11,392	5,292	- 6,100	- 54
Moderate-to-Deep Rehab	5	21,596	4,242	- 17,354	- 80
RAD Total	17	12,981	4,608	- 8,373	- 65
Non-RAD	46	3,740	8,710	4,970	133

PCA = physical condition assessment.

Notes: Totals may include rounding. Includes only properties that had both initial and followup PCAs.

HUD’s evaluation also collected financial statements from a sample of 18 RAD projects (pre and post conversions) and 46 non-RAD projects. HUD finds that “financial indicators show that the liquidity and viability of RAD projects improved after conversion, while these indicators deteriorated for the non-RAD properties over the same period.”

Replacement reserves are an important indicator of a property’s long-term viability. Based on a sample of 18 RAD projects, the reports finds the median replacement reserve account balance was \$240,000 and “at 3.63 times the average recommended replacement reserve balance, these figures indicate that the RAD properties are operating consistent with real estate asset management best practices, building reserves so that they will be able to address major future capital needs when they come due.” (See Table 8)

Table 8. Replacement Reserve Deposits and Balances for RAD Conversions

RAD Conversions	Made Required IDRR Payment	Made ADRR Payment	Reported Replacement Reserve Balances	Balances at or Above Floor
Number of RAD Conversions	18	18	18	17 ²⁰
Median Amount (\$) or Percentage	\$123,000	\$66,000	\$240,000	363%

Note: Includes 18 RAD conversions; based on project financial statements for 2017.

Conclusion and Next Steps

In HUD’s November *Stakeholder HUDdle: Public-Private Partnerships*, HUD leadership indicated the next steps of evaluating RAD also focus on tenant mobility and asset portfolio management. NAHMA members will also be focused on the implementation of RAD for the PRAC properties, in hopes it will have similar preservation success. NAHMA will continue to advocate to Congress for lifting the RAD cap. In addition to success stories, members can utilize this RAD evaluation to state their case to lawmakers that RAD is a success.