RAD Talk

U.S. Department of Housing and Urban Development

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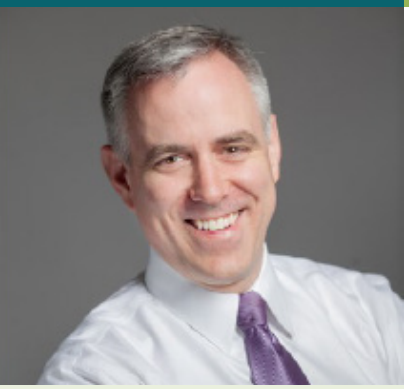

DIRECTOR'S CORNER

The 2016 year-end results confirm that the RAD program is in a dramatically different place than it was just a year or two ago! 2016 saw a significant maturation of the program – a higher volume of conversions and numerous steps taken to streamline and clarify the program's requirements and process. The Interim Evaluation clearly documents the proof of concept. Conversions to the Section 8 platform have allowed PHAs to leverage almost $9 for every $1 of public housing funds invested in these communities, demonstrating that it has been a critical addition to the HUD toolkit for addressing the deep capital needs of the public housing portfolio. RAD participants also continue to develop creative new solutions to stretch RAD's impact in order to help more and more American families. We look forward to the program's continued growth!

—Tom Davis, Director,
Office of Recapitalization

2016 IN REVIEW

2016 has proven to be a banner year for RAD and for the preservation of the public housing stock. Deals long in the making were able to close, resulting in a burst of conversions near the end of 2016. RAD has fully hit its stride and we expect the pace to continue in the coming year.

As of December 31, 2016:

- 57,489 public housing units have converted to Section 8, split 54% to the Project Based Voucher platform and 46% to the Project Based Rental Assistance platform;
- RAD has stimulated $3.8 billion in construction improvements to participating affordable housing properties, without any supplemental budget appropriation;
- HUD estimates that RAD conversions have directly and indirectly created approximately 71,000 jobs across the United States;
- 80% of the Rent Supplement and Rental Assistance Program units in existence in 2011 have converted under RAD, preserving these affordable housing resources on the modern Section 8 platform;
- With only 62 properties left, HUD hopes to wind down the Rent Supp and RAP programs within the next year or two.

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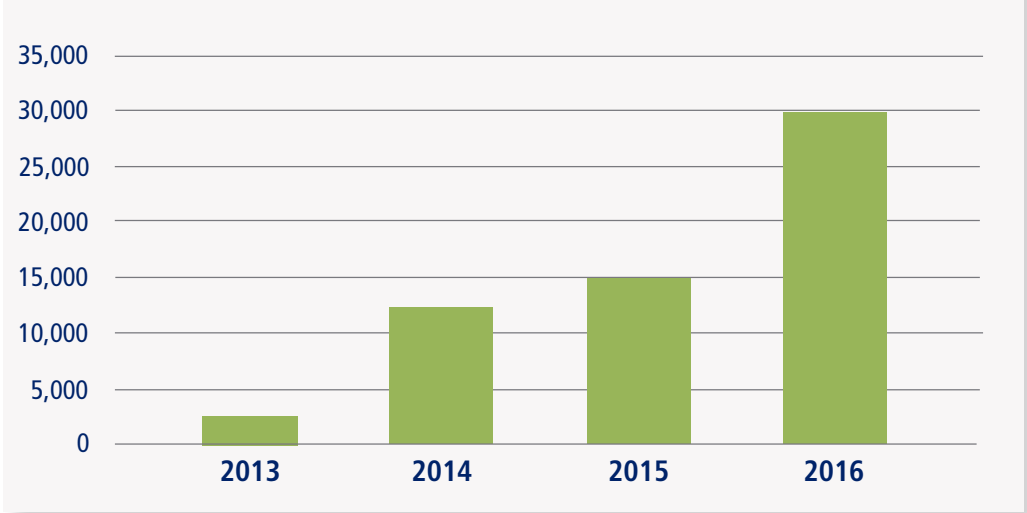
RAD Public Housing Units, by CY



Mary of Star Apartment in the Bronx, NY, which will be rehabiliated through the RAD 2 platform

RAD has many goals related to the preservation of affordable housing. It tests, in part, whether a shift from one regulatory platform to another enables HUD's local partners to address their public housing capital needs without additional Federal funding. The pace of conversions, the capital investment to date, the creativity of its strategies and the results of the preliminary program evaluation (see article below) indicate the program is succeeding in these goals.

RAD also tests whether residents' quality of life can be improved. The results speak for themselves in this regard, as renovations or new constructions have significantly improved tenants' housing quality. Recent changes to the program requirements have also clarified and strengthened the expectations around resident outcomes. The final evaluation due out in 2018 will continue to examine these questions in a comprehensive way.

Finally, RAD tests whether offering a modern Section 8 contract helps HUD preserve at-risk properties supported by subsidies that are a legacy from prior decades. HUD's partners have successfully preserved thousands of legacy units through RAD 2. The 2016 year-end results indicate RAD is on track across the board.

"The 2016 year-end results indicate RAD is on track across the board."

RAD is building on what works

Proposed plans for Central Park Tower in Elgin, IL

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THE MATURATION OF RAD

RAD has rapidly evolved since its initial authorization in November 2011. Not only has Congress acted to expand the number of properties that can participate under both components of RAD, but HUD has learned continuously from experience on the ground. HUD has also refined the program through an Interim Notice in 2012, a final version, three subsequent revisions, and a separate Notice dealing with relocation and civil rights matters. The program has developed tools to support more complex and transformational transactions and to enable creative ways to modify rents to make conversion feasible for more properties, while protecting the residents and the public's historic investment in these affordable housing resources. With these efforts, closings have accelerated, difficult transactions have become more achievable, and residents are better served.

Program Expansion

Due to the demand for and success of the RAD program, Congress has already taken steps to expand the program. In 2014, in response to overwhelming demand, it lifted the original 60,000-unit cap to permit 185,000 public housing units to convert. Congress eliminated the "sunset date" for the conversions of Section 8 Mod Rehab, Rent Supp, and RAP properties and also made McKinney-Vento Mod Rehab Single Room Occupancy contracts eligible for conversion. Recently, the RAD community has been discussing whether to again revise the cap on public housing conversions, as well as whether to make PRAC 202 contracts eligible for conversion.

"Due to the demand for and success of the RAD program, Congress has already taken steps to expand the program."

Centre Meadows (Lexington, KY before RAD construction)

Centre Meadows (Lexington, KY during RAD construction)

Treating Residents Right

From its inception, RAD incorporated some of the strongest resident rights of any HUD program. Residents have an absolute right to return, cannot be re-screened upon entry into the Section 8 program, maintain the same fundamental rights provided under the public housing program, and have new options to move out of their converted unit with a tenant-based voucher. HUD produced the RAD relocation notice, recently updated as PIH 2016-17/Housing 2016-17, to provide more clarity about some of the resident relocation rights and to strengthen program protections for residents.

RAD program revisions also sought to mitigate the risk of practices that could lead to violations of fair housing and civil rights laws. While these laws have always applied to properties converting under RAD, HUD did not initially play an active role in reviewing these issues. In 2015, HUD's new RAD Notice established a new process for HUD to perform an up-front civil rights reviews of RAD transactions in order to help PHAs understand and comply with civil righs obligations. In 2016, HUD described the mechanics of the up-front risk review in more detail in Notice H 2016-17/PIH 2016-17.

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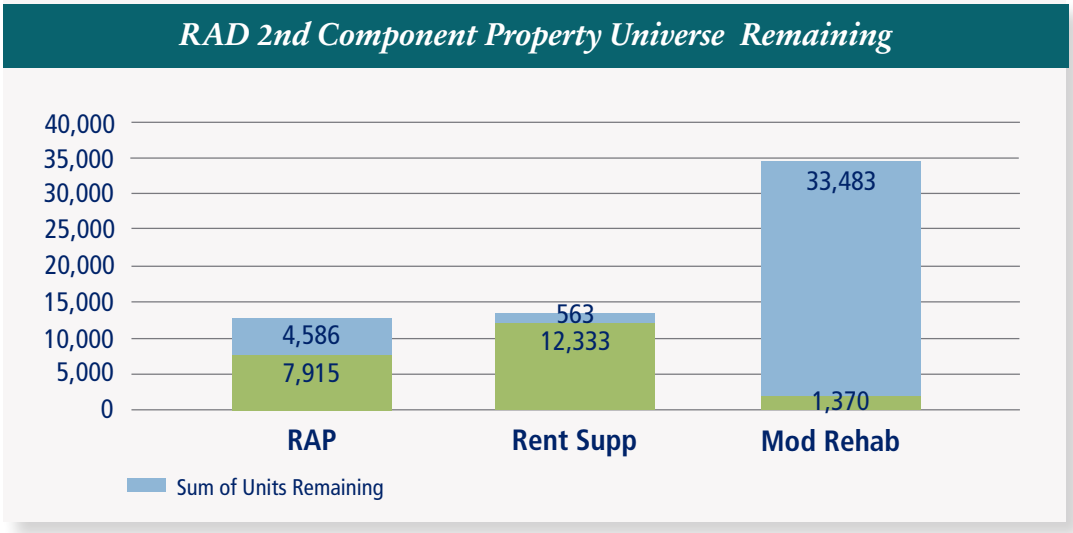

RAD Volume and Faster Processing

HUD has made substantial progress in reducing processing times for its reviews. In 2015, it took HUD an average of 104 days to review a Financing Plan submission and issue a RAD Conversion Commitment (RCC); it took an average of 173 days between RCC issuance and closing. This past year, HUD re-examined business processes and submission requirements, streamlined reviews and eliminated duplication among offices. It now typically takes only 68 days to go from Financing Plan to RCC and 89 days from RCC to closing. This is a 35% to 50% reduction in review times! Assisted by these efforts, the calendar year of 2016 was the busiest year to-date: In CY 16, HUD completed the conversion of 261 properties (29,621 units), more than double the CY 15 conversion rate.

Promoting High-Impact and Transformational Conversions

RAD has proven to be an effective tool to preserve and recapitalize the public housing portfolio. However, it became clear early on that greater flexibility was needed in order to tackle the most distressed public housing assets and to accommodate large portfolios. HUD introduced "multi-phase awards" to accommodate properties that needed to be redeveloped over several phases and "portfolio awards" to provide PHAs more time to plan and pace the conversion of multiple properties. HUD has also made progress working out various program kinks where RAD is used in combination with other HUD programs such as FHA-insured financing, Choice Neighborhoods, or Section 18.

To further support these high-impact deals and to help PHAs finance additional capital needs, HUD has developed innovative cost-neutral ways to increase RAD rents. This includes "rent bundling," capturing the savings from energy efficient improvements, and accessing future streams of public housing Replacement Housing Fund (RHF) and Demolition/Disposition Transition Funding (DDTF). Still, we know from the RAD Interim Evaluation that many properties cannot be preserved under the current program. HUD is constantly on the hunt for ways to improve the available tools – under RAD and under standard public housing programs – to preserve and improve these affordable housing resources.

Protecting the Public Interest

The Federal government has invested significant money to build and maintain these properties over the years, and properly stewarding this public interest has been a foundational principle of RAD. RAD requires some level of public or non-profit ownership or oversight control in every converted property to protect the public interest long-term. This can be accomplished in a number of ways, including outright ownership, a joint venture, a long-term residual interest or ground lease or contractual control mechanisms. While RAD originally permitted more lenient criteria, the 2015 Notice revision established that PHA-held subordinate financing and a right of first refusal were too easily terminated to satisfy this requirement.

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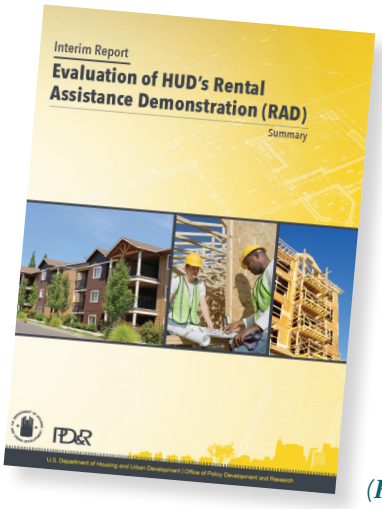
RAD INTERIM EVALUATION

In November 2016, Econometrica, Inc. published an Interim Report of the Evaluation of the First Component of HUD's Rental Assistance Demonstration, based on analysis of data available as of October 2015. As of that date, RAD had enabled PHAs to complete the conversion of 19,255 units in 185 public housing developments, raising $2.5 billion in funding to meet capital needs, with a leverage ratio of $8.90 to $1.00. (Since then, the pace has only picked up: 57,489 units have now been converted with a similar leverage ratio.) Transactions are funded with 4% and 9% Low-Income Housing Tax Credit (LIHTC) equity, conventional and FHA-insured first mortgage debt, deferred developer fees, seller take-back debt, subordinate loans from a variety of state, local and Federal sources, and PHA funds, including, operating reserves, capital funds, Replacement Housing Factor funds, cash on hand and funds from operations.

The report's fundamental finding is that RAD is on track to accomplish its primary goal of attracting significant new capital to stabilize the physical and financial condition of the public housing stock and to improve living conditions for residents. According to the study, "RAD is expected to significantly reduce capital needs over the long run… RAD projects are able to address 75 percent of their 20-year capital needs in the first year and the remaining 25 percent over the next 19 years. By contrast, non-RAD projects are able to meet only 2 percent of their 20-year capital needs in the first year, leaving the remaining 98 percent of their capital needs to be addressed in future years on average."



Evaluation of HUD's Rental Assistance Demonstration (RAD) Summary

"RAD is on track to accomplish its primary goal to attract new capital to...the public housing stock and improve living conditions for residents."

There were three observations from the report that were particularly interesting as HUD contemplates the future of RAD:

First, the PHAs responding to the survey noted that additional funds, through increased RAD rents or additional subsidies, would enable the program to fund units with greater rehabilitation needs. HUD continues to look for ways – like the flexibility with RHF and DDTF funds introduced in the most recent revision of the Notice – to stretch existing funds but, no matter the extent of new flexibilities HUD finds, a budget-neutral RAD program is not a silver bullet to solve the capital backlog problem in every single community.

Second, a number of survey respondents emphasized the need to remove the uncertainty created by the cap around future participation in the program, on the number of participating units. RAD is fully subscribed and has a waiting list. This uncertainty inhibits PHAs ability to plan future RAD conversions and limits participation for properties where RAD could be a powerful tool.

Third, the report raised the question of whether RAD can be an effective tool for all kinds of public housing. Specifically, the report finds that "small PHAs have lower rates of participation in the RAD program and smaller portfolios compared with medium and large PHAs." The report suggests that "their lower participation could be related to their relative lack of capacity and mixed-finance experience, the types of projects in their housing portfolio, or other factors."

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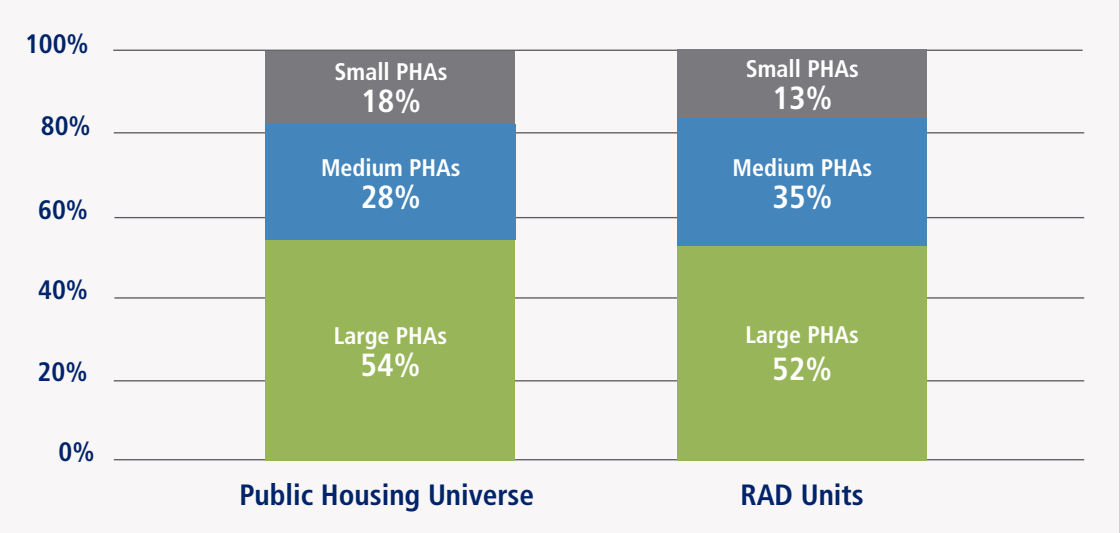
Certainly small PHAs remain modestly underrepresented as organizations participating in RAD but current data indicates they often convert a higher percentage of their public housing units than larger organizations. When examining the universe of public housing units relative to RAD-participating public housing units, the ratio is relatively consistent among PHA sizes (see chart below). This indicates that PHAs of all sizes have found the program to be useful. Nevertheless, small PHAs' capacity to implement complex RAD transactions and their access to the financing tools often used in RAD transactions are a continuing concern. While in some cases capacity concerns can be addressed in partnership with the private market, HUD continues to look for new ways to ensure all PHAs can access the financial resources to preserve and improve their public housing.

Public Housing Units vs. Units in RAD, by PHA



The Interim Evaluation found that in total, the RAD program is fundamentally succeeding in its core goal of leveraging capital to meet some of the needs of the public housing inventory.

Research on public housing conversions under RAD will continue and HUD anticipates publication of the final report in late-2018. The final report will address a variety of questions for which the data available in 2015 was incomplete, since at that stage in the program's life very few properties had completed the post-conversion construction work. These questions include an examination of the post-completion physical and financial performance relative to pre-RAD conditions; the relative value of different financing approaches; the impact of the RAD public housing conversions on residents; and finally, residents' and other stakeholders' views on the program's costs and benefits. HUD looks forward to learning from this future research and continuing to adjust the program in response. For now, however, the Interim Evaluation indicates RAD is a powerful tool to improve the quality of HUD-assisted housing.

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