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RAD Market Remains Active with Cap Looming

MARK O'MEARA, COPY EDITOR, NOVOGRADAC

The passage of the 2018 omnibus spending bill raised the U.S. Department of Housing and Urban Development's (HUD's) Rental Assistance Demonstration (RAD) program cap to 455,000 units and extended the program by four years, until 2024.

With the early success of the program—which allows public housing authorities (PHAs) to convert their portfolios to Section 8—many PHAs consider it an effective way to preserve and improve public housing properties and address the backlog of deferred maintenance.

Eric Novak, president of Praxis Consulting Group and conference panelist at the Novogradac 2019 Affordable Housing Conference in San Francisco in early May, estimates that it'll be about one-and-a-half years until the cap is met. "The RAD cap went up significantly," said Novak. "With a one-and-a-half-year runway, a lot of housing authorities are still interested in the program." Praxis Consulting Group is a development financing consulting firm in Reno, Nev.

"Those concerned ask, 'is there room for more RAD conversions as we get closer to the cap?' Yes, there is still is room," said Monica Sussman, partner at Nixon Peabody and conference panelist.

"Housing authorities don't want to be the last ones in," said Novak.

Starla Warren, president of the Monterey County Housing Authority Development Corporation and conference panelist, sees continued demand for the RAD program. "I am seeing an increase of RFP [request for proposal] issuances from housing authorities," said Warren. "So, it's a very active market."

Warren said this is a good thing because, "HUD's goal is to be out of public housing. They want to deal

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with rental subsidies. HUD doesn't want to be in charge of billions of dollars of backlog repairs."

Kathie Soroka, counsel at Nixon Peabody, said there are about 100,000 units remaining under the RAD cap. However, Soroka said, "This includes pending RAD transactions."

"Housing authorities are receiving a lot of pressure from HUD to convert to RAD," said Novak. "It's a big leap

for housing authorities. It's a challenge to start learning about the Low-Income Housing Tax Credit program [which is often used to help finance RAD conversions] and managing tax credit housing."

Image: Courtesy of Novogradac (From left to right) Eric Novak of Praxis Consulting Group, Starla Warren of the Monterey County Housing Authority Development Corporation, Monica Sussman of Nixon Peabody and Renee Beaver of Novogradac discuss the future of HUD's Rental Assistance Demonstration (RAD) program and whether housing authorities still have time to convert their public housing portfolios into Section 8 housing through RAD.

While there is still time, proponents of the program want to see the cap increase once again.

"There is a lot of bipartisan support of RAD," said Soroka. "If we see a continued need for RAD, we will see the cap increase. But, we won't see the cap increase this year."

"There is a very good chance the cap will get increased," said Sussman. "When we get closer to the cap, there will be an effort to increase it."

Why Convert to RAD?

There are many benefits to converting to RAD beyond the obvious need of capital improvements for aging public housing developments. "Most housing authorities experience a backlog in addressing capital needs," said Novak. "They get one-thirtieth of the money needed to address all their capital needs."

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“The needs of public housing authorities outweighs their reserves exponentially,” said Sussman.

HUD is pushing for public housing to be converted under the RAD program. “HUD sent a letter of intent to convert 100,000 units this year out of public housing,” said Novak.

Housing authorities are also interested in the higher 2018 RAD rents.

“You are seeing an uptick in RAD,” said Soroka. “Lots of folks want to take advantage of the relatively high 2018 RAD rents.” Soroka said RAD rents change every two years and that the 2020 RAD rents may be lower than the 2018 rents. Warren said the 2018 rents may be \$50 to \$100 higher than the 2020 RAD rents.

HUD is implementing many new tools.

“HUD is trying to expand its tools to reposition public housing authorities,” said Soroka. “RAD is a very big tool.”

“RAD is flexible and the program is getting strengthened and streamlined,” said Soroka. “RAD rents are getting boosted and the environmental review requirements are being streamlined.”

Finally, RAD conversions can use project-based vouchers at fair market rents for 25 percent of the units. “Now, there’s a lot more leverage to borrow money to cover the gap,” said Novak. “Fair market rents are three times higher than RAD rents.”

Challenges

Rising construction costs can make RAD conversions difficult.

Novak has seen a 30 percent increase in construction costs recently. “This makes it very hard for housing authorities,” said Novak. “There is such a moving target with construction costs.”

Novak added that housing authorities should prioritize finding gap financing. “It’s all about the gap,” said Novak. “Most housing authorities do not have a lot of capital funds or reserves. It’s important to know how to partner with local governments to get HOME, Housing Trust Fund money or CDBG funds to fill the gap.”

Panelists also discussed challenges that small housing authorities have with RAD conversions.

“It makes sense for small housing authorities to get out of public housing,” said Warren. “For HUD, this is great because small housing authorities are often times not as sophisticated. It takes a lot of HUD staff to shepherd small housing authorities.”

In fact, Warren predicts in the coming months that HUD will mandate that small housing authorities that manage less than 250 units of public housing must convert their portfolios through RAD.

Novak said that small housing authorities may run into operational issues when converting their public housing portfolios through RAD as these units may need to be privately managed, which would take jobs away from housing authority staff. “There are a lot of organizational challenges for housing authorities to manage on the back end of a RAD conversion,” said Novak. ❖

This article first appeared in the June 2019 issue of the Novogradac Journal of Tax Credits.

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