RAD as a Preservation Tool in Massachusetts: Initial Implementation
Executive Summary

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July 21, 2014

In 2012, HUD launched the Rental Assistance Demonstration Program (RAD), a broad-ranging effort to preserve federally-subsidized affordable housing. This paper examines the implementation of the second component of RAD in Massachusetts, the effort to stabilize privately-owned housing with expiring federal subsidy contracts.

Rent Supp, RAP and Section 8 Mod Rehab are all precursors to the current Section 8 rent subsidy program; federal funding for all of these programs is expiring. RAD offers properties the opportunity to substitute Rent Supp, RAP or Mod Rehab rent subsidies with Project-Based Vouchers (PBV’s) with 15-year contracts. By introducing long-term project-based rent subsidies, the RAD program meets three goals: attaching longer-term use restrictions to the units; allowing properties to leverage rent subsidy commitments to raise new debt and possible LIHTC capital; and streamlining a multitude of rent subsidy programs into a simpler format.

To date, the RAD program has had great success in meeting those goals. HUD has closed on thirteen Second Component RAD projects in Massachusetts, awarding a total of 1,192 PBV’s to units in these properties. Observers and participants have been very pleased with the program, the process, and the outcomes for the properties that have completed it. Positive outcomes (achieved and projected) include:

- Preservation of affordable properties where long-term use restrictions would have expired and project-based rent subsidies would otherwise have been lost
- Assignment of PBV’s to a much larger number of units in each development: on average, properties have Rent Supp or RAP contracts for 35% of the units; post-conversion, projects have an average of 84% PBV’s. This represents a significant expansion in the number of units permanently affordable for very low-income households
- Increased rent to owners for many properties: previous use restrictions tightly constrained rents, but in most cases the RAD standard (the lesser of market rent or 110% FMR’s) allows rents to rise substantially
- Significant additional capital raised through refinancing (new debt and in some cases LIHTC equity), with the anticipated result of significant property rehab
- More cash flow to the owners, at least some of which has been dedicated to capital improvements

For owners and tenants, the process of converting a property through RAD involves an institutional and regulatory transition, from MassHousing administration of rents to Public Housing Authority (PHA) administration. For tenants as well as owners, this process involves a transition to a new set of players: tenants will be dealing, in many cases for the first time, with a new set of rent certification and leasing processes, as well as a new set of PHA personnel. Tenant education meetings are essential to the process, as is close
coordination between owners, HUD, and PHA's. Beyond the projects that have definitively moved forward on RAD or another path, 23 Rent Supp and RAP developments remain unresolved in Massachusetts, with a total of 4,695 units. All of these units could be lost to the affordable portfolio as both rent subsidies and use restrictions expire. Tenants in HUD-subsidized properties with expiring use restrictions are entitled to receive Tenant Protection or Enhanced Vouchers, rent subsidies which protect tenants from displacement or large, sudden rent increases. But these mobile subsidies do nothing to preserve the properties themselves as affordable.

RAD in theory offers an opportunity for all of these properties to remain affordable for the long term, while bringing in new capital for property improvements and improving cash flow for owners. But as currently structured, RAD may not be able to save properties in the strongest sub-markets: with a rent cap of 110% of Fair Market Rents (FMRs), some owners would sustain considerable losses if they pursue a RAD conversion versus bringing their projects to market rents when use restrictions expire. Nonetheless, RAD would be a viable economic option for the majority of the 23 remaining eligible properties in the state, and the program has enormous preservation potential.

Currently, the RAD program is only authorized through December 31, 2014. It is clearly HUD’s intention to keep the project going and to expand its reach; and it is the desire of many state stakeholders to extend the program to the rest of the expiring use portfolio that might use RAD as a path to preservation. The fate of the program rests with Congress.
In 2012, HUD launched the Rental Assistance Demonstration Program (RAD), a broad-ranging effort to preserve federally-subsidized affordable housing. RAD includes two components, the first aimed primarily at public housing, and the second aimed at a grab-bag of expiring rent subsidy programs. Both components share the same essential goals:

- To preserve and stabilize housing that might fall out of the affordable portfolio either due to expiring use restrictions or deteriorating infrastructure;
- To bring new capital into the developments, from private sources, in order to address the buildings’ capital needs; and
- To streamline the administration of federally subsidized housing programs, moving from the current programmatic plethora to standardize on the most successful, durable and stable subsidy programs.

This paper will examine the implementation of the second component of RAD in Massachusetts, the use of RAD to stabilize privately-owned housing with expiring federal subsidy contracts. Massachusetts is one of four states (along with New York, New Jersey, and Michigan) with the greatest concentration of housing involving the targeted rent subsidy contracts. RAD has emerged as an important preservation tool in a state with a profoundly challenging housing market.

The “Orphan Programs”

In the late 1960’s, housing policy began to shift away from pure “supply” strategies, focusing solely on subsidizing the cost of housing production, to more “demand” strategies, subsidizing rents for very low-income tenants. Earlier efforts had focused on creating publicly-owned housing or providing very inexpensive financing for private housing development (e.g., the 221(d)(3) interest subsidy program). The theory was that if debt service costs were eliminated or reduced, owners would need to charge less rent, and the housing could be leased at below-market rents.

In the 1960’s it became apparent that many tenants in housing with subsidized development costs were nonetheless paying untenable portions of their income for rent, just to cover operating expenses. On the public housing side, 1969 saw the passage of the Brooke Amendment, which limited housing payments to 25% of a tenant’s actual income (later raised to 30%). On the privately-owned side, HUD created a series of programs to subsidize tenant rents down to levels that would be affordable for very low-income tenants.
households. These programs eventually evolved into the Section 8 rent subsidy program which exists today, with programs including (among others) Housing Choice Vouchers (HCV's), which tenants can take from unit to unit, as well as Project-Based Rental Assistance (PBRA) and Project-Based Vouchers (PBV's), both of which remain tied to specific units as different income-eligible households move in and out. But while these earlier rent subsidy programs are no longer active, they are still tied to many thousands of affordable units which they have subsidized over the decades. The programs are:

**Rent Supplement (Rent Supp):** Launched in 1965, the Rent Supp program was the first program to provide subsidies to directly reduce the housing payments of tenants living in properties financed with HUD-subsidized mortgages. Through this program, tenants pay the greater of 30% of their income or 30% of the rent; the rent subsidy contract covers the balance.²

**Rental Assistance Program (RAP):** This program was created in 1974 specifically to subsidize rents in projects financed through the Section 236 interest subsidy program. (Section 236 provided a deeper level of interest subsidy than its predecessor 221(d)(3) program.) RAP tenants pay the greater of 30% of adjusted household income or 10% of gross income; the rent subsidy contract covers the balance.

**Section 8 Mod Rehab:** The Mod Rehab program was designed to provide rent subsidies in developments where owners could use the predictable income stream to finance a moderate level of rehab to prepare the units for occupancy. Tenants pay 30% of their income for rent; the rent subsidy contract covers the balance. Mod Rehab contracts are administered by local Public Housing Authorities (PHA's).

Initial contracts under all of these programs were written for 15 to 40 years (usually, but not always, coterminous with a HUD-insured mortgage). The Rent Supp and RAP programs are fully expiring: no funding is available to renew these contracts as they expire, and it is HUD’s intention to phase them out entirely. However, income-eligible tenants in these units can receive Tenant Protection Vouchers (TPV's), rent subsidies that tenants can use to stay in their current buildings at their current rent payment levels, or take with them to another unit to use as they would any other HCV. Residents in projects that prepay a HUD Section 236 mortgage may also be eligible for Enhanced Vouchers (EV’s). Many Mod Rehab contracts have expired, as well; but in this case funding has been made available to renew these contracts on a year-to-year basis.

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² Throughout this report, “tenant payments” or “tenant rent” refers to the totality of tenant’s housing payments, even though the actual tenant rent paid to an owner may be reduced by utility allowances.
The RAD Solution

Taken together, there are approximately 3,000 Rent Supp, RAP and Mod Rehab units currently under contract in Massachusetts; when the RAD program initiated in 2012, there were an additional 571 units under such contracts (that have since used RAD to convert some or all units to PBV's). The potential loss of units to the affordable portfolio, however, is considerably bigger than just those units under subsidy contract. In the buildings with these subsidy contracts in place, only about 1/3 have Rent Supp or RAP contracts. But most or all of the remaining units have also been rented at below-market rents to tenants who are overwhelmingly low- or moderate-income. Total units in buildings with some Rent Supp or RAP presence added up to 7,657 when the RAD program launched, 7,273 of which were subject to some kind of use restriction.  

All of these Rent Supp and RAP units could have been at risk of loss from the affordable portfolio as the contracts and use restrictions expired. In most cases, existing tenants would have received (TPVs), allowing them to continue to lease housing at the same level of tenant-paid rent as previously, and to remain in their current units using the subsidies. But TPVs are not tied to units; as mobile resources, they cannot be part of the underwriting for new financing for a property. And forty years after initial development, even the best-managed properties are tired, at best, and in need of capital improvements.

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3 As noted above, because the roughly 1,000 Mod Rehab units in the state are managed through local PHAs, data is much less readily available. This paper will deal much more extensively with Rent Supp and RAP projects, because the preservation risk and potential is so much larger due to the relative number of units involved.
RAD offers properties the opportunity to substitute Rent Supp, RAP or Mod Rehab rent subsidies with Project-Based Vouchers (PBV’s) with 15-year contracts. Further, PBV’s are also available to any unit which would have been eligible to receive an EV or TPV in the event of prepayment or expiration. Rents for PBV’s are capped at the lowest of market comparables or 110% of Fair Market Rents (FMR’s).

All of the Rent Supp and RAP properties still operating at RAD’s inception were financed through MassHousing, nearly all through the Section 236 interest subsidy program. Section 236 included a tight rein on rent escalation, tied exclusively to operating cost inflation. In most of Massachusetts, market rent growth has outstripped the rent growth in Section 236 properties. So an owner of a project that converts under RAD could end up with a much larger portion of subsidized units than previously (since most potential EV recipients are converted along with the actual Rent Supp or RAP units), with long-term, project-based contracts, at higher rent levels than before. Such a property is in a strong position to raise additional capital on the private market, through additional borrowing and potentially through Low-Income Housing Tax Credit (LIHTC) equity.

Through conversion of these “orphaned properties” to PBV’s, the program meets RAD’s goals:

- Properties that would have seen the expiration of subsidies and use restrictions are preserved, by attaching long-term subsidy contracts to most or all of the units.
- Properties are able to raise substantial additional capital for rehab, by raising new debt and possibly LIHTC equity.
- Instead of a mish-mash of different programs, administrative processes and rent calculation rules, the subsidies are standardized under the Section 8 program, which has been one of HUD’s most successful and durable.

HUD stated a fourth goal for the RAD program: increasing tenant mobility. This goal is more directly relevant to the public housing component of the program than to the second component discussed here. However, for all RAD conversions, including the orphaned properties, there is a requirement that after a year, any tenant whose unit was converted through RAD can apply to the administering agency to swap for a mobile voucher. The household will be put on the top of the waiting list for the next Housing Choice Voucher that becomes available.

**RAD conversions to date**

HUD has closed thirteen Second Component RAD projects in Massachusetts to date, awarding a total of 1,192 PBV’s to units in these properties. This represents a significant increase in project-based rent subsidies: the 11 properties for which this information is available received a total of 1,106 new PBV’s; previously, these properties had only 454 units under either Rent Supp or RAP contract. In the end, 84% of the units in closed, converted properties ended up aided by PBV contracts.

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4 One Rent Supp project was financed through the Massachusetts 13A program, which was a state-funded equivalent of the 236 interest subsidy program.
5 Nonetheless, properties undergoing RAD conversion might still end up with a collage of different subsidy types and rent contracts within the Section 8 program, each of which has slightly different rules and requirements.
Fourteen additional properties are in some stage of the RAD application and approval process. These developments in process have a total of 1,886 units; if PBV conversions continue at a similar rate, after conversion these fourteen developments will add more than 1,600 PBV units to the affordable portfolio.

Of the completed projects:

- At least one was a “retroactive” conversion. In that project (a senior development), the prior Rent Supp contract had already expired, and eligible tenants had already been given EV’s. Tenants with EV’s still living on site were given the option of converting to PBV’s -- for some, this meant a decrease in rent. 31 of 100 units ended up with PBV’s in this project.
- One was a Mod Rehab project, converted through the First Component of RAD (in which conversion resources were awarded on a competitive basis).
- The rest were “prospective” conversions of Rent Supp or RAP projects. Under a prospective conversion, the owner prepays the mortgage, an event which would make the tenants eligible to receive EV’s. Through RAD, the EV’s are converted to PBV’s. Tenants are allowed to submit comments for review by the owner and by HUD, but they are not generally able to block the conversion of a unit to PBV through a prospective RAD conversion. (An exception, for tenants with HCV’s, will be discussed below.)
- Three additional projects considered RAD conversion but in the end took other paths:
  - One, a 12-unit development, decided to stick with EV’s for its tenants and not to attempt a conversion to PBV’s
Another project pursued the conversion of its units to PBV's through a different available program. A third owner submitted an initial application under RAD but ended up withdrawing it when it became clear that residents would prefer to retain mobile voucher options.

Beyond the projects that have definitively moved forward on RAD or another path, a total of 23 Rent Supp and RAP developments remain unresolved in Massachusetts, with a total of 4,695 units. The median size of the projects in the unconverted pool is 138 units, versus a median of 118 units for the projects that have completed or are in some stage of the RAD process. The unconverted pool includes one extremely large property – more than 1,200 units. A number of interviewees reported hearing that owners of this property are planning to pursue a RAD conversion.

Current authorization for the RAD program extends through the end of the calendar year (for a qualifying event – in other words, current subsidy contracts must expire, or owners must arrange for a prepayment, before 12/31/14). The program has been extended once, and stakeholders are hoping that Congress will extend it further, to allow for greater preservation impact.

As mentioned previously, all of the eligible properties in the state have MassHousing as mortgagee. MassHousing has been actively advocating with owners to pursue RAD or other paths to PBV’s and recapitalization. It is the agency’s goal to move the entire remaining portfolio through the conversion process over the course of three years, although there are some obstacles to achieving that goal, including Congressional re-authorization of the RAD program.

A fully-realized RAD conversion would involve not only the implementation of PBV contracts, but also a full recapitalization and rehab program. To date, no prospective RAD project has fully completed this process, although many appear to be on the way. Unless a property has had failing REAC inspection scores (less than 60) prior to conversion of Rent Supp or RAP properties, HUD does not require submission of a financing plan with the application, so the agency does not necessarily know about the final post-conversion outcomes. Interviews with owners and with MassHousing reveals that some projects have engaged in a full refinance with 4% LIHTC and new tax-exempt bond financing. At least one project initiated the RAD conversion after completing a 4% LIHTC transaction: the addition of PBV’s added stability and a deeper level of affordability in that case, but clearly the capital transaction was feasible without it. Other properties have pursued repairs using the additional cash flow that has been generated by increased rents. At least one project is pursuing refinance with a new round of FHA-insured debt.

**RAD Conversion Process**

For owners and tenants, the process of converting a property through RAD involves an institutional and regulatory transition. Rent Supp and RAP contracts have, in Massachusetts, been administered by MassHousing; while MassHousing will remain in place in most cases as the mortgagee after refinance, the administration of the PBV’s will

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6 Prepayment and conversion of EV’s to PBV’s through a Moving-to-Work public housing agency; discussed in a separate report
transition to a local PHA or in some cases a regional nonprofit housing administrator. For tenants as well as owners, this process involves a transition to a new set of players: tenants will be dealing, in many cases for the first time, with a new set of rent certification and leasing processes, as well as a new set of PHA personnel. (This is less true for Mod Rehab conversions, since the PHA’s already administer those contracts.)

Within HUD, RAD conversion of Rent Supp and RAP projects involves the transition from the Multifamily division to the Public Housing division (PIH). At the Boston HUD field office, key staff members in both divisions charged with implementing RAD have developed a strong working relationship and a tight and predictable process. An owner wishing to pursue a RAD conversion directs the application to HUD at the national level, where the project is logged and referred back out to the field office. Multifamily and PIH staff will meet internally to review the project and coordinate their activities before taking the next step, which is meeting with the tenants.

Tenant meetings are required in the early stages of the conversion. Typically, the owner organizes these meetings, and staff from both HUD and the PHA participate. Tenant meetings serve several purposes:

- The meeting serves to inform the tenants of the impending conversion, and to begin to explain what it means for them. As will be discussed below, many tenants will see changes in their rent, although these changes will vary with each tenant’s specific situation.
- Tenants holding Housing Choice Vouchers (HCV’s) have the option of keeping those vouchers, or of turning them in for Project-Based Vouchers (PBV’s). Even if tenants convert to PBV’s, under RAD, after a year they have the right to ask to convert back to a HCV, and they will be put at the top of the PHA’s waiting list. This issue is introduced and discussed at the tenant meeting, including an assessment from the PHA of how long it will likely take for a tenant to be able to get another HCV once he has requested it.
- The owners will have a chance to explain their capital program for the property, and to inform tenants of the scope and timing for any improvements they plan to undertake.
- The tenants will have a chance to meet the PHA staff, and to hear about the new income certification process in which they will need to engage.

After this meeting, tenants have 30 days to comment (to the owner and to HUD) on the proposed conversion, although such comments are rarely forthcoming. Under RAD, with the exception of HCV holders, tenants do not really have the option of turning down conversion to PBV. After the 30-day comment period, HUD will proceed with the review of the proposed conversion. This process is mainly accomplished by the PIH transaction manager in the Boston field office, with ultimate review and sign-off from HUD headquarters. In cases in which the proposed refinancing involves an IRP Decoupling (a strategy available with 236 loans, wherein the loan is prepaid but the mortgage interest subsidy is retained for the duration of the contract) or the deferral of a Flexible Subsidy loan, the refinancing will need approval from the Office of Affordable Housing Preservation (OAHP), a requirement that takes the transaction out of the sole control of the field office, and that can result in some delays.
At some point in the review process, HUD will assign an administering agency for the new contract. (Recognizing the efficacy of involving the PHA in the tenant meetings, the Boston field office has chosen to make this designation early on in the process.) In most cases, HUD will tap the local PHA to play this role. However, in some cases, HUD will opt instead to assign the PBV’s through the state Department of Housing and Community Development (DHCD), which will in turn assign the PBV’s to one of its eight regional agencies that administer Section 8 contracts. HUD will choose this option if:

• The PHA rejects the request to administer the contract;
• The local PHA does not already administer a Section 8 program; or
• HUD has concerns about the local PHA’s capacity or performance.

The choice of where to assign the PBV’s is ultimately left to HUD’s sole discretion; owners do not control this aspect of the transaction. However, the assignment can have significant consequences for the development down the road. Each PHA has a slightly different process for handling income certifications; and some PHA’s have very different processes and policies for managing property waiting lists. Ultimately, the speed and the efficacy of the transition, the processing of reimbursements to the owner, and the rate at which vacant units are re-filled, will depend heavily on the performance of the PHA chosen to administer the contracts.

Once HUD has approved the RAD conversion, the remainder of the process falls to the PHA, working in collaboration with the owner. The PHA will need to apply for the new PBV vouchers; they will be awarded a new funding contract that includes these new resources. The PHA will then need to proceed to income certify all of the tenants before the PBV contract can be executed. If tenants sign a waiver, then owners can share with the PHA the household composition and income information they have already collected for prior income certifications, and this measure can expedite the process. Nonetheless, the PHA will still need to complete a full set of paperwork to put each PBV into place. Additionally, the PHA will need to inspect each unit for compliance with HUD’s Housing Quality Standards (HQS) before a lease can be executed.

All of this involves a substantial amount of additional work for a PHA—a workload that can be transformative for a modest-sized agency. The Brockton Housing Authority, for example, administered a 3,000 unit Section 8 voucher program before the recent addition of 600 PBV units through RAD—a 20% increase in program volume. The Housing Authority had to bring on 2 new permanent, full-time staff as a result. The RAD program provides resources to compensate the PHA’s for the extra work in the form of a $200 per unit transition fee and regular administration fees thereafter.

Financial Impact on Properties

All of the stakeholders interviewed for this study— including owners, Legal Services staff representing tenant interests, and multiple stakeholders from state, local and national housing agencies— have been very pleased with the program, the process, and the outcomes for the properties that have completed it. Positive outcomes (achieved and projected) have included:
• Preservation of affordable properties where long-term use restrictions would have expired and project-based rent subsidies would otherwise have been lost
• Assignment of PBV’s to a much larger number of units in each development: on average, properties have Rent Supp or RAP contracts for 35% of the units; post-conversion, projects have an average of 84% PBV’s
• Increased rent to owners for many properties: the Section 236 program tightly constrained rents, but in most cases the RAD standard (the lesser of market rent or 110% FMR’s) allows rents to rise substantially
• Significant additional capital raised through refinancing (new debt and in some cases LIHTC equity), with the anticipated result of significant physical upgrade of the properties
• More cash flow to the owners, at least some of which has been dedicated to capital improvements

Impact on Tenants In Place

Many tenants will see a change in their rental payment under RAD. For most, the change involves a decrease in their monthly rent payment; but in a limited number of cases tenant rents will increase after conversion.

A unit is eligible for a RAD PBV if the tenant earns 80% or less of AMI, the statutory income limit for the Section 8 program. Elderly and disabled tenants, and tenants in low-vacancy areas, with incomes between 80% and 95% of AMI are eligible for EV’s, but not PBV’s. EV’s allow tenants to stay in their units for the rents they are currently paying; so for these tenants, rents will not change. Tenants earning more than 95% AMI, however, are ineligible for a rent subsidy. These tenants will typically see an increase in their rents – and this increase may be substantial, as owners take the opportunity to move up to market rates. Many owners agree to phase in rent increases for these tenants over a number of years.

Income-qualified tenants will most often see their rents go down, although this is not always the case. Each of the rent subsidy programs calculates rents a little differently, so each tenant’s rent changes will depend on the program from which they are migrating. PBV rents are calculated at 30% of household income. A chart showing the rent impact of moving from one subsidy program to another is included in Appendix B.

The decision about retaining mobility for an HCV holder (or for an EV or TPV holder in a retroactive RAD) is the biggest decision that tenants get to make in a RAD conversion. Observers note that these tenant decisions are driven most frequently by rent: PBV holders will always have rent limited to 30% of household income, while HCV holders could pay up to 40% in some cases, and EV holders will pay whatever their rent was prior to conversion. So PBV conversion may provide lower rents for some tenants, and they may make the choice to convert for that reason.

If residents think that they are likely to stay in their units, they may choose to convert their mobile voucher to a PBV because of a commitment to preserving the affordability of the

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7 For the most part, units not converted to PBV’s were either occupied by over-income tenants, or by HCV holders who chose to retain their mobility.
property for future tenants, or because they want to facilitate raising money for rehab of the
development. Some observers think that such decisions may be more likely in senior
developments (where residents generally have lower mobility rates) or in developments
owned by community-based nonprofits.

In any case, after one year, a PBV holder in a RAD-converted development may request a
mobile voucher; so any surrender of mobility is not permanent. Administering agencies are
then required to put these families at the top of their waiting list for mobile vouchers. The
waiting time for a mobile resource will then depend on the voucher turnover rate at the
PHA; so it is not necessarily the case that a mobile voucher will be quickly available once the
request is made. This mobility process, and its impact, are still somewhat untested, since
the program is too young and conversions are too recent to have seen many such requests.

Long-Term Effect on Tenant Population

The 236 program was designed to create mixed-income housing, particularly in
developments that included subsidized units. Units supported by Rent Supp or RAP
subsidies were aimed at very low-income tenants; other units, with limited rents but no
subsidies, were intended for low- and moderate-income tenants (with incomes up to 80%
AMI). Residents in place at the time of RAD conversion with incomes up to 80% of AMI can
receive PBVs.

However, once these tenants leave, they will be replaced with waiting list tenants. New
applicants for Section 8 resources, whether HCV’s or PBV’s, are for the most part limited to
households earning 50% of AMI or less. Further, PHAs are required to target 75% of their
annual PBV and HCV awards to households earning 30% of AMI or less. Thus, over time,
RAD developments (especially those achieving large increases in the number of rent-
subsidized units) can expect to see their tenant base shift to a significantly lower-income
population than previously. HUD has acknowledged that this is a possible effect of the RAD
program, but they are not currently tracking this impact.

Elements of Successful RAD Implementation

Owners and agency staff describe planning, teamwork, and communication as the key
elements in a successful RAD implementation:

- The Boston HUD field office has designated a single staff member in each division –
  Multifamily and PIH – to coordinate RAD conversion efforts. These two individuals
  work closely and well together, earning high praise from owners and other agencies
  involved in the process. Their internal procedure includes strategically-scheduled
  meetings, both internally and with other stakeholders, at key points in the process
  in order to keep things running smoothly.
- Owners describe the importance of working closely with PHA’s. Beacon Properties,
  which has done more RAD conversions than any other owner in the state, describes
  a process of working closely with the PHA’s to plan critical steps in advance (HQS

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8 “Moving to Work” (MTW) agencies, which in Massachusetts include the state Department of
Housing and Community Development, the Cambridge Housing Authority, and the Holyoke Housing
Authority, have greater flexibility regarding mobility requirements.
inspections, for example). Beacon also works closely with PHA staff to facilitate the PBV income certification process: securing waivers to share income and household composition information, helping to collect forms and follow up on missing documentation, etc.

- All stakeholders agree on the importance of open and accessible communications with tenants. Tenants frequently respond to news of refinancing or conversion with understandable anxiety about their rents and the future security of their housing. Property managers and PHA staff need to be available to residents as much as needed to explain the impact of the changes, and where residents have a choice (e.g., whether to keep an HCV or exchange it for a PBV), to make sure that they fully understand the implications.
- Each party describes the benefits of assigning an internal project manager to handle the process. HUD has key staff to steer the projects through approval; owners designate staff members or consultants to manage the process; and PHA’s will assign a single staff person to shepherd the paperwork and transition through for each project.

**RAD Challenges**

Overall, participating owners and agencies interviewed for this study describe being pleased with the way conversions have proceeded. A number of challenges have emerged, however:

**The RAD rent cap of 110% of FMR is an obstacle to preservation for some properties in high-rent areas.**

Fair Market Rents (FMR’s) are calculated at roughly the 40% percentile level over a very broad geographic area. While these rent levels may capture broad area averages, they may not come close to capturing the actual rents in metropolitan sub-markets. The Boston Metropolitan Statistical Area, for example, includes markets as diverse as Saugus, Chelsea, Weston and Brookline. Even within the city of Boston proper, market rents in Back Bay may be much higher than market rents in Mattapan.

The Section 8 renewal process for projects with Project-Based Rental Assistance accommodates the variation in local rents by offering a “mark up to market” option. Owners can demonstrate through a rent comparability study that current contract rents are lower than market equivalents, and with sufficient documentation they may be able to raise contract rents to market levels. This rent adjustment eliminates a potentially compelling incentive for owners to opt out of Section 8 contracts in high-rent areas.

RAD project-based conversions, however, do not offer a true market-rate rent alternative. Rents are limited at conversion, and in the future, to a maximum of 110% FMR’s in all cases. EV’s, by contrast, are able to pay full market rents. An owner in a high-rent area, therefore, in which market rents are substantially higher than 110% FMR, has a strong incentive to avoid RAD conversion and instead take the project to market. EV’s will eliminate the chance for displacement of existing tenants; but the owner will not have to settle for a stream of revenue that does not represent the property’s true market value.

**RAD puts preservation in the hands of PHA’s, which may not always be the ideal agencies for the task, and which may vary widely in policies and procedures.**
There are over 3,100 PHA's across the US; Massachusetts alone has 240 PHA's. There is enormous variability in size, capacity and capability across these agencies. While stakeholders have generally reported excellent performance and strong cooperation from the PHA's that have completed RAD conversions, it must be acknowledged that this is not a representative sample – it represents only those who have completed the process successfully. And even owners who report good experiences with multiple PHA's point out that each agency has its own regulations and processes, making it impossible for an owner operating across several jurisdictions to truly standardize operations.

It is perhaps on the topic of waiting lists that PHA's vary most dramatically. In most cases, a PHA taking on a RAD development will take on management of the waiting list along with administration of the subsidy contract. Owners retain the right to screen tenants once they have been referred, but the selection of potential tenants lives with the PHA. The PHA may or may not permit site-based waiting lists. One innovative owner and PHA struck an arrangement which allows for an essentially collaborative waitlist approach, where initial intake happens at the site, but then the applicant is referred directly to the PHA for processing. Other PHA's do not permit site-based waiting lists at all.

One large Massachusetts PHA has developed policies that process all PBV units through a central waiting list reserved exclusively for high-risk, formerly homeless families. While this strategy was conceived to apply to developments with a 10% or 15% PBV allocation, if applied to a RAD development that converts most or all of its units to PBV, the population would transition over time to be entirely high-risk, ELI households. This transition may be at odds with an owner's asset management objectives; and indeed, high concentration of the highest-risk families is considered by most advocates and practitioners to be poor social policy.

By contrast, any development that is assigned to DHCD for RAD administration will be assigned to one of the eight nonprofit administrators; and it is the universal policy of these agencies to have site-based waiting lists for all PBV properties.

These differing policies may have very different implications for the future of a property whose owner is contemplating a RAD conversion. However, since assignment of each property to a contract administrator is in the sole hands of HUD, owners have very little ability to influence this crucial factor.

**Family properties converting more than 50% of units to PBV are required to provide mandatory social services for all new tenants, but there is little clarity about what these services must include, and little provision for quality control.**

General HUD policy on new PBV contracts in family properties calls for a maximum of 25% of PBV's in a single development, in order to avoid concentration of poverty. For RAD, this ceiling was lifted to 50%. The limit does not apply to senior or special needs properties – or, indeed, to any project which provides social services on a mandatory basis for its residents.

Most owners find that converting the greatest possible number of units is the best strategy for achieving recapitalization to repair and stabilize a property going forward. So many owners of family properties have agreed to take on mandatory social service programming
for new residents. Some owners will achieve this goal by simply documenting the services that they already provide. In the future, owners will need to report on their provision of these services; but beyond that requirement, there is very little by way of standards for the resident services that are to be offered. Noted one observer, “it’s all pretty loosey-goosey.”

The uncertainty around these social service requirements does open the possibility of problems in the future. The requirement may deter some owners from proceeding with RAD conversions of family properties. Finally, this requirement creates a decidedly odd incentive for Mod Rehab properties, which in some cases are 100% subsidized before conversion. Despite the fact that they are not creating a greater level of affordability, these projects are presented with a new requirement that they create a service plan that was never required previously.

**Conversion processing time**

The RAD conversion process is an involved one; and even with the most competent and motivated of players, there is usually a substantial time lag between the start date of a conversion and the time that an owner is actually able to collect contract rents for all of the units. Every subsidized tenant has to complete an application, with full income documentation; the PHA (and possibly the owner) must chase down any missing information; each unit has to be inspected for compliance with HQS standards. Housing agencies report that even with full cooperation from all parties involved, owners may see a time lag of 90 – 120 days between the start of conversion and the receipt of their rents from the PHA for all units. A well-capitalized owner can likely manage to float funds for debt payments and operating costs in the interim; but this delay might cause serious consequences for a less well-capitalized owner.

**Capture of HCV waitlists by RAD tenants requesting mobility**

As discussed earlier, the process and timing of requests from RAD tenants to secure mobile vouchers is still an uncharted territory this early in the program's life. However, there is some concern among PHA's that by creating a new class of tenants who can jump to the top of the HCV waiting lists, households who have been on these lists for years will see the possibility of securing a voucher deferred further, beyond the many years of waiting already required.

**The Future of RAD**

Currently, the RAD program is only authorized through December 31, 2014. It is clearly HUD's intention to keep the project going and to expand its reach. It is the desire of many state stakeholders to extend the program to the rest of the expiring use portfolio that might use RAD as a path to preservation. The fate of the program rests with Congress. The Senate's appropriations package recommends program extension and significant expansion; the House's package omits the program entirely. As budgetary appropriations are reconciled, and as HUD's new leadership engages its own priorities, it will become clear whether RAD will be available as a tool to preserve thousands more units in Massachusetts.
Appendix A. Interviews conducted for this study

Leila Borzog, HUD HQ
Bill Brauner, CEDAC
Mary Corthell, Beacon Properties
Charles Francis, Boston HUD field office, Public Housing
David Keene, MassHousing
Maria Maffei, Consultant
Joan Neumeister, Brockton Housing Authority
Paul Nixon, Department of Housing and Community Development
Daniel Rogers, Boston HUD field office, Multifamily Housing
Russ Tanner, Madison Park Development Corporation
Thacher Tiffany, Beacon Properties
Appendix B.  Impact of Subsidy Conversion on Tenant Rent Payments

<table>
<thead>
<tr>
<th>Original Program</th>
<th>Rent Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent Supp</td>
<td>Rent Supp rents are set at the greater of 30% of household income or 30% of the unit rent. If the 30% of rent standard was higher, then these tenants will see their rent decrease; otherwise it will stay the same.</td>
</tr>
<tr>
<td>RAP</td>
<td>RAP rents are set at the greater of 10% of the household’s gross income or 30% of the household’s adjusted income. In most cases these tenants will see their PBV rents stay the same.</td>
</tr>
<tr>
<td>Unassisted 236 units</td>
<td>Income-eligible tenants in unsubsidized units financed with Section 236 debt (this includes all of the RAP and Rent Supp developments in Massachusetts) have been paying unsubsidized but below-market rents whose escalation has been capped at operating expense increases. These tenants will receive rent subsidies for the first time, and in most cases this will lead to reduced tenant payments.</td>
</tr>
<tr>
<td>Housing Choice Vouchers</td>
<td>HCV holders have the option of retaining their mobile voucher or converting to PBV’s. HCV tenants pay 30% of their income for rent, except that if they choose a unit with rent above the Section 8 payment standard, they can pay the excess rent, up to 40% of their income (highly unlikely in a 236 project, where rent levels have been constrained for many years). If these tenants accept a PBV, then their rent will be held at 30% of income; this may keep their rents steady, or it may represent a decrease. Conversely, if unit rents rise post-conversion, a tenant who elects to keep her HCV may see her rent rise above the 30% level, to as much as 40% of income, as the overall rents in the development are increased post-conversion.</td>
</tr>
</tbody>
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Appendix C. Preservation Acronyms

13A: A Massachusetts program providing interest subsidies for debt financing the development of affordable housing; state equivalent of the federal 236 program

236: Federal program subsidizing mortgage interest down to 1% in exchange for extended use restrictions and rent limitations

221(d)(3) BMIR: Federal program subsidizing mortgage interest in exchange for extended use restrictions and rent limitations; predecessor of the more-generous 236 program

AMI: Area Median Income; updated annually by HUD for each Metropolitan Statistical Area

CEDAC: Community Economic Development Assistance Corporation

DHCD: Massachusetts Department of Housing and Community Development

ELI: Extremely Low Income (30% of AMI or less)

EV: Enhanced Voucher, a rent subsidy available to households when a HUD-subsidized mortgage is prepaid. EV holders can remain in their units, paying the higher of 30% of household income or the previous rent.

FMR: Fair Market Rent, determined annually by HUD for units of different sizes in each Metropolitan Statistical Area

HAP: Housing Assistance Payment, the contract covering PBV’s

HCV: Housing Choice Voucher, a mobile Section 8 rent subsidy that moves with the tenant to any eligible unit

HQS: HUD’s Housing Quality Standards

IRP Decoupling: A refinancing mechanism whereby the remaining interest subsidy payments ("Interest Reduction Payments") connected to a 236 mortgage are disconnected from the underlying mortgage in a preservation refinancing; these subsidy payments continue to flow in support of the refinanced property

LIHTC: Low-Income Housing Tax Credits

MTW: Moving to Work, a federal demonstration program providing certain high-performing housing authorities with greater regulatory flexibility and fungible financial resources

PBV: Project-Based Voucher

PHA: Public Housing Authority

RAD: Rental Assistance Demonstration project
**RAP:** Rental Assistance Program, a rent subsidy program that was a precursor to Section 8

**Rent Supp:** Rent Supplement program, a rent subsidy program that was a precursor to Section 8

**Section 8:** Federally-funded rent subsidy program

**TPV:** Tenant Protection Voucher, provided to tenants in properties with expiring federally-subsidized mortgages