Status of HUD's Rental Assistance Demonstration (RAD) Evaluation and Results to Date

PREPARED FOR:

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This document on the *Status of HUD's Rental Assistance Demonstration (RAD) Evaluation and Results to Date* was prepared by Econometrica, Inc., under Contract Number C-CHI-01067, Order No. 002, to the U.S. Department of Housing and Urban Development (HUD), Office of Policy Development & Research (PD&R). It summarizes the approach to evaluating RAD and reports on RAD progress and achievements through August 2014.

Executive Summary

The U.S. Department of Housing and Urban Development's (HUD) Rental Assistance Demonstration (RAD) program allows public housing properties to convert to project-based Section 8 Housing Assistance Payments (HAP) contracts, giving public housing authorities (PHAs) more flexibility to access private and public funding sources to augment insufficient direct appropriations. HUD has contracted with Econometrica, Inc., to conduct an independent evaluation of RAD and to prepare a comprehensive report to Congress.

The evaluation will describe the status quo for public housing and how RAD transforms the public housing landscape; study the amount and types of resources available to improve the physical condition of a public housing property; examine what new opportunities RAD creates for PHAs to improve the physical and financial condition of public housing; assess how RAD helps PHAs preserve those units over the long term; and evaluate the impact of RAD on residents.

PHAs have shown great interest in RAD, and HUD has approved RAD applications covering approximately 60,000 public housing units (the cap on units under the authorizing legislation). The RAD waiting list covers an additional 116,025 units, about 10 percent of the nation's public housing stock. The approved RAD applications have proposed significant leveraging of private and public funding sources; they would raise $19 in investment capital for every dollar of public housing funds used for development and construction. Through August 2014, 57 RAD projects covering 5,052 public housing units have "closed"; that is, all sources of financing have been approved and the Section 8 HAP contract has been executed. Where applicable, PHAs have commenced construction and rehabilitation of these units.

1. Introduction to RAD

The U.S. Department of Housing and Urban Development (HUD) has contracted with Econometrica, Inc., to conduct an independent evaluation of the Rental Assistance Demonstration (RAD) program and to prepare a report to Congress on (1) the preservation and improvement of former public housing units under RAD, (2) the amount of private capital leveraged as a result of RAD conversion, and (3) the effect of RAD conversion on residents. This document summarizes HUD's approach to evaluating the RAD program and reports on the RAD program's progress and achievements through August 2014.

Summary of the RAD Program

The RAD program was established under the *Consolidated and Further Continuing Appropriations Act of 2012*[1] to stem the potential loss of public housing and other subsidized housing units due to the growing backlog of unfunded capital needs. The program converts public housing properties to two different forms of project-based Section 8 Housing Assistance Payments (HAP) contracts[2]—either project-based voucher (PBV)[3] or project-based rental

[1] Public Law 112–55, November 18, 2011.

[2] A HAP contract is the legal agreement between the project's ownership entity and either HUD or a PHA that governs the PBVs. This contract specifies the number and bedroom count of units covered at the property and the terms and procedures by which subsidy payments are made to the property.

assistance (PBRA)[4]—giving public housing authorities (PHAs) more flexibility to access private and public funding sources and to augment insufficient direct appropriations.[5] By providing a predictable, long-term annual funding stream, Section 8 HAP contracts can be used by PHAs to leverage external sources of capital (private and public) to pay for the rehabilitation costs of RAD projects.

The RAD program was established with no incremental appropriations. As such, HUD is implementing RAD in a budget-neutral way and is not providing additional federal dollars to subsidize the capital or operating costs of RAD projects.[6] In establishing the RAD program, former HUD Secretary Shaun Donovan noted, “This innovative and cost-effective approach greatly enhances our ability to confront the decline of our public housing and older assisted housing stock. With the initial implementation of RAD, the Obama Administration has begun to demonstrate that public-private partnership can help preserve our nation’s affordable housing and create jobs in the process.”[7] The expectation is that RAD will provide a sustainable form of affordable housing by enabling public housing properties to access more flexible private funding sources to cover the immediate and long-term capital needs of the properties converted to Section 8 under RAD.

The RAD program consists of two components: The first component, **Public Housing & Section 8 Mod Rehab Housing,** allows up to 60,000 units of Public Housing and Section 8 Moderate Rehabilitation (Mod Rehab) properties to convert to project-based Section 8 HAP contracts following an application and review process;[8] the second component, **Rent Supp, RAP, and Section 8 Mod Rehab Housing** (which is not part of this evaluation), allows Rent Supplement (Rent Supp), Rental Assistance Payment (RAP), and Mod Rehab properties to convert their tenant-based vouchers, which are issued upon contract expiration or termination, to project-based Section 8 assistance. This evaluation focuses exclusively on the impacts of the conversion of public housing units under RAD.

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[3] PBVs are Section 8 vouchers that are attached to specific housing units and administered as part of a PHA’s Housing Choice Voucher (HCV) program. Under the PBV program, a PHA enters into an assistance contract with the project owner for a specified number of units and for a specified length of term. The PHA refers families to the project owner to fill project vacancies. Because the assistance is tied to the unit, when a family moves from the project-based unit, the assistance remains with the unit.

[4] PBRA contracts are also attached to specific housing units. However, the contract is directly between HUD and the project owner.

[5] For RAD conversions, the HAP for PBV is typically a 15-year contract, and the HAP for PBRA is typically a 20-year contract. These contracts receive an Operating Cost Adjustment Factor increment on a yearly basis, as established by HUD and published in the *Federal Register.* HAPs for both PBV and PBRA conversions also have a required renewal.

[6] The initial RAD contract rents are established by adding together the current public housing operating subsidy, current capital funding, and tenant contributions, so that the total subsidy cost is the same after conversion to RAD as it was prior to conversion. Future subsidies through the project-based Section 8 HAP contracts are funded by a transfer from the HUD Section 9 public housing budget to the HUD Section 8 budget.

[7] HUD, *HUD Launches Groundbreaking Rental Assistance Demonstration to Preserve and Strengthen Public, Other HUD-Assisted Housing.* Available at http://portal.hud.gov/hudportal/HUD?src=/states/georgia/news/HUDNo.2013-01-10 [Accessed 15 Sept. 2014].

[8] This evaluation focuses on public housing units. The nine Section 8 Moderate Rehabilitation RAD projects, covering 1,221 units, will not be examined in depth.

RAD aims to test whether the conversion of public housing and eligible assisted housing projects to Section 8 will enable PHAs to preserve and improve public housing and assisted housing units so that the properties remain affordable and in good condition, tenant rights are protected and opportunity for mobility is enhanced, and public or nonprofit ownership or control is maintained.

Participation in RAD is voluntary. Properties that convert assistance are subject to long-term rental assistance contracts and use restrictions that will survive any disposition of the property, including foreclosure or bankruptcy. These contracts also require that properties are owned or controlled by public or nonprofit entities, except in the event that Low Income Housing Tax Credits (LIHTC) are used. Protections are in place to ensure that current residents benefit from the RAD conversion. RAD requires PHAs to engage with residents at various stages of the conversion process, including pre-application. Tenants cannot be rescreened as properties convert assistance, and all residents must be offered a right to return to properties in the event that they must be temporarily relocated to facilitate rehabilitation or construction. Residents, once assisted under the Section 8 program, maintain most of the same rights they had as public housing residents, plus one significant new right that does not exist in the public housing program—all properties that convert assistance must provide residents the choice to move with continuing tenant-based rental assistance within a reasonable time after conversion.[9]

PHAs that apply to be a part of RAD have a wide range of options, commonly available in the affordable housing industry, to finance rehabilitation of their projects, and they are encouraged to explore new alternatives. For example, PHAs can utilize:

- Debt financing at a fixed rate and for a fixed term through public or private lenders.
- Federal Housing Administration (FHA) insured mortgage loan financing,[10] including risk-sharing programs offered through state agencies, Fannie Mae, or Freddie Mac.
- LIHTCs.
- Operating reserves, Replacement Housing Factor (RHF) funds, and/or unobligated Capital Funds that are a part of a PHA's available public housing funding.
- Different forms of grant funding.

PHAs were allowed to apply for the program during the first offering (from September 24, 2012, through October 24, 2012). HUD has accepted additional applications on a rolling basis since October 25, 2012. HUD reached the RAD statutory cap of 60,000 units in October 2013 and has placed additional RAD applications on a waiting list. HUD continues to accept RAD applications.

[9] There are a limited number of good-cause exceptions for PHAs with insufficient vouchers to support this housing option.

[10] HUD's Multifamily Program offers insurance through FHA for multifamily loans originated by FHA-approved lenders for construction, substantial rehabilitation, and acquisition and refinancing of apartments. If the scope of required property repairs indicates that "substantial rehabilitation" is needed, the appropriate FHA-insured financing would be section 221(d)(4) of the *National Housing Act*. Section 221(d)(4) provides a combined construction and permanent loan under one commitment for mortgage insurance and permits extensive rehabilitation. For less extensive repairs, the 223(f) program is more appropriate.

How RAD Works for PHAs

The RAD program is simple in concept but can be complicated to understand and to execute. Through RAD, Congress has authorized HUD to convert public housing properties from conventional public housing support, with traditional capital fund subsidies and operating fund subsidies, to an assisted housing approach that uses Section 8 PBV or PBRA as the long-term source of federal project subsidy. The ongoing Section 8 subsidy to the properties is calculated based on the amount of subsidy the public housing program provides to each property. There are no additional subsidy dollars provided to projects by HUD under RAD; however, by leveraging their projects' PBV or PBRA subsidies after conversion, PHAs are able to raise external funds to recapitalize and renovate or redevelop their projects.

Seven key features of the program account for how RAD changes the traditional public housing operating and financing model and how it expands the avenues for redevelopment of public housing units:

1. Under RAD, the Declaration of Trust (which by and large prohibits or makes it extremely difficult to borrow against the property) is removed and replaced with a RAD Use Agreement that restricts the property's use to the same purposes (serving low-income households in need of permanently affordable housing) while permitting the property to serve as security for debt.
2. Mechanically, RAD takes the capital fund subsidy attributable to a project and adds it to the operating subsidy to arrive at the Section 8 HAP payment.[11] This in itself increases the operating subsidy for the average project by about $1,500 per unit per year—which the PHA can use to support project debt or to contribute to a capital replacement reserve.
3. In public housing, most projects have a large and growing backlog of unmet capital needs, and PHAs are not receiving enough capital funds annually to fully address those needs. By borrowing against the property to finance the upgrade or redevelopment of the property, supported by the Section 8 contract rents and other leveraged funding sources, RAD can address that backlog of unmet capital needs. By enabling PHAs to address unmet capital needs, RAD allows PHAs to reduce their use of stop-gap measures and to shift more project resources to preventive maintenance. This increase in preventive maintenance will generate additional savings in the project's operating budget. These savings can be used to support more debt for capital investment or to build up additional reserves to address future capital improvement and replacement needs.
4. Project recapitalization through RAD also allows PHAs to employ more energy-conservation measures, such as water-saving devices, low-energy lighting systems, energy-efficient appliances, Energy Star-rated windows, and solar water heating. These can help reduce utility costs, which constitute about 22 percent[12] of public housing operating costs.

[11] These are the two streams of funding provided to PHAs that assist with making capital improvements and subsidize the management operations, respectively, of public housing units: capital funding is allocated based on the age, size, and estimated capital needs of each property; operating funds are based on the PHA's approved budget, less the amount paid by the tenants.

[12] Harvard University Graduate School of Design, *Public Housing Operating Cost Study*, June 2003. Available at http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_9238.pdf [Accessed 15 Sept. 2014].

5. The RAD program helps provide a project with a steady, bankable revenue stream through a long-term Section 8 HAP contract that not only locks in current levels of project subsidies (from the capital and operating funds) but also includes a built-in annual Operating Cost Adjustment Factor (OCAF) that helps address inflation.
6. By converting to project-based assistance, RAD is consistent with the project-based management approach commonly used in the multi-family affordable housing sector. Under RAD, a PHA may choose to continue to own and operate the property after conversion, may work with a development partner (including nonprofit housing developers), or may form an independent entity controlled by the PHA to manage the property. The finances of each project are independent of other projects in the PHA's portfolio, which may lead to more efficient management practices.
7. The RAD program facilitates and encourages the leveraging of limited HUD capital funding with other sources of capital financing, including private-sector debt, LIHTCs, soft loans and grants, local funding, and (where projects qualify) Historic Tax Credits.

How PHAs Are Using RAD to Reposition Their Properties for the Future
The RAD program is not prescriptive in its approach to the conversion of each property. Rather, it requires that the PHA demonstrate an approach that provides for the preservation of the property for the life of the Section 8 HAP contract. The PHA must also present an independent Physical Condition Assessment (PCA) that shows the total capital needs over the life of the HAP contract.[13]

Prior to conversion, a public housing property with an approved RAD Application is governed by a Commitment to Enter into a Housing Assistance Payment Contract (CHAP), a document that lists the contract rents for each bedroom size and any utility allowance by bedroom size.[14] The CHAP also lists a series of RAD milestones, such as assembling a development team, determining whether to pursue PBV or PBRA conversion,[15] and completing the RAD Financing Plan, which are intended to keep a project moving toward closing. The simplicity of the CHAP gives the PHA access to a variety of approaches for the RAD conversion, such as:

- *Capital Repairs With Debt Only*. If the financial analysis demonstrates that the project can support the proposed amount of debt while meeting the capital needs determined by the PCA, then a PHA can pursue a debt-only RAD conversion. The debt can be either conventional or FHA-insured.
- *Capital Repairs, or Demolition and New Construction, With Debt and Tax Credit Equity*. If debt alone is insufficient to meet the capital needs, or the PHA is pursuing extensive rehabilitation or redevelopment, the PHA's approach can include Tax Credit equity,

[13] A PCA will be required on any units except those replaced with new construction. When replacing existing units with new construction, the replacement reserve deposit for those units shall not be less than FHA standards.
[14] HUD calculated initial contract rents for every public housing project based on each project's subsidy under the public housing program, adjusted by the OCAF and subject to rent "caps" in the PBV and PBRA programs.
[15] The choice between PBV and PBRA depends on numerous factors specific to the PHA and to the property. HUD included a list of 15 factors to consider in choosing PBV or PBRA in its presentation *Ten Things to Know about RAD When Advising PHAs.* See: Gregory Byrne. *Ten Things to Know About RAD When Advising PHAs*, PowerPoint slides. Available at http://portal.hud.gov/hudportal/documents/huddoc?id=10ThingsToKnow.pdf [Accessed 15 Sept. 2014].

either through tax-exempt financing and 4-percent LIHTC, or competitive 9-percent LIHTC.

- *Conversion to Achieve Financial Stability*. When the financial analysis demonstrates that the post-RAD conversion property will accumulate a sufficient amount of reserves to meet the capital needs of the project as determined by the PCA, the PHA can complete the RAD conversion without using debt financing or tax credit equity. This is an important option for properties that have recently undergone repairs but are at risk of falling into disrepair without a commitment of ongoing resources for future capital repairs and replacement. RAD provides an option to place the property on a stable financial footing so as to ensure long-term affordability.
- *Transfer of Rental Assistance*. PHAs can propose to apply for RAD for a given property and then transfer those RAD vouchers to a different project. This option is important for properties that are not appropriately situated today. An example is a project located in a 100-year flood plain, in which the RAD conversion would not provide enough capital funding to elevate the units above the flood plain or to demolish and rebuild the property in a different location. In this case, the PHA can acquire and rehabilitate an existing property that meets HUD's Site and Neighborhood Standards, then transfer the RAD vouchers to that property.

2. Overview of the RAD Evaluation Research

Congress requires that HUD assess the impact of the RAD program on:

1. The preservation and improvement of former public housing units.
2. The amount of private capital leveraged as a result of such conversions.
3. The effect of conversion on residents.

The evaluation will describe the status quo for public housing and how RAD transforms the public housing landscape; study the amount and types of resources available to improve the physical condition of a public housing property; examine what new opportunities RAD creates for PHAs to improve the physical and financial condition of public housing; assess how RAD helps PHAs preserve those units over the long term; and evaluate the impact of RAD on residents.

The desired outcomes for the RAD program are that affordable housing is preserved, outside financing is obtained where needed to improve housing quality, and current and future residents benefit from the improved and stabilized housing conditions, including through active and informed engagement prior to conversion and through established rights and protections. Evaluating these outcomes will require collecting quantitative and qualitative data from primary and secondary sources and analyzing data related to (1) the physical and financial changes experienced by RAD properties; (2) the implementation of RAD, including the capital needs and amount of private funding leveraged; and (3) the effect of RAD on residents.

This independent evaluation is being conducted by Econometrica and its subcontractors, the Urban Institute and EMG Corporation. It is a 5-year study consisting of a 3-year base period and an overlapping option period of 3 years. This study will address research questions covering the physical and financial conditions for RAD and comparison properties, the impact of RAD on assisted households, and RAD implementation. The approach includes an analysis of HUD administrative data, RAD application information, and project financial statements; a Web survey of a sample of 24 RAD properties and 48 similar non-RAD properties (each RAD property will be matched to 2 non-RAD properties based on 13 property and neighborhood characteristics); assessments of the properties' physical and financial condition; telephone interviews with PHA managers, lenders, RAD program staff, and other stakeholders; and a survey of tenant households in the RAD properties selected for study.

Reporting
The evaluation contractor will produce a detailed Interim Report in 2015, which will discuss early RAD implementation and the RAD process. The Interim Report will also present findings on the physical and financial characteristics of RAD study sites (including comparison with non-RAD properties and results from the Web survey), PHA approaches to RAD, and RAD project financing and use of leverage. The Interim Report will be delivered to HUD for publication in November 2015.

HUD may engage the evaluation contractor for additional data collection and analysis during 2016–2018. If it does so, the evaluation contractor will produce a Final Report, which will update content from the Interim Report and will also include findings on the impact of RAD on public housing residents based on a survey of residents. If HUD pursues this option, the Final Report will be delivered to HUD for publication in 2018.

3. RAD Program Results to Date

HUD has processed RAD applications, issued CHAPs, and assisted projects through the RAD conversion process while simultaneously creating required processes and work flows, developing data systems, and training staff. To date, HUD has made awards reserving authority up to the 60,000-unit statutory cap,[16] and has a waiting list covering 116,025 additional units.

This section presents information and results based on the status of all applications received by HUD of public housing properties submitted for conversion under RAD. As of September 15, 2014, PHAs have requested RAD conversion authority for 180,737 public housing units. HUD has received applications for 1,080 specific public housing projects, representing 129,249 units: 114 applications were submitted during the initial round, and 966 applications were submitted during the rolling first-come, first-served period. HUD issued CHAPs based on 361 RAD applications: 57 have already closed (thereby completing the conversion from public housing to Section 8), 38 have withdrawn or had their CHAP revoked by HUD, and the remaining projects

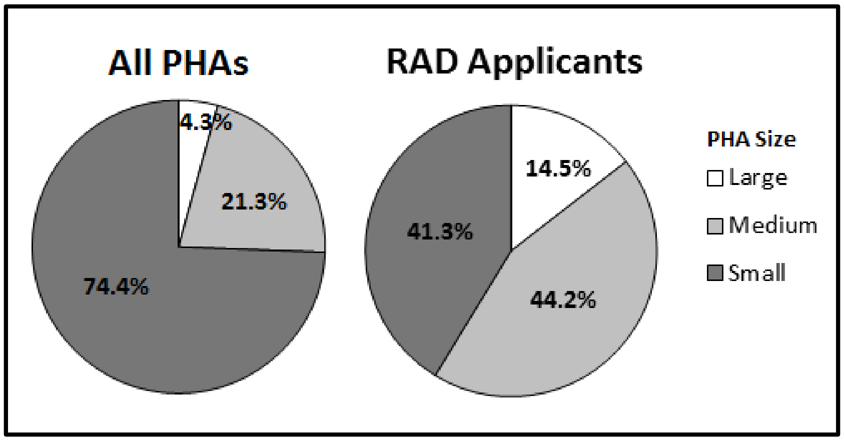
[16] The balance of the 60,000-unit cap is "reserved" for existing Multi-Phase and Portfolio Awards. Portfolio Award requests are made by PHAs seeking to convert a large portfolio of properties to RAD—RAD conversion authority is reserved for the entire portfolio, allowing the PHA to complete RAD conversions on some properties before submitting RAD applications for its remaining properties (that is, RAD conversion authority is reserved for future RAD applications from the PHA). A successful Portfolio Award request requires that the PHA submit RAD applications for at least half of its portfolio at the time of the request. Multi-Phase Award requests are made by PHAs pursuing redevelopment in multiple phases—RAD conversion authority is granted for the initial phase of redevelopment and is reserved for additional distinct development phases.

have active CHAPs.[17] RAD conversion authority is reserved for an additional 51,488 units through approved and waitlisted Multi-Phase and Portfolio awards. There are also nine Section 8 Moderate Rehabilitation RAD projects that are not examined in this report; of these, six have an active CHAP, one has closed, and two have been withdrawn.

RAD Applications[18]

From across the country, 414 housing authorities submitted 1,080 applications to convert from public housing subsidy to Project-Based Section 8 Rental Assistance through the RAD program. HUD received RAD applications from all regions of the country. Most applications (81 percent) are in urban areas, and most (72 percent) are family developments. As illustrated in Figure 1, while large and medium-sized PHAs make up about only one-quarter of all PHAs, they account for almost 60 percent of all RAD applicants. Forty-one percent of the applicants for RAD to date are small PHAs (PHAs managing fewer than 250 units); 44 percent are medium-sized PHAs (managing 250 to 1,250 units); and 15 percent are large PHAs (managing over 1,250 units). Applicants proposed a variety of financing mechanisms, including FHA mortgage insurance, conventional debt, 4-percent and 9-percent LIHTCs, public housing capital and operating funds, and other sources. The overall leverage ratio (total non-HUD funds divided by total HUD funds) proposed in the 1,080 RAD applications exceeds 14:1; that is, the applicants propose to secure $14 in other funding for every $1 of public housing funds used in the proposed RAD transactions.

Figure 1. PHA Size Distributions



In total, HUD has rejected or PHAs have withdrawn 28 applications; 685 applications are currently on the waiting list.

RAD Awards (Active and Closed CHAPs)

As of September 15, 2014, there are 323 awarded RAD projects that have not withdrawn or had their CHAPs revoked by HUD. These projects proposed converting 41,735 units to project-based

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17 Closed CHAPs are those projects where the PHA has brought the project to closing, which means that the financing plan is approved, the HAP is executed, and construction, if any, may begin. Depending on the complexity of the project and the number of phases, the project may not be completed for a year or more after closing to allow for relocation, rehabilitation, or new construction, and placement of the project into service. Active CHAPs are those projects that have received a CHAP and are working toward closing. HUD may revoke a CHAP if the project fails to meet milestones specified in the CHAP, if the PHA is unable to assemble the proposed financing package or viable alternative, or if the PHA is unresponsive to RAD requirements. PHAs also may withdraw their RAD applications and return the corresponding CHAPs to HUD at any time before closing for a variety of reasons.

18 Additional information on RAD applications can be found in the December 31, 2013, RAD Update, available at http://portal.hud.gov/hudportal/documents/huddoc?id=RAD_PPtUpdate123113.pptx.

Section 8 HAP contracts. As shown in Table 1, awarded RAD projects are dispersed across much of the country. As noted above, HUD received RAD applications from all regions of the country, but HUD reached the statutory cap of 60,000 units after receiving only a handful of applications from the Mountain States (HUD Region 8), New York and New Jersey (HUD Region 2), the Great Plains (HUD Region 7), and the Pacific Northwest (HUD Region 10).

Table 1. Location of Awarded RAD Projects

HUD Region (States)		Awarded RAD Projects	Proposed Units
Region 1	(Connecticut, Vermont, Massachusetts, Maine, New Hampshire, Rhode Island)	16	1,912
Region 2	(New York, New Jersey)	9	824
Region 3	(Pennsylvania, Virginia, West Virginia, Maryland, Delaware, the District of Columbia)	41	5,427
Region 4	(Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, Puerto Rico)	141	19,550
Region 5	(Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin)	30	4,129
Region 6	(Arkansas, Louisiana, New Mexico, Oklahoma, Texas)	21	3,433
Region 7	(Kansas, Iowa, Missouri, Nebraska)	7	738
Region 8	(Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming)	2	170
Region 9	(California, Arizona, Hawaii, Nevada)	46	4,269
Region 10	(Washington, Alaska, Idaho, Oregon)	10	1,283

Proportion of Proposed Units for Awarded RAD Projects by PHA Size. One hundred forty-four PHAs were awarded at least one RAD project. As shown in Table 2, 35 percent (50 out of 144) of these PHAs are considered to be small PHAs, but they manage only 13 percent of the units proposed for RAD conversion, which reflects the small size of projects owned and managed by small PHAs. Forty-five percent (65 out of 144) of these PHAs are medium-sized, and they manage 41 percent of the proposed units. Twenty percent (29 out of 144) of these PHAs are large, and they manage 46 percent of the proposed units.

Table 2. Awarded RAD Projects, Units, and PHA Size

PHA Size	PHAs With One or More Awarded RAD Projects	Number of Proposed Units for Awarded RAD Projects
Large	29	19,288
Medium	65	17,217
Small	50	5,230
Total	144	41,735

***Neighborhood Characteristics*.** Public housing RAD projects are located in a variety of neighborhoods. By defining a neighborhood as a Census tract and using the geocode Census tract associated with each awarded RAD project in HUD's administrative data, one can examine neighborhoods with RAD projects in terms of social, economic, and housing characteristics captured by the American Community Survey and compare them with the United States overall.[19]

[19] 2012 American Community Survey 5-year estimates.

Table 3. Neighborhood Characteristics

Neighborhood Characteristics	United States	Median Census Tract With a RAD Project
Median Household Income	$53,046	$32,196
Poverty Rate	14.9%	27.9%
Percent of Renter Households	34.5%	56.9%
Percent of Cost-Burdened Renter Households	43.0%	46.0%
Percent of Overcrowded Households	3.2%	2.6%
Vacancy Rate	12.5%	12.7%
Percent of Population That Resided in a Different Housing Unit in the Previous Year	14.6%	18.1%

Table 3 presents characteristics of the median neighborhoods with an awarded RAD project and the same characteristics for the United States as a whole. While these statistics reflect a typical neighborhood with a RAD project, there is great variety in neighborhoods with RAD projects. For example, some neighborhoods with RAD projects have a poverty rate of more than 90 percent, while others have a median household income above $100,000.

There are a few characteristics that hold true for most neighborhoods with a RAD project. They are generally poorer neighborhoods with a greater proportion of renters. About 84 percent of these neighborhoods have a median household income below the national average, and about 82 percent of these neighborhoods have a poverty rate higher than the national average. Also, about 80 percent of these neighborhoods also have more renter households than the national average.

Table 4. Demographic Characteristics

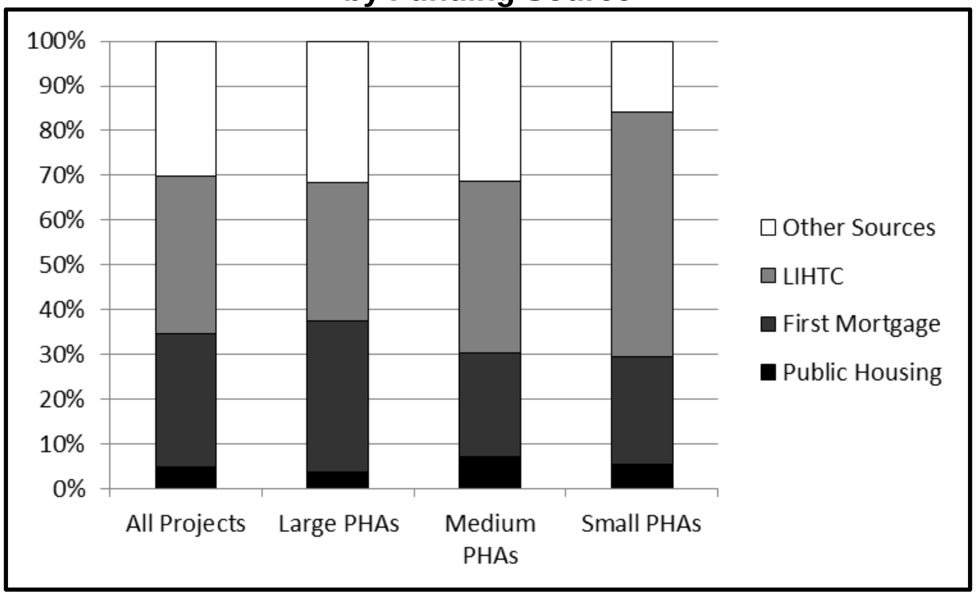
Demographic Characteristics	United States	Median Census Tract With RAD Project
Average Household Size	2.61	2.47
Percent of Family Households	66.5%	59.7%
Average Family Size	3.21	3.19
Percent of Households with Children	33.3%	32.4%
Percent of Households with Seniors	24.9%	23.4%
Percent of Population 25 Years and Over with Educational Attainment Above a High School Diploma or Equivalent	57.6%	44.7%
Percent of Population With a Disability	12.0%	14.9%
Percent of Civilian Veterans	9.3%	7.7%
Percent of Population That Speaks English Less Than “Very Well”	8.7%	4.5%

Table 4 presents demographic characteristics of the median neighborhoods with an awarded RAD project and the same characteristics for the United States as a whole. Neighborhoods with RAD projects differ most notably from the United States as a whole in the level of educational attainment by neighborhood residents and by the percent of the neighborhood population that speaks English less than “very well.”

Proposed Financing Sources and Construction Costs for Awarded RAD Projects

Figure 2 summarizes the contributions of various primary capital funding sources proposed for the 323 awarded RAD projects. These projects propose to raise about $3.9 billion in capital funding through the RAD program, with first mortgage debt accounting for about 30 percent of the total ($1.1 billion); tax credit equity accounting for about 35 percent of the total ($1.4 billion split between 9 percent LIHTC [$484 million] and 4 percent LIHTC [$871 million]); public housing funding sources accounting for about 5 percent of the total ($189 million); and other public, private, nonprofit, and local sources of funding accounting for the remaining 30 percent ($1.2 billion).

Figure 2. Percent of Total Proposed Capital Funding by Funding Source



Based on the data in the RAD applications, awarded RAD projects propose to deliver a high level of leverage. The overall leverage ratio (total non-HUD funds divided by total HUD funds) proposed for these RAD transactions exceeds 19:1. In other words, through the RAD program, PHAs with awarded RAD projects propose to secure $19 in other funding for every $1 of public housing funds used in these RAD transactions. Awarded RAD projects propose using $189 million in public housing funds and $3.7 billion in non-HUD funds.

On a per-unit basis, total proposed funding for development (debt, tax credit equity, grants, and other sources) averages to approximately $92,000 per unit, with only $4,537 coming from public housing funds and the remainder from other funding sources.

The distribution of funding sources varies, based on the size of the PHA. Large PHAs have an even higher leverage ratio (25:1) than the average and raise more dollars per unit (about $124,000), medium-sized PHAs have the lowest leverage ratio (13:1), and small PHAs raise substantially more in tax credit equity (about 55 percent of the total amount).

Table 5 presents the estimated dollar amount of capital improvements for the 322 awarded RAD projects. These projects propose $2.0 billion in construction in conjunction with converting 41,735 units to project-based Section 8 assistance, or an average of about $48,000 per unit (the remaining $1.9 billion in proposed funding will go toward tenant relocation costs, technical services, financing costs, development costs, and acquisition costs). Again, there are differences based on PHA size, with large PHAs proposing an average of about $67,000 per unit in construction costs, medium-sized PHAs proposing an average of about $31,000 per unit, and small PHAs proposing an average of about $36,000 per unit.

Table 5. Proposed Construction Costs for Awarded RAD Projects

Variable	Large PHAs	Medium PHAs	Small PHAs	Total
Construction Costs	$1.29 billion	$536 million	$187 million	$2.01 billion
Number of Projects	125	143	55	323
Avg. Cost per Project	$10.3 million	$3.7 million	$3.4 million	$6.2 million
Number of Units	19,288	17,217	5,230	41,735
Avg. Cost per Unit	$67,000	$31,000	$36,000	$48,000

Actual Financing Sources and Construction Costs for Closed RAD Transactions

The 323 awarded RAD projects discussed above include 57 closed transactions. These 57 closed transactions are not representative of the 323 awarded RAD projects. The average closed transaction covers about 30-percent fewer units than the average awarded project. While the distribution of closed transactions by PHA size is similar to that for awarded projects, the distribution of units is quite different: large PHAs manage only 15 percent of the units covered by closed transactions, while medium and small PHAs manage 64 percent and 21 percent, respectively.

While not representative of the 323 awarded RAD projects, these 57 closed transactions provide insight into RAD program outcomes. Through these transactions, PHAs converted 5,052 public housing units to project-based Section 8 HAP contracts. In doing so, the PHAs raised $437 million in funding, of which only $43 million came from public housing sources for a leverage ratio of 9.14. The conversion process included $233 million of new construction, rehabilitation, and repairs.

Six of these closed transactions are "split" CHAPs, where the original CHAP is divided into two or more CHAPs to facilitate planning, financing approaches, and construction. As such, these six are not directly comparable to the transaction proposed in the RAD application. For the other 51 closed transactions, Table 6 summarizes how these actual RAD financing transactions compared with the proposed transaction details included in the RAD application; a more detailed analysis and exploration of the factors that can cause differences in the proposed to actual financing will be included in the evaluation study.

Table 6. Comparison of Proposal and Actual Financing Sources and Construction Costs

	Proposed	Actual
Number of Units	4,600	4,634
Total Funding	$291 million	$341 million
Public Housing Funds	10.2%	9.8%
First Mortgage	13.3%	10.4%
LIHTC	46.5%	49.8%
Other Funds	30.0%	30.0%
Leverage Ratio	8.83:1	9.20:1
Construction Costs	$153 million	$173 million
Costs per Unit	$33,164	$37,334
Funding per Unit	$63,266	$73,718

Still, the initial data on closed transactions show that the actual completed transactions are similar to those originally described by the PHA in the RAD application. As shown in Table 6, the actual leverage ratio is 9.20:1, slightly higher than the proposed leverage ratio of 8.83:1, and actual public housing funding is a lower percentage of the total funding than proposed.

Withdrawn or Revoked CHAPs

When CHAPs are issued, they require that the PHA follow through on a series of milestones toward completion of the conversion from public housing to project-based Section 8. Although HUD has the discretion to grant extensions, HUD does expect the PHA to keep the project moving toward closing. In the event the PHA is not responsive to these requirements, HUD may revoke the CHAP and make those RAD units available to the next project on the waiting list. Also, if a PHA indicated in its application that it would be applying for tax credits but is unsuccessful at obtaining them or if it does not make a timely application for the tax credits, the PHA must present a viable alternative financing approach to HUD; otherwise, HUD can revoke the CHAP.

PHAs have the option at any time in the process to withdraw their RAD applications and return the corresponding CHAPs to HUD. A PHA may do so for a variety of reasons, including failure to secure proposed financing, revised financial analyses that indicate the project is no longer viable, or unrelated circumstances, such as receipt of a major redevelopment grant that would lead to a significant delay in closing.

As of September 15, 2014, 38 CHAPs were withdrawn by the corresponding PHA or were revoked by HUD. For both withdrawn and revoked CHAPs, the primary reason that the project left RAD was related to difficulties in securing financing (for example, failure to obtain LIHTCs). PHAs also noted that they had other matters to focus on when withdrawing from RAD.

Observations Based on the State of the Program to Date

Even though most RAD conversions are still in process with active CHAPs, several wide-ranging observations can be drawn from the RAD program data presented here.

Interest in the program from PHAs and other stakeholders appears to be strong. In the first 18 months of the program, PHAs had submitted applications for more than 1,000 public housing RAD projects covering approximately 130,000 units, or 11 percent of the total public housing stock. There are 323 awarded RAD projects, and, as of September 15, 2014, 57 of these projects have “closed” and completed the conversion to RAD. These 57 projects achieved closing within 20 months.

Awarded RAD projects have proposed leveraging significant amounts of funding from other sources. Public housing funds represent approximately 5 percent of the total capital funding proposed for these RAD projects, with a corresponding leverage ratio of more than 19:1.