Rental Assistance Demonstration (RAD)
Office of Recapitalization

REFLECTIONS ON 10 YEARS OF PUBLIC HOUSING CONVERSIONS

Dear Friends,

A few weeks ago, we hit the 10th anniversary of the very first Rental Assistance Demonstration (RAD) public housing conversion – the redevelopment of 32 homes in Greene County, Illinois. Since then, I've been reflecting on the amazing outcomes this RAD community has achieved, and on how this experience can inform RAD's second decade of investments in the public housing stock.

Together, the RAD community has preserved approximately 200,000 public housing homes.[1] Owners have ensured long-term housing security for over 500,000 people, over 90 percent of whom are the same families that lived in the at-risk and deteriorated homes before RAD came along. Public housing authority teams have been able to finance over $18.5 billion in construction investments, dramatically improving the quality of housing they provide. Over 12 percent of the homes have been completely rebuilt with new construction, many in areas with lower poverty rates and greater access to opportunity for residents. And with the new Faircloth-to-RAD tools, public housing authorities are starting to restore lost rental assistance too. Along the way, we've compiled useful data and learned a lot about the challenges and opportunities associated with preserving our endangered affordable housing resources.

We've often wondered about the true scale of the public housing portfolio's capital needs. When that first property converted in 2013, available data indicated there was a $26 billion capital investment backlog in the U.S. public housing stock. More recent estimates, generally extrapolating from that study, suggest a deficit ranging from $50 billion to $70 billion. Through the 1,600 RAD transactions across 487 public housing authorities of all types and sizes, we can see what local decision-makers have identified as their own needs. For example, if local leaders were to match the decisions their peers have made

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1 This number represents 172,000 RAD-converted public housing units and 28,000 units stemming from RAD-Section 18 Blends.

in the approximately 300 transactions closed over the last three years, they'd invest $115 billion in the portfolio for construction, plus more for design and transaction costs.[2]

We don't expect RAD to be the right choice for every building or every community, but with a problem this big, it continues to be a crucial part of the solution. As we plan for the next decade, we want to maximize RAD's potential as a tool for preserving and improving this critical housing resource. Part of that work involves drawing on the lessons we've learned so far. Here are just a few:

- **Public Housing Authorities have strong tools to modernize and transform their portfolios.** Between RAD (with the strongest initial contract rents the program has ever seen), RAD-Section 18 Blends, Faircloth-to-RAD, Choice Neighborhoods, the public housing Capital Fund, and other HUD tools, there have never been more viable paths to modernizing or redeveloping public housing properties. Through RAD and the RAD-Section 18 Blends, housing authorities can access $40 billion to $70 billion in mortgage debt.[3] If the remaining properties access Low Income Housing Tax Credits at a pace comparable to the stock that has converted to date, housing authorities would raise an additional $45 billion. Local, state, or federal money may be necessary to close any remaining gaps, but a lot of the building blocks are in place to bring the portfolio up to a modern and high-quality standard over the next decade.
- **Housing authorities are willing to be ambitious and creative when given tools and flexibility.** In 2023, the average investment per unit has been $252,000, a 358 percent increase over the $55,000 average during the first five years of RAD. The reason? The RAD-Section 18 Blends, a tool created in 2018. RAD-Section 18 Blends leverage the best of RAD and the

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2 RAD-participating public housing properties had a very similar profile to the rest of the public housing portfolio prior to conversion, considering physical condition, financial condition, REAC scores, property size, etc., so past work seems to be a good proxy for potential need. If the 910,000 units currently in the public housing portfolio need a similar level of investment to all closed RAD units, housing authorities would have to invest $80 billion in construction, plus additional funding for soft costs and any transaction costs. More recently, with the advent of the RAD-Section 18 Blends, housing authorities have been able to secure stronger revenue streams, allowing them to access more capital. Consequently, the more recent data may be a better indicator of the work local leaders want to do to modernize their properties.

3 The amount of mortgage debt that housing authorities could potentially access is calculated by estimating each public housing property's net operating income after replacement for reserves and debt service, and accounting for vacancies, were they to participate in RAD.

Section 18 demolition/disposition program. They allow housing authority teams to generate more funding for modernization and redevelopment, while protecting residents from displacement and ensuring that the housing remains affordable and under public stewardship for the long term. Housing authorities have also demonstrated their creativity through their embrace of the transfer of assistance tool, which allows them to move the deep rental assistance to new neighborhoods. Whether to correct mistakes of the past or to accommodate changed economic conditions, across 196 transactions, housing authority teams have placed 10,000 homes in high-opportunity neighborhoods, giving current and future residents access to better schools, jobs, and amenities. A 2022 analysis found that the poverty rate of new sites was, on average, 24 percentage points lower than the poverty rate of the original sites. Housing authorities have demonstrated an appetite to be creative and entrepreneurial mission-driven actors, inspiring us to keep looking for new ways to deploy RAD's demonstration authorities.

Together, we need to do more to protect residents from the impact of natural hazards. Residents of HUD's deeply rent-assisted homes are particularly vulnerable to the disruptive impacts of hurricanes, wildfires, floods, and extreme storms. Increasingly, development teams are focusing on the fact that energy efficiency measures not only reduce costs but also, through measures such as insulation and on-site renewable energy generation, allow residents to remain in their homes during recovery after a disaster. RAD has successfully experimented with incentivizing owners' energy-efficiency investments in buildings with resident-paid utilities by sharing with the owner a portion of the savings which normally accrue only to HUD. The most recent update to the RAD Notice also raises standards for new construction in flood-prone areas, mandates an analysis of how to mitigate a property's exposure to natural hazards, and requires the owner to create a disaster response plan. These are important first steps as we begin a conversation on ensuring that residents are protected before, during, and after disasters.

Rehab after an extended period of deferred maintenance is very disruptive; the resident experience must be central to the process. Through shared information and consultation, the residents need to be at the table throughout the planning process for any major recapitalization – whether implemented under RAD or under traditional public housing tools. RAD arguably has the strongest suite of resident rights across all HUD programs, which we've incrementally improved over time. With the Office of Recapitalization's new Resident Engagement and Protections Team, we can help housing authorities navigate HUD's requirements with templates, tools, and technical assistance. We can also better support residents with written materials, explanatory videos, and live training. Finally, residents can get help directly from HUD staff by raising concerns through the online Resident Inquiry and Complaint Form. This team is spearheading greater oversight of resident rights, with a particular focus on relocation and the right to return. Since 2017, we have monitored every conversion to ensure that housing authorities uphold residents' right of return. We're expanding our ability to monitor and enforce resident protections post-conversion and are pushing development teams to fully embrace residents as partners in these preservation efforts.

The last ten years prove that RAD works. The Section 8 contract and use agreement that are at the heart of every RAD conversion provide financial predictability, strong resident protections, and the security of perpetual mission-driven stewardship of this deeply rent-assisted affordable housing. These ten years of experimentation would not have been possible without the collaboration – and critique – of each of our partners: housing authorities, tenant leaders, advocates, developers, capital providers, legislators, and many others. To you, we owe a debt of gratitude and, together, we can continue to test new and innovative tools to improve the aging public housing stock and the recapitalization experience. We hope that those who last considered RAD several years ago will re-engage with the challenge of improving their housing stock and we look forward to continuing to work and innovate with all of you to preserve this critical affordable housing, to revitalize our communities, and to protect low-income households in the decade to come.

Sincerely,

Tom Davis

Tom Davis
Director, Office of Recapitalization
HUD's Office of Multifamily Housing Programs