



State of the Market 45: *Update: RAD is off and running*



By David A. Smith

As reported in *State of the Market 45: Public Housing's RAD-ical reinvention* (copy attached for reference), six months ago, HUD's announcement of the Rental Assistance Demonstration (RAD) program opened up previously unexplored territory for public housing authorities.

RAD offered housing authorities the chance to convert individual legacy public housing properties *from* their covenant-restricted subsidy dependency *to* property-based operations with new Section 8, and upon arrival in the new state, they could borrow money and finance capital improvements, just like any other non-profit owner.

That was the theory, anyhow. But there were three big unknowns:

1. Would HUD do what it said?
2. Would the economics actually work for some properties?
3. How many housing authorities would actually participate?

Six months later, HUD has issued the first round of subsidy commitments, and we have the answers:

1. **Yes**, HUD has been flexible, innovative, and consistent.
2. **Yes**, for the right property the economics do work.
3. **Many** authorities are participating,



"I have never been lost, but I will admit to being confused for several weeks." - Daniel Boone

particularly the more innovative ones.

Get there fustest with the mostest

A month ago, on December 14, HUD issued its first round of Commitments to Enter into Housing Assistance Payments (CHAPs) – the key document that will enable a housing authority to make the big move. The results should confound RAD's initial skeptics:

- 68 housing authorities participated.
- 110 CHAPs were issued.
- 11,910 apartments are involved (just under 20% of the 60,000 apartments of demonstration authority).

Recap's clients had a 100% success rate: 5 out of 5 submitted applications were approved.

O pioneers – who went first

While it's a bit early to say much about the portfolio distribution, a few trends have already



emerged.

- Even though most public housing is located in the north and east, our areas lag in participation. Of the 11,910 apartments, 64% of the apartments came from the South, 15% from the Midwest, 15% from the West, and only 6% from the Northeast.
- Though one might have expected large housing authorities to dominate, in fact it's the medium-sized, where their participation rate was 3½ times as great. (Perhaps that's also due to large authorities having had more access to HOPE VI resources or Moving-to-Work flexibility.)

Over hill, over deal

Based on Recap's experience so far, RAD has been everything that was promised – low cost to inaugurate, user-friendly HUD staff, flexible transaction-specific negotiation, few unpleasant surprises along the way.

Like many pilots, RAD is processed through specialized experts under the broad direction of HUD Headquarters, and the staff we have encountered have shown excellent understanding that RAD's goals are achieved only if properties recapitalize, that any individual recapitalization is unique, and that there is a huge benefit to encouraging innovation at this stage. We also understand that the RAD applications as a whole, not just ours, show structuring creativity, which bodes well for the program going forward.

Most helpfully, Recap's initial screening analyses have been accurate. We're working with roughly a dozen housing authorities, and have done analyses – including our 'free look' no-cost analysis – on roughly 25 properties.

Is there gold in them thar hills?

RAD isn't for everybody – budgetary and programmatic constraints meant it couldn't be – and our experience has confirmed that it takes two things for a property to work:

- **Property economics.** The property's baseline economics have to be positive – meaning that current rents will support positive NOI once the capital backlog is attended to and the housing authority restrictions give way to a normal regulatory environment.
- **Authority motivation.** The housing authority has to want to do it.

In other words, *you can figure out if RAD's good for your property before you start.*

Come on in, the water's fine

In fact, since the initial round, one of our clients has added more properties, and we're continuing to pick up new RAD clients across the country.

Meanwhile, with the benefit of the initial experience, the smarter housing authorities are broadening their design program goals. RAD recapitalizations enable them to think like owners (for example of ideas, see accompanying 2007 article, *The Essential Housing Authority*, from NAHRO's *Journal of Housing and Community Development*), and reconfigure the physical real estate (management office and common spaces) and their operating protocols. Authorities also realize that post-RAD properties are financing magnets that can attract FHA financing, volume-cap bonds, and allocated tax credits.



What are you waitin' for?

Now that the competitive cycle is completed, HUD is taking RAD applications first-come, first-served. Housing authorities with candidate properties have no reason to delay, and every reason to act.

For a free initial assessment of one property in your housing authority portfolio, please contact Tom Davis, +1 617-338-9484 x5939, tdavis@recapadvisors.com.

Additional RAD Resources – available for the asking

Available upon request, we have (1) three articles I published in 2006-7 in NAHRO's *Journal of Housing and Community Development* envisioning how to restructure public housing, (2) Recap's conclusions from participating actively in the 1999 mark-to-market (M2M) demonstration, in many ways a RAD precursor, and (3) our detailed technical comments to HUD on how to make rent-setting and subsidy transfer work.

Just email me directly, dsmith@recapadvisors.com.

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