

HUD's Rental Assistance Demonstration

A bold plan for preserving affordability in an era of austerity

By Scott Hoekman and John Griffith | February 2013

At a Glance:

- The Rental Assistance Demonstration, or RAD, gives public housing authorities an opportunity to tap outside sources of capital by converting public housing properties to project-based vouchers or rental assistance contracts.
- Enterprise strongly supports the RAD program as an opportunity to address the public housing stock's severe backlog of repairs and other capital needs – especially in an era of fiscal austerity.
- As HUD rolls out its inaugural pilot of the program, we urge more public housing authorities to test the RAD model and tailor it to their communities' specific housing needs.

Introduction

The U.S. Department of Housing and Urban Development last month launched an ambitious new program to preserve and improve the country's waning stock of affordable rental housing.

The Rental Assistance Demonstration, or RAD, was established in 2011 to help convert at-risk public housing properties to project-based vouchers or rental assistance contracts under the Section 8 program. This voluntary conversion gives public housing authorities more flexibility to access private and public funding sources, easing their reliance on unpredictable and unreliable appropriations from Washington.

The RAD program's inaugural pilot will include 68 public housing authorities and roughly 12,000 units, according to HUD's January announcement. Enterprise is a critical partner in this effort, providing expertise, technical assistance and financing for a number of the initial RAD conversions.

As yet, few people know about the RAD program or the growing problem it hopes to solve. This brief lays out the basic rationale for the program, summarizes the progress made to date and explains how Enterprise is working with the Obama administration and other national and local stakeholders to get the program off the ground.

The Problem: Our Crumbling Public Housing Stock

The country's 1.1 million units of public housing face a precarious future. According to recent HUD estimates, the public housing stock has a backlog of at least \$25.6 billion in unmet capital needs – and some experts believe it's closer to \$50 billion. That's beyond the operating budget to cover routine upkeep and utilities.

That need keeps growing the longer it goes unaddressed. Roughly 10,000 public housing units are lost entirely each year to obsolescence and decay, according to HUD estimates. In other words, our public housing system is literally crumbling.

Given today's fiscal turmoil in Washington, it's unlikely Congress will authorize anywhere near the necessary level of funding to restore this

Spotlight on: Enterprise's Work on RAD

Enterprise has been a key partner in the RAD program since its inception. We played a key role in designing the policy and informing lawmakers and the public of its importance. When Congress approved the pilot, we submitted public comments on HUD's draft rules, participated in an expert convening at HUD to help finalize those rules, provided [case studies on how the conversion process could work](#) and assisted in a national program training session. Our team then assisted public housing authorities with the application process and provided 20 letters of intent to help finance RAD conversion deals if approved by HUD.

Now that HUD has made its initial round of awards, Enterprise will work with the public housing authorities, developers and other partners to complete the conversions. We also stand ready to assist additional public housing authorities with their applications.

crucial source of affordable housing. [Total federal funding](#) for affordable housing assistance actually decreased by 6 percent since 2010, according to the Center on Budget and Policy Priorities.

Meanwhile, [demand for affordable rental housing](#) has skyrocketed. Today there are 5.1 million more low-income renters than there are affordable rental units – more than double the gap observed in 2001 – according to the Harvard Joint Center on Housing Studies. More than 10 million renters pay more than half of their monthly income on rent, a common benchmark for a severe housing cost burden that leaves little for other life essentials.

Given these facts, we can't afford to lose any more of our existing supply of affordable homes – including our public housing stock. To preserve public housing, we have to address the capital backlog. But unfortunately, the public housing system isn't particularly good at adapting to changes in the fiscal and financial landscape, partly by design.

For more than three decades, most affordable housing outside the public housing system has been built and preserved through a range of public and private financing tools, including Low-Income Housing Tax Credits, mortgage loans, and a variety of other local, state and federal programs. Most public housing projects have been unable to access and leverage any of these commonly used tools.

Of course, this problem is not new, and over the years there have been several efforts to attract private capital and revamp the public housing stock. For example, the HOPE VI program offered grants to public housing authorities – most of which were combined with funding from private investors – to transform its severely distressed projects into quality mixed-income communities. Between 1993 and 2010, HUD awarded HOPE VI grants to 132 housing authorities totaling more than \$6.1 billion. HUD has since evolved HOPE VI into its Choice Neighborhoods program but congressional funding has been very limited.

Today thousands of public housing projects across the country are underfunded and inadequately maintained. And the longer we wait to fix the problem the larger the capital backlog grows, making the final price tag even higher.

How RAD Helps Solve the Problem

While the public housing program is limited by congressional appropriations and statutory restrictions, other rental assistance programs are more flexible. Specifically, the Section 8 program, which covers a portion of a very low-income family's rent on a privately financed unit,

was designed to work alongside other public and private financing tools, reducing the reliance on government funding and management.

Faced with a tough choice on the future of public housing, the Obama administration in 2011 developed a bold plan: convert dilapidated public housing projects into privately financed, government-subsidized properties, using the Section 8 program to preserve long-term affordability. By altering the funding stream, public housing authorities could finally access outside sources of financing – some of which are public, some private. With that, the Rental Assistance Demonstration was born.

Here's the basic model. Say a public housing authority owns a 100-unit project that requires significant rehabilitation. There's nowhere near enough in the public housing capital fund to cover all of the necessary repairs, so the authority is in trouble.

Through the RAD program, the housing authority converts the subsidies it receives through public housing programs into a long-term Section 8 contract. With that contract in hand, the housing authority assembles a mix of private and public sources, including a mortgage loan and Low-Income Housing Tax Credits. These resources provide the capital needed to address the immediate and long-term needs of the project.

As a result, the property gets a much-needed upgrade. Residents continue to have an affordable – and now more livable – place to call home. The housing authority is able to circumvent budget cuts by tapping private capital and more reliable government subsidies. Call it a win-win-win.

Simply put, without the RAD program, many of these critical capital improvements would not be made, and families and communities would suffer as a result.

While public housing conversions will comprise the majority of RAD activity, the program can also be used to preserve and renovate aging properties in several other HUD programs, including the Section 8 Moderate Rehabilitation, Rent Supplement and Rental Assistance Payment programs.

A Path Forward

HUD's initial RAD awards will leverage about \$650 million in capital to renovate and rebuild 12,000 rental homes, creating an estimated 10,000 jobs in the process. They reflect an array of approaches to the RAD conversion model, from cutting energy costs by retrofitting aging properties, to converting properties into mixed-income developments, to demolishing distressed properties and rebuilding them.

This is a promising start, but our work is far from over. Congress authorized HUD to convert 60,000 units under RAD – five times what’s involved in the initial pilot. The agency hopes to finish these conversions soon and move on to more of the public housing stock.

We urge more housing authorities to pilot the RAD model. State housing finance agencies – the bodies that allocate Low-Income Housing Tax Credits, tax-exempt bonds and other public subsidies – can help by working with public housing authorities and communities to coordinate all available financing options. One promising approach is to use a combination of short-term tax exempt bonds, 4 percent Low-Income Housing Tax Credits, and permanent debt from the Federal Housing Administration. That could raise significantly more capital for rehabilitation and other work than a mortgage loan alone.

As HUD and housing authorities get the initial RAD pilots off the ground, Enterprise will work with stakeholders and policymakers to ensure that we track the program’s impact, tweak the approach along the way and learn from what works. If the program proves to be effective, Congress should stand ready to expand the Rental Assistance Demonstration, perhaps with additional funds to expand its reach and impact.