

# Rental Assistance Demonstration (“RAD”) Program

A look at RAD’s impact on public housing in Maryland and the greater U. S.

## LAI Baltimore Chapter – October, 2018 meeting

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In keeping with Big Government’s affinity for acronyms, the Rental Assistance Program, or RAD, is now a part of the real estate industry’s vernacular. But what exactly is RAD, and how is it impacting our aging public housing stock?

At the Baltimore LAI Chapter’s October luncheon, John Maneval, Maryland Dept. of Housing and Community Development’s CDA Deputy Director, and Curtis Adams, VP of Development with The Michaels Organization, proved an overview of the RAD program and its impact upon public housing in Maryland.

John Maneval began with a brief summary of his history in the world of affordable housing which began with a stint with a non-profit developer in the early 1990’s before joining Maryland’s DHCD housing staff in 2001. John worked on his first LIHTC project in 1992. He advised that he never could have foreseen the worlds of LIHTC and Public Housing intersecting as they have come to do with the RAD program. In fact, he was very apprehensive when RAD was first announced in 2012. In retrospect, his apprehension was misplaced as the program has proved to be quite effective at preserving affordable housing stock.

John explained that the primary impetus for the RAD program is the substantial deferred maintenance that exists in our nation’s public housing stock. A 2010 study opined that total deferred maintenance/capital needs for all public housing stock across the U.S. was in excess of \$25.6B, or approximately \$23,000 per dwelling unit. In Maryland John advised that there are 13,000 public housing units, most with their extended use covenants nearing an end, and with “tons of deferred maintenance”.

With this huge problem becoming increasingly evident, RAD was created in 2012 in an attempt to bring fresh capital to address the issue. John provided two slides which nicely summarize RAD from both a national perspective and Maryland’s perspective, as follows:

## **RAD -- THE NATIONAL PERSPECTIVE PER HUD**

### The Problem

- Deferred public housing capital repair needs. 2010 estimate in excess of \$25.6 BILLION across the portfolio (>\$23k per unit) and rising.
- Public housing platform creates barriers to accessing private capital
- Multifamily “legacy” program properties also at risk

### The Solution – Changing the Regulatory Platform

- RAD created in FY2012 Appropriations Act with subsequent incremental expansions
- Allows public housing to convert to long-term Section 8 Housing Assistance Payment (HAP) contracts
- Also allows other at-risk multifamily assisted properties to convert to Section 8 HAP contracts
- Leverages private investment to address capital needs, improving conditions for residents, creating jobs and stabilizing the assisted portfolio



## **RAD – THE STATE OF MARYLAND PERSPECTIVE**

HUD’s Rental Assistance Demonstration (RAD) is a Federal initiative aimed at recapitalizing and improving the nation’s significant stock of public housing (as well as select HUD-assisted properties).

Recognizing the success of the financing programs run by DHCD and other Housing Finance Agencies across the country, HUD is seeking to improving the condition and operating efficiency of public housing developments, while maintaining their affordability for very low income households.

RAD creates partnerships between PHAs and private/nonprofit developers and property managers to leverage DHCD financing programs such as the Low Income Housing Tax Credit and the Tax Exempt Bond program to improve the physical conditions and long term operating feasibility of properties.

Existing residents in projects recapitalized through RAD are not permanently displaced, nor are their rents increased. The RAD process results in a transition of HUD subsidies from direct operating assistance to a project-based rental assistance contract.



John emphasized that the RAD program is “budget neutral” to the Federal Government, as direct payments by the Fed in the form of Operating and Capital Funds to support public housing are transformed into Housing Assistance Payments (Section 8) in conjunction with the conversion from public to private ownership of these housing assets.


John concluded his talk by providing an update on the current state of the RAD program:

- Of the total of about 1.2M public housing units across the U.S., approx. 5% to 10% have been preserved through the RAD program.
- Housing Authorities have been retaining long term control of these assets through creation of ground leases that typically run concurrently with the approx. 40 year extended use periods.
- Developers are typically bringing social services into the post-RAD converted projects, improving the lives of the residents.
- In Maryland the average expenditure on a RAD project is \$90,000 per unit – high compared to other areas of the U.S.
- John predicts that RAD will transform approx. 50% of the 13,000+/- public housing units within Maryland.

Curtis Adams of The Michaels Organization spoke next about his Company and its recent experiences with RAD conversions in the Baltimore area. The Michaels Organization was founded in 1973 and is currently comprised of nine separate companies. The following slide details why the Michaels Organization is what Curtis calls “the biggest developer you’ve never heard of”:

## Overview of The Michaels Organization

- Founded in 1973
- Operate in 35 States & DC
- 2,046 Full Time Employees
- A Family of Companies  
Specializing in
  - Affordable Housing
  - Student Housing
  - Military Housing
  - Property Management
  - General Contracting
- 52,661 units developed/acquired
- Over 40,000 Affordable Units
- 410 Residential Communities
- 2,533 RAD Units Built or Under Development/Predevelopment



Michaels has developed approx. 700 RAD units in Maryland, New Jersey and Pennsylvania to date. Curtis provided an overview of the 2 projects Michaels has completed to date in Baltimore and one that is on the immediate horizon. The two Baltimore projects completed to date, are:

## Pleasant View Gardens Townhomes

- 201 Townhouse Units
- 10 Acres
- Community Center Onsite
- Mix of 1-4-Bedroom Units
- Predominantly Serving Families
- On-Site Resident Relocation



## Pleasant View Gardens Senior

- 110 Senior Housing Units
- 4 Story Building w/ Common Areas
- Reserved for Households 62 yrs+
- All residents from HABC Waiting List
- 100% One-Bedroom Units
- On-Site Resident Relocation





Curtis advised that it took Michaels about 2 weeks to renovate a unit, on average. Michaels deliberately allowed vacancies to rise modestly before their renovations began so that they had some empty “hotel” units on site for tenants whose units were undergoing renovation.

Michaels next project in the City will be:

## Rosemont Tower – Future Deal

- 203 Units
- 13-Story High rise
- Senior (62 yrs+) & Non-Elderly Disabled (NED) Residents
- 100% One-Bedroom Units
- Resident Services
- Building Issues, Including Brick Facade
- Closing 2Q 2019



So now you know: “RAD” is more than the standard answer given by your laconic college aged offspring when asked, “Honey, how was your Spring Break this year?” Isn’t it refreshing when our language evolves for the better? Proving once again that real estate can be a force for good in so many ways.

The members of the Baltimore LAI Chapter thanks Messrs. Maneval and Adams for their lucid presentations, for helping to preserve public housing stock and for helping to better our communal language.