

# PRACTical RAD Rents

Hello and welcome to another video in the PRACTical RAD series. This series provides practical guidance to owners of Section 202 properties seeking to convert their Project Rental Assistance Contract, or PRAC, to a Section 8 Housing Assistance Payment contract, or HAP, through HUD's Rental Assistance Demonstration program, known as RAD.

After watching this video, viewers will understand how a RAD conversion affects project rents. Topics covered in this video include how the initial contract rents in the new assistance contract are determined, how these rents are adjusted over time, and how to use rent bundling as a RAD conversion strategy. The information in this video derives from Section 4 of the RAD notice revision, for which HUD published on September 5th, 2019, and Supplemental Notice 4B, published in 2023. Refer to these notices for detailed requirements related to the topics covered in this video.

Other videos in this series include an overview of the RAD program, conversion milestones, capital needs assessments, financial strategies, environmental review, and supportive services.

The RAD program requires owners to choose between two different types of Section 8 rental assistance: project based rental assistance known as PBRA, and project based vouchers, known as PBV. Differences between these two types of assistance include the entity responsible for administering the rental assistance contract, the date on which the new contract can start, and the initial contract rents. Owners are asked to indicate their rental assistance preference when they submit their initial expression of interest in the RAD program. After the RAD conversion closes and the HAP contract is executed, this selection becomes irrevocable.

The PBV program is administered by HUD's Office of Public and Indian Housing. Individual PV contracts are administered by a public housing authority, or PHA. The PHA will be responsible for determining the project's initial contract rents, administering the waitlist for units at the property, and conducting property inspections. When a project owner chooses PBV assistance, HUD will make a reasonable effort to find a PHA to administer the HAP contract. If no PHA is available or willing to administer the contract,

the project cannot convert to PBV and must select PBRA if they wish to close their RAD conversion.

The PBRA program is administered by HUD's Office of Multifamily Housing. Owners requesting PBRA will execute a HAP contract directly with HUD. HUD will administer the contract and all contract renewals, perform REAC inspections, management and occupancy reviews, and oversee all other asset management responsibilities for the project.

If an owner chooses to convert to PBRA, the new HAP contract will start on the first day of the first full month that begins at least 30 days after closing of the RAD conversion. For example, if closing occurs on July 15th, the HAP contract would begin on September 1st.

PBV contracts must align with the anniversary date of the existing track contract, and the start date must be at least 90 days after closing of the RAD conversion. For example, if the PRAC anniversary date is September 1st, the PBV HAP start date must also be September 1st, and closing of the RAD conversion must occur no later than May 31st.

Prior to closing of the RAD conversion, projects will continue to receive their track rents and these rents remain eligible for adjustment through the annual PRAC contract renewal process. PRAC owners should submit a budget based rent adjustment package, or BBRA, at least 120 days prior to their contract renewal date and prior to submission of their RAD conversion plan. Any increase in rents must be approved by HUD prior to closing of the RAD conversion. In general, projects converting to PBV will have lower initial contract rents than projects converting to PBRA. Projects converting to PBV will have their initial contract rents set at the lower of the project's approved PRAC rent. Reasonable rent, as determined by 24 CFR 983.303, 110 percent of the applicable fair market rent or small market FMR minus any utility allowance, or the rent requested by the project owner.

Projects converting to PBRA will have initial contract rents equal to their approved PRAC rents. In general, PBRA initial contract rents are statutorily limited to 120 percent of the applicable FMR, less any applicable utility allowance. However, this limitation

does not apply to 202 PRAC projects seeking to convert to PBRA through the RAD program. Thus, a project with PRAC rents above 120 percent of FMR may keep these rents post-conversion if the project converts to PBRA. Initial contract rents will be capped at 120 percent of the applicable FMR only in the event of the project seeking a preservation rent increase, which is explained in the next slide.

Under RAD, HUD may approve an increase to a project's PRAC rents when the owner's RAD conversion plan proposes utilizing debt financing to undertake new construction or rehabilitation that will enhance the resilience, energy and water efficiency and design of housing appropriate for the elderly to age in place. This type of rent increase is referred to as a preservation rent increase.

HUD may increase PRAC rents by up to \$250 per unit per month if the new construction or substantial rehabilitation exceeds 60 percent of the housing construction costs as published by HUD for a given market area; or up to \$100 per unit per month if the new construction or rehabilitation exceeds 30 percent of housing construction costs.

As mentioned in the previous slide, a preservation rent increase may not cause the projects approved rents to exceed 120 percent of the applicable FMR. If awarded, a preservation rent increase will take effect on the effective date of the new PBRA HAP contract.

When proposed construction or rehab will result in the reduction of one or more of the utility components such as gas, water and sewer or electric used to establish the utility allowance. HUD will permit the RAD contract rents to be increased by a portion of the utility savings. To qualify, project owners may submit utility allowance projections performed by a third party professional engineer based on the project's plan and specifications. For utilities that remain tenant paid, HUD will increase the contract rents by 75 percent of the approved reduction in the utility allowance, or UA. The UA will be recalculated based on actual consumption within a reasonable period after completion of the work.

Post RAD conversion. The annual rent adjustment process for PBV and PBRA contracts are different. A project owner that converts to PBV may request a rent increase at the anniversary date of the HAP contract by providing written notice to the

PHA. The project owner agrees never to request a rent increase in excess of the OCAF-adjusted rent. This limitation is in addition to the requirements set forth in 24 CFR Part 983, Section 301(B), which state that the amount of rent to the owner not exceed the lesser of reasonable rent, 110 percent of FMR, or the operating cost adjustment factor or OCAF-adjusted rent.

On the other hand, projects that convert to PBRA will have their contract rents adjusted by the applicable operating cost adjustment factor at each anniversary of the HAP contract, subject to the availability of appropriations for each year of the initial term of the HAP contract. Since mortgage debt payments are fixed and thus not affected by inflation, OCAF adjustments are applied only to that portion of HAP contract rents not being used to service mortgage loan debt. For example, if 20 percent of your contract rents are being used for debt service, the OCAF will be applied to 80 percent of your contract rents. This limitation applies to both PBV and PBRA contracts.

Throughout this video, we have discussed ways to maximize contract rents, and you may be wondering whether maximizing rents is a good thing. In order to qualify for a RAD conversion, the converting property must demonstrate that it will be able to fund both its immediate and longer-term repair and replacement needs.

Maximizing rents increases a property's net operating income, which in turn can be leveraged to obtain a new mortgage loan to fund repairs and replacements. Thus, maximizing rents can help a property qualify for RAD conversion and assist with project preservation down the road.

Another potentially valuable tool available to owners seeking to convert multiple projects is rent bundling. With HUD approval, an owner that owns multiple properties may utilize a portion of the rental subsidy at one project, known as the Donor Project, to increase the rental subsidy at another project known as the Recipient Project, if such adjustment would allow both properties to qualify for RAD conversion. HUD refers to this as rent bundling. There is no limit to the number of projects that may be bundled together.

For example, let's assume you own two properties and are seeking to convert both properties through RAD. Property A needs relatively little rehab, has a strong replacement reserve account balance, and qualifies for RAD conversion. Property B

needs more rehab, has fewer reserves, and is in an area with low FMRs, making it difficult for property B to qualify for RAD. The owner may request to allocate a portion of the rental subsidy being received by the stronger property to the weaker property, in order for both properties to qualify for RAD conversion.

Your HUD transaction manager is ready to assist you further. If you do not have a transaction manager, email the general mailbox at [rad2@hud.gov](mailto:rad2@hud.gov).

For more information on HUD's Rental Assistance Demonstration program, please see Section 4 of HUD Notice H-2019-09, PIH Notice H-2019-23 and Supplemental Notice 4B at H-2023-08, PIH 2023-19 or visit [hud.gov/RAD](http://hud.gov/RAD) and the RAD Resource Desk at [RADResource.Net](http://RADResource.Net).

Thank you for your interest in RAD for Section 202 PRAC properties.