



# RENTAL ASSISTANCE DEMONSTRATION

RAD Spotlight on Haverhill, Massachusetts

U.S. Department of Housing and Urban Development

## RAD Spotlight on Mission Towers: A Second Component Preservation Project

Mission Towers is a 117-unit elderly high-rise project in Haverhill, Massachusetts. The project was built in 1974 under the Section 236 program by Bethany Community Services, Inc., a local non-profit affordable housing provider with century-old roots in the community. Similar to other HUD-assisted properties, Mission Towers faced a large capital repairs backlog in addition to an expiring rental assistance contract under the Rental Supplement (Rent Supp) program, both of which threatened Bethany Community Services' ability to continue to provide quality and affordable housing to its residents. RAD's second component presented Bethany Community Services with, as Jered Stewart, President and CEO of Bethany Community Services states, "just the fix for both."

### RAD Eligibility

The Section 236 program was created in 1968 to help promote the development of affordable housing. It offered developers a reduced interest rate to subsidize debt service costs, effectively operating as a subsidy to the developer to reduce the cost of the project and thus the rent levels needed to support it. Many Section 236 projects were assisted with a Rental Assistance Payment contract. Mission Towers received rental subsidies under the Rent Supp program for 30 units, both to stabilize the finances of the property, and to increase its affordability for low-income seniors. The Rent Supp program was, essentially, a precursor to the Section 8 rental assistance program; however, the subsidy contract was only for a fixed annual amount. Therefore, over the years, as tenant incomes dropped, and as rents increased, the Rent Supp subsidy served fewer and fewer households, placing the long-term affordability of these units in jeopardy.

When a Rent Supp contract terminates due to expiration or mortgage prepayment, HUD has no authority to offer long-term extensions of the rent subsidy. As a result, all eligible residents of the property will have the opportunity to obtain Section 8 Tenant Protection Vouch-

ers (TPVs). "Although we knew that the tenants would receive TPVs, we were deeply concerned about the loss of hard units. We wanted to find a way to preserve Mission Towers as affordable housing for years to come," says Stewart.



Under RAD's second component, owners of expiring Rent Supp contracts can choose to convert the TPVs that will be issued to resi-

### WHAT IS RAD?

The Rental Assistance Demonstration (RAD) allows public housing agencies (PHAs) and owners of HUD-assisted properties to convert units to project-based Section 8 programs, providing an opportunity to invest billions into properties at risk of being lost from the nation's affordable housing inventory. The "first component" of the program allows properties funded under the Public Housing and Section 8 Mod Rehab programs to convert their assistance to long-term, project-based Section 8 contracts. The "second component" of RAD allows owners of projects funded under HUD's legacy programs (Rental Supplement, Rental Assistance Payment, and Moderate Rehabilitation) to convert units to Section 8 project-based vouchers.

The 1.2 million units in the Public Housing program have a documented capital needs backlog of nearly \$26 billion. As a result, the public housing inventory has been losing an average of 10,000 units annually through demolitions and dispositions. Meanwhile, the 38,000 units assisted under HUD's legacy programs are ineligible to renew their contracts on terms that favor modernization and long-term preservation. The current conditions of many of these properties inhibit investment and recapitalization efforts in the communities with the most need. By drawing on an established industry of lenders, owners, and stakeholders, RAD allows PHAs and owners of HUD-assisted housing to preserve and improve affordable housing units that could be subject to vouchers and demolition. RAD creates greater funding certainty while allowing increased operational flexibility to empower PHAs and owners to serve their communities.

As of October 2014, 68 RAD applications have closed, covering some 6,048 units and representing over \$150 million in new investment. PHAs have submitted over 1,000 applications covering close to 185,000 units. RAD's initial statutory authority set a cap of 60,000 units of public housing and Mod Rehab housing that could seek to convert under RAD's first component. PHA demand exceeds RAD's current authority and HUD has requested that Congress lift the cap on eligible units to allow more PHAs to participate in the program.

dents at contract expiration or termination to project-based vouchers (PBVs). In this way, the owners can preserve their projects as assisted housing. In order to convert under the RAD second component, the owner signs a 15-year housing assistance payment (HAP) contract. The RAD program's guidelines on project-basing of TPVs allow properties to convert in a way that meets the specific repair and affordability needs of their communities.

#### Resident Outreach

As required under RAD, Bethany Homes held community meetings to inform residents of the plan to convert to RAD, and outlined the policy changes that would come with the conversion. Residents were eager to have their community preserved. "The residents at Mission Towers are an extremely happy group of people," Stewart says. "We take a lot of pride in providing a clean and safe environment and the residents take pride in their community. No one wants to leave."



#### The Conversion Process

In January 2014, Bethany Homes prepaid the Section 236 mortgage, triggering the issuance of the TPVs for the eligible units. Bethany Homes applied for RAD on January 16, 2014. The following month, the RAD conversion was approved, and the new RAD HAP contract was executed on March 15, 2014.

Bethany Homes worked closely with the Haverhill Housing Authority (HHA), which will administer the PBV contract. As per PBV rules, the HHA will now maintain the waiting list, conduct tenant reexaminations, and oversee the Section 8 HAP contract. Prior to conversion, Bethany Homes had never worked with a public housing authority and they were concerned about meeting all of the conversion requirements on a tight timeline. "The turnaround was extremely quick, and it was a lot to ask of the HHA," said Stewart. "But HHA staff got right down to work. We were – and continue to be – quite impressed with the

HHA."

The conversion process forged a strong working relationship between the HHA and Bethany Homes, which has served both parties well as they continue to work together on day-to-day program administration.



#### Greater Affordability

Since the Rent Supp contract covered roughly a quarter of the units at the property, many of the very and extremely low-income residents faced severe rent burdens. Following the RAD conversion, many of the households at Mission Towers are now experiencing lower rents.

"Nearly all of the households who were not covered by the Rent Supp contracts saw their rents go down," said Stewart. "The rents on their units were below market for Haverhill, but residents were paying more than 30% of their income towards rents. Some residents saw small decreases, but others are saving over a hundred dollars a month."

#### Making Capital Improvements

Unlike the public housing properties that convert under RAD's first component, projects converting under RAD's second component are not required to submit a financing plan at the time of conversion. Rather, the goal is to get these projects under a long-term PBV contract as soon as their Rent Supp contracts expire, provided the units meet Housing Quality Standards (HQS). Once converted, most of the owners then plan to refinance the property to address repair needs.

In the case of Mission Towers, Bethany Homes plans to refinance the property to perform significant capital improvements, including new roof, masonry repairs, energy improvements, kitchen and bath upgrades, and new appliances.

The RAD conversion has allowed Bethany Homes to further its long-standing commitment to the community of Haverhill, now in partnership with a highly-capable PHA.

"Mission Towers is a hugely important affordable housing asset in Haverhill. We needed a way both to preserve its affordability but also undertake some much needed capital repairs. RAD was just the fix for both."

- Jered Stewart, Bethany's President & CEO.