



RENTAL ASSISTANCE DEMONSTRATION

RAD Spotlight on Montgomery County, MD

U.S. Department of Housing and Urban Development

RAD Spotlight on Montgomery County, MD: Conversion in a High-Cost Area

Over the years, the Housing Opportunities Commission (HOC), the public housing agency for Montgomery County, Maryland, has been a leader in efforts to build and preserve affordable housing, including such initiatives as inclusionary zoning, which ensures access to affordable housing for low- and moderate-income families. Continuing with this tradition, HOC is now converting its entire public housing stock to long-term Section 8 assistance under RAD.

The Challenges of Providing Affordable Housing in a High-Cost Area

HOC has struggled with the long-term economic viability of an aging public housing stock that, if lost, would be nearly impossible to replace given the high cost of housing in Montgomery County. The average rent for a 2-bedroom unit in the county is about \$2,000/month and the median sale price for a single-family home is \$432,000. Preservation of affordable housing, therefore, is a major concern in Montgomery County. To preserve access to affordable housing, HOC needed a way to leverage the value of its current assets—namely, the value of its land, which has increased substantially over the last several decades.

HOC was particularly attracted to RAD because of the flexibility given to PHAs to structure deals in a way that takes into account the specific needs of each PHA and property. For HOC, this was the ability to leverage the underlying value of its assets. Altogether, HOC expects to raise \$108.6 million in private debt and equity through its RAD conversions – a ratio of \$14 dollars in non-public housing funds to every dollar in public housing funds. When the RAD conversion is complete, the agency will preserve 877 public housing units (converted to Section 8 project-based assistance) and will have developed about twice that number of new affordable and market units. By combining substantial rehab of some properties with new construction and transfers of assistance, HOC is able to take advantage of the underlying value of the land and reposition its public housing portfolio under RAD.

The RAD conversion is a crucial part of HOC's updated mission to focus on improved senior housing, remove the stigma of public housing, reduce resident utility expenses through increased energy efficiency, expand housing availability geographically, and generate jobs and opportunities for the county's residents.



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.

HOC's Portfolio Approach

Taking advantage of high land values in Montgomery County to help raise debt and equity, HOC is pursuing three "repositioning" strategies for its public housing portfolio under RAD:

- **Substantial Rehabilitation:** These are mostly elderly high-rise buildings in highly-desirable locations (due to proximity to transportation options and community services) that need only to be renovated and where the site does not present other redevelopment opportunities.
- **Demolition and On-site Reconstruction:** These are properties that are located on or near major public transportation centers where there are opportunities for larger redevelopment and where local zoning allows for higher densities to encourage transit-oriented development. In these cases, the development of market-rate units helps subsidize the cost of demolishing the existing public housing units and the construction of new units.
- **Transfers of Assistance:** Assistance will be transferred either to existing properties owned by HOC (but not currently subsidized) or to sites that will involve new construction. Once again, one of the keys here is utilizing the underlying land values to generate additional development proceeds.

Initially, HOC focused primarily on rehabbing existing units. But, with RAD, the HOC team realized that they had many more development options. As a result of its RAD conversion, HOC moved subsidies around to best meet local needs. HOC can make substantial rehabilitations, if appropriate, but it can also take advantage of the inherent value of its assets to replace with new

Elizabeth House:

Elizabeth House is just one example of HOC's portfolio approach. The property is located in downtown Silver Spring, just north of Washington, D.C., an area which has undergone a considerable resurgence with the addition of high-density residential, major retail, and office complexes, including a transit hub with bus, Metro subway, and commuter train rail services. Elizabeth House is a 49-year old, 160-unit senior high-rise building that has considerable maintenance and repair needs and lacks modern living spaces and amenities. The underlying value of the land is \$12 to \$15 million. Once residents are relocated to other updated units within HOC's portfolio, the building will be razed and in its place, HOC will construct a new, taller high-rise building with 500 modern mixed-income living spaces, increased ADA accessibility, new amenities, and energy efficiency utility savings.

construction (in mixed-income settings) or acquisition. RAD opened up many possibilities for HOC to both preserve its public housing portfolio and to create additional affordable housing options.



The Need to Preserve Affordable Housing

HOC is using RAD to renovate and rebuild its portfolio. HOC will rehabilitate most of its public housing properties, but for those that require new construction, HOC will take advantage of the value of the land to finance the construction of new affordable housing. Reinvestment in HOC's properties achieves a more efficient use of scarce resources in a setting where the cost of acquiring land is soaring. Occupancy rates across all rental properties in Montgomery County are very high. Even less desirable properties and locations consistently maintain vacancy rates at or below 10%. The constraints on developing a new supply of housing in the County, particularly affordable housing, are severe. Many of HOC's properties represent the majority, if not all, of the affordable units in certain zip codes. Even if HOC's residents had portable Housing Choice Vouchers that pay 95% of Fair Market Rents, it is unlikely that they could find housing with locations and quality comparable to HOC's post-renovation RAD properties.

Preservation of these units provides low- and moderate-income households with access to the types of up-to-date amenities found at newer properties, and results in reduced utility costs due to increased energy efficiency, and reduced transportation cost burdens due to locations in walkable communities. Moreover, these renovations include dramatic improvements that ensure the long-term sustainability of the properties themselves.

"RAD represents a generational opportunity to preserve, expand and improve the quality of affordable housing in a manner that is financially sustainable. While optimal solutions may differ from one jurisdiction to another, RAD offers the tools necessary for PHAs to transform the nation's public housing stock for the next generation and beyond." - Stacy L. Spann, Executive Director