Rental Assistance Demonstration Overview and Its Impact on Public Housing Development

NJAHRA Conference

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Prepared by:

NW FINANCIAL GROUP, LLC
Exceeding Expectations

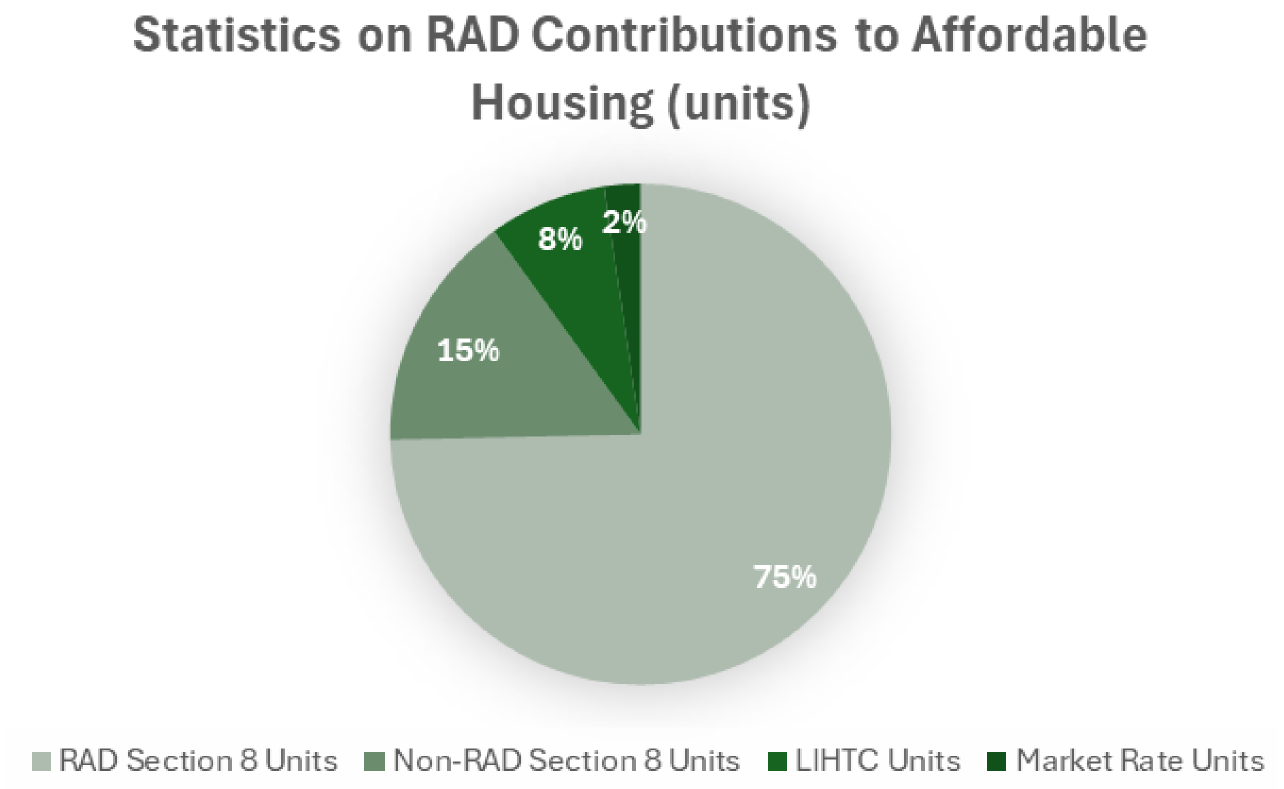
RAD PROGRAM OVERVIEW AND IMPACT

Understanding RAD's Impact

- Inception of Rental Assistance Demonstration (“RAD”) in 2012
- RAD has reshaped public housing through innovative funding and modernization strategies

Key Statistics on RAD

- Estimated backlog of approximately $115 billion of public housing capital needs as of year-end 2024
- Nationally PHAs have converted through RAD 1,826 projects which include 249,704 units of housing
- Securing $24,153,049,556 in construction investments, including Initial Deposit to Replacement Reserve (IDRR)



The RAD Conversion Process

1

Step 1 – Assessment

Evaluate the property's needs, eligibility for RAD, and potential benefits of conversion, including physical and financial assessments.

2

Step 2 – Planning & Application

Develop a comprehensive repositioning plan, gather required documentation, and submit the formal application to HUD for review.

3

Step 3 – Financing Strategy

Secure necessary funding through various sources such as private debt, tax credits, and other subsidies to support the renovation or new construction.

4

Step 4 – HUD Approval & Implementation

Obtain final approval from HUD, close on financing, and begin the physical renovation or construction phase of the project.

5

Step 5 – Conversion & Operations

Complete the conversion, transition residents to new contracts, and manage the ongoing operations of the revitalized property under the new program.

New Program Guidance came out part of PIH Notice 2024-40 (HA) in December 2024 providing greater options for repositing

- RAD/Section 18 Blend conversions
- Repositioning for Small PHA's (less than 250 ACC units)
- Restore Rebuild (aka Faircloth to RAD)
- Opportunity Zone Rent increases for PBRA Conversions
- Move to Work (MTW) fungibility flexibility

Funding and Conversion Strategies

RAD/Section 18 Blend Conversions

30/70 Blend

30%Section 8
70%RAD

Proposed Rehab/Construction costs exceed 30% of the High Construction Costs ("HCC") for the market area

60/40 Blend

60%Section 8
40%RAD

Proposed Rehab/Construction costs exceed 60% of the HCC for the market area

90/10 Blend

90%Section 8
10%RAD

Proposed Rehab/Construction costs exceed 90% of the HCC for the market area

Current Example of RAD Blend and Why It's Important

- We begin with looking at a project's expenses to determine the project's operating costs.
  - Historically PHA operating costs are very high – less borrowing power
  - Private Developers operating costs are much lower – more borrowing power

OPERATING EXPENSES	*Private Operator*	*Public Housing*
Administrative/Salaries and Benefits	$ 443,534	$ 535,057
Miantenance & Repairs	139,397	168,161
Utilities	137,586	165,977
Management Fee	92,328	111,379
PILOT on Housing	27,155	32,759
Insurance	105,000	126,667
Replacement Reserves	47,250	57,000
TOTAL EXPENSES	$ 992,250	$ 1,197,000
per unit (105 units Family)	*$ 9,450*	*$ 11,400*

Scenario #1 – Simple RAD Conversion

BR Type	Units	Contract Rents: RAD	Contract Rents: 30/70 Blend	Contract Rents: 60/40 Blend	Contract Rents: 90/10 Blend	2025 Metro FMR
0	6	$ 1,051	[redacted]			$ 1,474
1	34	1,179	[redacted]			1,654
2	35	1,454	[redacted]			2,040
3	16	1,937	[redacted]			2,717
4	10	2,155	[redacted]			3,023
5	4	2,478	[redacted]			3,476

	RAD	30/70 Blend	60/40 Blend	90/10 Blend
Annual Gross Potential Rent	$ 1,916,989	[redacted]		
Gross Rents as a % of FMR	73%	[redacted]		
Estimated Mortgage	$ 6,500,000			

(30 year Term/Amort 6.5% interest Rate)

- ***RAD Conversion-*** rents would yield a gross potential Rent of $1,916,090; this is 73% of the area Fair Market Rent (FMR)
- Under this scenario this project could borrow approximately $6,500,000

Scenario #2 – RAD/Blend with 70% RAD/ 30% Section 8

BR Type	Units	Contract Rents				2025 Metro FMR
		RAD	30/70 Blend	60/40 Blend	90/10 Blend	
0	6	$ 1,051	$ 1,227	[redacted]		$ 1,474
1	34	1,179	1,377			1,654
2	35	1,454	1,698			2,040
3	16	1,937	2,262			2,717
4	10	2,155	2,517			3,023
5	4	2,478	2,894			3,476
Annual Gross Potential Rent		$ 1,916,989	$ 2,238,663	[redacted]		
Gross Rents as a % of FMR		73%	85%			
Estimated Mortgage			9,500,000			

(30 year Term/Amort 6.5% interest Rate)

- ➢ ***70/30 RAD Blend*** rents would yield a gross potential Rent of $2,238,663; this is 85% of the area FMR.
- ➢ Under this scenario this project could borrow approximately $9,500,000
- ➢ This would require the PHA to complete work at 30% of the Hard Construction Costs for this area.

Scenario #3 – RAD/Blend with 40% RAD/60% Section 8

		Contract Rents				
BR Type	Units	RAD	30/70 Blend	60/40 Blend	90/10 Blend	2025 Metro FMR
0	6	$ 1,051	$ 1,227	$ 1,409	[redacted]	$ 1,474
1	34	1,179	1,377	1,581	[redacted]	1,654
2	35	1,454	1,698	1,950	[redacted]	2,040
3	16	1,937	2,262	2,597	[redacted]	2,717
4	10	2,155	2,517	2,890	[redacted]	3,023
5	4	2,478	2,894	3,323	[redacted]	3,476
Annual Gross Potential Rent		$ 1,916,989	$ 2,238,663	$ 2,570,738	[redacted]	
Gross Rents as a % of FMR		73%	85%	97%	[redacted]	
Estimated Mortgage				$ 13,000,000		

(30 year Term/Amort 6.5% interest Rate)

- ***60/40 RAD Blend*** rents would yield a gross potential Rent of $2,570,738; this is 97% of the area FMR.
- Under this scenario this project could borrow approximately $13,000,000
- This would require the PHA to complete work at 60% of the Hard Construction Costs for this area.

Scenario #4 – RAD/Blend with 10% RAD/90% Section 8

BR Type	Units	Contract Rents RAD	30/70 Blend	60/40 Blend	90/10 Blend	2025 Metro FMR
0	6	$ 1,051	$ 1,227	$ 1,409	$ 1,586	$ 1,474
1	34	1,179	1,377	1,581	1,779	1,654
2	35	1,454	1,698	1,950	2,194	2,040
3	16	1,937	2,262	2,597	2,923	2,717
4	10	2,155	2,517	2,890	3,252	3,023
5	4	2,478	2,894	3,323	3,739	3,476

	RAD	30/70 Blend	60/40 Blend	90/10 Blend
Annual Gross Potential Rent	$ 1,916,989	$ 2,238,663	$ 2,570,738	$ 2,892,485
Gross Rents as a % of FMR	73%	85%	97%	109%
Estimated Mortgage	$ 6,500,000	9,500,000	$13,000,000	$16,250,000

(30 year Term/Amort 6.5% interest Rate)

- ***90/10 RAD Blend*** rents would have a gross potential Rent of $2,892,485; this is 109% of the area FMR.
- Under this scenario this project could borrow $16,250,000
- This would require the PHA to complete work at 90% of the Hard Construction Costs for this area.
- ***Or be a Small PHA with under 250 units!***

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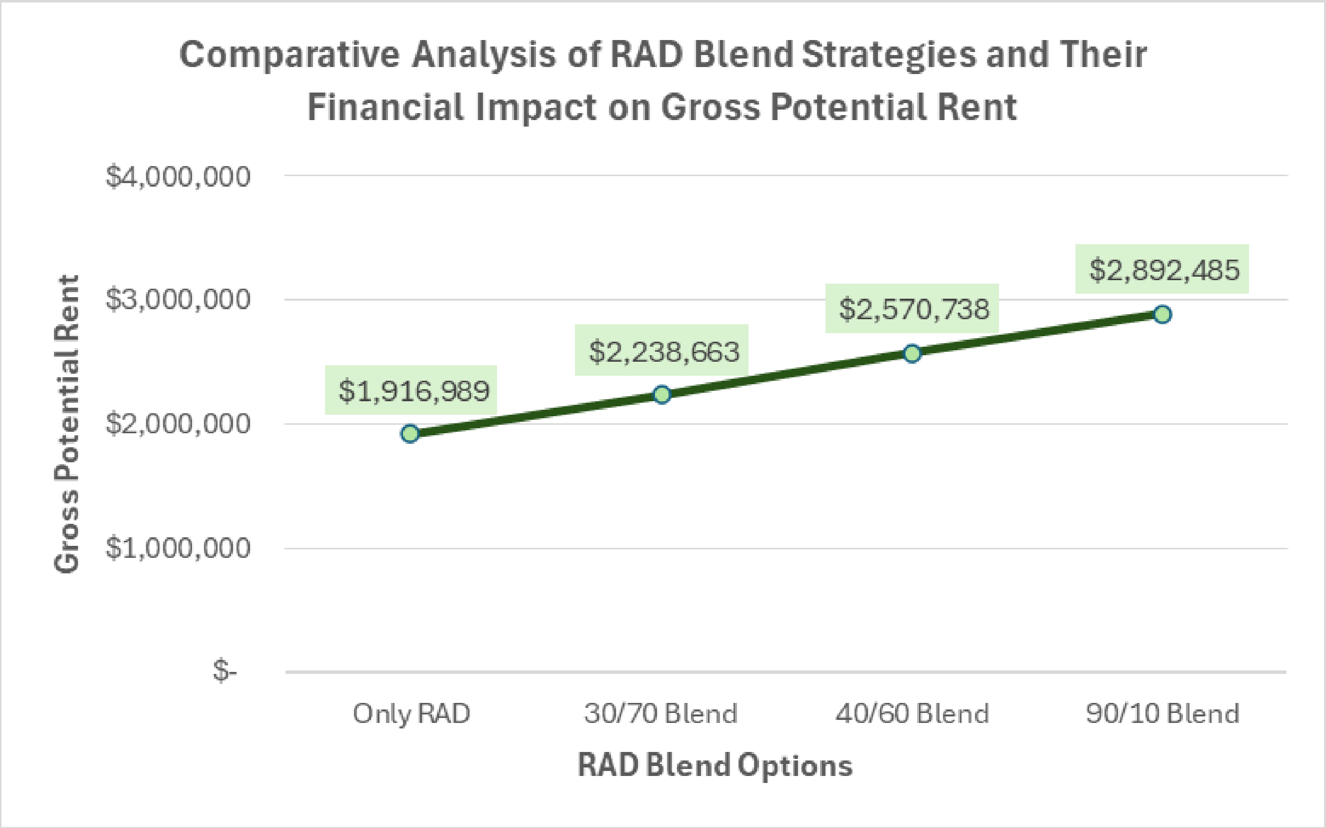
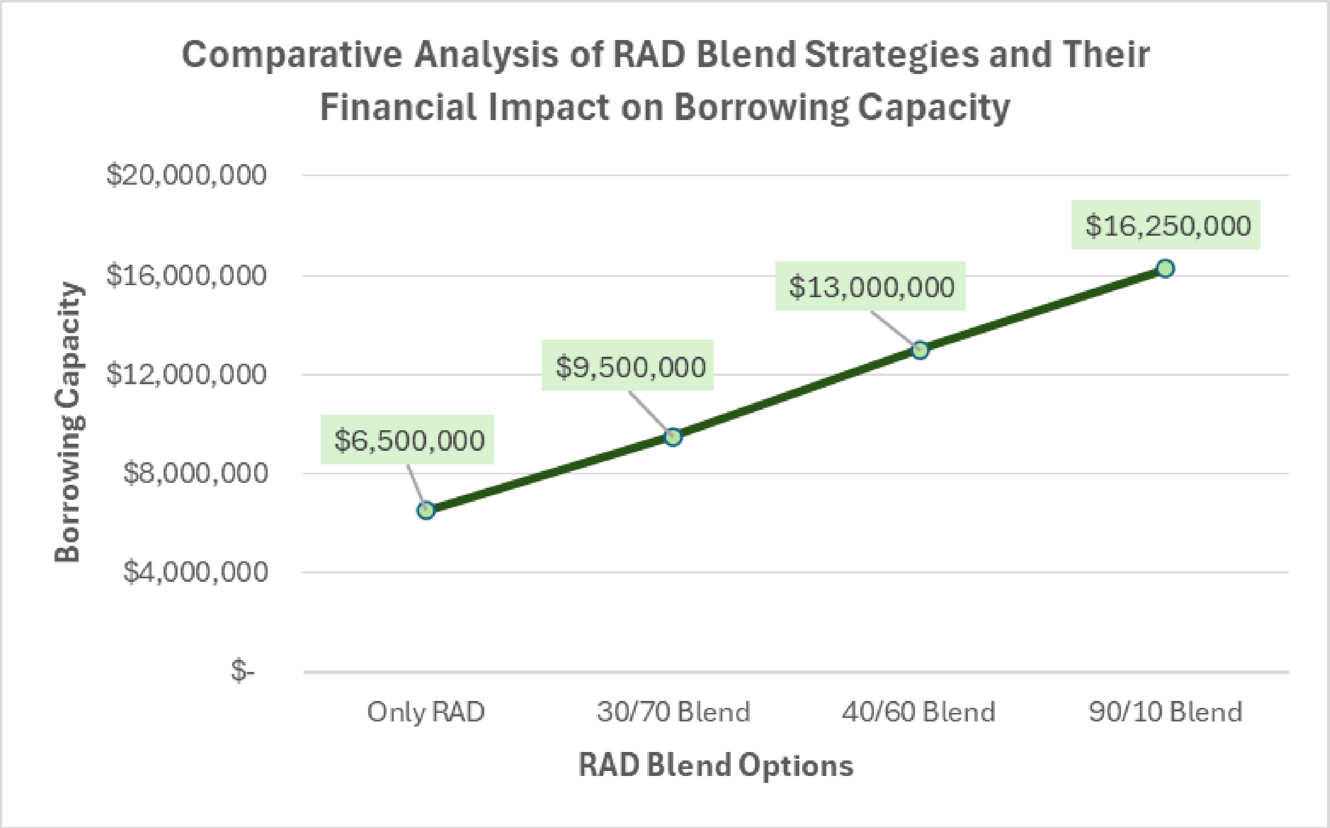
Comparative Analysis of RAD Blend Strategies





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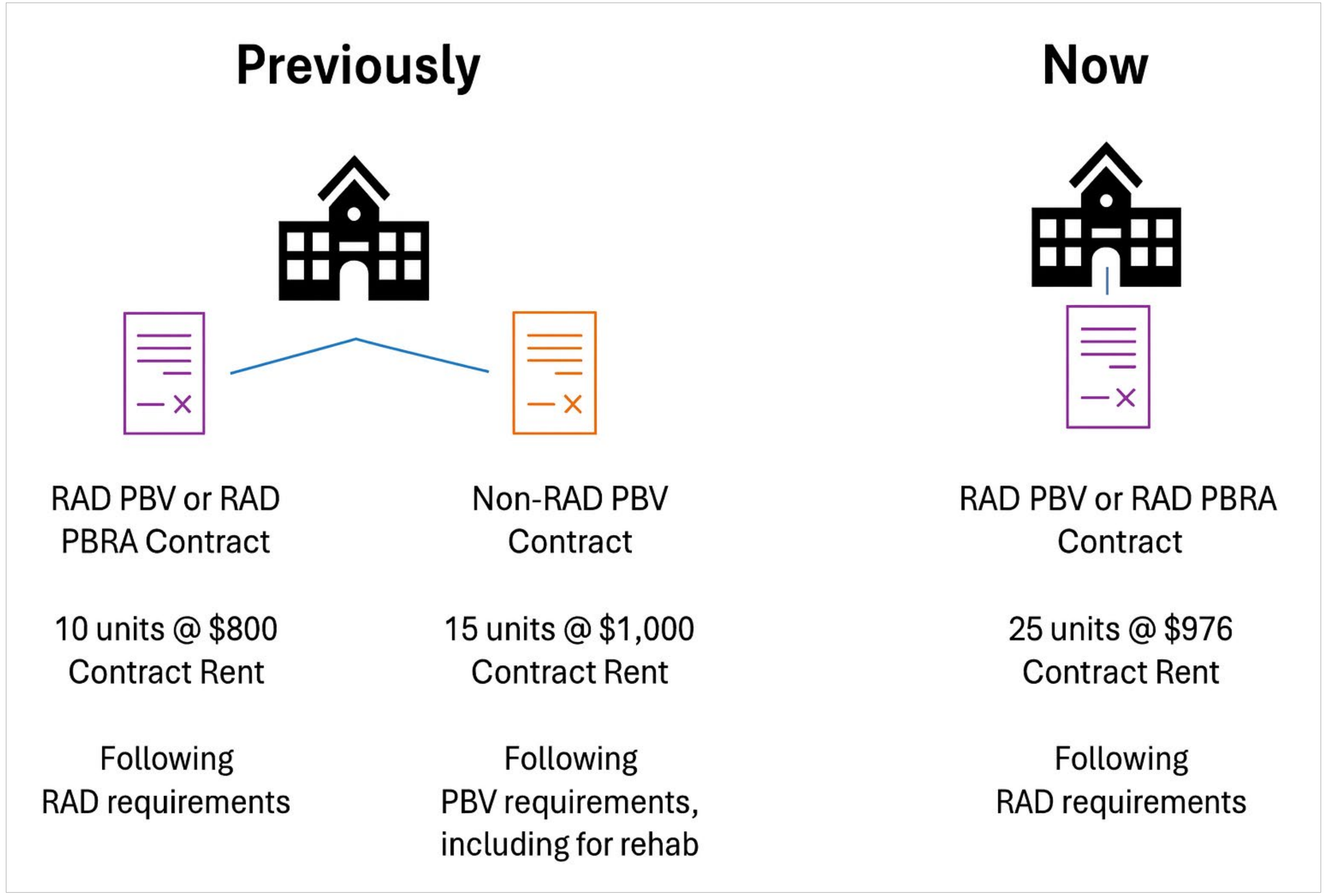
Contracts Under the New Blend Guidance

- HUD prior to 2025 would provide the PHA with 2 Contracts when they completed a Blend.
- The new guidance results in the PHA receiving 1 HAP contract for both sets of units.
- This made for interesting math when the Section 18 units were being phased in due to major rehabilitation being completed.



New Contract Calculations

Public Housing RAD Units	40	RAD Rent Determination	$	800
Section 18 Units	60	Section 8 (110% of FMR)	$	1,000
Total Units in Project	**100**	**Two HAP Contracts**	**$800 and $1,000**	

Public Housing RAD Units	40	RAD Rent Determination	$	800
Section 18 Units	60	Section 8 (110% of FMR)	$	1,000
Total Units in Project	**100**	**Weighted HAP Contract Rent**	**$**	**920**

Example: 100-unit project completing enough rehabilitation work for a 40% RAD /60% Section 18 Blend:

- A new wrinkle to this is that Demolition-Disposition Transition Funding (DDTF) that the Authority would become eligible for with the units approved under the Section 18 will no longer be available.

  These DDTF now become part of your HAP rental structure.

  For Example:

  The Total Anticipated DDTF = 60 Section 18 units x $3,000 per unit x 5 years = $1,350,000.

  RAD Rent adjustment per unit per month = $1,350,000 ÷ 20 years ÷ 40 units ÷ 12 months = $140 pupm.

  HUD is now giving the same amount of DDTF the project is entitled to but spreading it out over 20 years instead of over 5 years.

Public Housing RAD Units	40	RAD Rent Determination	$	800	+ $ 140 = $940
Section 18 Units	60	Section 8 (110% of FMR)	$	1,000	
Total Units in Project	**100**	**Weighted HAP Contract Rent**	**$**	~~**920**~~	**$976**

Restore to Rebuild (aka Faircloth to RAD)

Restore Rebuild (aka Faircloth to RAD)

- Introduced as part of the 1998 'Quality Housing and Work Responsibility Act' by Sen. Lauch Faircloth, R-North Carolina, the Faircloth Amendment amended the Housing Act of 1937
- Enabling public housing unit levels to be maintained based on 1999 housing unit levels. Preventing PHAs from ever building more units than they had in their portfolio at that time
- Currently it is estimated that there is an additional 227,000 units of public housing that could be developed, with over 11,000 in New Jersey

PHA Name	*Restore Rebuild Availablity*
Newark Housing Authority	4,768
Housing Authority City of Jersey City	1,289
Paterson Housing Authority	1,237
Housing Authority and Urban Redevelopment Age	475
Housing Authority of the City of Camden	447
Trenton Housing Authority	371
Perth Amboy Housing Authority	356
Elizabeth Housing Authority	332
Morristown Housing Authority	268
Housing Authority of the City of Orange	267
New Brunswick Housing Authority	209
East Orange Housing Authority	205
Long Branch Housing Authority	194
Plainfield Housing Authority	120
Bayonne Housing Authority	99
Asbury Park Housing Authority	98
Salem Housing Authority	78
Boonton Housing Authority	74
Neptune Housing Authority	60
Glassboro Housing Authority	52
Vineland Housing Authority	52
Franklin Township Housing Authority	50
Pleasantville Housing Authority	27
Carteret Housing Authority	24
Ocean City Housing Authority	20
Millville Housing Authority	19

Contd… Restore Rebuild (aka Faircloth to RAD)

- It is important to note Restore Rebuild (aka Faircloth) is NOT the same as Fair Share Housing. In NJ, municipalities have Fair Share Housing obligations to build affordable units in their communities. These are not the same programs.
- However…….PHAs can assist their municipalities in fulfilling their Fair Share Housing Agreement Requirements with Restore Rebuild Units.

Offering Rent Augmentation to Developers

- Section 8 Operating Reserves can be used to fund units from ACC levels to Section 8 Voucher levels. The chart below shows the Rents the project would receive under RAD and what the PHA Augmentation will provide the developer.

Bedroom	# of Units	RAD Rent Anticipated	Rent at 110% of FMR	Agumentation Per Unit	Monthly Agumentation	Annual Agumentation
Studio	6	$ 888	$ 1,980	$ 1,092	$ 6,554	$ 78,650
1-Bed	9	901	2,013	1,112	10,008	120,100
2-Bed	45	1,021	2,277	1,256	56,526	678,317
3-Bed	17	1,253	2,827	1,574	26,756	321,077
	77					**$ 1,198,144**

Additional Revenue Opportunities – Opportunity Zones and Moving to Work

Opportunity Zones

- Up to $100/Unit/Month Extra Rent Revenue

Eligibility Criteria

- Must convert to Section 8 PBRA (not PBV).
- Must be located in a designated Opportunity Zone.
- Project must involve new construction or substantial rehabilitation.

A Demonstrated Need Is Required

- Extra rent must be necessary for financial viability

First-Come, First-Served Basis

Move to Work (MTW)

- MTW agencies can use their funds during a RAD conversion to raise initial PBV contract rents.

Enhance Financial Resources

- Boosts reliable rental income, strengthens financial viability, and attracts private debt and equity.
- This makes substantial renovations possible.

Commitment to Sustained Rent Level

- Agencies must maintain the higher PBV rents throughout the contract term.
- Requires Subsidy Layering Review.

How Do I Make All This Work? – Process and Funding

Engineering Study – Why it matters?

Access scope of work

- *Will the property require rehabilitation, or is new construction needed?*

Evaluate Internal Capacity

- *Can the Housing Authority manage this internally, or will outside help be needed?*
- *Partnering with a Developer*

Determine Relocation Needs

- *Will the scope of work require residents to be relocated or will temporary displacement for minor rehab be an option?*

Funding

Do we have reserves enough to self-fund?

Can we lower our Operating Costs to increase the mortgage potential?

Do we need to use NJHMFA and the Low-Income Tax Credits to pay for the repairs, (If so, then we need a Developer Partner.)

Can we receive financial assistance from the Municipality?

Can we use the Aspire NJ State Tax Credit Program?
Can we get HOME funds?

Is there additional funding out there?

It Has Been Done!
Success Story

Glendenning Phase 1, Rahway NJ (July 2021 to Closing October 2025)

Partnering with Developer → Concept and Design → LIHTC → Additional Funding → Relocation → Closing

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- **Sources :**
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