

## **Guidelines for PBRA Rent Setting in RAD 2 Properties:**

In the revised RAD Notice, for the Second Component, HUD permits rents to be set as follows:

**Initial contract rent setting.** Initial rent levels for the PBRA contract are subject to section 8(c)(1) of the Act. For projects that will not undergo Work, the initial contract rents will be established at the lesser of the following rent levels: (1) the comparable market rent, as determined by a Rent Comparability Study (RCS), which must be prepared in accordance with the requirements of Chapter Nine of the Section 8 Renewal Policy Guidebook and submitted with the request for prospective conversion; and (2) 110 percent of the applicable fair market rent (FMR), less utility allowances.

### **Which FMR Can You Use? MSA FMR or Small Area FMR?**

The Notice states above that a property may compute the initial rents based off either the regional FMR or Small Area FMR, subject to HUD approval. The Office of Recapitalization will show deference to the property owner in making the decision about which FMR is used in your rent setting calculation. However, if you use Small Area FMR, your Rent Comparability Study must be done with properties within the Small Area, not throughout the Metropolitan Area.

### **Special criteria for Economic Conditions**

A RAD 2 property, which meets one or more of the following criteria may be able to set rents up to 120% of FMR, if such rents are at, or below the rents, determined in the RCS if:

- (i) it is located in a community which has a high percentage of rent-burdened households and where it is particularly hard to utilize tenant-based assistance;
- (ii) it serves to expand housing opportunities in communities with poverty rates less than 30%; or,
- (iii) it supports revitalization activities demonstrating material private investment in the surrounding neighborhoods.

### **How Would a Property Owner Request Rents up to 120% of FMR?**

When a property wishes to pursue rents in excess of 110% of FMR, they must submit a letter to the Office of Recapitalization as part of the Conversion Plan detailing why the property might qualify for the higher level of RAD rent. It must demonstrate that the property qualifies for these higher rents based on one or more of the 3 above Special Criteria contained in the Notice. HUD will then evaluate this letter, and inform the owner of its eligibility for the higher rents. If HUD determines that the property qualifies under any one stipulation, then rents will be set at the lesser of the RCS rents or 120% if FMR.

### **What Information Would be Provided in the Letter?**

The following would be the basis for satisfying the above criteria.

- 1) Preservation of project-based rental assistance in communities with high percentages of rent-burdened households and where it is particularly hard to utilize tenant-based assistance

- The property owner would need to provide information that indicates that the level of rent burdened households in this community is in excess of the average amount of such households either at a national or statewide level. The national average for housing cost burden in the most recent American Community Survey published by the US Census Bureau is 49.6% of renter households deemed as housing cost burdened. HUD classifies a household as “rent burdened” if it spends in excess of 30% of its household income on rent.
- A property owner may define community either by zip code, by metropolitan area, by city or town, or by some other standard. However, the owner must provide data based on the American Community Survey or most recent decennial census, as provided by the US Census Bureau.
- The property owner may provide supplemental data from other sources, as desired.

*Tools:*

- The American Community Survey (<https://www.census.gov/acs/www/data/data-tables-and-tools/data-profiles/>). This provides a search function for data from the US Census Bureau’s American Community Surveys.
- Select the type of locality you wish to examine in the bubble and select a location from the dropdown that is created. (For e.g., the city name, the micropolitan area, etc.) Click the "**Get Data Profile Links**" and then click the "**Housing Characteristics**" data sheet in the main box. This will provide housing cost burden across several different income groups. In order to ascertain the total percent of households in the selected area spending 30% or more of their income on rent, add together the percentage figures from **30%-34.9% and 35 or More** row.

2) Serves to expand housing opportunities in communities with poverty rates less than 30%

- The property owner must provide US Census Bureau data which indicates that the poverty rate **in its** zip code is less than 30%.
- The property owner may provide supplemental data from other sources, as desired, such as census tract information.
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*Tools:*

- The American Community Survey data is located here: <https://data.census.gov/cedsci/>
- There, in the search bar, type in “ZCTA5 XXXXX poverty” with ‘xxxxx’ being the zipcode of the location you wish to examine. A sample search would be “ZCTA5 20002 poverty”. The next page will provide the poverty rate of that zip code.

3) Supports revitalization activities that are resulting in material private investment in the surrounding neighborhoods

- To satisfy this condition, the property owner must delineate concrete steps being taken in an organized fashion, by the local, state or federal government to organize and stimulate revitalization in this area.
- Some examples of such an activity include (but are not limited to):

- The declaration of the neighborhood as a Promise Zone or Choice Neighborhood by the Department of Housing and Urban Development, or other coordinated investments from HUD.
- A Mayoral initiative to focus city-resources and/or energy into the converting project's area.
- A new city or regional planning initiative to alter the existing zoning, roadway, transit or development patterns to stimulate private investment.
- A local community board initiative to transform a blighted area of the neighborhood.
- Please be as specific as possible in noting the ongoing goals of these revitalization activities that are being undertaken. That may be an amount of total investment dollars coming into an area, a target for population growth in a section of the city, or an increase in the amount of building permits being taken out by developers.
- Merely citing anecdotal information that there is ongoing privately funded construction occurring sporadically in the area is insufficient to satisfy this condition, as the existence of some level of construction is not in of itself sufficient.
- The letter provided by the property owner must detail how this conversion (supplemented by the increase in the RAD rents up to 120% of FMR) will support and buttress the revitalization activities taking place in this area.