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Affordable Housing Alert

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HUD boosts RAD rents with changes to RAD/Section 18 blends

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New HUD guidance allows up to 90% of units to be projected based at 110% FMR in more cases. These changes help offset opportunities lost when HUD suspended its Streamlined Voluntary Conversion (SVC) program.



What's the impact?

- More units in RAD transactions will be eligible for higher rents
- More RAD transactions will pencil out and reach closing faster
- The SVC program has been suspended

HUD updated its public housing demolition and disposition (also known as "Section 18") guidance in a notice published on December 26, 2024 ("Demo Dispo Notice," [HUD Notice PIH-2024-40 \(HA\)](#)). In addition to general application and processing guidance, the notice updates the percentage of units eligible for Section 18 in Rental Assistance Demonstration (RAD) transactions. Under the new guidance, HUD increased the number of units that qualify for Section 18 and increased the number of factors that trigger the highest percentage of Section 18.

HUD also published RAD Supplemental Notice 4C on January 16 and we will also be publishing an alert on Supplemental Notice 4C in the coming days.

What's included in HUD's new Section 18 guidance?

Under the updated guidance:

- / Projects whose construction costs exceed 90% of the HUD-determined Housing Construction Cost (HCC) can designate up to 90% of units as Section 18 units. Previously, only 60% of units qualified for Section 18 units at this threshold unless the project was located in certain high cost areas.
- / Projects that involve demolition and new construction or projects that transfer assistance to a new location can designate up to 90% of units as Section 18 units. Previously, neither new construction nor transfer of assistance were factors that, in and of themselves, qualified units for Section 18.
- / Projects whose construction costs exceed 60% of the HCC can designate up to 60% of units as Section 18. Previously, only 40% of units qualified for Section 18 at this threshold.
- / Projects whose construction costs exceed 30% of the HCC can designate up to 30% of units as Section 18. Previously, only 20% of units qualified for Section 18 at this threshold.
- / Small public housing authority (Small PHAs), those with 250 or fewer public housing units, can designate up to 90% of their units as Section 18 when they present a plan to convert their entire public housing portfolio. Previously, only 80% of units qualified for Section 18 in this scenario.

Section 18 rents tend to be significantly higher in most jurisdictions. While RAD rent levels typically hover around 80% of the HUD-established Fair Market Rent (FMR), Section 18 units are eligible for Tenant Protection Vouchers (TPVs) which can be project-based at the contract administrator's payment standard, typically 110% FMR.

These changes to the RAD/Section 18 blends come in conjunction with HUD's decision to suspend the Streamlined Voluntary Conversion (SVC) program in light of recent litigation.

Triggering Factors	Benefit	Previous guidance
Construction costs > 90% of HCC	Up to 90% Section 18	Up to 60% for Section 18
Demolition and new construction	Up to 90% Section 18	Not previously an independent trigger

Transfer of Assistance	Up to 90% Section 18	Not previously an independent trigger
Construction costs > 60% HCC	Up to 60% Section 18	Up to 40% for Section 18
Construction costs > 30% HCC	Up to 30% Section 18	Up to 30% Section 18

Section 18 opportunities

The Demo Dispo Notice also updated other provisions relating to application and processing requirements for Section 18 demolition and disposition. Our [Affordable Housing Team](#) will continue to track the development and implementation of these changes. We are available to advise how our clients can access and apply these opportunities.

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