

# The Value of Wellness Programming in Affordable Housing for Older Adults



Health Care Valuation Advisors, Inc. [REDACTED]

Real Estate Consultants and Appraisers  
for the Seniors Housing & Health Care Industries

# Introductions



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# Introductions



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# Outline



- Laying the Groundwork
  - What is Federal Rental Assistance?
  - What is a HAP Contract?
  - What is the Section 8 Renewal Guide?
  - Option 1B HAP Renewals
  - What is a PRAC?
  - What is RAD for PRAC?
  - PRAC BBRA's
- The Value of Wellness-Centric Programming and the Rent Comparability Process
- CSI Experiences and Examples
- Operating and Financing Benefits
- Discussion

# What Is Federal Rental Assistance?



- Three major programs — [Housing Choice Vouchers](#), [Section 8 Project-Based Rental Assistance](#), and [Public Housing](#) — assist about 84% of the households receiving federal rental assistance.
- Section 8 includes the following:
  - Housing Choice Voucher Program, which includes
    - ✦ Project Based Voucher (PBV) Program (Notice H 2018-02 and H 2019-02 award PBV contracts which are administered by a local PHA)
  - Section 8 Project Based Rental Assistance
- For property owners, the Section 8 program provides guaranteed monthly rental payments.
  - For mission driven property owners, it allows them to fulfill their mission to provide affordable housing.

# What is a HAP Contract?



- Most Section 8 properties are governed under a Housing Assistance Payment (HAP) contract between HUD and the property owner.
- HAP contracts generally last between 5 and 20 years, with the majority being 20-year contracts.
- For eligible tenants residing in a unit covered under a Section 8 HAP Contract, the tenant would pay 30% of their adjusted gross income toward rent and HUD provides HAP subsidy for the remaining portion of the rent due to the property owner.

## Sources:

- “A Comprehensive Breakdown of the HUD Section 8 Renewal Guide.” HUD.Loans. June 14, 2019.
- “Asset Management Section 8 Contract Administration.” CalHFA.

# Example: HAP Payment



- Contract rent of \$800 per month/per unit
- A sample tenant's adjusted gross income is \$24,000 per year. We divide this by 12 to determine their monthly gross income of \$2,000.
- Under the HAP Contract, tenants must pay 30% of their income toward rent. For this tenant, that would be \$600 per month ( $\$2,000 \times 30\%$ ). This represents the tenant paid portion of rent.
- The HAP contract makes up the difference between the tenant paid portion (\$600) and the contract rent (\$800). The property owner can submit a voucher request to the Contract Administrator for \$200 for this unit.



# What is the Section 8 Renewal Guide?



- The [Section 8 Renewal Policy Guidebook](#) governs the terms and conditions for renewing thousands of project-based Section 8 HAP contracts nationwide. It details all of a property owner's options when it comes to the Section 8 renewal process.
- The Section 8 Renewal Guide offers 6 different options to renew a HAP contract.
- Today, we will talk about one: **Option 1B**

#### Sources:

- HUD Updates Section 8 Renewal Policy Handbook. Klein Horning Housing Alerts. Stephen Niles and Ben Funk.
- “A Comprehensive Breakdown of the HUD Section 8 Renewal Guide.” HUD.loans. June 14, 2019.

# Option 1B Renewals



# Option 1B: Overview



- Option 1B is called Mark Up To Market (MUTM) and allows owners to do exactly that- set their rents to comparable market levels.
  - Market rents are determined by a Rent Comparability Study (RCS) which compares the property to other similar properties in the area and concludes to a market rent determination.
- This is a very attractive option for properties in strong markets. We have seen some properties' rents double or triple when being set to market levels.

# Option 1B: Who Can Renew Their HAP Contract Under Option 1B?



- The project must meet one of the following three characteristics:
  - **Vulnerable Populations-** The project has a high percentage (>50%) of the assisted units rented to **elderly**, disabled, or large families.
  - **Vacancy Rates-** The project is located in a low-vacancy area (<3%) where tenant-based assistance is difficult to use and there is a lack of comparable rental housing, and/or
  - **Community Support-** The project is a high priority for the local community. Documentation must be attached substantiating this.

# Option 1B: Rent Comparability Study/Market Strength

- As a part of the Option 1B submission, the owner must submit a Rent Comparability Study (RCS).
- The RCS determines a market rent based on similar properties in the area.

Unit Type →	One-Bedroom				Subject
Comp #1	Comp #2	Comp #3	C		
DEF Apartments	GHI Apartments	JKL Apartments	MNO		
333 Congress St.	222 Florida Ave.	333 Palmer Avenue	444 E		
Anytown/County	Anytown/County	Anytown/County	Anyt		
Data	\$ Adj	Data	\$ Adj	Data	\$ Adj
\$600		\$700		\$800	
Nov-20		Nov-20		Nov-20	
N		N		N	
95%		94%		93%	
\$600		\$700		\$800	
r B thro E, adjust only for differences the subject's market value					
Data	\$ Adj	Data	\$ Adj	Data	\$ Adj
E/4	W/U/3	E/5		E/4	W/U
973/04	1960/99	1980/99		2005	1960
G	A	G		E	A
A	A	A		G	A
Y/L2		Y/O.8		Y/L0	Y/L
Data	\$ Adj	Data	Adj	Data	\$ Adj



# What is a PRAC?



- The Section 202 Supportive Housing for the Elderly program was started in 1959 and funding for the development of age-restricted, affordable housing through the program has been provided in three ways:
- Prior to 1974, Section 202 funds were 3% loans that may or may not have had either Section 8 or rent supplement assistance for all or some of the units;
- Between 1974 and 1990, Section 202 funds were provided as loans and subsidized by project-based Section 8 contracts; and
- **From 1990 through the present, the Section 202 program was converted to a capital advance grant with a Project Rental Assistance Contract, or PRAC, to cover operational expenses.**
- Through the 1990s and early 2000s, approximately 120,000 units of age-restricted, affordable housing were developed across 2,800 properties through the PRAC program.

# What is RAD for PRAC?



- Through the budget-based rent setting policy in the design of the PRAC program, it was assumed that annual replacement reserve deposits could be made at sufficient levels (and adjusted, as needed) to address physical needs at PRAC properties as they arose and, as a condition of the regulatory agreements required by the funding, PRAC properties have been prohibited from taking on debt to support capital repair needs, as well as from recapitalizing and/or consolidating in any other way.
- Over time, however, it has become apparent that, through both unexpected repair needs / uses of replacement reserve funds and as a result of uneven increases to properties' rents and replacement reserve deposits across the PRAC portfolio, the replacement reserve balances at many properties are insufficient to address major repair needs at the times that they are coming due and simply increasing monthly/annual deposits to the replacement reserve account will not address the shortfalls quickly enough, so a mechanism for providing a larger recapitalization event has become necessary.
- In order to provide such a mechanism, HUD authorized the **RAD for PRAC program** in September 2019.

# RAD for PRAC Process Outline

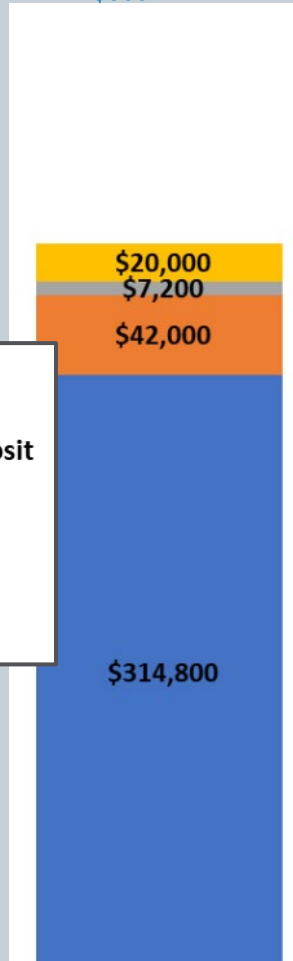


- Phase I (Budget-Based Rent Adjustment)
  - ✦ Finalize conversion and recapitalization concept and submit Submission of Interest to HUD's Office of Recapitalization with request for assignment of Transaction Manager
  - ✦ Commission MAP-compliant PCNA for each property that will be converted
  - ✦ Hold “kick off” call with HUD-assigned Transaction Manager and HUD Account Executive
  - ✦ Once PCNA has been received, reviewed, and finalized, **submit Budget-Based Rent Adjustment request to Account Executive with appropriate increases to annual replacement reserve deposit and supportive services / service coordination lines**
  - ✦ Obtain rent increases and final rent schedules for all properties that will be converted
- Phase 2 (Conversion and Section 223(f) Recapitalization)
  - ✦ Update loan sizing and recapitalization plans based on approved rents
  - ✦ Complete all necessary due diligence associated with Conversion and 223(f) applications
  - ✦ Submit Conversion application to Office of Recapitalization and 223(f) loan application to appropriate Multifamily Production office
  - ✦ Obtain approvals of Conversion application and 223(f) application from Offices of Recap and Production, respectively
  - ✦ Proceed to simultaneous closing of both Conversion and 223(f) transactions
  - ✦ Live happily ever after!



# RAD for PRAC: Example Conversion with FHA Refi

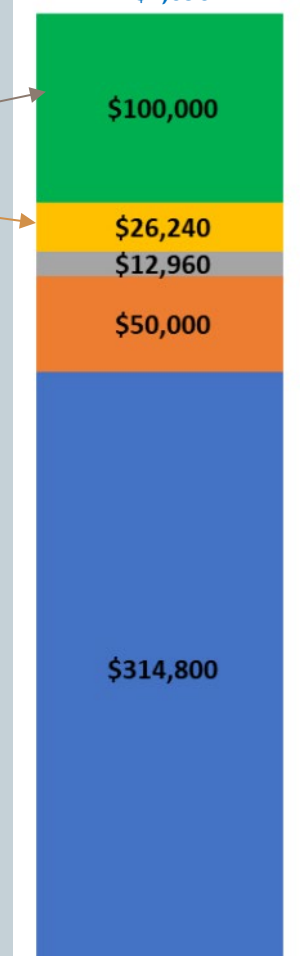
Current PRAC Budget  
\$800



PRAC BBRA  
\$1,050



Post RAD for PRAC/FHA Refi  
\$1,050



Property has CNA completed and submits BBRI Request to HUD mirroring CNA's recommended R4R Deposit.

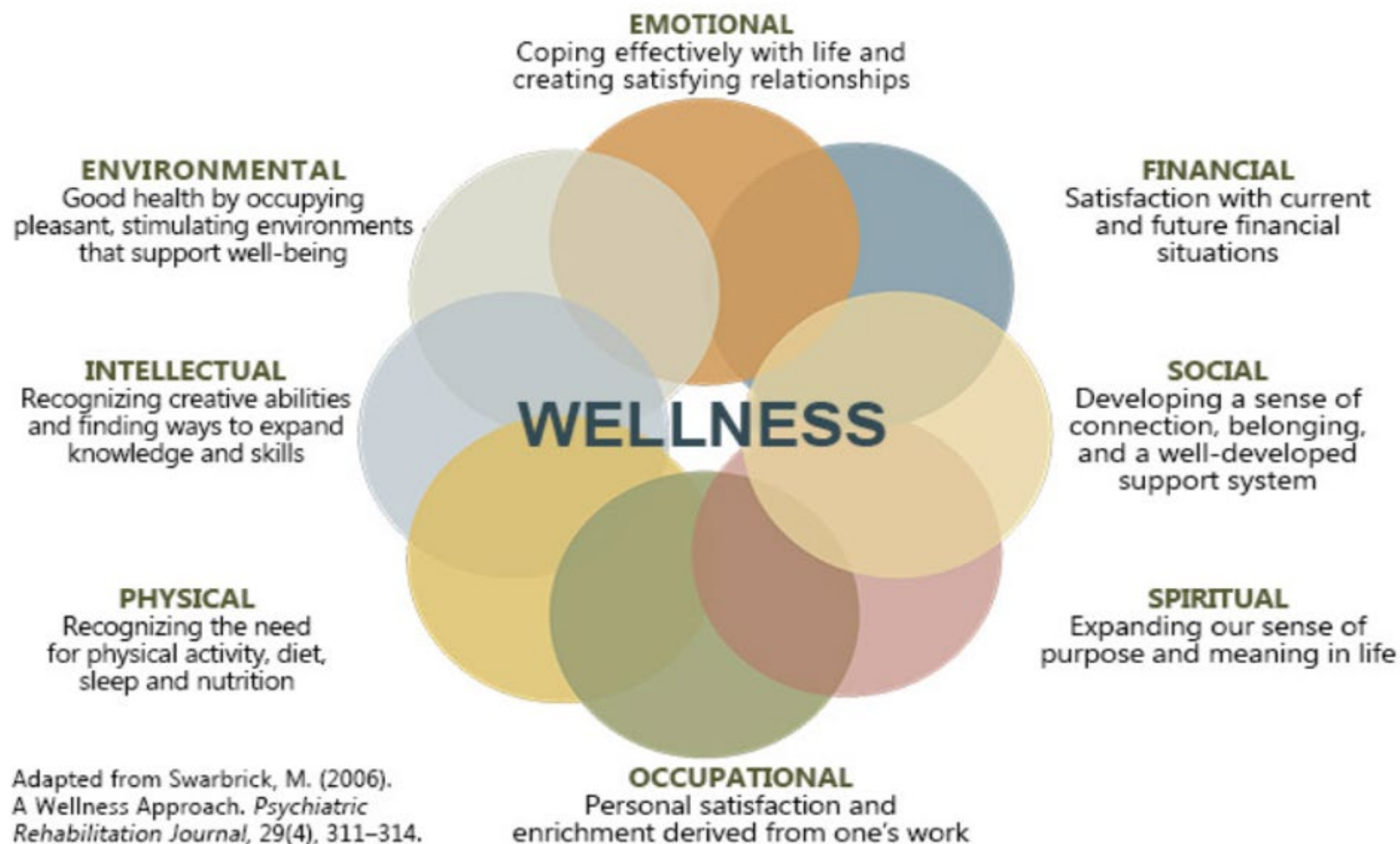
Property reviews services and makes adjustments to Service Coordinator staffing and provision of supportive services (up to \$27 per unit, per month) to ensure sufficient services are available to allow residents to age in place.

The property will be able to complete a significant portion of repair work with loan proceeds. The annual R4R deposit has been decreased to reflect this. The work completed with loan proceeds is represented as debt service on the new loan.


So...



- How can an owner maximize value in its rent conclusions when pursuing an Option 1b renewal or PRAC BBRA?
- ONE GREAT WAY IS THROUGH WELLNESS PROGRAMMING AND SUPPORTIVE SERVICES!!!



Adapted from Swarbrick, M. (2006).  
A Wellness Approach. *Psychiatric  
Rehabilitation Journal*, 29(4), 311-314.



# Wellness Programming provides significant benefits to residents.

## Physical Health Benefits

Engaging activities promote physical health, helping seniors maintain mobility and strength through regular exercise.

## Social Connections

Activities foster social connections among residents, reducing feelings of loneliness and enhancing overall well-being.

## Creativity and Mental Stimulation

Creative activities stimulate the mind and encourage self-expression, contributing to mental health and cognitive function.

## Wellness Environment

A variety of enriching activities contribute to a holistic sense of wellness, enriching the lives of seniors in the community.

# Goals of Wellness Programming

Help residents as they age in place

Maintain a high quality of life

Reduces need for more expensive reactionary services

Promotes the efficient delivery of health care

Reduce isolation and maintain social connections

Provide sense of security

Improve psychological and physical health

Support cognitive function and mental wellness

Improve access to services through on-site programming



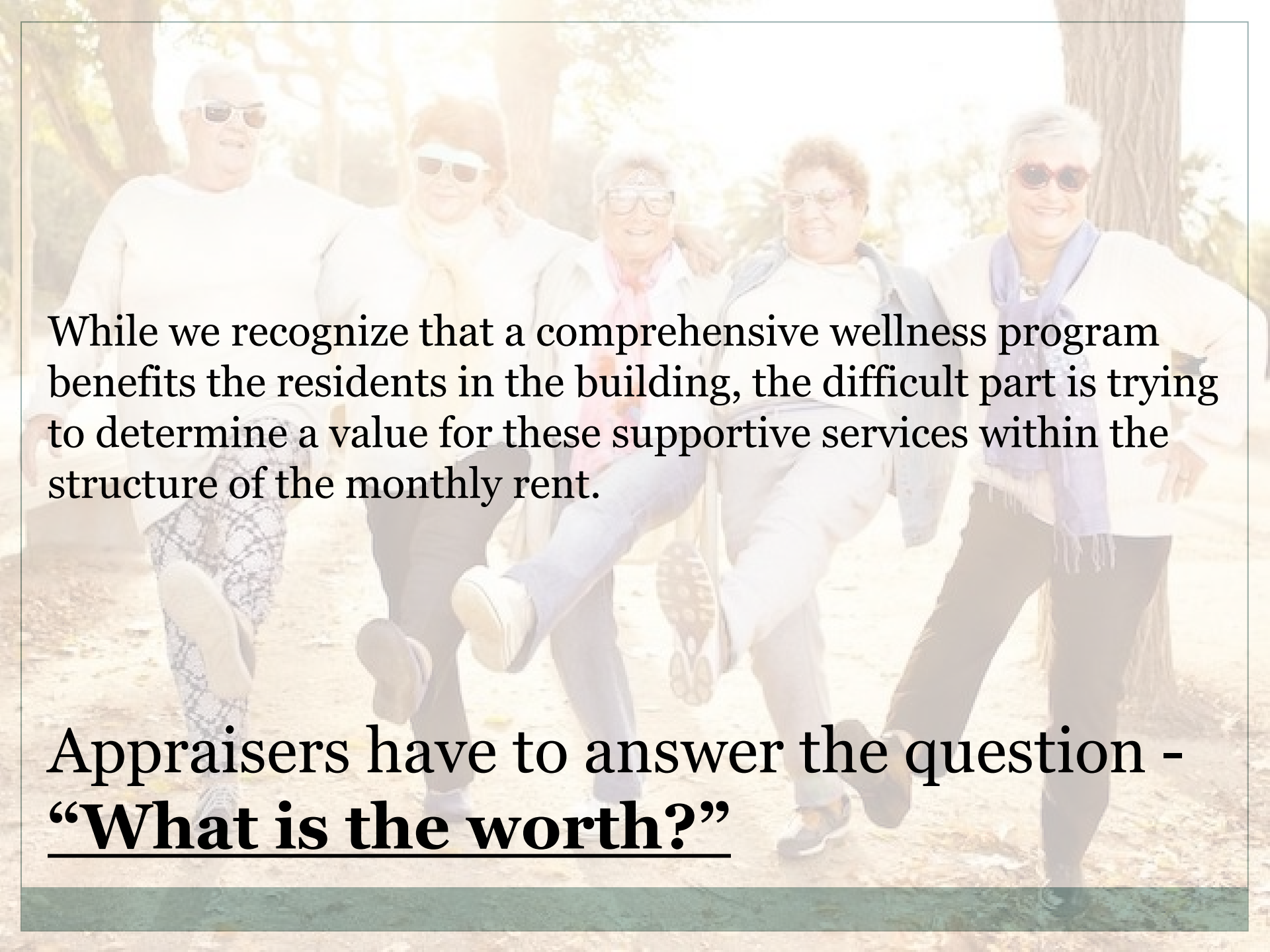
# Value of Integrated Wellness Programming

Senior Housing with an Integrated Wellness Program is differentiated from conventional, market-rate housing by three (3) distinct and essential attributes:

Safety and Security

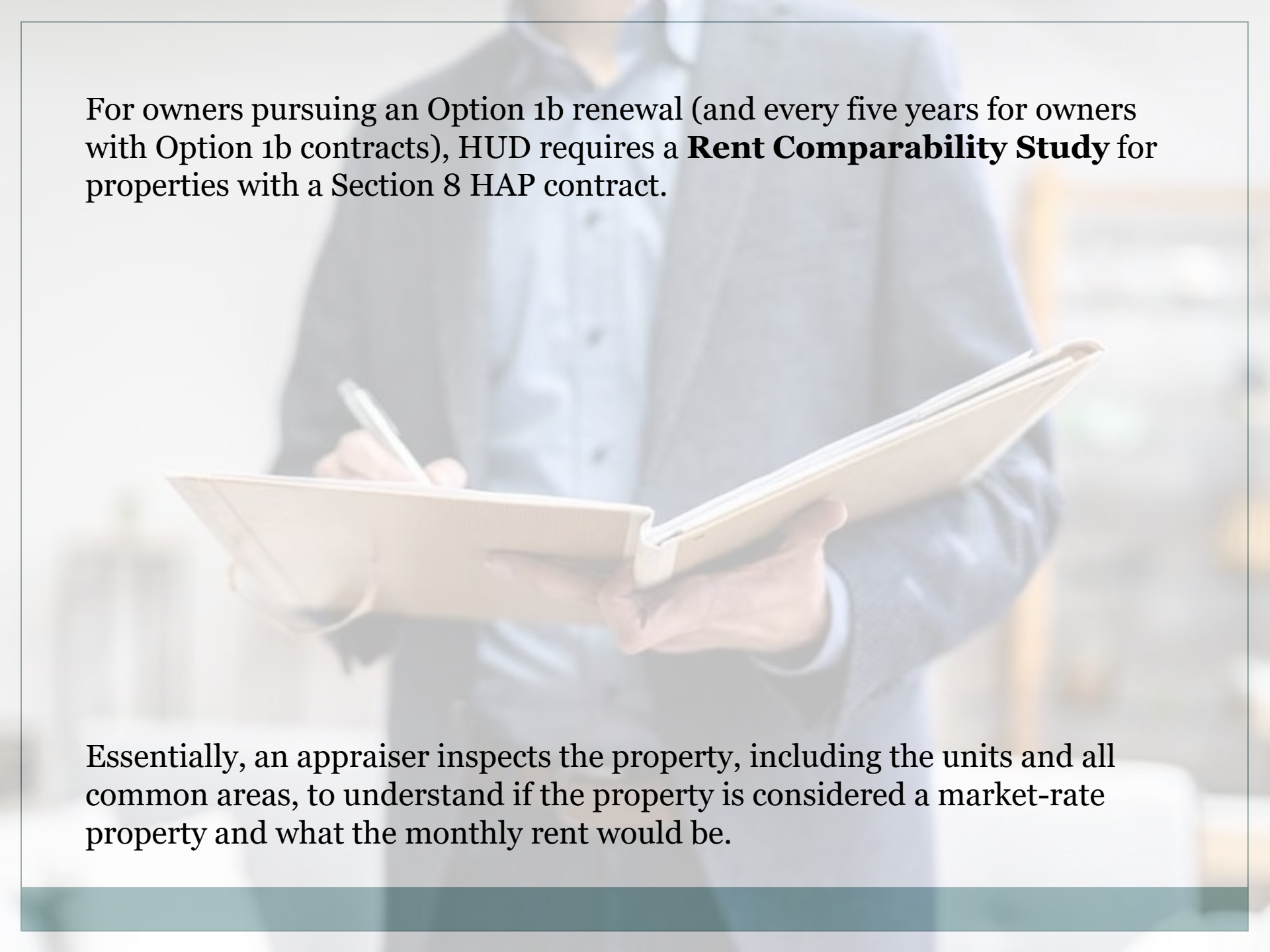
Wellness and Independence

Socialization and Education

A group of five elderly women are captured in a joyful moment, running or jogging along a dirt path in a park. They are all smiling and wearing sunglasses. The woman on the far left is wearing a white long-sleeved shirt and patterned leggings. The woman next to her is wearing a white jacket and dark pants. The woman in the center is wearing a pink shirt and blue pants. The woman next to her is wearing a white shirt and blue pants. The woman on the far right is wearing a white jacket and dark pants. The background is a soft-focus view of trees and foliage, suggesting a sunny day in a park.

While we recognize that a comprehensive wellness program benefits the residents in the building, the difficult part is trying to determine a value for these supportive services within the structure of the monthly rent.

Appraisers have to answer the question -  
**“What is the worth?”**

A person wearing a grey suit jacket over a light blue button-down shirt is holding a large, light-colored clipboard with both hands. They are also holding a silver pen in their right hand, poised to write. The background is a soft-focus indoor setting with warm lighting and some indistinct shapes, possibly furniture or office equipment.

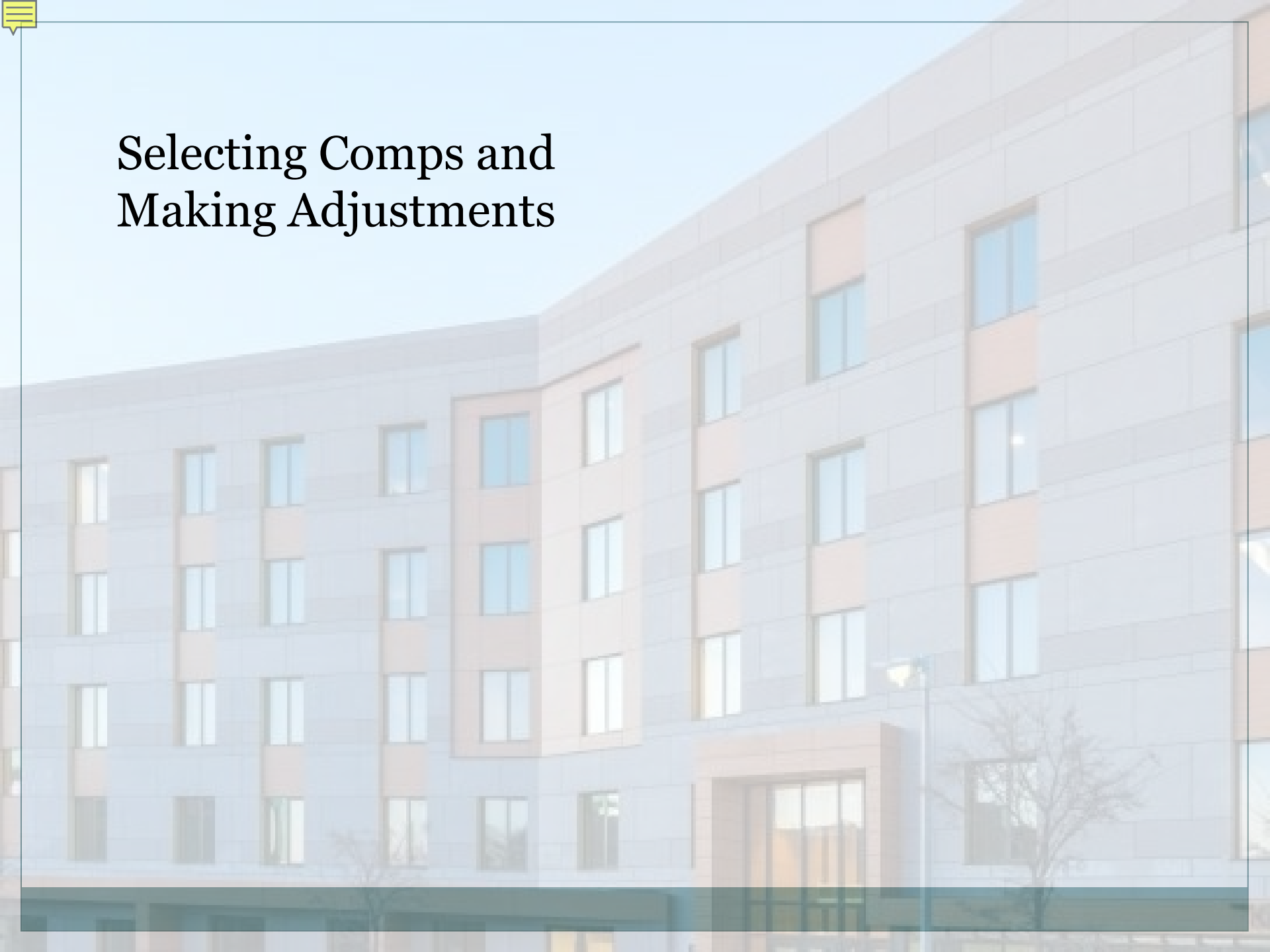
For owners pursuing an Option 1b renewal (and every five years for owners with Option 1b contracts), HUD requires a **Rent Comparability Study** for properties with a Section 8 HAP contract.

Essentially, an appraiser inspects the property, including the units and all common areas, to understand if the property is considered a market-rate property and what the monthly rent would be.



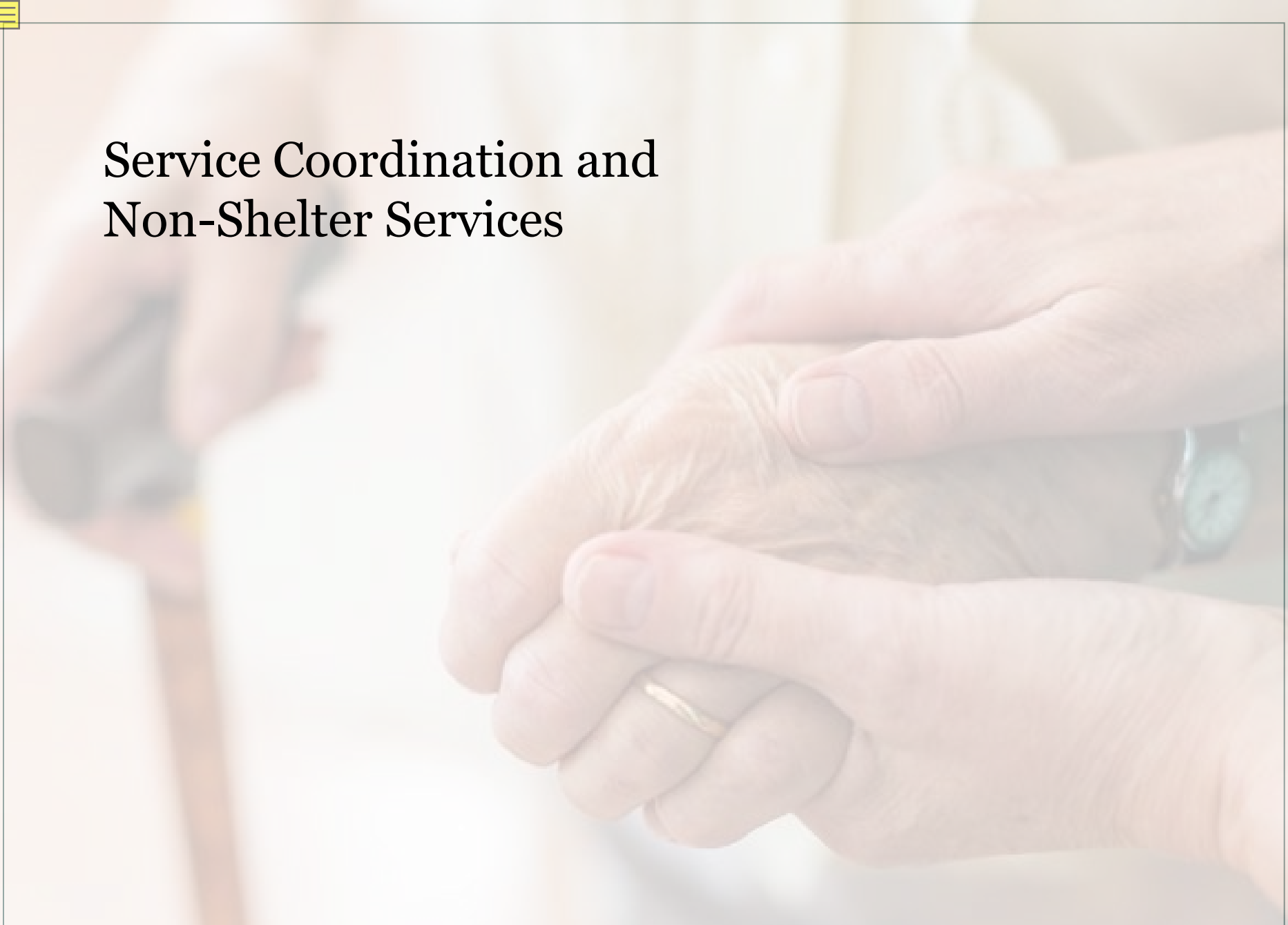


# Selecting Comps and Making Adjustments





## Service Coordination and Non-Shelter Services



# Selecting Comparable Properties



# Ridge at Blue Hill (Braintree, MA)

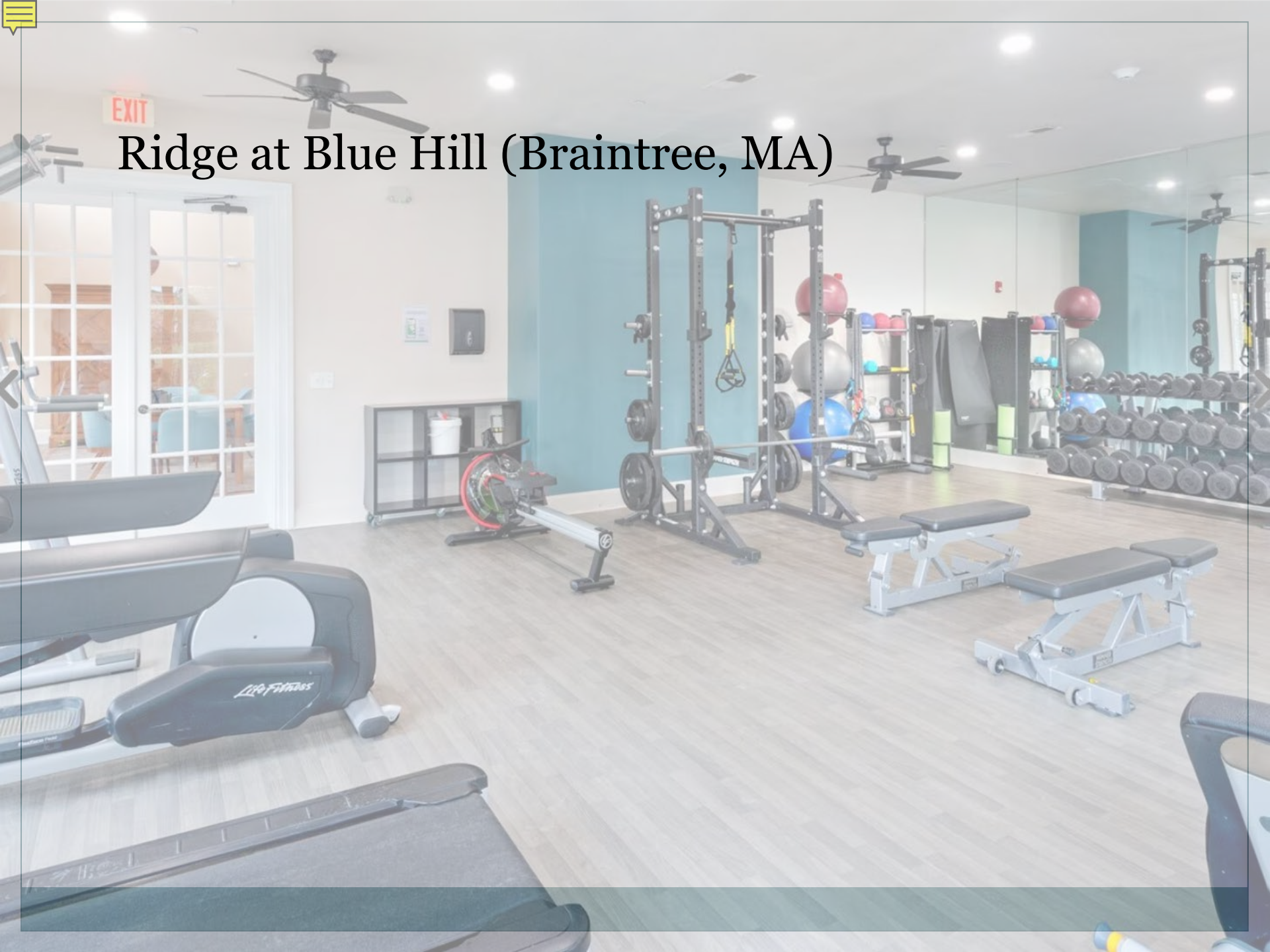


# Ridge at Blue Hill (Braintree, MA)





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# Ridge at Blue Hill (Braintree, MA)





# Ridge at Blue Hill (Braintree, MA)



# Independent Living Properties





# Cabot Park Village (Newton, MA)





# Cabot Park Village (Newton, MA)





# Cabot Park Village (Newton, MA)



# Cabot Park Village (Newton, MA)





# Cabot Park Village (Newton, MA)






# Cabot Park Village (Newton, MA)





# Simon Fireman Community (Randolph, MA)





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# Simon Fireman Community (Randolph, MA)







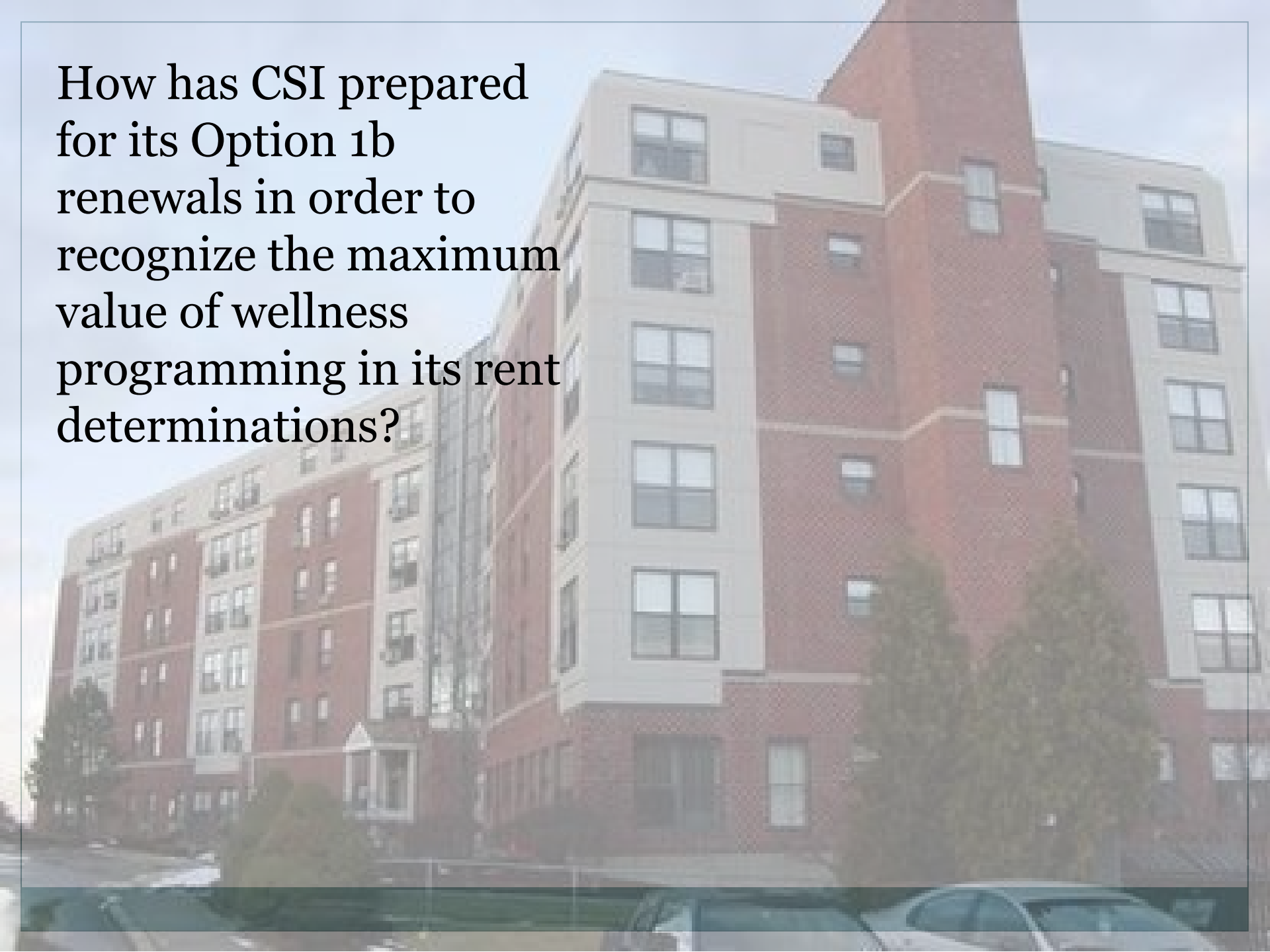
# Conclusion



A black and white photograph of an elderly couple. The woman on the left is looking towards the camera with a wide-eyed, open-mouthed expression of surprise or joy. She is wearing glasses and has her hand near her face. The man on the right is leaning in towards her, his face partially visible in profile. He is also wearing glasses. The background is blurred, suggesting an indoor setting with other people.



How has CSI prepared for its Option 1b renewals in order to recognize the maximum value of wellness programming in its rent determinations?



# Admiral's Tower (Chelsea, MA)





Admiral's Tower (Chelsea, MA)  
*Ship's Store*



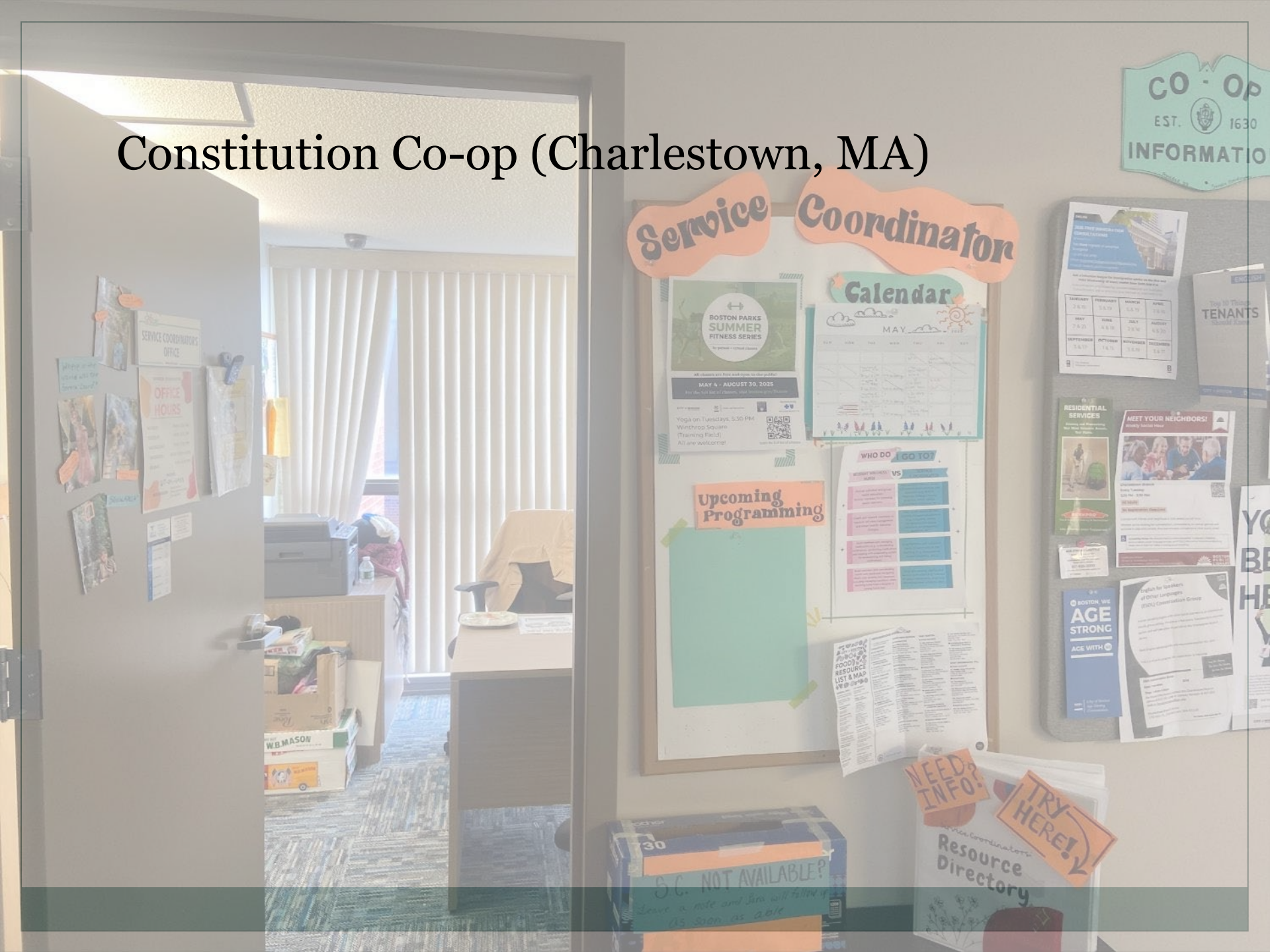


Admiral's Tower (Chelsea, MA)  
*Fitness Made Fun*





# Constitution Co-op (Charlestown, MA)



# Constitution Co-op (Charlestown, MA)

## *Consultation Room*





# Operational and Financing Impact



- Higher Gross Rental Revenue Potential = Higher Net Operating Income
- Higher Net Operating Income = Greater Operating Cushion and/or More Borrowing Power
- More Borrowing Power = More Repairs and Improvements or Equity Out (to further mission or provide seed funding for new development)



# Discussion



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