RENTAL REHABILITATION PROGRAM REVIEW

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RENTAL REHABILITATION PROGRAM REVIEW

A. Key Program Features

Not exactly right

The Housing and Urban-Rural Recovery Act of 1983 authorized the Rental Rehabilitation Program. The program provides grants to cities with over 50,000 population, urban counties, and States to finance the rehabilitation of privately-owned rental housing in neighborhoods where market rents for rehabilitated units are not expected to exceed Section 8 Fair Market Rents. Essentially, the program seeks to increase the supply of standard (physically adequate) rental housing at rents that are affordable to lower-income families. The program received more than $900 million in funds in Fiscal Years 1984 through 1989 with a split of roughly 70% of the funds to the formula or entitlement cities and urban counties and 30% to States to award to smaller communities.

The key features of the program are briefly described below:

1) <u>Low income benefit</u>. HUD regulations require that 100 percent of the RRP grant funds be used for the benefit of lower-income families, i.e., whose incomes are at or below 80% of the median income for their SMSA. However, this may be reduced to 70 percent of the grantee's RRP units if the grantee concludes that a lower benefit standard is needed to minimize displacement or to provide a reasonable margin of error in the face of unanticipated circumstances. In practice, most grantees request the 70 percent lower-income benefit standard.

2) <u>Split subsidy approach</u>. Under a split subsidy approach, rehabilitation subsidies are given owners of rental properties to make needed repairs, and separate rental subsidies are given to eligible lower-income tenants so that they can afford the after-rehab rents, or the rents at an alternative location of their choice. The tenant subsidy is not tied to the rehabbed unit. HUD's initial guidelines for allocating rental assistance provided for up to one certificate or housing voucher for every $5,000 in program grants received by the grantee. In 1987, this ratio was changed to one certificate or voucher for each $7,500 of RRP funds. The linkage was made indirect in 1988 by ending the voucher-to-grant ratio and substituting an annual survey of grantees used to adjust Fair Share allocations of vouchers and certificates where there was insufficient turnover of certificates or vouchers to provide for new RRP units. Eligible lower-income tenants displaced physically or by exceptional rent burden by the rehabilitation process have high priority to receive rental assistance.

3) <u>Market rents</u>. Owners can rent their rehabbed properties at market rents without state or local rent control imposed except in limited circumstances. Rents are not limited by HUD regulations (e.g., FMRs) but by private market forces. However, cities are required to select neighborhoods where the uncontrolled market rents for standard units will be affordable to lower-income tenants. This means cities are expected to fund projects in neighborhoods where the after-rehab market rents are expected to remain at or below HUD's Fair Market Rents (FMRs) and remain so. Currently, HUD's standard for affordability is that 80 percent of the units must be below the area's FMR.

4) <u>Large Family Benefit</u>. The program is designed to primarily benefit families with children, particularly families requiring three or more bedrooms. At least 70 percent of each grantee's funds must be used for the rehabilitation of units containing two or more bedrooms. Nationally, HUD assures that as least 15 percent of each year's grant amounts are used to rehabilitative units containing three or more bedrooms.

5) <u>RRP Cost Limitations</u>. One objective of this program is to use the rental rehab assistance as a leverage for private funds. Rehabilitation subsidies must be limited to 50 percent of the cost of rehabilitation (except in cases involving refinancing) and may not exceed a scale running from $5,000 to $8,500 per unit depending on number of bedrooms (except where a larger per unit figure is approved by HUD in high cost areas).

6) <u>Maximum discretion to local governments</u>. Cities are given broad discretion to design local rehabilitation programs that fit their own unique resources and goals. Cities have the major responsibility in this program. They have to identify target neighborhoods, apply HUD rules as to what rehabilitation costs are eligible under its program, determine the amount of the subsidy and its form (e.g., grant, loan), attract lenders and owners to the program, select which properties will be repaired, work with PHAs on tenant assistance, and monitor program implementation.

B. <u>Data Sources and Analytic Scope</u>

The principal data base for this analysis is the Cash and Management Information System (C/MI) that HUD has used to disburse funds to projects which have been approved by local government grantees and to obtain basic project and tenant characteristics. The C/MI contains detailed information on the projects' financial structures and project and tenant characteristics prior to and immediately following to rehabilitation. The principal advantage of the C/MI data base is its pre- and post-rehabilitation descriptions of a number of basic characteristics of each project and its tenants. It also covers the entire history of the program, which allows for some analysis of program implementation over time. The principal drawbacks of the C/MI data base is the absence of any project information after the post-rehabilitation report, imprecision in recorded rents, the lack of detail on owners of the projects, and unreconciled errors in the data base.

Because of the interest in evaluating the type of neighborhoods in which rental rehabilitation funds were being used and its projects were located, C/MI project addresses were geocoded. This allowed for the addition of selected census tract demographic information into the C/MI data base. The census tract information was obtained from the Conquest software system, a Personal Computer-based demographic data base system maintained by the Donnelly Market Information Services, which provides estimates of changes in selected census variables from 1980 to 1989.

A second major source of information for this analysis is the 1989 RRP Rent Survey, which was done by the Office of Program Analysis and Evaluation, CPD.[1] Using a national sample of 702 projects, this mailed survey gathered information on the current rents assessed in sampled projects completed between 1985 and 1988. The continued affordability of RRP units to lower-income households can be assessed through this data, especially after it is linked to the larger set of variables available in the C/MI data base. As is discussed more fully in Appendix A, this linkage was somewhat handicapped by errors in the data bases, especially in recording rents.

Supplementing these two major data bases is the 1987 RRP Evaluation, which involved an in-depth analysis of a national sample of 125 projects. That research addressed all the critical questions for this study, but did so at only one point of time, two years after the beginning of the program. The 1987 study verified the general reliability of the C/MI data base. Because it only covers the early program history, the data from the 1987 study are used in this report only when comparable data are not available from the data bases described above.

Not all projects funded under the rental rehabilitation program

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[1] *1989 Rental Rehabilitation Rent Survey Report* Office of Program Analysis and Evaluation, Office of Community Planning and Development, November 30, 1989. The 1989 survey was based upon the 702 projects which responded to the mailed questionnaire. Ninety-seven of those projects were excluded from the current analysis because they were funded by non-formula grantees. Another 53 projects were eliminated because of unreconcilable differences between information in the CM/I data base and in the rent survey on the same project. Complete CM/I and rent survey information was available on 568 projects containing 8494 units. Unit and project level weights were recalculated using the same sampling frames developed in the original rent survey report.

have been included in this analysis. All New York City data have been excluded from the analysis. The city was allowed a number of crucial variances from the usual RRP regulations, so that RRP funds were used to provide supplemental funding to existing city rental housing programs, each of which blended RRP funds with other public subsidies. Moreover, in the largest program, the funds were used as take-out financing on projects being converted to tenant cooperatives. New York City developed a program that was much slower starting, that dealt with much different properties than was typical elsewhere, and that accorded a small role for private-for-profit ownership. Because its performance had little relation to RRP objectives or procedures, its inclusion in the analysis would have seriously distorted overall program performance.

State program projects were excluded from the analysis, which focused on the formula (entitlement) component of the program (larger cities and urban counties). The State portion of the program was not included for several important reasons. First, because of its administration by the participating States as well as the very different nature of its grantees (non-entitlement entities), this part of the rental rehabilitation program is a very distinct entity requiring its own analysis. The annual report to Congress on RRP combines the data from the State and formula parts of the program and produces benefit results somewhat higher than those for the formula program alone, such as lower RRP funds as a percentage of rehab costs. A combined analysis might lead to distorted conclusions about the program as a whole as well as its parts.

Second, the effort required to clean just the formula component data for the variables selected from the C/MI files placed a severe limit on the time and resources available. Widening the scope of the analysis to include the State component could not be accomplished in the accepted time frame. Finally, since the 1987 RRP Evaluation and almost all of the 1989 RRP Rent Survey dealt with the formula component of the program, the most consistent data on all the principal issues were available for that side of the program.

In summary, the major data sources for this analysis of the formula portion of the Rental Rehabilitation Program were C/MI data for all non-New York City formula grantee projects (15,654 projects with 59,000 units) and data from the 1989 Rent Survey which contained 1989 rents (a representative sample of 568 projects containing 8494 units). These data were supplemented by census tract demographic information from the Conquest data base. All tables, unless otherwise specified, are based upon the C/MI data base and represent the actual counts of the entire universe of relevant projects and units. Tables presenting information on 1989 rents are based upon the 1989 sample, which have been weighted up to approximate the universe of relevant projects and units.

C. Summary of Findings

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Affordability--

* Analysis of the income and social characteristics of the tenants, the location of the projects, rent levels and rent changes, all indicate that almost all of the RRP units began affordable, remain affordable, and will probably continue to be affordable to lower-income households.

* Over 94 percent of the post-rehab households have low incomes (at or below 80 percent of median income). Seventy-three percent of the households have very low incomes (at or below 50 percent of income). Forty-two percent of the residents are receiving Section 8 assistance.

* RRP projects are consistently located in census tracts with high concentrations of low income households and are unlikely to be marketed to higher income households.

* Rents have been stable after rehabilitation. Over two-thirds have had annual rent increases of less than five percent.

* Rents in 1989 were, on average, only 89 percent of the applicable Fair Market Rents.

Available Family Units

* 69 percent of the units produced in the formula portion of the program had two or more bedrooms.

* 19 percent had 3 or more bedrooms.

Project Ownership

* The population of RRP project owners has remained stable in its composition over the history of the program. Neither the type of ownership nor the characteristics of the multiple program participants, nor the level of subsidies received is consistent with a pattern of exploitation by the landlords who use the Rental Rehabilitation Program as a means to renovate their properties.

* Individuals have owned over three-fourths of the projects completed in each year and corporations have remained at or below 6 % each year.

* Although there are some differences, all ownership types performed well on tenant income, locational, rent, and

affordability criteria.

* 53 percent of the owners had only 1 property enrolled in the program while 80 percent had four or less.

* RRP funds accounted for 41 percent of the cost of rehabilitation.

Owners Subsidies

* There is little to no evidence of excessive owner profits or benefits from the program.

* The income from most RRP projects would not have supported the needed rehabilitation work without RRP assistance.

D. Affordability of Units

In order to assess the impact of the rental rehabilitation program on the availability and affordability of rental housing for low income families, we shall examine:

1. The nature of the families residing in the RRP units after the completion of project rehabilitation. Did these units serve lower income families in conformity with the program goals?

2. The nature of the neighborhoods in which the projects selected for funding were located. Was there any indication that projects were located in neighborhoods which would deter their continuing to serve as low income housing?

3. The patterns of rent changes after the rehabilitation of the project. Was there any indication of rapid rent rises which would make these projects unaffordable to the initial lower income tenants?

4. The relationship of the current (1989) rents to the applicable Fair Market Rents (FMRs). Was their any indication of excessive rents relative to the metropolitan housing market?

1) Nature of Tenants Served

As can be seen from Table 1, lower-income and very low-income households are the overwhelming majority of tenants in rental rehabilitation units immediately after their rehabilitation. Fully 94 percent of the families living in RRP units immediately after rehabilitation completion have incomes at or below 80 percent of the

SMSA median, the standard definition of low income households. In fact, 73 percent of the families had very low-income, i.e., had incomes at or below 50 percent of the SMSA median. The RRP projects are well within the requirement that 70 percent of the rental rehabilitation funds be spent on low income households.[2]

While almost all of the tenant households in the RRP unit are lower or very low-income tenants, only 42 percent of the tenants are receiving Section 8 assistance. Given the large number of lower and very low-income households which reside in the RRP projects, it appears that a large number of the units are affordable even without Section 8 assistance.[3]

This pattern of low income residence in RRP projects is uniformly high between different types of projects. There is no difference in the low income nature of the initial post-rehab residency between single-family (one to four units) and multi- family (more than four units) projects. Although the percent of households which are receiving Section 8 assistance tends to be slightly higher in single-family projects, it is not significant.

Not surprising, given the low income nature of the residents, a majority (58%) of the families in the RRP units are female-headed households. The difference between the percent of female-headed households in single-family as contrasted with multi-family projects (63% vs 55%) is largely accounted for by differences in the distribution of the type of bedroom units. The larger, family type units are more prevalent in the single-family projects than in the multi-family projects. Only 20 percent of the efficiency and 1 bedroom units are located in single-family projects while 62 percent of the three and four bedroom units are located in such projects.

Of the households with female heads, a majority are receiving Section 8 assistance. While this is a higher rate than other RRP households, it is significant that a very large proportion (48 percent) can still afford residency in these post-rehabilitation units without Section 8 assistance. This supports the conclusion of the initial affordability of these units.

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[2] The goals of the rental rehabilitation program are expressed in terms of the percent of total program dollars spent on low income households. Information on the amount of money spent in particular units occupied by low income households is not available. The percent of units occupied by low income households is used as a proxy for the goal.

[3] Non-assisted households may be paying considerably higher proportions of their income for rent and, hence, experiencing greater hardship than assisted households. Their residence in these projects, however, is evidence of their continued affordability. We have no information available to assess the income to rent ratios of non-assisted households.

→ depends on how you define affordable

TABLE 1

DISTRIBUTION OF POST-REHAB TENANT HOUSEHOLD INCOME CHARACTERISTICS
(percent of units)

Tenant Category	1985-1989	Single-family	Multi-family
Percent Tenants at or below 80 percent Median Income	94%	94%	94%
Percent Tenants at or below 50% Median Income	73%	74%	72%
Percent Tenants receiving Section 8 Assistance	42%	44%	40%
Percent Female Head of Households	58%	63%	55%
Percent Female Head Receiving Section 8 Assistance	52%	54%	51%

As can be seen from Table 2, these patterns of tenant income remain remarkably consistent through out the life of the program. Projects completed in 1985 do not appear to differ significantly from those completed in 1989. Throughout the history of the program, lower and very low-income residency remains at consistently the same high levels.

initial post-rehab

TABLE 2

TENANT HOUSEHOLD INCOME CHARACTERISTICS
BY YEAR OF PROJECT COMPLETION
(percent of units)

Tenant Category	1985-89	1985	1986	1987	1988	1989
% at or below 80% of Median	94%	95%	94%	94%	94%	92%
% at or below 50% of Median	73%	77%	75%	75%	70%	72%
% with Section 8 Assistance	42%	60%	54%	44%	40%	34%
% Female Head of Household	58%	63%	63%	57%	58%	56%

Steadily Declines

The percent of RRP households receiving Section 8 assistance immediately following rehab changes over time. During the first two years of the program 60% and 54%, respectively, of the households were receiving Section 8 assistance at the time of rehabilitation completion. That proportion has declined steadily since that time "disconnection" also probably contributed to underreporting of extent of assistance

until for 1989 only 34% of the households received such assistance. This reduction in Section 8 assistance is related to a programmatic change introduced in 1987 which began "disconnecting" the Section 8 allocation to grantees from the allocation of Rental Rehabilitation funds. Prior to 1987, local government grantees received one Section 8 voucher or certificate for every $5000 of Rental Rehabilitation funds. In 1987, a transition year, for every $7,500 of RRP funds, the grantee received one Section 8 voucher. In 1988, the direct tie between RRP fund allocation and Section 8 allocations was eliminated. Since that date, localities have received adjustments to Fair Share allocations reflecting in part the local need to respond to additional RRP units.

This "disconnection" has led to a decrease in the amount of Section 8 assistance in the RRP units completed in 1988 and 1989. The reduction of this assistance, however, does not appear to have adversely affected the low income nature of the RRP units. As was noted above, the low income nature of the units completed in 1988 and 1989 is similar to the 1985 to 1987 units.

While almost all units and projects in the Rental Rehabilitation Program were occupied by lower and very low-income households as the rehabilitation was completed, a handful of projects did not serve low income households at the time of their rehabilitation completion as can be seen in Table 3.[4] Slightly over 3 percent of the projects had less than 40 percent of the units occupied by lower-income households. Most of those projects had less than 20 percent lower-income occupancy.

1.2% occupied OK

TABLE 3

PERCENT OF TENANT HOUSEHOLDS WITH INCOME
BELOW 80% OF SMSA MEDIAN BY YEAR OF PROJECT COMPLETION
(percent of projects)

Isn't this silly in that it includes big projects and one-unit projects?

% of Households	# Projects	% Projects	1985	1986	1987	1988	1989
0 to 19 percent	392	2.7	1.6	3.0	2.4	2.8	2.8
20 to 39 percent	68	.4	.3	.3	.4	.4	.7
40 to 59 percent	345	2.3	2.0	3.2	2.2	2.4	2.1
60 to 79 percent	497	3.4	3.8	3.3	3.1	3.7	3.5
80 to 100 %	13,207	91.1	92.3	90.3	91.9	90.8	90.8

The households residing in RRP units at the time of rehab

[4] Local grantee performance is gauged on the amount of each year's allocation spent on projects initially occupied by low income. The post-rehabiliation low income occupancy rate in these projects could occur without being a violation of the program.

completion were predominantly minority; 49 percent of the households were black and 12 percent were Hispanic (Table 4). Low income white households represented 36 percent of the households. Other racial/cultural groups made up less that 3 percent of the households. Only 10 percent of the households were elderly.

TABLE 4

TENANT HOUSEHOLD SOCIAL CHARACTERISTICS
(percent of units)

Tenant Category	1985-1989	Single-family	Multi-family
Percent White	36	36	35
Percent Black	49	50	43
Percent Indian	1	1	1
Percent Asian	2	1	3
Percent Hispanic	12	10	18
Percent Elderly	10	8	12

In summary, the available evidence indicates that the RRP was tightly targeted on households with low income with little variation over the duration of the program. Over 90 percent of the Rental Rehabilitation units were occupied by lower and very low-income households in the period immediately following the project rehabilitation. Moreover, while 42 percent of the households received Section 8 assistance, the large number of non-assisted low income households was an indication of the basic affordability of the units during the period immediately following rehabilitation. Whether these units continued to remain affordable even after the initial rent-up period after rehabilitation is the subject of the next sections on project location and patterns of rent change.

2) Project Locations

Under the Rental Rehabilitation Program, local grantees are expected to approve projects only in neighborhoods where the uncontrolled market rents for standard apartments would be affordable to low income tenants both immediately following rehabilitation and in the foreseeable future (specifically, at least for five years). The evidence presented in the last section on the tenant income characteristics suggests that affordable rent levels were maintained immediately after rehabilitation. This section will assess the probability of those affordable rent levels being maintained beyond the initial post-rehab period by examining the socio-economic location of these projects. In the absence of any more precise neighborhood information, we shall use the socio-economic make-up of the census tracts in which the projects are located as an approximation of the projects' neighborhoods.[5] The economic ranking of the census tract is determined by calculating what percent the median household income of the census tract is of the median household income of the SMSA.

As can be seen from Table 5, 78 percent of the projects are located in census tracts whose median tract income was 80% or less than the median income of the SMSA. Fully 94 percent of the projects are located in census tracts whose income is below that of the SMSA median. This is direct evidence that most of the rental rehabilitation projects are located in neighborhoods which would likely assure their current and continuing affordability.

From this evidence, only a handful, approximately 6.4 percent of the projects, are in locations that might adversely affect their continuing affordability. It is likely that some portion of these are located in poor neighborhoods within these more affluent census tracts, which would mitigate against rapid rent changes to affect affordability.

TABLE 5

RENTAL REHABILITATION PROJECTS' CENSUS TRACT RATING IN SMSA
BY YEAR OF PROJECT COMPLETION
(Percent of projects)

Percent of tract's median income to SMSA median income	# Projects	% Projects	1985	1986	1987	1988	1989
50% or less	4,419	34.8	30.6	34.1	35.3	35.9	34.6
51 to 80%	5,504	43.3	49.5	43.9	43.8	41.8	43.0
81 to 100%	1,959	15.4	15.1	15.4	14.4	16.4	15.4
101 to 120%	597	4.7	4.0	5.4	4.4	4.2	4.9
121% or greater	218	1.7	0.7	1.2	1.9	1.7	2.1

but most $ to central cities. Probably most c.t.s in central cities are L/M.

what % would you expect if units were distributed randomly in the jurisdiction

An indirect indicator of potential for change in the income composition of the tenant population of RRP projects would be changes in the racial composition of the census tracts in which the projects are located. In Table 6, the census tracts in which the projects are located are partitioned by their respective percentage changes in

[5] Such an approach introduces a somewhat positive neighborhood bias into the analysis. On the one hand, higher socio-economic neighborhoods are seldom surrounded or contained within poor neighborhoods. On the other hand, poor neighborhoods are occasionally found in predominantly higher income census tracts. High socio-economic census tract indicators may incorrectly identify a project neighborhood as an increasing rent area. Incorrect identification is less likely to occur in census tracts with lower socio-economic indicators.

black population from 1980 to 1989. Over 82% of the projects are in tracts with increasing percentages of black population. Given the present racial distributions of income, this finding makes replacement of the present residents by households paying substantially higher rents unlikely.

TABLE 6

CHANGES BETWEEN 1980-89 IN BLACK PERCENT
OF THE POPULATION BY YEAR OF PROJECT COMPLETION
(Percent of projects)

Change in the percent black in the census tract	# Projects	% Projects	1985	1986	1987	1988	1989
10%+ decrease	128	1.0	1.2	1.2	1.1	0.8	0.8
-10.00 to -0.01	2,219	16.6	17.2	17.3	18.2	16.8	14.9
0.00 to 9.99	9,110	68.2	68.9	67.5	66.9	67.6	69.8
10.0% increase	1,903	14.2	12.7	13.9	13.8	14.9	14.5

3) Rents

The earlier analysis of tenant household incomes revealed that at the time of the completion of project rehabilitation, rents were affordable to very low and low income households. Review of the projects' census tracts indicated that they were located in areas unlikely to experience large rent increases. This section directly addresses the question of rent changes during the period after initial post-rehab. In order to directly address the question of the continuing affordability of RRP projects, rent information collected on a sample of projects in 1989 was compared to the rents reported by the same project at the time that their rehabilitation had been completed to determine the pattern of rent change.[6]

As can be seen in Table 7, a majority of the projects since the inception of the program have had relatively stable rents; over two thirds of the projects have had annual rent increases of less than five percent. This includes 7.7 percent of the projects which had a

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[6] Generalizations and conclusions based upon the patterns of rent changes reported here should be done with some caution. On the one hand, the two major data bases used for the rent analysis, the C/MI data base for initial rents and the 1989 Rent Survey for the latter rents, could only be compared based upon project-wide rent averages rather than on changes in the rents of particular units. On the other hand, different interpretations by the persons providing the information of what rent figures were applicable both within and between the data bases, led to problems of comparability. While nothing could be done about the lack of a unit identification scheme, a record by record correction of the major data incompatibilities and error problems was undertáken based upon a reasonableness identification and correction protocol. While it is likely that the more grievous errors have been eliminated, the data bases continue to have unknown error rates.

five percent or greater annual decrease in their rents. Another fifth of the projects had annual rent increases between 5 and 10 percent). Only 12 percent of the projects had annual rent increases of larger than 10 percent, of which only 4 percent were larger than 15 percent. Rental rehab units were affordable for low and very low income households immediately after project rehabilitation and, given the relative stability of rents, have remained affordable.

Although it would appear from Table 7 that projects which completed their rehabilitation in 1987 and 1988 had higher annual percentage rent increases, this may be an artifact and not necessarily an indication of changes in the program. Although we do not have direct information from earlier years, it can be suggested that rents change most dramatically (both up and down) in the first several years following rehabilitation as owners attempt to determine the most appropriate marketable rent for their newly renovated units. In poor or declining neighborhoods or in loose housing markets, owners might tend to ask higher rents than the housing market will bear. As a consequence, they have to reduce rents later. In the opposite case, good or improving neighborhoods and tight markets could lead owners to realize that they can ask higher rents than they initially expected. It can be hypothesized that rent changes stabilize after this initial period of instability.

This interpretation is partially supported by Table 8 which relates average annual rent changes to the economic ranking of the project's census tract location. Projects located in census tracts which are below 80 percent of the SMSA median household income, average an annual percentage change in rent of 1 to 2 percent. Projects located in tracts whose median household incomes are above 80

TABLE 7

ANNUAL PERCENT RENT CHANGES FOR RRP PROJECTS BY
YEAR OF REHABILITATION COMPLETION
(percent of units)

Annual Percent Change in Rents	Total	Year of Rehabilitation Completion 1985	1986	1987	1988
-5% or more	7.7	6.7	3.7	7.9	15.9
-4.9% to 0%	10.7	6.3	13.2	10.0	8.2
0 to 4.9%	48.9	68.0	53.5	45.8	38.4
5 to 9.9%	21.1	17.8	21.6	20.6	22.0
10 to 14.9%	7.3	1.2	6.0	10.4	6.5
15% or greater	4.4	0.0	2.0	5.3	9.1

percent of the SMSA median have change rates of more than 8 percent. The higher economic census districts are more desirable rental areas and hence average higher rent increases. But as Table 5 demonstrated earlier, only a small share (roughly a fifth) of the RRP projects are located in such census tracts.

TABLE 8

AVERAGE ANNUAL PERCENT RENT CHANGES BY PROJECT'S CENSUS TRACTS INCOME RANKING (unit based)

Census Tracts' Median Household Income Tract Ranking	Average Annual Percent Rent Change
Less than 50% of SMSA Median	1.5%
50% to 79% of SMSA Median	2.3%
80% to 100% of SMSA Median	8.9%
Over 100% of SMSA Median	8.6%

New Table

Another test of the affordability of rent levels in RRP units is to compare them to the applicable Fair Market Rents (FMRs). The 1989 Rent Survey data permits the comparison of 1989 gross rents of RRP units with the appropriate FMR for each bedroom size unit. One of the expectations of the program was that the market rents of the rehabilitated units would not exceed, on average, Section 8 rents.

As can be seen from Table 9, average unit rents for all bedroom sizes in either single-family projects or multi-family projects, were below the Fair Market Rents for the SMSA. Overall, the average unit rents were 87 percent of the applicable FMRs. Efficiencies tended to have the lowest average, 78 percent, while 1 bedroom units had the highest, 89 percent. These was no clear pattern of difference between Section 8 units and non-Section 8 unit rent ratios.

TABLE 9

AVERAGE PERCENT OF RENT TO FMR BY BEDROOM SIZE FOR SECTION 8 AND NON-SECTION 8 TENANTS

		Single-Family		Multi-Family	
Number of Bedrooms	Total	Sect. 8	Non-Sect. 8	Sect. 8	Non-Sect. 8
Efficiency	78	*	*	84	72
1 Bedroom	89	88	87	89	91
2 Bedrooms	87	90	81	86	88
3 Bedrooms	86	87	85	89	87
4 Bedrooms	83	*	*	81	71

Overall average = 87 Sd = .17

* too few cases to calculate reliable averages

In summary, analysis of income and related social characteristics of the tenants, the location of the projects, the rent levels and rent changes of the units all indicate that almost all the units began affordable, remain affordable, and will probably continue to be affordable for lower-income households.

E. Bedroom Size/Family Units

A major objective of the RRP is to insure the supply of units available to larger families. HUD regulations have required that at least 70 percent of each year's grant funds be used to rehabiliate units that have two or more bedrooms. In addition, HUD has set as a national goal that 15% of all funds should go to rehabiliating units with three or more bedrooms. Information on the amount of money spent in units of particular bedroom size is not available. The percent of units of two and three bedroom size rehabiliated under the program is used as a proxy for the goal. As seen in Table 10, overall, 69 percent of the units produced under the program have been in units of two or more bedrooms and 19 percent have been in units of three or more bedrooms. Because these larger bedroom size units will have greater rehabiliation costs, it is likely that the non-N.Y.C., formula portion of the Rental Rehabilitation Program has exceeded both of its monetary goals directed to insuring the supply of larger family units.

Table 10

Rental Rehabilitation Units by Bedroom Size
(Percent of units)

	Total		Year of Rehabilitation Completion				
Bedroom Size	No.	%	1985	1986	1987	1988	1989
Efficiency	4,400	6.6	3.6	4.6	8.2	6.1	6.9
1 Bedrooms	16,184	24.4	17.7	21.5	25.6	25.7	24.3
2 Bedrooms	33,223	50.1	50.2	53.4	49.4	50.1	48.6
3 Bedrooms	10,633	16.0	19.9	17.6	14.3	15.3	17.0
4+ Bedrooms	1,908	2.9	3.7	3.1	2.4	2.7	3.2

F. Rental Rehabilitation Project Ownership

The Rental Rehabilitation Program was intended to aid local governmental entities in encouraging the smaller owners of low income rental properties to make needed repair which might not be supported by rent levels. Earlier HUD programs, such as the Section 8 Moderate Rehabilitation program, were orientated towards the larger property owners and professional real estate managers. Although it did not prohibit any type of property owner from participating, the RRP was not intended for the large scale property owner. Nor was it intended to spawn ownership entities to specifically take advantage of the benefits of the program. This next section examines the program in terms of some these expectations by analyzing the nature of RRP project ownership--who owns the projects, did they have different program performances, how many projects are controlled by the same owner, and the nature of funding that was provided to the owners.

1) Types of Owner

As shown in Table 11, the predominant form of project ownership is the individual owner, with 78 percent of all RRP projects. Partnerships are second in participation with 11 percent, followed by corporations with 6 percent of the projects. Non-profits and cooperatives have been infrequent participants in the program. This pattern of project ownership has remained stable over the life of program.

TABLE 11

PERCENT OF RRP PROJECTS BY TYPE OF OWNER BY YEAR OF COMPLETION

Owner Type	# Projects	% Projects	1985	1986	1987	1988	1989
Individual	12,236	78.2	81.4	80.9	76.3	78.2	77.3
Corporation	945	6.0	4.7	4.4	6.8	6.2	6.5
Non-Profits	457	2.9	2.1	2.1	3.0	3.0	3.4
Partnership	1,677	10.7	9.3	10.6	11.2	10.0	11.2
Cooperative	64	0.4	0.3	0.2	0.6	0.4	0.4
Other	274	1.8	2.1	1.8	2.0	2.1	1.2

Although individual ownership still predominates, a somewhat different pattern of ownership emerges when ownership of units, rather than entire projects, is examined (Table 12). Individuals own only 56 percent of the program units, while partnerships account for 26 percent, and corporations 11 percent, of the units. Over time, corporate ownership has become a somewhat more important aspect of the program as they control larger share of RRP units. These increases

TABLE 12

PERCENT OF RRP UNITS BY TYPE OF OWNER BY YEAR OF COMPLETION
(number and percent of units)

Owner Type	# Units	% Units	1985	1986	1987	1988	1989
Individual	37,754	56.1	65.9	68.9	49.0	54.1	56.7
Corporation	7,119	10.6	5.5	6.8	9.1	12.9	12.1
Non-Profit	2,531	3.8	1.3	2.2	3.7	4.2	4.5
Partnership	17,176	25.5	24.3	19.2	34.6	22.9	23.1
Cooperative	483	.7	.2	.2	1.2	.5	.8
Other	2,258	3.4	2.8	2.7	2.4	5.4	2.8

are quite small, however, and do not seem to be in any danger of changing the basic mix of ownership types participating in the program.

This difference in ownership patterns between projects and project units is the result of the greater representation of partnership and corporations in the ownership of multi-family projects as contrasted with single-family projects. As shown in Table 13, while 82 percent of the single-family projects are owned by individuals, only 60 percent of the larger, multi-family projects are so owned. The larger multi-family projects require larger capital investments, closer and more time-consuming management oversight, and greater time to move from rehab planning to rehab completion. As such, the multi-family projects lend themselves to more formal ownership structures than do the single-family structures and appear less frequently in the early program years.

Table 13

Single-family and Multi-family Projects
Owned by Type of Ownership
(percent and number of projects)

	Single-Family (One to four units)		Multi-Family (Five or more units)	
Ownership Type	Number	Percent	Number	Percent
Individual	10,577	82.2	1,659	59.6
Corporation	683	5.3	262	9.4
Non-Profit	345	2.7	112	4.0
Partnership	1,064	8.3	613	22.0
Cooperative	47	0.4	17	0.6
Other	153	1.2	121	4.4
Total	12,870	100.0	2,784	100.0

2) RRP Performance of Owners

Table 14 provides information on the characteristics of projects and tenants associated with different types of ownership. Individual ownership, as expected by its program dominance, parallels the characteristics of the overall program. Corporations and partnerships had somewhat higher than average per unit rehabilitation costs. All other characteristics for partnerships were similar to those of individual owners. Corporations provided housing for a slightly higher percentage of lower-income tenants but a slightly lower percentage of very low-income tenants. They also had a lower percentage of their households receiving Section 8 assistance.

Non-profits, which account for a small portion of both the projects and units in the program (2.9 and 3.8 percent, respectfully),

TABLE 14

TYPE OF PROJECT OWNERSHIP
BY SELECTED PROJECT CHARACTERISTICS

Selected Characteristics	Total	Individual	Corporation	Non-Profit	Partnership	Coops	Other
Average Per Unit Rehab Costs	$12,959	$12,166	$15,031	$22,982	$14,322	$15,568	$15,273
Percent of Rehab funded out of:							
RRP Funds	40.9%	41.6%	39.8%	30.7%	39.9%	40.2%	39.7%
CDBG	8.2%	7.2%	9.6%	28.7%	8.7%	17.9%	9.1%
Percent of Tenants at or below 80% Median Income	93.9%	93.6%	95.7%	96.1%	93.6%	96.0%	90.2%
Percent of Tenants at or below 50% Median Income	73.1%	74.0%	61.3%	74.1%	75.5%	69.6%	71.6%
Percent of Tenants Receiving Section 8 Assistance	41.1%	42.8%	35.8%	45.7%	41.5%	14.5%	43.1%
Percent of Tenants Female Head of Household	57.9%	59.1%	60.6%	58.8%	54.4%	42.8%	60.5%
Percent Black Population in Census Tract	38.7%	38.6%	45.7%	40.8%	35.7%	31.4%	34.9%
Percent of Tract Median Income to SMSA Median Income	62.8%	63.3%	60.2%	61.1%	61.3%	60.2%	63.2%
Number of Projects	15,654	12,236	945	457	1,677	64	274

had substantially higher per unit rehabilitation costs and the highest percent of tenants receiving Section 8 assistance. Non-profits also relied more heavily on CDBG funds which accounted for 29 percent of the funding for their rehabilitation.

There is little suggestion from this data that there has been an "institutionalization" of this program over time with ownership structures being specifically created to take "advantage" of the governmental subsidies of this program. Rather, the program seems to have largely appealed to the individual property owner with a limited number of properties. Even though corporate and partnership ownership structures are significant participants, they still represent a minority of ownership type during all program years. The suggestion that this program has not been geared nor attracted the larger real estate organizations is borne out by the next section of the analysis which examines the patterns of multiple project participation in the program.

3) Multiple Ownership

Another aspect of the type of owners that are participating in the Rental Rehabilitation Program is the number that received an RRP grant for more than one project. As Table 15 demonstrates, single project owners represent the majority of the projects and units participating in the program., but 47% of the projects and 39% of the units were controlled by owners of two or more of the projects. Those owners which control sixteen or more projects represent only a small share of the projects (5.3%) and a still smaller share of the units (2.4%).

TABLE 15

NUMBER AND PERCENT OF PROJECTS AND UNITS OF MULTI-PROJECT OWNERS

Number of Projects Owned	# Projects	% All Projects	# Units	% All Units
One	8,324	53.2	40,947	60.6
Two to Four	4,195	26.8	17,553	26.0
Five to Fifteen	2,311	14.8	7,421	11.0
Sixteen or more	824	5.3	1,646	2.4
TOTAL	15,654	100.0%	67,567	100.0%

A more detailed breakdown in Table 16 shows that the multiple participants tended to have slightly smaller projects, at each level of participation and within both the single-family and multi-family categories, than the one time participants. Fifty-nine percent of the projects and two-thirds of the units in multi-family (5 or more units) projects were owned by one-time participants in the program.

In terms of multiple participation by types of ownership (Table

17), partnerships and corporations account for a greater share of projects as the number of projects owned increases. Partnerships account for only 9 percent of the projects involving one-time ownership, but 18 percent of the projects involving ownership of 16 or more projects. Non-profits, which have little participation in the overall program, account for 17 percent of the projects involving ownership of 16 or more projects.

TABLE 16

NUMBER AND PERCENT OF PROJECTS AND UNITS OF MULTI-PROJECT OWNERS BY PROJECT SIZE

Number of Projects Owned	Single Family (1 to 4 units)				Multifamily (5 or more units)			
	Projects		Units		Projects		Units	
	#	%	#	%	#	%	#	%
One	6,677	51.9	13,395	54.2	1,647	59.2	27,552	64.3
2 to 4	3,405	26.5	6,576	26.6	790	28.4	10,977	25.6
5 to 15	1,995	15.5	3,396	13.8	316	11.4	4,025	9.4
16 or more	793	6.2	1,331	5.4	31	1.1	315	0.7
TOTAL	12,870	100.0	24,698	100.0	2,784	100.0	42,869	100.0

Table 17

Multiple Ownership by Type of Ownership (percent of projects)

Ownership Type	Total	Number of Projects Owned: 1	2-4	5-15	16 or more
Individual	12,236	83.9	78.0	69.7	44.7
Corporation	945	3.6	6.7	10.1	15.5
Non-Profit	457	1.4 115	1.8 76	5.3 117	17.2 141
Partnership	1,677	9.0	11.3	13.3	17.7
Cooperative	64	0.1	0.2	0.7	3.2
Other	274	2.0	1.8	0.9	1.7
TOTAL	15,653	100.0	100.0	100.0	100.0
	N =	8234	4195	2,211	824

Table 18 provides information on the characteristics of projects and tenants associated with the extent of participation. There is little variation in these characteristics for ownership of up to 15 units. The only clear pattern that appears to emerge is for the limited category of very frequent participants (16 or more projects owned). For these very frequent participants, average rehabilitation costs are higher, there is greater reliance on CDBG funds, they serve more lower-income households than average, their tenants have a higher

Non-profits don't get involved much with RRP, but when they do, involvement is considerable proportion of Section 8 assistance, they have higher numbers of female headed households, and their projects are located in more heavily minority and poorer neighborhoods.

Table 18

Selected Characteristics of the Projects of Multiple Project Owners

		Number of Projects Owned			
Characteristics	Total	1	2-4	5-15	16 or more
Average Per Unit Rehab Costs	$12,959	$12,503	$13,042	$13,223	$16,398
Percent of Rehab Funded out of:					
RRP	41%	41%	41%	41%	38%
CDBG Funds	8%	9%	7%	6%	15%
Percent of Tenants Below 80% Median	94%	93%	95%	94%	97%
Percent of Tenants Below 50% Median	73%	71%	75%	75%	86%
Percent of Tenants Receiving Section 8	42%	38%	46%	47%	59%
Percent of Tenants Female Heads	58%	56%	62%	58%	72%
Percent Black Pop In Census Tract	39%	35%	40%	45%	49%
Percent of Census Tract to SMSA Median Income	63%	64%	62%	62%	60%
Number of Projects	15,654	8,324	4,195	2,311	824

4) Source of Funding for Rehabilitation

Table 19 presents the owner's source of rehabilitation funds by selected project characteristics. Once again, this table illustrates the overall consistency of the program with respect to multiple owner participants and the different types of owners. Overall, 41 percent of rehabilitation funds came from the RRP, 8 percent from CDBG, 15 percent from private loans, and 35 percent from other private funds (owner equity). This proportion of funding sources for rehabilitation changed little over the program years except for a slight downward movement in the use of private funds paralleled by a slight increase in the use of CDBG funds.

In terms of multiple owner participants, the distribution of fund sources is similar for all groups except for those projects controlled by owners who have 16 or more projects enrolled in the RRP. In these projects, the use of RRP funds and private loan funds were slightly lower and the use of CDBG funds was greater.

Table 19

SOURCE OF REHABILITATION FUNDS BY SELECTED PROJECT CHARACTERISTICS*
(percent of rehabilitation costs)

	Source of Rehabilitation Funds**			
	Rental Rehab Funds	CDBG Funds	Other Private Funds	Private Loan Funds
Total	41.2%	7.6%	34.7%	15.1%
Program Year				
1985	41.7	4.8	35.6	16.7
1986	41.3	5.8	35.7	16.3
1987	40.9	7.6	35.2	15.0
1988	40.4	8.5	34.0	15.8
1989	41.8	8.5	34.2	13.6
Multiple Ownership				
1 project	41.3	8.8	32.5	16.2
2 - 4	41.5	6.0	36.8	14.4
5 - 15	41.3	4.8	38.6	13.4
16 or more	38.0	12.2	35.2	11.7
Type of Ownership				
Individual	41.7	7.1	35.6	14.6
Corporation	40.1	8.4	34.2	15.3
Non-Profit	29.6	20.8	17.9	24.2
Partnership	40.3	7.5	33.9	15.7
Cooperative	41.6	17.6	8.4	17.2
Other	40.1	7.8	32.7	18.6

* Data in this table is derived from projects that only involve rehabilitation and does not include those which also involved acquisition and refinancing. Thus, numerical inconsistencies between this and other tables are the result of the differences in the project base.

** Two other sources of funding, tax exempt funds and other public funds, account for 0.6 percent and 1.0 percent, respectfully, of the total rehab costs. For non-profits, other public funds (not shown) account for 7.2 percent of rehabilitation costs.

The only type of ownership that differs markedly from the others in its distribution of rehabilitation funding sources is non-profits. The percentage of RRP funds and private funds used for rehabilitation was much lower than average while its use of CDBG funds was considerably higher (accounting for 21 percent of the rehab funds). Another 7 percent of non-profits funds came from other public funds (not shown in the table).

Table 20 presents the breakdown of how the RRP grantees chose to award the funds to projects. Overall, outright grant awards account for 21 percent of all the funds awarded by the local grantees. Forgivable loans, with various conditions on forgiveness (such as maintaining housing quality standards) make up 60 percent of the awards. Fourteen percent of the awards are in the form of direct, repayable loans, and 5 percent fall into the category of "other", generally a hybrid of forgivable and repayable loans. Over time, there has been a slight decrease by local grantees in the use of forgivable loans offset by a small increase in the use of "other" forms of funding award.

The only significant deviation in the type of awards made to multiple program participants is that for owners who have 16 or more projects in the program. They have much lower rates of both forgivable and direct loans but a substantially higher receipt of "other" type of awards.

Corporations and partnerships receive a somewhat larger share of their RRP awards in the form of forgivable loans then other ownership types. Non-profits receive a substantially smaller proportion in the form of grants and forgivable loans and a higher share in the form of direct loans and the hybrid "other" category.

Table 20

TYPE OF RENTAL REHABILITATION SUBSIDY
BY SELECTED PROJECT CHARACTERISTICS
(percent of projects)

	Type of Rental Rehab Subsidy			
	Grant	Forgivable Loan	Direct Loan	Other
Total	20.7%	60.4%	14.2%	4.7%
Program Year				
1985	22.7	60.7	14.1	2.5
1986	20.1	62.3	13.4	4.2
1987	19.6	62.1	14.6	4.7
1988	20.4	61.2	13.6	4.8
1989	21.6	57.5	14.9	6.0

Table 20 (continued)

	Type of Rental Rehab Subsidy			
	Grant	Forgivable Loan	Direct Loan	Other
Multiple Ownership				
1 project	20.4	60.6	15.4	3.6
2 - 4	21.1	59.8	14.9	4.2
5 - 15	21.1	63.5	11.7	4.7
16 or more	20.2	52.5	6.2	21.1
Type of Ownership				
Individual	22.2	59.8	13.9	4.0
Corporation	21.0	64.5	10.1	4.3
Non-Profit	10.9	47.2	21.9	20.6
Partnership	13.6	66.5	15.1	4.7
Cooperative	10.5	81.7	6.3	1.6
Other	14.0	54.6	27.3	4.2

G. Owner Subsidies

The 1987 Rental Rehabilitation Program Evaluation[7] included extensive financial analyses and interviews with owners of each of the 125 projects included in the national sample. That study provides the only available direct information on the question of whether the RRP subsidies are too generous or wasteful. To the extent that the characteristics of projects, tenants, rents, and owners in the sample of 125 projects were similar to those in the overall program analyzed in this review, inferences may be made that the same conclusions on profitability could hold today. Such a comparison is provided in Appendix B, which shows the similarity between the 1987 sample and the overall program. In addition, a restatement of the findings of the 1987 study is worthwhile in the event that the conclusions of that study may have been misunderstood, misinterpreted, or misrepresented.

The 1987 study interviewed owners on their assessment of their ability to finance rehab expenditures in the absence of assistance. A fourth of the owners responded that they would not have done any of the rehabilitation without the subsidy and a fourth indicated that they would have completed all of the rehabilitation work. The remaining half stated that they would have completed approximately 60

[7] *Evaluation of the Rental Rehabilitation Program Final Report*, The Urban Institute, April 1987.

percent of the rehabilitation even in the absence of RRP funds. Units owned by corporations and non-profits were least likely to have been rehabbed in the absence of assistance than other ownership types. The study concluded that most of the rehab work would have been done incrementally over time but that the rehab would not necessarily have been done up to standard quality.

The 1987 study also estimated project financial conditions in the absence of RRP assistance. That estimate was based on the assumption that owners would complete the same level of rehab work as that done under the RRP and that they would have financed the RRP portion entirely out of market rate loans. The study concluded that, for the average unit, complete renovation would not have been financially feasible without RRP assistance. Privately financed, the rehabilitation would have resulted in negative cash flow for almost half of the units. About two thirds of the units would have had cash flow-to-equity ratios below 5 percent (three quarters below 10 percent). In addition, the provisions of RRP assistance did not appear to have substantially increased the share of units with very high cash flows. It did substantially reduce the number of units with very low cash flow-to-equity ratios.

While the 1987 study concluded that the income from most RRP units probably would not have been able to support the needed rehab work without RRP assistance, the study also concluded that the local grantees did not effectively use projects' financial conditions as a criteria for the amount or type of RRP award. A large portion of the localities merely used a straight 50 percent of the total rehabilitation costs to determine and award RRP funds. This approach may have led to awards larger than the minimum required to make the rehabilitation feasible. While there is little evidence to suggest that this led to "exorbitant" profits on the part of owners, it may have led to fewer and more needy projects being denied funds.

The program allows broad local discretion in program design and execution. This permitted the local governmental grantee to de-emphasize gap-financing. Many localities apparently preferred the straight 50 percent-of-cost approach because of its attractiveness to applicants and its ease of program administration. The 1987 report recommended that local governments focus more on encouraging gap-financing techniques to reduce subsidy costs. The fact that the current program review found that for half of the projects, fifty percent of the rehab work is being funded by the RRP, suggests that the gap-financing recommendation may not have been fully implemented.

APPENDIX A: Data Issues

Generalizations from the 1989 Rent Survey data should be done with some caution. On the one hand, a certain degree of error was introduced because the two major data bases used for the rent analysis, the C/MI data base for initial rents and the 1989 Rent Survey for the latter rents, could only be compared based upon project-wide rent averages rather than changes in the rents of particular units. No compatible unit identification system existed for the two data bases.

On the other hand, different interpretations by the persons providing the information of what rent figures were applicable both within and between the data bases, led to problems of comparability. Despite parallel instructions, some rents were reported as gross rents, others as contract rents, while others reported only tenant contributed rent. These problems were complicated by data entry errors, key punch error, as well as data base creation errors.

While nothing could be done about the lack of a unit identification scheme, a record by record correction of the major data incomparability and error problems was undertaken based upon an agreed upon identification and correction protocol. Basically, the error identification was undertaken by arraying the combined records of the data set (non-New York City formula grantee projects in the 1989 Rent Survey sample) by the percentage changes in the rents. All project records were examined for reasonableness.

Bedroom size distributions, unit record counts, and missing information was corrected by examining all information and reconciling differences. Where the information suggested that rent differences were the result of exclusion of some portion of the rent (utilities, for example), such exclusions were added into the rent where they could be determined. Where the amount of such exclusions could not be determined, the project records were dropped from the analysis.

APPENDIX B: Parallel Data from the 1987 Evaluation

While the 1987 Evaluation only studied a sample of 125 projects in the first two years of the program, it was able to provide a more detailed analysis than the current study on many topics. The most striking aspect of the comparison of the 1987 findings to the current results in Table B.1 below is that it demonstrates little change in a large number of key program characteristics. Even though the basis of comparison between the two studies is not entirely consistent, the parallel findings between the 1987 national sample and the 1985-1989 universe of RRP units indicates that the basic program performance has been quite similar from its earliest years to the present.

TABLE B.1

COMPARISON OF FINDINGS FROM THE 1987 EVALUATION AND THE 1990 STUDY

Characteristics		1987 Study	1990 Study
Percent tenants at or below 80% median income		93	94
Percent tenants at or below 50% median income		79	73
Percent tenants receiving Section 8 assistance		69*	42
Percent female head of household		67	58
Percent tenants:	white	31	36
	black	54	49
	Hispanic	13	12
	other	2	3
Percent tenants elderly		17	10
Average percent rent to FMR		87	87
Percent units by owner type:	individual	60	56
	corporation	6	11
	non-profits	3	4
	partnership	17	25
	cooperative	>1	1
	other	13	3
Percent tract median income to SMSA median		65**	63
Percent black population in project tract		28**	39
Percent rehab funded out of:	RRP	43	41***
	CDBG funds	8	8
	private loans	24	15
	other private funds	24	35

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* The 1987 findings do not reflect the post-1987 decline in assistance available.

** For the 13 of the 34 sites for which the local program used targeted areas.

*** The limitations noted in Table 19 apply to the 1990 findings.