



U.S. Department of Housing and Urban Development
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Summary

Evaluation of the Rental Rehabilitation Program



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Based on the Final Report

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SUMMARY OF THE FINAL REPORT

Introduction

The Rental Rehabilitation Program (RRP) was authorized on November 30, 1983, by Section 301 of the 1983 Housing and Urban-Rural Recovery Act. Congress initially appropriated \$300 million for the program (\$150 million each for FY 1984 and FY 1985) to be distributed on a formula entitlement basis to cities with a population of 50,000 or more, urban counties, consortia of units of general local government, and States for the rehabilitation of privately owned rental housing.¹ In addition, funds were appropriated to provide rental assistance, in the form of Section 8 certificates and housing vouchers, for approximately 60,000 households.

The primary objective of the Rental Rehabilitation Program is to increase the supply of safe, decent, and affordable housing for lower income households through the renovation of the existing rental housing stock. As such, it reflects a general shift away from the more expensive new construction programs of the past. The program is also targeted to a segment of the stock which has received less attention under previous rehabilitation programs-- smaller rental properties with moderate repair needs. Finally, the program breaks traditional patterns by adopting a "split subsidy" approach. Rehabilitation subsidies are provided to property owners to help support the costs of repairs, but project rents are allowed to rise to their market levels. At the same time, rental assistance is made available to eligible lower income tenants, who can either remain in the renovated units or move elsewhere.

The design of the Rental Rehabilitation Program is intended to allow maximum discretion at the local level. Grantees receive formula allocations of Rental Rehab funds which are then given to project owners to cover up to half of the eligible rehabilitation costs or an average of \$5,000 per unit, whichever is less. Grantees choose the form in which the subsidy is offered, identify the neighborhoods in which the program will operate, determine the nature of

¹One million dollars was allocated each year to technical assistance.

repairs to be funded, and set the amount of subsidy to be provided to individual property owners. The private market orientation of the program is embodied in the limitation of RRP funds to 50 percent of project costs and the absence of any control on post-rehab rent levels. Significantly, the program relies on the market to set post-rehabilitation rents and assumes that proper selection of neighborhoods and projects will result in rents that are affordable to lower income renters while also yielding an adequate return to property owners.

In order to minimize displacement, the RRP also includes a tenant assistance component, consisting of special allocations of Section 8 certificates and housing vouchers. These may be used to help existing households remain in their units after rehab or to seek other housing of their choice. Until FY 1987, certificates and vouchers could also be offered to new households initially occupying vacant units. However, rental assistance always follows the tenant and is not tied to the rehabilitated unit. Thus occupancy patterns in RRP projects are determined by market forces, subjecting owners to both the rewards and rigors of the competitive process.

Purpose of the Evaluation

This evaluation examined the performance of the program approximately two years after its inception. The study focused on the experience of cities and urban counties, and excluded the State-administered component of the program. It also excluded communities that had not completed a project by the sample selection date of March 31, 1986. The analysis was based on a sample of 35 representative sites and was designed to reflect the way in which the typical grant dollar has been administered.

One community in the sample -- New York City -- has been treated as a separate case study. Although it received the largest allocation of program funding (about 11 percent of the national total), New York's program did not reflect the basic RRP model and thus was excluded from the core analysis. The findings presented in the body of the report relate to program administration and outcomes in the remaining 34 sites, which included 28 metropolitan cities and 6 urban counties.

The purposes of this evaluation are twofold. First, it is intended to assess the extent to which the program is meeting its primary objectives through an examination of the types of properties rehabilitated under the program, the

nature of the repairs completed, and the characteristics of the tenants served. Second, it is intended to examine local approaches to program operations.

The Rental Rehabilitation Program departs in many respects from previous rehabilitation approaches. While Federal regulations establish the basic outline of the RRP, and HUD has developed a number of criteria against which performance could be judged, the success of the program ultimately depends on the ways in which the RRP is designed and implemented at the local level. The study is intended to describe implementation approaches adopted by local programs and, to the extent possible, identify those features of program design and administration that contribute to better program performance.

The study employs two basic types of data: program data, describing the RRP programs as they are operating in a sample of 34 cities and counties nationwide, and property-level data, describing the characteristics of the projects completed in the sample sites. Program data were collected on site in each of the 34 sample grantees through administrative interviews with RRP program staff, representatives of participating PHA's, and other actors responsible for the implementation of the program. Interviews were conducted between June and September 1986, after the program had been in operation for approximately two years.

Property-level data include information on property and tenant characteristics contained in HUD's RRP Cash/Management Information System (C/MI) as well as supplemental data collected on site for a sample of 125 completed properties. These data were collected through a combination of reviews of individual project files, interviews with property owners, and inspections of the completed rental rehab properties. C/MI data reflect outcomes in the 34 sites as of June 1, 1986.

Overview of Program Performance

At the time of the study (July 1986), the median site in the sample had committed 58 percent of its combined FY 1984 and FY 1985 grant allocations and had expended about 10 percent of those allocations on completed projects. Based on the completions, the Rental Rehab Program appeared to be meeting the major performance objectives established by HUD:

- lower income households were the primary beneficiaries of the program -- 93 percent had incomes below 80 percent of the area median, and 79 percent of all post-rehab tenants had incomes below 50 percent of the area median;
- post-rehab rents were generally affordable -- 90 percent of all units had rents that were at or below the applicable Fair Market Rent (FMR);
- the program was producing a substantial share of larger units -- 80 percent of all completed units had two or more bedrooms, and 20 percent had three or more;
- the RRP rehab subsidy was relatively low -- \$4,290 for the average unit (\$4,964, including all public subsidy); and
- each dollar of RRP rehab subsidy had been matched by \$1.12 of private funds (\$0.92 for all public subsidies).

However, sites within the study sample exhibited tremendous variation on these and other measures of program performance, and a locality's success (or failure) in meeting one criterion was generally unrelated to its performance with respect to others. This outcome was neither surprising nor inappropriate, given the diversity of local conditions, priorities, and needs.

Administering Agencies

The communities selected for this evaluation include 28 cities and 6 urban counties, ranging in size from about 50,000 to over 3 million population. Typically, the program was designed and operated by a city or county housing rehab agency, working in conjunction with an independent Public Housing Authority (PHA). Other organizational arrangements included six sites where the rehab entity and the PHA were both departments of a single city or county agency, and three sites where a PHA was responsible for both the rehab and tenant assistance components of the program. Agency type had little impact on performance.

Lead agencies in the 34 sites were primarily city or county community development (CD) departments, but included a few non-CD agencies and nonprofit organizations, as well as the three PHA's. Not surprisingly, there was substantial variation in their prior experience in housing rehab. However, the relationship between experience and RRP performance is not particularly strong. Focusing on two key measures of performance -- production and leveraging -- it was found that sites with substantial output under prior CD programs achieve about the same level of commitments as less-experienced sites, but show less success in leveraging private funds than sites with either low or moderate experience in housing rehab. By contrast, the sites with the least amount of experience tend to be concentrated in the highest performance category as measured by both production and leveraging.

Similarly, participation in the RRP demonstration does not appear to be associated with stronger performance under the program itself. Indeed, sites with demonstration experience were underrepresented in the highest performance group, while nonparticipants tended to be concentrated in this category. While difficult to explain, this pattern may in part reflect the greater use of repayable subsidies (direct loans and repayable deferred-payment loans) among demonstration participants. Sites that were new to the RRP concept were more likely to adopt the model promoted by HUD and offer subsidies in a forgivable form. As described below, the use of forgivable subsidies (grants and forgivable deferred-payment loans) typically led to higher commitment rates.

Subsidy Mechanism

The mechanism by which the RRP subsidy is delivered proved to be one of the most important choices open to RRP grantees. Flexibility in subsidy selection presumably allows sites to gear the program to local market conditions. This is done by making the subsidy attractive enough to generate demand for the program while also holding public contributions to the minimum necessary to support needed repairs. However, program administrators and other local decision makers may not always assess market conditions correctly. Furthermore, local politics appear to have made repayable forms of subsidy more feasible than nonrepayable forms in a substantial number of sites.

The types of subsidies offered by the sites included grants, forgivable deferred-payment loans, direct loans, repayable deferred-payment loans, and interest subsidies. Taken together, grants and forgivable deferred-payment loans were the most popular approach to subsidy provision, with 17 sites choosing one or the other of these nonrepayable forms. Fourteen sites delivered the subsidy as a repayable loan, and three sites offered both forgivable and repayable forms. In general, sites appear to have placed less emphasis on leveraging private funds than might have been expected. Other public funds, most commonly from the Community Development Block Grant Program (CDBG), were frequently used to supplement Rental Rehab subsidies, particularly in sites that offered the basic subsidy as a loan. Altogether, 21 of the 34 sites offered additional public funding to at least some of their Rental Rehab projects. At the same time, very few sites attempted to minimize subsidies through the use of gap financing techniques,² variable loan terms, or the imposition of an RRP subsidy maximum lower than the 50 percent of cost or \$5,000 per unit cap established by the program. The sites' reluctance to use gap financing approaches appears to reflect an important tradeoff between the goal of minimizing subsidy amounts and the desire to make the program attractive to potential participants and to reduce the administrative burden of the program.

As noted above, the type of subsidy offered by the sites appears to have a substantial impact on program performance. Sites offering a nonrepayable subsidy show higher rates in committing RRP funds overall, regardless of the markets in which they are operating. However, market factors also appear to play a role, with sites operating in tight markets showing generally higher commitment rates than those operating in loose markets. Tight markets are associated with the lowest overall leveraging ratios, suggesting that programs in these areas have purchased at least some of their production (as measured by percentage of RRP funds committed) through the use of other funds to supplement Rental Rehab dollars.

It is also important to note that, over the 2-year period covered by the study, 9 of the 34 sites made adjustments to their original subsidy approach in order to increase its attractiveness to property owners and maintain an adequate flow of applications. Adjustments included switching from a repayable subsidy to a grant or forgivable deferred-payment loan, reducing interest rates and/or deferring payments on direct loans, and providing

²Gap financing analysis would be used to minimize the rehab subsidy on a case-by-case basis to the specific amount needed to result in an appropriate rate of return for the property owner.

additional funding from CDBG allocations. These changes most clearly reflect the tradeoffs between production and other objectives, such as leveraging or obtaining a payback from RRP monies invested. They also demonstrate the flexibility inherent in the program, which allows sites to adapt their subsidies to changing market conditions or to redesign their programs if necessary to achieve the desired results in a given market.

Neighborhood and Project Selection

Another important aspect of program design is the selection of target neighborhoods. Despite the emphasis on careful neighborhood selection, most programs opted to define as broad a target area as possible. The majority of the sites designated eligible areas on the basis of HUD regulations, without further attempts to focus the program. Five did not designate eligible areas at all, choosing instead to qualify projects as applications were received, based on project- or block-level data. By contrast, 13 sites selected some subset of the otherwise eligible areas in their jurisdictions, with about half selecting pre-designated community development neighborhoods.

The principal rationale for less restrictive targeting was a desire to cast a wide net in recruiting project owners. As with subsidy mechanisms, changes in target area designation were not uncommon. Over the 2-year period, eight sites acted to expand or abandon originally designated target areas in an attempt to broaden the base from which owners could be recruited. Nevertheless, based on data for the areas in which RRP projects are actually located, it appears that selection of neighborhoods has been consistent with the intent of the program. Variation in the characteristics of RRP neighborhoods has no consistent influence on program outcomes or overall performance.

The sites' approaches to project selection also reflected the need to achieve or maintain an adequate flow of commitments. Program descriptions and other early documentation typically contained explicit preferences for the types of owners/projects sought, and occasionally contained rather complex scoring systems for use in project selection. In practice, however, projects were approved on a first-come, first-served basis, and in many cases the stated preferences could not be implemented. The only factors that appeared to play a major role in project selection were the need to avoid displacement and the size of the units proposed. Given the ratio of two- and three-bedroom units

specified by the program standards, projects containing larger units generally received priority.

While in concept both neighborhood and project selection criteria are important features of program design and key elements of local discretion, in practice the sample sites were unable to exercise much selectivity in this regard. The vast majority of sites indicated that pressures to achieve target commitment rates, combined in many sites with a dearth of applications, resulted in the selection of virtually all projects that met basic eligibility criteria. Although most sites employed a variety of approaches to advertise the program and recruit owners, about a third described the level of applications as inadequate. While some of these sites intended to intensify their marketing efforts in order to remedy the problem, at least some were considering a redesign of the subsidy approach in order to increase its attractiveness to potential participants.

Program Streamlining

The study also examined the ways in which various roles and responsibilities have been allocated under the program, and the extent to which a "streamlined" versus a "handholding" approach has been employed in the sites. In general it was found that RRP staffs were small, with fewer than three full-time equivalents in about two-thirds of the sample sites. Except in the larger programs, RRP staff tended to be assigned only part time to the RRP, with other programs consuming a good proportion of the director's time. Responsibility for various program activities tended to be centralized in these staffs, with one or two rehabilitation specialists performing all necessary functions, occasionally obtaining specialized help from other city departments. Administrative costs were typically an indistinguishable part of CDBG administration, with no separate budget established for the RRP.

The RRP did exhibit an overall tendency towards streamlining, particularly with respect to owner responsibility for obtaining secondary financing. In the majority of sites, this was viewed as the sole responsibility of the owner, and few sites made any formal attempt to involve private lenders in the program. In 14 of the sites, owners were also responsible for preparing the detailed specifications of the work to be accomplished.³ Although the specification writing function was retained by program

³This program design choice produced problems in the quality of the repairs. See page 13 for a more complete discussion.

staff in the remaining areas, arguments for doing so were based on efficiency and speed of processing, rather than on maintaining control of rehab decisions.

Taking into consideration the allocation of functions and other aspects of program processing, sites were classified along a handholding/streamlining continuum. Both "handholding" and "streamlined" sites had higher production and completion rates than those in the intermediate group. Nevertheless, streamliners achieved slightly better results in both regards, at a substantially lower cost. Based on rough calculations, it is estimated that the average cost of administration ranged from about 2 percent of the average per-unit subsidy amount in streamlined sites to about 9 percent in sites that adopted a more "handholding" approach, with a mean of 4.4 percent for the sample.

Finally, the study provides insights into HUD's Cash/Management Information System (C/MI), which is used both to control disbursements to committed projects and to collect data on the progress and outcomes of the program. While the study did not explicitly focus on the funds management aspect of the system, it appeared to work well in most sites. As a data collection/program monitoring tool, the C/MI also appears to provide a reasonably accurate picture of overall national program performance. Although a sizable number of errors in the reported data for individual projects were detected, the net differences on individual items and the overall impact on this analysis were slight. Problems in C/MI reporting are already being addressed by the Department and should result in an improved data base for future program decision making.

Role of the PHA

Because the Rental Rehab Program uses two types of subsidies -- rehabilitation subsidies to property owners and rental subsidies to tenants -- the program typically requires that two separate entities cooperate in the implementation of the program. Normally, responsibility for rehab functions (including program design, property selection, specification of needed repairs, and project processing) is assigned to a city/county rehab office. Responsibility for issuing certificates or vouchers to eligible tenants belongs to the PHA, typically an independent local agency. In only three of the sample sites was the entire program PHA administered.

Overall, it appears that PHA's have played a fairly modest role in the Rental Rehab Program. City/county agencies generally took the lead in program design, with only six of the sample PHA's indicating that they had played an "active" role. Similarly, only five of the PHA's indicated an ongoing involvement at a policy level, and only a few participated in the selection of properties or decisions regarding property repairs. Although the majority conducted a final Section 8 Housing Quality Standards (HQS) inspection, PHA's rarely took the lead. Instead, their active role was typically limited to matters directly related to the provision of tenant assistance.

Even within this category of activities, however, PHA functions were often fairly narrow. Specifically, in only a minority of the sites did PHA's appear to take a "managing" role with respect to overall tenant issues. PHA's were typically not involved in such activities as collecting data on initial tenants or other program-related reporting, except for maintaining records on assisted households. Rather, reporting and monitoring functions -- to the extent they were performed -- were retained by the grantees. In a large number of sites the interaction between grantee and PHA staff was frequent and of a collaborative nature. In many others, however, city staff took the lead in all aspects of tenant assistance -- including initial screening -- calling on the PHA only when specific households were ready for formal certification and the issuance of a voucher or certificate.

Overall, both city and PHA actors appeared to be satisfied with the allocation of functions between them and had developed good working relationships in carrying out their respective responsibilities. Nevertheless, some areas of tension did arise. With respect to design of the program, the most common problem was the types of neighborhoods in which RRP projects were located. About 23 percent of the PHA's expressed concern that the neighborhoods were too deteriorated or unattractive to appeal to certificate holders. An equal proportion mentioned administrative problems related to HQS failures which required reinspection of units (23 percent) or to coordinating the timing of project completion (23 percent).

Despite general satisfaction with program roles on the part of both grantee and PHA actors, it appears that the interaction of two different actors can work to the detriment of the program if responsibilities are not adequately specified and understood by both parties. Specifically, in one of the sample sites it was found that a misunderstanding about which actor was responsible for overall tenant issues -- including the identification of potential displacees -- had resulted in a failure to perform these functions. In general, regardless of the diligence with

which grantees or PHA's appeared to perform these activities, lack of related record keeping made it virtually impossible to determine the extent of displacement that had occurred under the program or to collect data on households that had moved from Rental Rehab projects. In addition, the overall impression was that sites needed to devote more attention to ensuring that tenants were informed of their options under the program and that tenant moves were monitored by one or the other of the participating actors.

This suggests a need within the program as a whole to clarify responsibilities with regard to tenant management -- including such record-keeping requirements as HUD deems appropriate -- and to ensure that these functions are clearly assigned to one of the participating actors. HUD is now in the process of clarifying tenant monitoring and data collection responsibilities in its communications to grantees and HUD field offices.

Program Impact on Tenants

The Rental Rehab Program is clearly serving the population of households it was intended to serve: 79 percent of all post-rehab tenants were very-low-income (below 50 percent of the area median) households, and another 14 percent had incomes between 50 to 80 percent of the area median. Sixty-nine percent were minorities, and about half were female-headed families with children.⁴ Thus households with the greatest overall incidence of housing needs appear to have been the primary recipients of program benefits.

The great majority of RRP units also meet the affordability standard adopted by HUD. While the average unit experienced a rent increase as a result of its renovation, particularly in buildings where rehab costs were high, the overwhelming majority of RRP units had post-rehab rents that were at or below the applicable fair market rent (FMR). The average unit in the sample rented for about 87 percent of the FMR, and only about 10 percent of all units had rents that were above the FMR. Thus most of the units rehabilitated to date have been affordable to many lower income households (i.e., those with incomes

⁴The C/MI data indicate that for the entire program, the minority share was roughly 50 percent -- one of the few instances in which summary statistics from the sample and the national C/MI totals differed

between 50 and 80 percent of the local median), even in the absence of rental assistance.

While post-rehab rents were modest, very-low-income households generally did need Section 8 certificates or housing vouchers in order to afford RRP units at 30 percent of their income. Two-thirds of all post-rehab tenants received some form of rental assistance. About 82 percent of all very-low-income households were assisted, compared to only about 32 percent of all households with incomes between 50 and 80 percent of the local median. Forty-five percent of all rental assistance associated with the program went to initial occupants who remained in RRP projects; 52 percent went to residents who were new; and 3 percent went to previous residents who used their certificates or vouchers to move.

In general, the overall pattern of post-rehab rents was consistent with the market orientation of the Rental Rehab Program. While the ratio of rents to the FMR varied with market conditions, it did not depend on the level of rehab costs, the size of the rent increase, or the amount of public subsidy. Such outcomes reflect the basic philosophy of the RRP, which lets the market -- not the local administrative agency -- determine project rents.

The program achieved less, however, in meeting HUD's objective of serving lower income households already in place. Only about half of all post-rehab tenants had lived in the project prior to rehab. In part, this fact reflects the rehabilitation of vacant properties, since about 25 percent of all units were in buildings that were unoccupied at the time of rehab. However, it also reflects a relatively high rate of tenant turnover during renovation. Twenty-eight percent of all pre-rehab tenants moved out of their dwelling units before the renovation was completed.

The quality of the data do not permit one to assess the extent of displacement that has occurred to date. In general, households that moved out of RRP projects tended to have higher incomes than those that stayed or those that replaced them. While mobility rates were higher in projects with above-average rent increases, the fact that movers were replaced with lower income households tends to temper a displacement argument. Information on reasons for moves, while incomplete, also does not suggest displacement.

Nevertheless, the potential for displacement certainly exists. About 15 percent of all very-low-income households initially living in RRP projects moved and apparently were not offered assistance. This figure could understate the level of mobility that actually occurred if moves were made before the project was formally accepted

into the program.⁵ Furthermore, many sites made little, if any, effort to contact tenants during the initial stages of renovation or to monitor household turnover. Such monitoring needs to be strengthened in order to ensure that tenants are aware of their options under the program, and guidance for such monitoring is being prepared by the Department.

Private Sector Response

The Rental Rehab Program has primarily attracted individual owners of smaller properties with relatively modest renovation needs. The average unit was in a building with four or five apartments and cost about \$10,000 to rehabilitate. Sixty percent of all units were owned by individuals, with partnerships and trusts the next most common ownership forms (accounting for 17 and 13 percent of the sample, respectively).

While about 17 percent of all units were acquired specifically for the program, the typical investor used the RRP for renovation of a previously held property. Fifty-eight percent of project owners indicated that the RRP grant or loan was the primary reason for their participation. However, the remaining 42 percent viewed the Section 8 subsidy as at least as important as the rehab subsidy, especially in loose markets.

Forty-three percent of the cost of the average unit was supported by the RRP grant or loan; another 9 percent was funded by other public programs; and the remaining 48 percent was covered by private funds. While only 25 percent of all units received public funding in addition to the RRP contribution, such units had substantially higher rehab costs (over \$14,000 per unit) and substantially lower leveraging ratios (each dollar of public funds was matched by less than \$0.40 in private contributions). Private contributions were more or less evenly divided between private loans and owner's cash. When private loans were used, they were generally associated with higher rehab costs.

Since conventional leveraging ratios do not reflect the underlying value of the different subsidy types to project owners, the net present value of the public subsidies provided under the program was also calculated. These averaged \$3,662 per unit for RRP grants and loans and

⁵By its nature, pre-rehab mobility would be extremely difficult to document; therefore, such data collection was not attempted as a part of this study.

\$4,618 per unit for all public funds combined. They represent 40 and 46 percent, respectively, of the average project's rehab cost, and exhibit far less variation than conventional leveraging ratios. The net present value of forgivable deferred-payment loans (\$5,506 per unit) was about 45 percent higher than the value of repayable loans (\$3,804 per unit).

Based on survey responses of owners, three-fourths of the units would have undergone some or all of the rehab work performed under the RRP, even in the absence of assistance. However, in only one-fourth of all units would the owner have completed all of the work, and in most cases renovations on these units would have been completed incrementally if RRP assistance had not been provided.

Analysis of project financial conditions confirmed that complete renovation would not have been financially feasible for most units in the absence of RRP assistance. Almost half of all units would have generated negative cash flows if the total rehab effort had been supported with private financing, and two-thirds would have had cash-flow-to-revenue ratios of under 10 percent. Nevertheless, subsidy levels were not effectively tailored to individual project financial conditions, and in many cases the cities provided larger subsidies than the minimum required to make rehab financially feasible. While greater use of gap financing techniques could have helped to minimize subsidies, sites evidently viewed this as a trade-off, preferring a straight 50-percent-of-cost approach that was attractive to potential participants and easy to administer.

Nature and Cost of Repairs

Roughly 20 percent of the units renovated under the program were uninhabitable prior to rehab, 40 percent were dilapidated, and 40 percent were in need of limited repairs. The average unit had major work performed on 3.4 systems, with 5 or 6 systems typically overhauled or replaced in dilapidated and uninhabitable projects. The electrical, the bathroom, and the heating, ventilation and air-conditioning systems were most frequently overhauled. In about 17 percent of the projects, units were added or enlarged, apparently in response to the program's emphasis on larger individual units, i.e., more bedrooms to serve larger families.

After rehab, the great majority of projects provided sound, useful housing for people of modest income. The

study's rehab specialists rated the quality of workmanship and materials as "average" in 71 percent of the units and "high" in 20 percent. Only about 9 percent had "poor" quality ratings. In this respect, the RRP clearly has succeeded in producing work of good quality. In about 25 percent of the units, while the local code and HQS requirements of the program were met, the study's inspectors felt that additional minor repairs would have improved the marketability or operating efficiency of the units. However, about 9 percent of the units still needed major repairs at the time of the site visit and would probably not meet HQS. In all but one case, these units were the same as those which received a poor quality rating from the study's inspectors on the work that was done.

Significantly, 70 percent of the projects in which both the quality and scope of work were poor (seven sites) were in localities where owners were responsible for preparing the work specifications. However, making the owner responsible for drawing up the specifications apparently worked quite well in other communities. The other seven of the 14 sites that streamlined in this way produced uniformly sound finished units, and only one had a problem with an owner-expanded scope.

Allowing local flexibility in determining eligible repairs generally did not result in the use of funds for work other than that necessary to create sound housing for lower income households. Expenditures to meet HQS and local code requirements averaged \$9,445 per unit and accounted for 94 percent of total rehab costs (\$9,978). Another 5 percent was spent on other improvements considered essential to marketability and sound management, and less than 1 percent went for general property improvements. Costs in excess of local code requirements or HQS were incurred in about half of all units but were relatively modest in amount.

In addition to the RRP expenditures reported here, 36 percent of the units involved owner expenditures on renovation work above and beyond that required by the RRP. Such expenditures averaged about \$500 in the sample as a whole and about \$1,800 for units which incurred such costs. Some of the expenditures were required to resolve unanticipated problems with HQS, and one owner enhanced two projects (containing 1 percent of sample program units) with improvements inconsistent with moderate-income occupancy. For the most part, however, the expenditures resulted from the fact that many owners perceived the need for finishing touches after the RRP work was completed.

Rehab cost per unit was largely determined by the rehab work required. Significant explanatory factors were

project size, average unit size, pre-rehab condition, and the number of major systems overhauled. Rehab costs were higher in projects where the owner had some prior rehab experience. They also were higher in projects where localities supplemented RRP funds with other public monies, either because localities offered extra subsidies to more costly projects or because availability of deeper subsidies encouraged owners to pursue more extensive rehab jobs.

Current and Long-Term Performance

Evaluating a program in its initial stages requires some speculation. Furthermore, restricting the sample to sites with completed projects may well overstate or understate the program's accomplishments. Nevertheless, based on the experience of the 34 sites, the Rental Rehab Program appears to be meeting expectations.

As noted throughout, specific program outcomes in a given community are closely related to the type of subsidy provided, the level of rehab funded, the characteristics of neighborhoods in which projects are located, and the strength of the local housing market. However, no one approach or market type is clearly superior to all the rest if one considers the range of program objectives established by HUD. While relatively few sites have been highly successful in all performance categories, most have done well on at least a subset of the RRP's major goals. This variation in outcomes reflects the diversity of local conditions, priorities, and needs.

Overall, the Rental Rehab Program appears to be working well. While initial production has been relatively low, it has accelerated in recent months, and many sites have made adjustments to their programs which should improve performance in this regard. As noted above, tenant monitoring should be strengthened. Nevertheless, the types of households being served, the initial affordability of the rehabilitated units, and the completion of appropriate repairs all conform to established national objectives.

The performance of the program will ultimately be judged on the extent to which it continues to provide housing of good quality at an affordable price for low-income households in the years to come. While the timing of the evaluation necessarily limits our ability to assess the long-term affordability of RRP units, our findings do provide some indirect evidence on this issue.

The majority of RRP projects developed thus far have been in neighborhoods where incomes and rents were relatively low. For example, median family income in the average RRP neighborhood was only about 66 percent of the local median in 1980. Ninety percent of the units studied had rents at or below the applicable FMR. Furthermore, roughly half of all housing units rehabilitated under the program had rents that were less than 90 percent of the applicable FMR, and another 10 percent had rents between 90 and 95 percent of the FMR. Given a relatively low rate of inflation, such units are likely to remain affordable over the next few years. More problematic are the units with rents which are currently close to or above the FMR. Nevertheless, given the nature of RRP neighborhoods, as well as the modest quality of the units developed thus far, even these projects would seem likely to retain their lower income character over the next few years.

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