

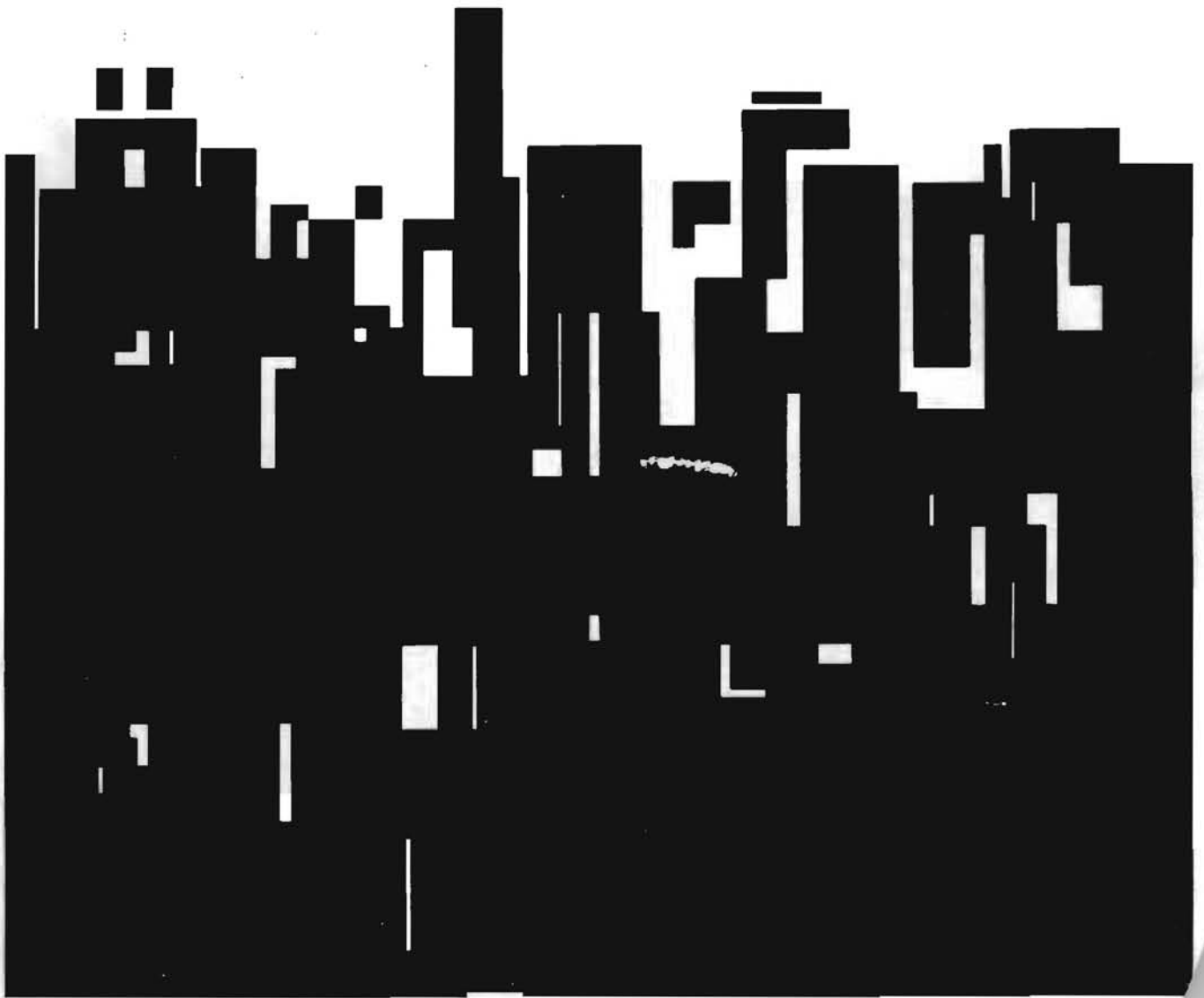


HUD-0003094

Report

Office of Evaluation

THE RENTAL REHABILITATION PROGRAM
DEMONSTRATION: EXPERIENCES OF FIRST
ROUND PARTICIPATING COMMUNITIES





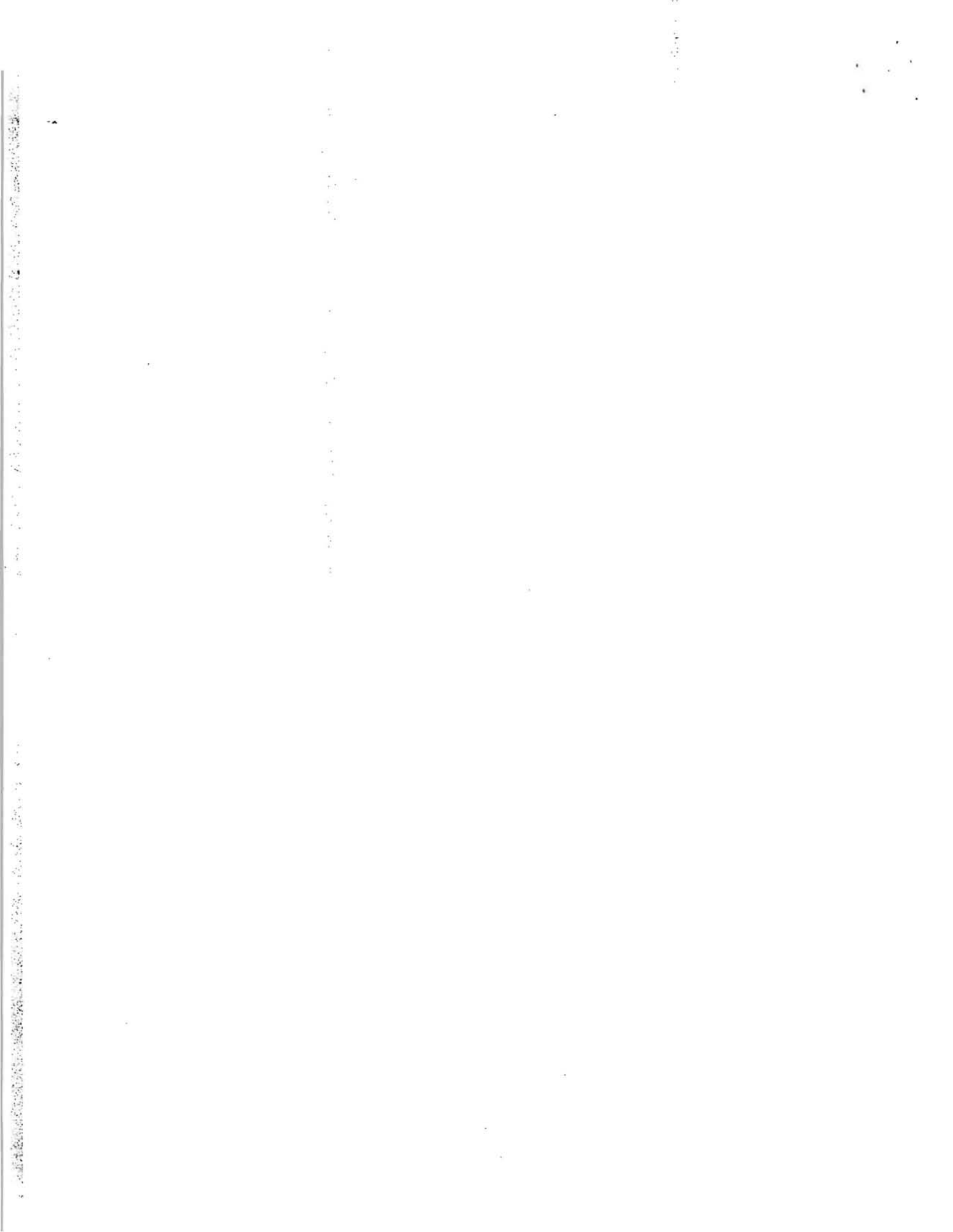
THE RENTAL REHABILITATION PROGRAM
DEMONSTRATION: EXPERIENCES OF FIRST
ROUND PARTICIPATING COMMUNITIES

Prepared by the
Office of Program Analysis and Evaluation
Office of Community Planning and Development
Department of Housing and Urban Development
May, 1983



TABLE OF CONTENTS

<u>SECTION</u>	<u>PAGE</u>
INTRODUCTION	1
EXECUTIVE SUMMARY.	1
BACKGROUND	5
LOCAL PROGRAM CHARACTERISTICS	
Local Program Design	9
Status of the Demonstration in First Round Communities	14
LOCAL ASSESSMENTS OF THE DEMONSTRATION	
Problems Implementing the Demonstration.	18
Technical Assistance Provided.	23
Comparisons of Demonstration to Other Rehabilitation Programs	25



RENTAL REHABILITATION PROGRAM DEMONSTRATION: THE FIRST ROUND

INTRODUCTION

In September 1982, the Office of Community Planning and Development (CPD) undertook an assessment of the effect on HUD's community development programs of statutory changes enacted and administrative actions taken in the previous year. As part of that assessment, staff from CPD's Office of Program Analysis and Evaluation conducted personal and telephone discussions with local officials in 205 cities and counties in the entitlement component of the Community Development Block Grant (CDBG) program. Included in those communities were the 23 communities participating in the first round of the Rental Rehabilitation Program Demonstration. This report presents the results of the discussions with the local Demonstration coordinators in each of the 23 communities.

The report is divided into four sections. The first section summarizes the major findings of the report. The second section describes patterns in local funding for the Demonstration, goals established by the participating communities, and the public subsidy mechanisms used in the Demonstration. The third section describes the status of the Demonstration in the 23 participating communities, including the number and size of the buildings rehabilitated in the Demonstration, average per unit rehabilitation costs, leveraging ratios, and the characteristics of tenants in the rehabilitated buildings. The final section reports the assessments of the Demonstration by local coordinators, including the problems they reported encountering in the first 12 months of the Demonstration, their evaluation of the technical assistance provided by HUD, and their comparisons of the Demonstration with other Federal rehabilitation programs.

I. EXECUTIVE SUMMARY

1. In most first round communities, the Rental Rehabilitation Program Demonstration is a relatively small part of all local housing rehabilitation but a large part of multifamily rental rehabilitation programs.
 - Most participating communities have agreed to budget less than \$250,000, or approximately one-tenth of the 1981 CDBG funds they earmarked for housing rehabilitation, to the Demonstration.
 - Only three local officials reported increasing the CDBG funds budgeted to housing rehabilitation because of the Demonstration.
 - In most communities, the Demonstration represents approximately 16 percent of all units the local officials expected to rehabilitate in 1982.
 - In half the Demonstration communities, the Rental Rehabilitation Program Demonstration represented at least one-fourth of the multifamily rental units to be rehabilitated through all programs during 1982.

2. According to data provided by local officials, properties rehabilitated to date through the Demonstration have had lower per unit public costs for rehabilitation and higher leveraging ratios than the Section 312 Multifamily Rehabilitation Loan program and other CDBG-supported rental rehabilitation programs.

-- Public rehabilitation costs in the Demonstration have averaged \$4,341 compared with \$10,546 in the Section 312 multifamily program and \$5,400 in all CDBG rental rehabilitation.

-- CDBG funds have leveraged \$1.50 in private funds for each \$1.00 in CDBG funds; in other CDBG-funded rental rehabilitation programs that leverage private funds, the average is \$1.35 per CDBG dollar.

3. The majority of units rehabilitated through the Demonstration rent for less than the Section 8 Existing Fair Market Rent and are occupied by low- and moderate-income tenants. Available data are somewhat contradictory about the amount of relocation that has occurred from rehabilitated buildings.

-- 82 percent of tenants residing in rehabilitated buildings for whom data are available, are low and moderate income households.

-- 89 percent of the units in rehabilitated buildings rent for less than the Section 8 Existing Fair Market Rents (FMRs).

-- Local officials in only three communities reported providing assistance to permanently relocated tenants, and only 36 households were reported to be involved. In seven cities, however, local officials estimated that approximately 37 percent (56 of 151) of original tenants did not remain in buildings rehabilitated through the Demonstration.

4. Although participating first round communities had rehabilitated a total of 173 units by the end of April 1983, most local officials reported that their Demonstration program was behind schedule. Progress in local Demonstration programs has been slow primarily because of general economic conditions and the resulting hesitancy of investors and lenders to rehabilitate multifamily rental properties.

-- At the end of April 1983, first round Demonstration communities had completed rehabilitation of 41 buildings with 173 units. In addition, they currently have under construction an additional 19 projects comprising 220 units. Overall, local officials in first round communities reported having selected about two-thirds of the units they expect to produce through the Demonstration.

-- At the time they were interviewed, 18 of 23 local coordinators reported they were behind their initially submitted schedule for the Demonstration.

- In 14 participating communities the most serious problem encountered was reported to be gaining the interest and participation of owners and lenders who were unwilling to fund rehabilitation of rental properties without some form of rent guarantee.
5. Other frequent problems reported by local officials involved investor reluctance due to the recourse loan emphasis in the Demonstration, getting HUD approval for their relocation strategy, and selecting the public subsidy mechanism and the target neighborhoods.
- In nine cities, property owners were reported to be opposed to taking out recourse loans on their properties and only one local official commented favorably on the recourse loan requirement.
 - Six localities reported antidisplacement guidelines were slowly developed, frequently changed, and not accompanied with timely guidance.
 - Five communities reported difficulties devising a public subsidy acceptable to all parties.
 - Four local officials cited selecting their target areas as their most significant problem in implementing the Demonstration.
7. The majority of local officials described at least one aspect of HUD management of the Demonstration as hampering their administration of the Demonstration.
- Among the complaints of local officials were the following:
 - o the HUD/CPD Central Office had required changes in target neighborhoods selected by the local officials;
 - o HUD transmitted contradictory signals about relocation strategy requirements; and
 - o there was a lack of coordination between HUD offices and the private consultants providing technical assistance.
8. Overall, local officials were pleased with the technical assistance they were provided through the Demonstration; most requested additional or expanded technical assistance.
- Eighty percent of the local officials reported receiving effective technical assistance from the HUD staff.
 - Seventy-five percent of the local officials reported receiving effective technical assistance from the private contractors funded by HUD.
 - Most of the assistance provided related to general program design devising public subsidy mechanisms, and improving leveraging arrangements.

- Local officials were interested in further technical assistance to refine their financial design, improve their subsidy mechanisms, calculate internal rates of return, become more familiar with tax syndication, and take advantage of secondary markets.
9. Compared to the Section 312 Multifamily Rehabilitation Loan and Section 8 Moderate Rehabilitation programs, local officials believe the Demonstration is most effective in facilitating local control over the rehabilitation process.
- In 12 of the 23 communities local officials reported success in reducing the public involvement in administration of the rehabilitation process. This was accomplished primarily by shifting some of their former responsibilities to the property owner.
 - The majority of local Demonstration coordinators believed that the Demonstration resulted in greater control over administrative costs for the community.
10. In other areas, such as the limiting the cost of rehabilitation, the speed of application processing, and the level of staff effort involved, there is no consensus among local officials on the benefits of the Demonstration.
- The majority of the Local Demonstration coordinators reported they believed the Demonstration was more effective than the Section 312 Multifamily Loan program but less effective than Section 8 Moderate Rehabilitation program, in these areas.
 - Local coordinators reported that developing unique loan packages and subsidy arrangements for each building, attempting to rehabilitate properties frequently owned by less financially sophisticated owners, estimating post-rehabilitation rents, and other special features of the Demonstration required a somewhat greater level of staff effort and made for longer application processing times than the Section 8 Moderate Rehabilitation program.
11. Only a few local Demonstration coordinators believed the Demonstration was more effective than either the Section 8 Moderate Rehabilitation program or the Section 312 Multifamily Rehabilitation Loan program at avoiding displacement of low and moderate income tenants, maximizing the production of rehabilitated units, and assuring quality rehabilitation work.
- Despite the availability of the Section 8 certificates, only a few local officials believed that the Demonstration is significantly better at preventing the displacement of low- and moderate-income households than other Federally-funded rehabilitation programs. In most cases, the local Demonstration coordinator's perception was a function of the relatively short term, 5 years, of the Section 8 rental assistance provided lower income tenants through the Demonstration.

- The majority of local Demonstration coordinators indicated that the the Section 8 Moderate Rehabilitation program was as effective or more effective than the Demonstration in controlling the cost of the rehabilitation work performed.
- In addition, local officials reported that due to the routine administrative procedures, standardized subsidy levels, and greater incentives to the investors they believed the Section 8 Moderate Rehabilitation and, to a less extent, the Section 312 Multifamily Rehabilitation Loan programs were better able to produce rehabilitated units than the more complicated and less deeply subsidized Demonstration process.

12. In several communities, local officials were concerned about the effects on the Demonstration of proposed changes to the Section 8 Existing Housing Assistance program.

- In particular local Demonstration coordinators were concerned about:
 - o the effect of lowering the eligible income threshold from 80 percent to 50 percent of the area median for the predominate share of households to receive Section 8 certificates; and
 - o the proposed change in the FMRs from the 50th percentile to the 40th percentile.

II. BACKGROUND

This section of the report describes the purpose, sources of funding, and requirements of the Demonstration, how it differs from other Federally funded rehabilitation programs, and briefly summarizes the selection of the participating communities for the two rounds of the Demonstration.

Purpose of the Demonstration. Since the inception of the Community Development Block Grant (CDBG) program in 1974, the rehabilitation of privately-owned residential properties has accounted for an increasingly large share of all Block Grant expenditures. In the three program years between 1979 and 1981, approximately \$2.7 billion, 25 percent of all CDBG funds appropriated, were budgeted to such activities. In 1982 entitlement grantees alone projected spending an additional \$700 million on housing rehabilitation.

The largest share of these funds has been used to rehabilitate single-family, owner-occupied properties. A recent report based on a survey of more than 400 entitlement communities by the General Accounting Office shows the extent of CDBG assistance to the owner-occupied segment of the housing stock. In that survey, 98 percent of all communities responding were found to have rehabilitated single-family, owner-occupied properties compared with 50 percent that had rehabilitated investor-owned multifamily or single-family rental units with CDBG funds. The survey also found that, although substantially more rental units than owner-occupied units need rehabilitation, entitlement communities assisted, on average, over four times as many owner-

occupied units (309) as investor-owned units (75).¹ Subsequent analysis by the GAO found that only about one-sixth of these communities, or eight percent of all entitlement program participants, had rehabilitated more than 100 units of rental housing in the three previous years.² Available evidence also suggests that little of the CDBG-assisted rental rehabilitation activity has been directed to smaller, i.e., 30 or fewer units, rental properties.

The Rental Rehabilitation Program Demonstration is designed to fill that gap by encouraging local communities to develop effective rehabilitation programs for small rental properties. The first round of the Demonstration, which was announced in the Federal Register on December 15, 1980, was open to CDBG entitlement communities and recipients of Small Cities Comprehensive grants. In the second round of the Demonstration, announced in June 1982, eligibility was expanded to include State governments. The purpose of the Demonstration is to show:

"That with the appropriate subsidized financing it is feasible, practical and cost effective to rehabilitate small multifamily property for rental at market rates;

That local CDBG funds can be used to leverage private monies to subsidize financing for rehabilitation of small multifamily rental properties;

That it is possible to build into publicly sponsored rehabilitation programs incentives for strong management and long-term maintenance of rental property; and

That with the appropriate use of Section 8 Existing Housing Certificates of Family Participation, eligible lower income residents can, if they choose, remain in rehabilitated buildings."³

Demonstration Funding. The primary source of the rehabilitation assistance in the Demonstration is the Community Development Block Grant funds that each participating community was required to budget for its local Demonstration program. The principal use of these CDBG funds is to subsidize the cost of rehabilitation down to the level required to make a project feasible at market rents. Demonstration participants can use their CDBG funds to provide any type of rehabilitation loan, grant, or other subsidy allowed by CDBG regulations.

The Demonstration's rental subsidy is provided through the Section 8 Existing Housing Assistance Program. Tenants receiving Section 8 certificates through the Demonstration are not required to remain in the rehabilitated building; they can leave the building and use the certificate at another location if they choose to do so. In addition, these Certificates can be used in cases where tenants would prefer to remain in the rehabilitated building but are unable to do so, e.g., where physical changes to the building are such that there are no units suitable for the tenant in that building after rehabilitation. Each local government selected for the Demonstration received a special allocation of Section 8 Existing Housing Contract Authority. The amount of the Contract Authority made available to each community was based on the number of units to be rehabilitated through the Demonstration, the estimated need for tenant assistance in those communities, and the availability of Section 8 Existing funds.

To help local officials with the technical aspects of the Demonstration, particularly with the terms and conditions of financial arrangements, participating communities were provided with technical assistance from HUD staff and with a limited amount (five days) of technical assistance from a private consultant paid for by HUD.

Demonstration Requirements. Since the Demonstration is based on the Administration's proposed Rental Rehabilitation Program, which emphasizes local discretion in the design of local programs, HUD specified few formal requirements in addition to those always applied to the use of Section 8 certificates and CDBG funds. The December 1980 announcement of the Demonstration did, however, establish certain guidelines for participation. These guidelines ensure that the central elements of local programs reflected the purposes of the Demonstration, while at the same time permitting localities broad latitude to design and administer the specific aspects of their programs.

The first major program requirement is that each local Demonstration program is required to include participation by private lenders in loan underwriting and to leverage private funds with the public resources used. In the first round of the Demonstration, localities were also expected to require an equity investment by the prospective borrower of at least ten percent cash or cash equivalent based on the market value of the property before rehabilitation.

In order to avoid causing hardship for lower income tenants, HUD also required first round communities to devise a strategy to minimize displacement of tenants from buildings being rehabilitated and to follow HUD-prescribed minimum requirements for protecting tenants earning less than the area median income. Localities have the option of providing more assistance to these tenants as well as providing assistance to tenants whose incomes exceed 100 percent of the area median.

The Rental Rehabilitation Program Demonstration also requires participating communities to target their programs to one or more neighborhoods where CDBG activities are concentrated and where post-rehabilitation market rents will tend to fall within the Section 8 Existing Fair Market Rents. The choice of these target neighborhoods was considered crucial to the success of the Demonstration. HUD staff reviewing the applications for the Demonstration were told that "...acceptable neighborhoods will usually be those that are moderately distressed" and that in neighborhoods that are "too good", market rents would exceed the Section 8 Fair Market Rents (FMRs) and make it difficult to serve low and moderate income persons. On the other hand, target areas could not be "very distressed neighborhoods where subsidies would have to be extremely high to attract investors."⁴

Differences from Other Programs. The Demonstration differs from other Federal housing assistance programs in several ways. The most significant difference is that the Demonstration is based on the premise that the rental subsidy to the low-income tenant should be separated from the rehabilitation assistance for the property. Unlike their use in the Section 8 rehabilitation programs, the Section 8 Existing certificates provided lower income families through the Demonstration are not tied to the property being rehabilitated. This is a significant change from Federal housing rehabilitation programs that provide property owners the assurance of continued rental income if they rehabilitate

their properties. A second important difference is the expanded role of local officials. Compared to many other Federal housing programs, local officials have much broader discretion and much greater responsibilities in the Demonstration. In the Demonstration, local officials are engaged in selecting neighborhoods, determining appropriate subsidy levels and mechanisms, attracting owners, selecting properties to be rehabilitated, and coordinating the activities of investors, lenders, contractors, and tenants. Because of the flexibility permitted local officials, each locality's program has a unique combination of characteristics designed to meet the locality's particular needs, priorities, and management structures.

A third major difference between the Rental Rehabilitation Demonstration and other Federally-assisted rehabilitation programs is that communities participating in the Demonstration are required to leverage private funds with the CDBG funds they use in the Demonstration. Although many communities do attempt to leverage private resources through other rehabilitation programs, most other programs do not require that they do so.

A final major difference is that the Demonstration was designed to increase the risk borne by the investor, i.e., the owner of the property, relative to the public sector. The position of investors in the Demonstration is more similar to their position in the private unsubsidized rental market than it is in other Federal housing programs. Unlike most other Federal housing programs, the investors may be responsible for proposing the amount of work to be done, obtaining their own private financing, and negotiating with contractors. Communities in the first round of the Demonstration were also expected to require recourse* lending in the Demonstration and to discourage participation by tax shelter syndicates. In return, rental property owners receive only a one time loan or grant from the public sector. Since tenants receiving Section 8 certificates are free to use the certificate where they wish, property owners receive no guarantee of continuing rental assistance to their tenants. Nor do they receive special tax breaks. Investors are expected to view property ownership, rehabilitation, and management as a profitable investment that will produce a positive cash flow in a competitive private market environment.

Selection of Demonstration Participants. The December 1980 announcement of the Demonstration required interested localities to submit preliminary applications describing specified major features of their proposed program to the HUD Central Office by March 6, 1981. From these preliminary applications a smaller number of communities were to be identified and invited to submit final applications for consideration.

A total of 78 communities submitted preliminary applications. These applications were reviewed by the HUD Central Office and by the Area Office having jurisdiction over the community. Forty of the 78 communities submitting preliminary applications were initially selected to submit a final

* A recourse loan enables the lender to take action against the personal property of the borrower in addition to foreclosing on the mortgaged property. It was encouraged by HUD in the first round of this Demonstration to increase the owner's risk and commitment to the success of the project.

application. However, because the Section 8 Existing certificates requested by the communities exceeded the available funds, only 23 communities were invited to submit final applications.

On September 15, 1981, the 19 CDBG entitlement cities, two urban counties, and two CDBG small cities selected to participate in the Demonstration were announced. These communities agreed to budget a total of \$6,719,000 in local CDBG funds to the Demonstration and planned to rehabilitate approximately 1,200 units. HUD was to provide the 23 communities a sufficient allocation of Section 8 Existing Housing Contract Authority to assist 714 low- to moderate-income tenants residing in buildings rehabilitated in the Demonstration and technical assistance in designing their programs.

On June 17, 1982, the second round of the Demonstration was announced in the Federal Register. The basic purpose of the Demonstration was unchanged, but the scope was broadened to allow participation by interested State governments. In August 1982, 176 jurisdictions (14 States, 21 counties, and 141 cities) were selected to participate in the second round of the Demonstration. These participants agreed to budget \$38.5 million in CDBG funds to the Demonstration, were to receive 6,000 Section 8 certificates, and planned to rehabilitate approximately 10,000 units in the Demonstration.

III. LOCAL PROGRAM CHARACTERISTICS

The following two sections describe major program design features of communities participating in the Demonstration and summarize the experiences of these communities during the first twelve months of the Demonstration. The information used in these sections is drawn from personal or telephone discussions conducted in the latter part of 1982 with the local coordinators of the Demonstration, or their designees, in each of the 23 communities participating in the first round of the Demonstration and supplemented with information provided by the Office of Urban Rehabilitation.

A. LOCAL PROGRAM DESIGN CHARACTERISTICS

1. The majority of communities participating in the first round of the Rental Rehabilitation Demonstration have budgeted between \$150,000 and \$374,000 in CDBG funds to the program. For the most part, these funds had already been earmarked for housing rehabilitation. Local officials expect to rehabilitate between 30 and 75 units in one or two target neighborhoods per community with these funds and the private funds they leverage.

The 23 communities participating in the Demonstration committed an average of \$292,000 in local CDBG funds to their Demonstration projects. The allocations ranged from \$100,000 to \$600,000, although most communities allocated between \$200,000 and \$374,000. (See Table 1). These amounts represented about five percent of the 1981 CDBG grants to these 23 communities. However, the range

* Participating communities were not required to allocate all the Demonstration budget from one year's CDBG grant; they only had to agree to

is extremely large, from .1 percent (\$500,000 of a \$254,769,000 grant in New York City) to 25 percent (\$374,000 of a \$1,495,000 grant in Ann Arbor). (See Table 2).

For the most part, the CDBG funds budgeted for the Demonstration were funds that were already earmarked for housing rehabilitation. Only three of the 23 cities reported budgeting additional CDBG funds to rehabilitation as a result of participation in the Demonstration. The increases, which ranged from \$10,000 to \$200,000, amounted to \$310,000 or 4.6 percent of the total funds allocated to the Demonstration.

TABLE 1
CDBG FUNDS BUDGETED TO THE FIRST ROUND OF THE RENTAL
REHABILITATION DEMONSTRATION PROGRAM DEMONSTRATION

<u>CDBG Dollar Amounts</u>	<u>Number of Communities</u>	<u>Percent of Communities</u>
less than \$200,000	6	26%
\$200,000 - \$249,000	6	26
\$250,000 - \$499,000	5	22
more than \$500,000	6	26
	<u>23</u>	<u>100%</u>

SOURCE: U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Program Analysis and Evaluation, 1982 Anticipatory Evaluation. Detail may not add due to rounding.

TABLE 2
FUNDING FOR THE FIRST ROUND OF THE RENTAL REHABILITATION
PROGRAM DEMONSTRATION AS A PERCENTAGE OF 1981 CDBG GRANTS

<u>Demonstration funding as share of CDBG Grant</u>	<u>Number of Communities</u>	<u>Percent of Communities</u>
less than 1%	3	13%
1% - 4.9%	8	35
5% - 9.9%	7	30
10% - 19.9%	3	13
20% or more	2	9
	<u>23</u>	<u>100%</u>

SOURCE: U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Program Analysis and Evaluation, 1982 Anticipatory Evaluation.

Participating communities expect to rehabilitate an average of 53 units using

budget a certain amount of funds. The comparison to the FY 1981 grant is made to provide an easily understood measure of funding.

these funds and the private funds they leverage. This average, however, is inflated by the relatively large goals of three cities that expect to rehabilitate 100 or more units. In fact, most communities actually had more modest goals of rehabilitating between 18 and 47 units in the Demonstration. (See Table 3).

TABLE 3
ESTIMATED NUMBER OF UNITS TO BE REHABILITATED
IN FIRST ROUND OF RENTAL REHABILITATION PROGRAM DEMONSTRATION

<u>Number of Units</u>	<u>Number of Communities</u>	<u>Percent of Communities</u>
Fewer than 20	3	13%
21 - 30	4	17
31 - 40	2	9
41 - 50	5	22
51 - 75	5	22
76 -100	3	13
More than 100	1	4
	<u>23</u>	<u>100%</u>

SOURCE: U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Program Analysis and Evaluation, 1982 Anticipatory Evaluation.

In the majority of first round communities, rehabilitation efforts were targeted to one or two neighborhoods, although several communities targeted more than three neighborhoods. These target areas were generally described by local demonstration coordinators as similar to the rest of the city or county in terms of demand for rental housing and multifamily property values.

The local discretion permitted the Demonstration participants was reflected in the types of buildings that local officials reported emphasizing in the Demonstration. Although the Demonstration programs in each of the 23 first round communities targeted properties according to the income of their tenants, the occupancy status of the buildings, or several other characteristics, only the number of units in the building was used as a targeting criterion in a majority of communities. Even among these communities, however, there was substantial variation regarding the size of the building targeted; local officials reported emphasizing buildings ranging from single-family structures to buildings having 30 or more units.

2. Although the Rental Rehabilitation Program Demonstration is not a large overall part of most local rehabilitation programs, it does constitute a large part of the multifamily rental rehabilitation program in most participating communities and is the largest part in several cities.

In most of the first round communities, the CDBG funds budgeted to the Demonstration represented a relatively small portion of funds budgeted for all rehabilitation programs. In 15 of the 23 localities the demonstration funds represented less than thirty percent of other CDBG funds budgeted for rehabilitation. For two cities it represented between 31 percent and 50

percent of the budget, and in one locality the Demonstration budget accounted for more than one-half of the funds. (See Table 4).

The portion of units expected to be rehabilitated by the Demonstration participants is also a relatively small share of all units to be rehabilitated by the community. In nine localities, the Demonstration goal represents less than 10 percent of the total units to be rehabilitated, and for eight cities it represents between 11 and 30 percent. In only one community did the Demonstration represent over 50 percent of all units to be rehabilitated that year.

The Demonstration does, however, represent a much larger share of local multifamily rental rehabilitation programs. (See Table 5) In nine of the 23 communities, the Demonstration represents more than half of the total multifamily units rehabilitated in those communities. The Demonstration is the only CDBG-funded multifamily rehabilitation effort in four communities.

TABLE 4
RENTAL REHABILITATION DEMONSTRATION AS A
PERCENT OF ALL LOCAL HOUSING REHABILITATION
IN PARTICIPATING COMMUNITIES

Percentage of All Local Rehabilitation	Units		Funding	
	Number of Communities	Percent of Communities	Number of Communities	Percent of Communities
Less than 10	9	41%	9	45%
10 - 30	8	36	8	40
31 - 50	4	18	2	10
51 - 99	1	5	1	5
100	0	0	0	0
	<u>22</u>	<u>100%</u>	<u>20</u>	<u>100%</u>
Average		19%		15%
Median		15.5%		11.5%

SOURCE: U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Program Analysis and Evaluation, 1982 Anticipatory Evaluation.

3. Twenty-two of the 23 participating first round communities reported providing rehabilitation assistance by offering principal reduction loans or grants to property owners. In 17 of these communities, low interest deferred payment loans were used.

The GAO in their recent review of CDBG-funded housing activities concluded that CDBG entitlement rehabilitation efforts "used less innovative financing methods, such as grants;" and "attracted few private funds to supplement the CDBG funds...." The Rental Rehabilitation Program Demonstration was undertaken to show that CDBG-funded rehabilitation can move away from traditional full loans and grants and leverage significant sums of private resources.

Officials in all but one of the participating communities (22) reported subsidizing the rehabilitation of properties by reducing the amount the property owner had to borrow in the private market. The most frequent form of this principal reduction subsidy mechanism has been low interest, usually zero or one percent, deferred payment loans. (See Table 6) In 12 of the 17 cities using this mechanism borrowers were required to repay the loan. Generally, repayment was required after the market rate loan had been paid off, upon sale of the property or within some other specified time period. Five communities offered investors forgivable loans. Four of these communities forgave the entire amount after a specified period of time, generally between eight and 12 years. The other community forgave two-thirds of the loan with the remaining one-third due on sale of the property.

TABLE 5
RENTAL REHABILITATION PROGRAM DEMONSTRATION AS A
PERCENT OF LOCAL MULTIFAMILY RENTAL REHABILITATION
IN FIRST ROUND COMMUNITIES

Demonstration as a Percentage Share of MF Rehabilitation	Units		Funding	
	Number of Communities	Percent of Communities	Number of Communities	Percent of Communities
Less than 10	3	14%	6	27%
10 - 30	9	41	7	32
31 - 50	1	5	3	14
51 - 99	5	23	2	9
100	4	18	4	18
	<u>22</u>	<u>100%</u>	<u>22</u>	<u>100%</u>
Average		43%		39%
Median		26.5%		26.5%

SOURCE: U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Program Analysis and Evaluation, 1982 Anticipatory Evaluation. Detail does not add due to rounding.

TABLE 6
PUBLIC SUBSIDY MECHANISMS USED BY
PARTICIPATING FIRST ROUND COMMUNITIES

Subsidy Mechanism	Number of Communities	Percent of Communities
Principal Reduction	22	96%
Deferred Payment Loans	(17)	(74)
Partial Grants	(3)	(13)
Participation Loans	(2)	(9)
Interest Subsidies	1	4
	<u>23</u>	<u>100%</u>

SOURCE: U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Program Analysis and Evaluation, 1982 Anticipatory Evaluation.

Two cities use a participation loan as their public subsidy mechanism to reduce the amount of principal on the property owners private market loan.* One community combines a four percent CDBG loan with a market rate loan from a private lending institution to achieve a below market interest rate. The second city has a formal lump-sum leveraging agreement with a consortium of lenders who lend money at one percent below market rate.

In addition to the various forms of principal reduction loans offered by the participating communities, three communities provide partial rehabilitation grants to property owners. One offers a grant combined with a deferred payment loan which is 100 percent forgivable if the property is not sold within eight years.

Only one local official reported using an interest subsidy as its means of subsidizing rehabilitation costs in the Demonstration. That city has an agreement with local bank that issues a line of credit, with a variable interest rate, for the total amount of the rehabilitation costs. The city pays a lump-sum to the bank which represents the estimated difference between an affordable payment for the owner at the prevailing interest rate. The public funds are used to reduce the owners monthly debt service to a constant amount. In the event that the property owner prepays the loan, the agreement allows the city to recover part of the subsidy.

B. STATUS OF THE DEMONSTRATION IN FIRST ROUND COMMUNITIES

1. As of April 30, 1983, first round communities have rehabilitated or have started construction on approximately 393 units in 60 buildings. Data from a slightly earlier period suggest that the majority of these units are located in buildings that have more than 10 units, but the majority of the buildings are one-to-four unit structures.

According to the most recent available information, the first round communities have completed rehabilitation of 41 buildings with 173 units. In addition, they currently have under construction an additional 19 projects comprising 220 units. (See Table 7.) Local officials also report that a number of projects have been funded or selected but are not yet under construction. Overall, about two-thirds of the approximately 1,200 units in the 23 first round communities expect to produce through the Demonstration have at least been selected for processing.*

Some of the first round communities have made significant progress towards accomplishing their local goals for the Demonstration. As of April 30, 1983

* A participation loan is a loan in which the principal is provided by two or more lenders who share in both the return on the loan and in the risk of making the loan.

* In addition to the units completed by the first round communities second round communities have a total of 423 projects comprised of about 2,400 units in some stage of rehabilitation, including 71 units in 25 projects already completed and 64 projects with 332 units under construction.

seven communities had completed or had under construction more than 20 units, and in one community construction was underway on 117 units. Six communities, however, had not begun construction on any of the units they expected to produce through the Demonstration. (See Table 8).

The local discretion permitted by the Demonstration was apparent in the varying size of the buildings that have been rehabilitated. As of December 1982, the last date for which such information is available, 14 of the 23 first round communities had completed or had under construction 32 projects. The majority of the Demonstration projects that have been completed or are under construction involve buildings with 1-4 units, and 85 percent of the projects involve buildings with 10 or fewer units. (See Table 9.) These 32 projects varied in size from single family properties in three of the 14 communities to a 38 unit building in one community.

TABLE 7
FIRST ROUND PROGRESS OF THE
RENTAL REHABILITATION PROGRAM DEMONSTRATION
(As of April 30, 1983)

STAGE	PROJECTS	UNITS	AS PCT. OF NATIONAL GOAL
Completed	41	173	14%
Construction started	19	220	18
Funded, not in Construction	10	42	4
Selected, not yet Funded	39	394	33
Total	109	829	69%

SOURCE: U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Urban Rehabilitation. Detail does not add due to rounding.

TABLE 8
UNITS COMPLETED OR UNDER CONSTRUCTION IN FIRST ROUND RENTAL REHABILITATION
PROGRAM DEMONSTRATION COMMUNITIES
(As of April 30, 1983)

Units Completed or Under Construction	Number of Communities	Percent of Communities
0	6	26%
1 - 9	4	17
10 - 19	6	26
20 - 49	6	26
50+	1	4
	23	100%

SOURCE: U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Urban Rehabilitation, Compiled by the Office of Program Analysis and Evaluation. (Detail does not add due to rounding.)

TABLE 9

SIZE OF PROJECTS COMPLETED OR UNDER CONSTRUCTION IN
FIRST ROUND OF RENTAL REHABILITATION PROGRAM DEMONSTRATION
(As of December 30, 1982)

Building Size	Projects		Units	
	Number	Percent	Number	Percent
1 - 4 units	17	53%	45	19%
5 - 10 units	10	32	63	27
11 - 20 units	3	9	54	23
more than 20 units	2	6	69	30
	32	100%	231	100%

SOURCE: U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Urban Rehabilitation. Compiled by the Office of Program Analysis and Evaluation. Detail does not add due to rounding.

2. Based on preliminary data, the Rental Rehabilitation Program Demonstration has achieved a better overall leveraging ratio and lower per unit public subsidy for rehabilitation than the Section 312 Multifamily Rehabilitation Loan program and other CDBG-funded rehabilitation efforts.

The per unit rehabilitation costs in the 32 Demonstration projects completed or under construction as of December 1982 have varied from approximately \$3,300 to \$41,000 and have averaged \$10,965. Of that sum, public costs, excluding the Section 8 certificates provided, have ranged from approximately \$1,000 to \$20,000. Overall, the average public cost, excluding rental subsidies, has been \$4,341. This figure is lower than the estimated per unit public rehabilitation costs for Section 312 Rehabilitation loans to multifamily family properties (\$10,546)⁶ and other multifamily rehabilitation funded by CDBG, (\$5,400).⁷

Because participating communities were required to leverage funds as part of the Demonstration, the 32 projects completed or under construction as of January 1983 have a better leveraging ratio than other CDBG-funded multifamily rental rehabilitation projects. According to the recent GAO report on CDBG-assisted housing rehabilitation, communities rehabilitating rental properties and leveraging private monies with CDBG funds, averaged he approximately \$1.35 of private funds for every CDBG dollar contributed. Demonstration projects, however, have leveraged approximately \$1.50 of private funds for each CDBG dollar used.

The best available information on the public costs of the Section 8 Moderate Rehabilitation is found in a recent survey, done for the Office of Housing, of 64 communities with Section 8 Moderate Rehabilitation programs. This study, conducted by the National Association of Housing and Redevelopment Officials, "Section 8 Moderate Rehab Survey," found that the average total per unit rehabilitation cost, excluding the Section 8 rental subsidy, was \$ 7,679 in that program. The survey also found that local officials reported the primary source of funding for 70 percent of the 6,861 units rehabilitated in these communities was private money or conventional loans. CDBG funds and other

public sources were reported to be the primary source of funding for approximately 30 percent of the units. Because the form used to collect the Section 8 information (HUD-52686, Report on Section 8 Moderate Rehabilitation Program Activity) does not report separately the amounts provided from the various sources it is not possible, however, to accurately compare the public costs in this program to the public costs in the Demonstration.

3. The majority of units in buildings rehabilitated through the Demonstration are occupied by low and moderate income households and rent for less than the Section 8 Fair Market Rents. It is unclear, however, how much relocation has occurred in buildings rehabilitated through the Demonstration.

One of the major purposes of the Demonstration is to show that CDBG-funded multifamily rehabilitation can be undertaken in occupied buildings without causing substantial displacement of low- and moderate-income tenants. According to the officials interviewed, participating communities may have had mixed success in this regard. Data provided by local officials and HUD field staff to the Office of Urban Rehabilitation indicate that the majority of the households currently residing in the rehabilitated buildings are low- and moderate-income households. According to these data, which represent 193 units that were occupied in April 1983 and for which tenant incomes are known, 82 percent (159) have incomes of less than 80 percent of the area median. The incomes of tenants residing in 97 of the occupied units are unknown.

The available data also suggest that the market rents in the rehabilitated buildings have generally not exceeded the Section 8 Existing Fair Market Rents (FMRs) in the participating communities and, consequently, the Section 8 certificates can be used to minimize displacement. Only three of the 23 local officials contacted reported that the post-rehabilitation rents in one or more of their communities' projects exceeded the Fair Market Rents for existing units. Data collected by the Office of Urban Rehabilitation are available on the rents of Demonstration units with construction completed by April 1983. Of these units, 224 (89 percent) were occupied and renting at or below the Section 8 Existing FMR for that unit. Only 27, or 11 percent, of these units were renting at more than the FMR.*

The information on relocation collected during the field interviews is not as clear. Local officials were asked two questions dealing with relocation. Given the inconsistent responses to these two related questions and the absence of other comprehensive data, the actual extent of tenant displacement attributable to the Demonstration is difficult to assess. The first question asked local officials how many residents received permanent or temporary relocation assistance during the rehabilitation of their buildings. Just over one-half (13) of the local officials answering this question reported having projects involving 226 units that required assistance to relocate tenants. In

* These figures reflect 290 units reported by the Office of Urban Rehabilitation to have been completed by both first and second round communities. Data were not reported separately for each round.

10 of 13 localities, the relocation was temporary and occurred on site. Only three cities reported instances of permanent relocation; thirty-six households were involved in the relocation.

The local coordinators' responses to the second question were, however, significantly different. That question asked what percentage of the original tenants remained in buildings after they were rehabilitated. Overall, local officials in seven participating communities reported that 56 of 151 original tenants in rehabilitated buildings permanently relocated from the building during or after rehabilitation began. In six of these communities, the number of tenants permanently relocating varied from one household in a five unit building to 11 of 15 households in another. In the seventh community, the local coordinator interviewed reported that only a few of the original tenants in the 26 occupied units that they were doing remained after rehabilitation had begun. The local coordinator in that community attributed the large number of permanent relocations to the characteristics of the building rehabilitated. Virtually all units underwent substantial rehabilitation requiring all tenants to vacate their residences. Because the rehabilitation work took considerable time, many tenants chose not to make the second move back to their original units.

IV. LOCAL ASSESSMENTS OF THE DEMONSTRATION

This section of the report presents the findings from the personal and telephone interviews conducted as part of the 1982 assessment of the effects of the 1981 amendments of the Housing and Community Development Act of 1974 conducted by the Office of Program Analysis and Evaluation.

A. PROBLEMS IMPLEMENTING THE DEMONSTRATION

1. In 18 of the 23 communities local officials reported they were behind their initially submitted schedule for the Demonstration. In most cases, they reported that the most serious problem they encountered was gaining the interest and participation of owners and lenders in the Demonstration. According to these officials, lenders and owners alike were hesitant because of economic conditions, although some owners were also concerned about the added risk involved in recourse lending.

Almost 80 percent of local officials in first round communities reported they were behind the schedule they submitted in their final application. In 14 of the communities, local officials said gaining the participation and interest of owners and lenders was a major problem; in all but one of these cities it was considered the most serious problem. (See Table 10.) This problem was seen as a reflection of the general state of economy and, in particular, the financial markets. According to local officials, lenders had been reluctant to participate in the program primarily because of high interest rates and inflation. They are hesitant, particularly in uncertain economic times, to invest in small properties or in neighborhoods that have a large proportion of low- and moderate-income residents. Consequently, they require rent guarantees and additional securities from borrowers before making such loans. In addition, in some areas the lenders tend to be distrustful of government programs. Owners, on the other hand, are either reluctant to borrow money or to use their own cash to rehabilitate their rental

properties. Moreover, some owners do not have sufficient cash or equity in their properties to meet the more conservative underwriting practices of lenders. Consequently, both the supply of and demand for rehabilitation capital have reportedly been low.

According to several local officials, the emphasis on recourse lending also inhibits participation by property owners in the Demonstration. In nine cities, property owners were reported to be opposed to taking out recourse loans on their properties and several local officials suggested revising the Demonstration to allow for non-recourse lending.* In one community, the use of recourse lending was further complicated by the frequent use of land contracts in that area. Under land contracts, the current owner does not have clear rights to the title, and, consequently, it is difficult to obtain loans on the property. Only one local official commented favorably on the recourse loan requirement. That person believed the requirement was important because it increased the owner's risk and interest in the success of the project.

Local officials have attempted a variety of approaches to overcome the reluctance of owners to enter into recourse lending arrangements. One city increased its CDBG contribution from 25 to 40 percent of the rehabilitation cost in order to reduce the amount the owner would have to borrow. Other officials reported using various financial options such as secondary markets, loan pools, and providing lenders with lump-sum security deposits.

Local efforts to persuade reluctant property owners to enter into recourse loan agreements have not always been successful. Local officials in one city attempted to get permission from the holder of a land contract for a recourse loan and were unable to do so. Since high interest rates made refinancing unreasonable for the current owner, they were unable to use this property in the Demonstration. Another local official commented that, as a result of efforts to overcome the investors' fears, his city paid a "premium" because it developed what he believed were "sweet deals" for the owners.

2. Getting HUD approval for their anti-displacement strategies was a major problem for more than one-fourth of the participating communities.

The second most frequent major problem local officials reported concerned HUD guidelines and conditions for developing relocation strategies; six cities reported they had major problems due to this aspect of the Demonstration. According to several local officials, Demonstration guidelines for relocation were not quickly developed, underwent several changes, and very little timely guidance regarding the requirements was provided localities. Some officials indicated that their proposals had to be revised several times because of changing HUD guidelines or misinformation from either HUD staff or the private consultant. One city, for example, attempted to institute rent conditions as a part of their anti-displacement strategy. According to the local official interviewed, the strategy had been described several times to the relevant HUD offices without any problems being raised and had gained the City Council's

* Since these interviews were conducted the Department has reduced the emphasis on using recourse loans in the Demonstration.

approval. Later, the HUD Central Office vetoed the plan because it constituted a form of rent control. Because of these delays the city had not selected any properties by September 1982 and believed that the loss of its Demonstration Section 8 certificates was possible unless they revised the entire plan.

TABLE 10
LOCAL ASSESSMENTS OF DESIGN AND IMPLEMENTATION PROBLEMS
IN THE FIRST ROUND OF THE DEMONSTRATION

Activity	Cities Reporting Activity as:			
	Major Problem	Minor Problem	No Problem	Most Serious Problem
Gaining the Interest and Participation of Owners and Private Lenders	14	6	3	13
Designing an Anti-Displacement Strategy	6	7	8	2
Selecting Public Subsidy Mechanism	5	6	12	0
Assisting Owners to get Bank Approval for Loans	4	7	12	7
Avoiding Displacement of Tenants	2	6	15	1
Creating an Administrative Structure	2	3	18	0
Selecting Appropriate Neighborhood	1	5	17	4
Determining Rents of Rehabilitated Properties	0	10	13	0
Developing Selection Criteria	0	4	18	0
HUD Regulations ¹	--	--	--	3

¹ Volunteered by respondents.

SOURCE: U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Program Analysis and Evaluation, 1982 Anticipatory Evaluation.

3. In several communities, local officials were concerned about current features of and proposed changes to the Section 8 Existing Housing Assistance program.

Local officials in several cities fear the displacement due to the Demonstration may increase because of proposed changes in the Section 8 program. For example, some local officials fear that projects they initially planned to rehabilitate may no longer be practical because some of the tenants will not be eligible for Section 8 assistance due to proposed changes in program income limits. The proposed change in Section 8 maximum income limits from 80 percent of the area median to 50 percent of the median is expected to negate much of the benefit of the certificates because they will be useful only for very low income persons. According to these officials, few owners or lenders are willing to commit funds to properties that are affordable to the very poor.

Some local officials also claimed that the Section 8 FMRs were below the market rents in their communities and that the increase in the FMRs has not keep pace with the market rent increases. After the rehabilitation is complete, local officials expect property owners to charge market rents and fear that, unless the Section 8 FMRs keep pace, they will no longer be useful in reducing displacement. If the FMRs are reduced to the 40 percentile of the area market rents, this situation is expected to worsen.

Local officials also indicated a concern about long term displacement because the term of a Section 8 certificate only lasts for five years. The longer term of the Section 8 moderate rehabilitation program's subsidy was praised when compared to the Section 8 existing certificate. Concern about displacement prompted some localities to devise their own subsidy programs for tenants currently ineligible (e.g., elderly people living in "oversized" apartments after their families left home) for Section 8 assistance.

4. Determining the appropriate public subsidy mechanism was a serious problem in five cities and a minor problem in several others.

According to the local coordinators in a number of communities, they had difficulties devising suitable solutions suitable to all parties. One city has had problems convincing owners to participate in gap financing efforts and anticipates a shift to a straight 50 percent subsidy of the rehabilitation costs. Another city did not want to use a deferred payment loan but instead wanted immediate repayment of the loan in order to generate additional block grant income for the city from the interest received. However, this plan was disapproved by HUD and the public subsidy had to be redesigned. In two cities there were serious problems with owners who held unclear titles and were, therefore, ineligible for the subsidy mechanism the city was using. If these properties have to be refinanced, the projects generally become no longer economically feasible.

5. Selecting the target neighborhoods, although not a frequent problem, was the most important problem for four cities.

In most communities, selecting the target neighborhood did not pose a problem. However, most communities did make some change in the number of areas targeted and in a few communities, identifying these areas has been their most significant problem. Overall, nine first round localities changed their target areas after their applications were approved. Four communities added neighborhoods to increase the number of properties they could assist through the Demonstration. These changes were made because high interest rates led local officials to believe that an insufficient number of property owners would apply to the Demonstration to enable them to meet their goals and because the added neighborhood would benefit from this program. One local official stated he made the change because, without Section 312 funds, some of the projects originally proposed were no longer feasible, leading him to believe that the initially targeted area alone could not successfully carry the Demonstration.

All four of the communities that dropped target areas reported doing so because of concern that the areas were gentrifying; consequently, targeting them for assistance would be unnecessary. Three of the four communities reported that they dropped the neighborhoods at the request of the HUD CPD Central Office.

Finally, one city replaced a target neighborhood with another area. The city agreed with HUD's suggestion that the new neighborhood would be more appropriate for the program because the rental demand and turnover are more typical of the rest of the city. The current coordinator, however, believes that this new area is gentrifying and is no more appropriate for the Demonstration than the prior target area had been.

6. According to several officials interviewed, frequent changes in the Demonstration guidelines and inadequate coordination between the various parties involved in the Demonstration contributed to the difficulties they encountered in administering their Demonstration projects.

Several local officials frequently commented that changes in the guidelines for the Demonstration had negative effects on their local programs. Local coordinators cited several guidelines or features of the Demonstration as having been changed, sometimes more than once, after the December 1980 announcement of the Demonstration.

Among the complaints local officials voiced were that the HUD/CPD Central Office had changed neighborhood targeting criteria after their neighborhoods had been selected and their final application approved, had given contradictory signals about relocation strategy requirements, had been unclear about the rent control provisions in the Demonstration, and vacillated about counting buildings rehabilitated through the use of Section 312 funds in the Demonstration.

Local officials also reported that these problems were made worse by the lack of coordination between the HUD offices and the private consultants that

provided technical assistance. According to them, there were frequently substantial delays when they asked a question that required consultation between the private consultant, the HUD Area Office, and the HUD Central Office. Other local officials reported that the lack of continuity among HUD staff and consultants working on the Demonstration compounded these problems because new people had to become familiar with the local program and sometimes had to be convinced that local program features complied with Demonstration guidelines.

As a result of these problems, some local officials reported that they were getting differing information and directives from the various parties involved in the Demonstration. The application of the prohibition against rent control in the Demonstration provides an example of the contradictory interpretations of Demonstration guidelines. As indicated above, one locality had not rehabilitated any properties because, according to the local official interviewed, their anti-displacement strategy was not approved by HUD. In another community with a very similar rental market, however, a plan requiring that all proposed rent increases be reviewed and approved by the tenants of rehabilitated buildings was accepted by HUD.

Some of the changes reported by local officials, for example the "on again, off again" availability of Section 312 funds, the change in Section 312 interest rates from 3 percent to 11 percent, and the statutorily mandated changes in the Section 8 program, were clearly outside the control of CPD staff. Seen against the backdrop of the other changes, however, even these were considered by some local officials to be an indication that HUD staff did not always have a clear understanding about how the Demonstration was to operate or what it was supposed to address.

Two local officials also reported that, despite the emphasis on local discretion, HUD staff tried to require them to use certain preferred forms of public subsidy. One official reported that HUD staff originally asked his community to use tax exempt financing. This did not seem feasible to them because of the interest rates but they felt compelled to "waste" the time necessary to pursue this option. Another locality designed a direct loan subsidy format from which it could recover the principal as well as interest. However, according to the person interviewed, HUD staff urged them to implement a deferred loan arrangement.

B. TECHNICAL ASSISTANCE

1. Eighty percent of the participating communities reported receiving effective technical assistance from the HUD staff and the HUD-funded private contractors. This assistance primarily focused on general program design issues, financing, and leveraging techniques.

Twenty communities reported receiving technical assistance from HUD staff and, although several local officials believed that HUD could better coordinate their TA with the private contractor, most believed that assistance to be moderately or very effective.* (See Table 11.) In terms of the types of

technical assistance given, thirteen officials reported receiving general program design assistance from HUD in combination with hints on general strategy. Nine received assistance on financial designs and leveraging. The HUD staff also gave technical assistance on completion of the demonstration application, neighborhood reviews, marketing strategy, Section 312 applications, management reviews, rehabilitation reviews, and relocation.

Twelve of the sixteen cities that reported receiving technical assistance from a private contractor believed that the assistance provided was moderately or very effective. The majority of the cities (13) reported receiving assistance primarily on financial agreements. Five received general program design assistance, while others mentioned receiving assistance on proposal negotiations, advice on dealing with elected officials, and information regarding techniques of assessing rental markets.

Local officials from two cities did not think that HUD technical assistance was effective. They indicated that instead of providing technical assistance, HUD questioned their practices. These respondents described technical assistance as an attempt to force them to conform to HUD's views and reduce local control over their programs.

Local officials in two other cities believed that the technical assistance would have been more effective if, at the beginning of the Demonstration, they had submitted a comprehensive list of areas in which technical assistance was needed. This would have helped HUD identify experts in the various fields and prevented instances in which the consultant or HUD staff lacked knowledge in the specific area of city need.

Those few officials who rated the private technical assistance as only slightly effective or ineffective felt that contractors pushed financial designs that would not work in their communities and were unconcerned about what the city wanted. They felt that the contractors tried to make them conform to their ideas about how to run the local Demonstration program.

2. Local officials requested additional and expanded technical assistance in program planning and implementation, particularly in financial design. Many participants believed that sharing experiences among themselves would be very useful.

Although virtually all local officials received information and documentation on financial alternatives and mechanics, almost half (11) requested more such information and additional training for negotiating with lenders. Most were interested in learning ways of refining their financial design, expanding their financial alternatives, figuring internal rates of return, getting involved in syndication and taking advantage of secondary markets.

* Three local officials said that they received no technical assistance from HUD, two because they were already experienced with this kind of program. Another official reported that HUD staff "questioned" his staff but did not provide technical assistance.

Local officials expressed considerable interest in the problems and approaches of other communities. Slightly less than one-half of the participating cities (10) mentioned that sharing experiences with other localities in the program would be of tremendous benefit to them and they believed that HUD should institute an ongoing system of information exchange and distribute all reports on the Demonstration to all participating communities. One official recommended a workshop for all first and second round Demonstration participants where problems, solutions, and alternatives could be discussed.

TABLE 11
LOCAL OFFICIALS' SATISFACTION WITH TECHNICAL ASSISTANCE RECEIVED
IN FIRST ROUND OF THE RENTAL REHABILITATION PROGRAM DEMONSTRATION

Local Officials Assessment of TA	TA PROVIDER			
	HUD Staff		Private Contractor	
	Number	Percent	Number	Percent
Very Effective	12	52%	10	43%
Moderately Effective	4	17	2	9
Slightly Effective	1	4	1	4
Ineffective	1	4	2	9
Received None	3	13	7	30
No Answer/Don't Know	2	9	1	4
	23	100%	23	100%

SOURCE: U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Program Analysis and Evaluation, 1982 Anticipatory Evaluation.

Several local officials suggested improved or additional technical assistance in the broad area of program design. This includes marketing strategy, investigation of the types of property ownerships and titles and the problems with each, design of owner applications, and examination of the types of rehabilitation that are possible and appropriate. Some local officials suggested that HUD fund training for local staff by the Community Rehabilitation Training Center (CRTC) or other training courses.

In addition, one local official suggested that developers be used to give technical assistance and that the Rehabilitation Advisory Service be refunded. Another local official suggested that, since his community had an excellent program, they would be willing to share their experiences and provide technical assistance if given the resources to do so.

C. COMPARISONS OF DEMONSTRATION WITH OTHER REHABILITATION PROGRAMS

1. Compared to the Section 312 Multifamily Rehabilitation Loan and Section 8 Moderate Rehabilitation programs, local officials believe the Demonstration is more effective in facilitating local control over the rehabilitation process.

According to the local officials interviewed, the strong point of the Demonstration is the amount of local discretion permitted. Local

Demonstration coordinators in approximately two-thirds of the participating communities believed the Demonstration increases the local role and flexibility in the rehabilitation process, allows the community to reduce its role in the administration of the Demonstration, and better enables the community to control administrative costs. (See Tables 12 and 13.) Only slightly fewer Local coordinators, approximately 60 percent, also believe the Demonstration was more effective in these areas than the Section 8 Moderate Rehabilitation program.

The local Demonstration coordinators, were especially pleased that they, instead of the HUD Area Office, actually selected the specific properties to be funded and the procedures and practices to be used in the Demonstration project. Some local coordinators said that this discretion enabled them to address the needs of properties that could not feasibly be rehabilitated through other programs and to vary the subsidy provided to the property owners to match the particular situation.

It was also this local discretion that allowed communities to reduce the extent of their involvement in the various aspects of the rehabilitation process. Local officials in over half (12 of 23) of the communities reported they were able to reduce the public involvement in administration of the rehabilitation process primarily by shifting some of their former responsibilities to the property owner or the lender. Seven of these officials reported that the owner had taken the majority of the responsibilities, four indicated that the lender and owner shared the responsibilities about equally, and two reported that the lender had taken the majority of the responsibilities. One said that, while the city still took the majority of the responsibilities, both owners and lenders had increased their respective amounts.

The owners' lack of experience was the problem most frequently encountered in local efforts to reduce the community's role in the rehabilitation process. It was reported that small property owners, particularly of the "ma and pa" variety, did not have much experience in filling out applications or handling the paperwork necessary for using Section 8 certificates. They needed substantial assistance from the city. In contrast, those officials that dealt with experienced developers found them to be aware of necessary requirements and in need of very little assistance. However, several respondents did indicate the program was not attractive enough for many sophisticated investors.

2. In other areas, such as the limiting the cost of rehabilitation, the speed of application processing, and the level of staff effort involved there is no consensus among local officials on the benefits of the Demonstration.

In some areas related to program operation, the Demonstration received mixed assessments. A majority of the Local Demonstration coordinators reported they believed the Demonstration was more effective than the Section 312 Multifamily Loan program at reducing the level of staff effort involved in the rehabilitation process and reducing the cost of the rehabilitation work. They were equally divided about whether the Demonstration increases the speed of processing applications.

In each of these areas, however, the majority of Local Demonstration coordinators believed the Section 8 Moderate Rehabilitation program was more effective or equally effective as the Demonstration. According to the local coordinators interviewed, the development of unique loan packages and subsidy arrangements for each building, attempting to rehabilitate properties frequently owned by less financially sophisticated owners, estimating post-rehabilitation rents, and other special features of the Demonstration required a somewhat greater level of staff effort and made for longer application processing times in the Demonstration.

The Demonstration was also perceived by the majority of local Demonstration coordinators to be no more effective than the Section 8 Moderate Rehabilitation program in controlling the cost of the rehabilitation work performed, tighter controls over the rehabilitation work performed in the Section 8 program may have offset the Demonstration's potential advantage due to leveraging.

3. Only a few local Demonstration coordinators believed the Demonstration was more effective than either the Section 8 Moderate Rehabilitation program or the Section 312 Multifamily Rehabilitation Loan program at avoiding displacement of low and moderate income tenants, maximizing the production of rehabilitated units, and assuring quality rehabilitation work.

In some areas, the majority of local Demonstration coordinators reported that the Demonstration was less effective than both the Section 8 Moderate Rehabilitation and Section 312 Multifamily Rehabilitation Loan programs. They believed that maximizing the number of units rehabilitated, minimizing displacement, and assuring quality rehabilitation work was done at least as effectively through the other the programs as through the Demonstration.

Despite the availability of the Section 8 certificates, only a few local officials believed that the Demonstration is significantly better at preventing the displacement of low- and moderate-income households than the Section 312 Multifamily Rehabilitation Loan or Section 8 Moderate Rehabilitation programs. Many of the local officials interviewed expressed concern because the Section 8 rental subsidies were available to lower income tenants for only five years. that it was too soon to judge the Demonstration's experience with displacement. A few local officials believed that determinations about displacement should not be made until after the Section 8 certificates provided with the Demonstration had expired. They believed that the lower income tenants might not be able to continue living in the buildings at that time.

Some local officials also expressed concern about the potential for displacement because in their communities the Demonstration had been tried on a relatively small number of properties, and many of these properties had been selected specifically because no displacement was likely to occur. They apparently were unsure what would happen to low- and moderate-income tenants if the Demonstration concept was expanded without a concerted effort to select only properties unlikely to have displacement.

In addition to their perceived potential for future displacement in buildings rehabilitated through the Demonstration, features of the other Federally-funded programs may have caused the local coordinators to be unconvinced of

the advantages of the Demonstration in reducing displacement. For example, according to Central Office CPD staff, both the Section 8 Moderate Rehabilitation program and the Section 312 Multifamily Loan program provide deeper rehabilitation subsidies and tend to rehabilitate more vacant properties than the Demonstration. The Section 312 program also reportedly generally rehabilitates buildings occupied by tenants with higher incomes than the Demonstration. Thus both the programs have a relatively small potential for displacing low and moderate income tenants.

At the risk of oversimplifying the process, the responses of local Demonstration coordinators can be seen as reflecting the trade-offs inherent in the Demonstration concept. In exchange for a reduced levels of public subsidy through variable public subsidies and greater involvement of the private sector in the administrative process, localities may have to forgo a faster rate of rehabilitation that the more standardized procedures and greater incentives of the other programs may be able to provide. In order to achieve greater local flexibility, more streamlined programs, and reduced administrative costs, local programs forgo some of the controls that the other programs place on the rehabilitation of property, controls that provide assurances regarding the quality of the work performed. It may be reasonable to assume that as local officials and property owners in their community become more familiar with the Demonstration concept the problems will become more manageable and the tradeoffs will become negligible.

TABLE 12
LOCAL OFFICIALS' COMPARISONS OF THE RENTAL REHABILITATION PROGRAM DEMONSTRATION
WITH THE SECTION 312 REHABILITATION PROGRAM

Criterion:	Compared to the Section 312 Program the Demonstration is:			
	<u>More Effective</u>	<u>Less Effective</u>	<u>No difference</u>	<u>Don't Know/ Can't Answer</u>
Program Flexibility	14	4	4	1
Reducing Public Role	15	4	3	1
Increase Application Processing Speed	11	6	5	1
Controlling Admin. Costs	14	2	6	1
Reducing Level of Staff Effort	13	3	7	0
Reducing Cost of Rehabilitation	12	5	4	2
Maximizing Production	7	6	5	5
Minimizing Displacement	5	3	7	8
Assuring Quality Work	1	4	16	2

TABLE 13
LOCAL OFFICIALS' COMPARISONS OF THE RENTAL REHABILITATION PROGRAM DEMONSTRATION
WITH THE SECTION 8 MODERATE REHABILITATION PROGRAM

Criterion:	Compared to the Section 8 Moderate Rehabilitation Program the Demonstration is:			
	<u>More Effective</u>	<u>Less Effective</u>	<u>No difference</u>	<u>Don't Know/ Can't Answer</u>
Program Flexibility	13	5	4	1
Reducing Local Role	13	6	3	1
Increase Application Processing Speed	10	7	5	1
Controlling Admin. Costs	12	3	6	2
Reducing Level of Staff Effort	11	5	7	0
Reducing Cost of Rehabilitation	9	8	4	2
Maximizing Production	7	6	5	5
Minimizing Displacement	5	3	7	8
Assuring Quality Work	1	4	16	2

SOURCE: U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Program Analysis and Evaluation, 1982 Anticipatory Evaluation.

FOOTNOTES

- 1 U.S. General Accounting Office, "Block Grants for Housing: A Study of Recent Experiences and Attitudes." Washington, D.C., RCED-83-21, December 13, 1982, p.15.
- 2 U.S. General Accounting Office, "Rental Rehabilitation with Limited Federal Involvement: Who is doing it? At what cost? Who benefits?" (Draft), Washington, D.C., RCED-83-148, p.ii.
- 3 Federal Register, December 15, 1980, p. 82361.
- 4 Dodge, Donald G., "Acting General Deputy Assistant Secretary for Community Planning and Development; Small Rental Property Rehabilitation Demonstration," (Memorandum to Area Office Managers), March 13, 1981; Attachment 5.
- 5 U.S. General Accounting Office, "Block grants for Housing...", op.cit., p. 10.
- 6 U.S. Department of Housing and Urban Development, Office of Community Planning and Development, Consolidated Annual Report to Congress on Community Development Programs, Washington, D.C., March 1983, p 141.
- 7 U.S. General Accounting Office, "Rental Rehabilitation with Limited Federal Involvement", op.cit., p. 21.

