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Review Of Certain Aspects Of College Housing Project CH-ORE-85(D) In Portland, Oregon

B-173037

Department of Housing and
Urban Development

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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~~974799~~

JUNE 25, 1971



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

B-173037

Dear Mrs. Green:

In accordance with your request of May 3, 1971, and as agreed upon in a meeting with you on May 13, 1971, we have examined into the College Housing project (CH-Ore-85 (D)) to be constructed for the Portland Student Services, Inc. (PSS)--a nonprofit student cooperative--with financing provided by the Department of Housing and Urban Development (HUD), to determine (1) whether the amount paid for land in the Goose Hollow area as the site for the project was reasonable inasmuch as the Portland City Planning Commission (PCPC) had reported a significantly lower value for the land, (2) whether less costly alternative sites were available and why a site in the Lair Hill Park area was not acquired, and (3) whether the project is economically feasible. We also reviewed recent land transactions in the Goose Hollow area.

On March 30, 1971, HUD made a 40-year loan of \$3,193,000 bearing interest at the rate of 3 percent a year to PSS for the project--a 16-story high-rise apartment building containing 221 units: 112 efficiency apartments, 78 one-bedroom apartments, and 31 two-bedroom apartments. The loan was made under title IV of the Housing Act of 1950 (12 U.S.C. 1749), which authorizes the Secretary of HUD to make loans to institutions of higher learning, nonprofit corporations, to State agencies or public authorities; and to nonprofit student cooperatives for the construction or the purchase of dormitories and other facilities for students and faculty members.

We interviewed officials and reviewed records of the HUD Portland Area Office, PSS, PCPC, the Multnomah County Assessor's Office, and Portland State University (University). We interviewed also other individuals and examined available records bearing on the questions raised.

In summary, our examination showed that (1) the price paid for the land in the Goose Hollow area for the project was not unreasonable compared with the value of land in other available sites close to the University, (2) a site in the Lair Hill Park area would have required rezoning which would

have been difficult to secure, and (3) the project should be economically feasible, provided that an adequate occupancy rate can be maintained. Examinations of prior transactions in the various parcels of land contained in the site for the project have disclosed no impropriety. Schedule 1 shows the recent history of land ownership and includes a sketch of the Goose Hollow site.

PROPRIETY OF PRICE PAID FOR
THE GOOSE HOLLOW PROPERTY

On April 8, 1971, PSS purchased 71,500 square feet (1.64 acres) of land and the decrepit improvements on it in the Goose Hollow area for \$439,840--equivalent to \$6.15 a square foot, or \$268,195 an acre. This value is high compared with land values presented in PCPC's report on a University housing study in June 1970. PCPC's report stated that a 9.5 acre tract of land, including the site of the planned PSS apartment building, had an assessed value of \$1,089,304, or an average \$114,663 an acre.

We were advised by a PCPC official that the value cited in that report was based on 1967 Multnomah County assessments and therefore did not represent the present worth of the property. Our review of the Multnomah County assessment records showed that, at January 1, 1971, the assessed value of the Goose Hollow property was \$375,500. A Multnomah County assessment official said that the sharp increase in the assessed value of the property was a reflection of the extensive construction and speculative activities in the Goose Hollow area and the proximity of the property to the central business district.

Although the 1971 assessed value of the Goose Hollow property is \$64,340 less than the amount paid by PSS, the amount paid by PSS is less than the appraised values of \$464,750 and \$450,000 by two independent appraisors. These appraisors' reports, according to the broker who put the land package together, were instrumental in getting the Goose Hollow Investment Company, the owner of most of the land in the site, to

lower its asking price nearly \$2 a square foot. A Goose Hollow Investment Company official advised us that the company's original asking price was \$8 a square foot.

POSSIBLE ALTERNATIVE SITES

Our examination showed that PSS initially considered various possible alternate sites for the location of the student housing. With respect to the PCPC June 1970 student housing report, which cited seven sites suitable for student housing, PSS's reasons for selecting the Goose Hollow area in preference to the other sites follow.

A PSS official advised us that five of the seven sites were eliminated from further consideration because they were too costly, were located in areas which would require rezoning, or were previously optioned to another buyer. The two remaining sites included the one purchased in the Goose Hollow area and one in the Lair Hill Park area. The report showed that the assessed value of land in the Goose Hollow area was \$114,663 an acre and in the Lair Hill Park area was \$49,281 an acre. As previously pointed out, the cited values were based on 1967 assessed values and do not represent the present value of the properties.

A Portland real estate broker having property for sale in the Lair Hill Park area advised us that the 1970 asking prices were about \$8 a square foot for property in this area. He also stated that he had two tracts of land for sale in the Lair Hill Park area--one parcel consisting of 33,500 square feet, zoned A-1 (medium density apartment development), and another consisting of 75,000 square feet, zoned C-2 (general commercial)--and that, on the basis of a March 1968 offer of \$225,000 for the smaller parcel, he was asking \$8 a square foot for land in both parcels. Also, our review of Multnomah County assessment records for various lots in the Lair Hill Park area showed that the 1967 assessed land value for these lots was \$38,810, but, as of January 1, 1971, the assessed land value for the same property had risen to \$464,400.

Another factor that reduced the desirability of acquiring a site for the housing in the Lair Hill Park area is the area's present zoning. A majority of the land in this area is zoned A-1, medium density apartment development, and the remainder is zoned for light industry. Under the land zoned A-1, medium density, 1,000 square feet of land is required for each family living unit built. Thus in the absence of a rezoning of the land, a minimum of 221,000 square feet would have been required for the 221 planned housing units. We were advised by both an agent of PSS and the director of the Portland Development Commission that it would have taken considerable time and money to acquire such a tract of land in the Lair Hill Park area without condemnation authority.

PSS officials advised us that they did not attempt to have land in the Lair Hill Park area rezoned because (1) the land in the area was held by numerous owners and, under Portland city zoning rules, a request for a change in the zoning of a tract of land must be accompanied by a petition signed by the owners or contract purchasers of not less than 50 percent of all property in the area within 150 feet of the tract, which posed a potential problem, and (2) they anticipated pressure from interest groups outside the Lair Hill area if rezoning was attempted.

The director of PCPC in a January 22, 1971, letter to PSS stated that, because of the close proximity of the Goose Hollow area to the University, the best use of the area was for student housing and that the area was the best of several areas that PCPC studied for student housing.

ECONOMIC FEASIBILITY OF THE PROJECT

A 1969 study by the Portland State University Facilities Planning and Operation Office recommended that the University seek to find ways to solve student housing needs. Later the same year PSS made a survey of students. The survey showed that, of 8,000 full-time students, 4,300 had provided their own housing in the general Portland housing market and that, of these 4,300, over 3,500 (or 82 percent) were either

21 years of age or older or married, which indicated a need for primarily nondormitory housing. The survey showed also that over half of the 4,300 students who provided their own housing were dissatisfied with the price, location, or quality of their housing, which indicated a substantial housing need to be met.

PCPC's June 1970 report stated that it appeared inevitable that housing must be provided, through some method, in the vicinity of the University. The report stated also that, if housing were not given consideration soon, the land that was available might well be developed for some use other than housing and thus force students to live some distance from the campus. The report stated further that providing close-in student housing would meet an obvious need in replacing the present, rapidly diminishing supply.

In March 1971 a HUD market analyst stated that there was no question but that a need existed for additional housing in the University area for both students and other relatively low-income groups. He stated also that the market for housing in Portland could be considered as tight, particularly in the area around the University, and that housing in the low- and moderate-price ranges was especially scarce and was particularly needed for the student population.

With respect to financial feasibility of the PSS housing project, HUD's regulations require that the project's net revenues pledged for repayment of the loan must be sufficient to cover the average annual debt service (the required payment of principal and interest on the loan) by at least 1.25 times. The regulations indicated that this margin, although providing for some latitude in estimated versus actual net revenues, should permit an orderly buildup of the required 1-year debt service reserve over a period of about 4 years and, thereafter, the accumulation of a reserve for extraordinary repair and replacement costs. The debt service ratio for the PSS project loan is 1.26.

The planned maintenance and operating expenses and the debt service requirements for the project during the 40-year period of the HUD loan are summarized below.

	Years of loan			
	First and <u>second</u>	Third and <u>fourth</u>	Fifth through <u>fourteenth</u>	Fifteenth through <u>fortieth</u>
Debt service-				
principal and/or interest (note a)	\$ 95,790	\$141,395	\$141,395	\$141,395
Debt service reserve fund	35,348	35,348	-	-
Repair and replace- ment fund	-	-	25,000	-
Maintenance and op- erating expenses	<u>47,240</u>	<u>47,240</u>	<u>47,240</u>	<u>47,240</u>
Total	<u>\$178,378</u>	<u>\$223,983</u>	<u>\$213,635</u>	<u>\$188,635</u>

^aDuring the first 2 years, HUD required that only interest on the loan be paid; no payment of principal is required.

On the basis of the planned costs and the proposed rental rates of \$81 for an efficiency apartment, \$102 for a one-bedroom apartment, and \$125 for a two-bedroom apartment, the project, in order to be operated on a break-even basis, must maintain occupancy rates, as follows:

	Years of loan			
	First and <u>second</u>	Third and <u>fourth</u>	Fifth through <u>fourteenth</u>	Fifteenth through <u>fortieth</u>
Percent of occupancy	71	89	85	75

A number of factors will have an effect on the occupancy rates, but the precise impact of these factors on the rates

cannot be accurately predicted. The following factors suggest that a high occupancy rate may be expected.

1. A Federal Post Office survey of apartment occupancy in the vicinity of the University showed that, during March 1970, there was only a 1.9-percent vacancy rate. The survey was made pursuant to an agreement between the Federal Housing Administration and the U.S. Post Office Department. The HUD 1971 market analysis report pointed out that the vacancy rate reported by the Federal Post Office which services the University area would have been much lower except for the poor condition of much of the housing in the area. The HUD report pointed out also that, according to the opinions of officials of the University and PSS, the vacancy rate for standard housing within a reasonable distance of the University is near zero.

2. On the basis of our survey of rental rates advertised for vacant apartments in the Goose Hollow area during May 1971, the proposed rents for the PSS housing project averaged about 20 percent less than those for comparable housing in the vicinity of the University. A representative of a computerized apartment listing service confirmed our survey findings by stating that the proposed rates for the PSS project were substantially lower than those for apartments listed in the area.

3. The summer enrollment of the University is about 85 percent of the average enrollment for the other three terms, therefore the seasonal fluctuations are moderate.

4. Since 1969 PSS had gained managerial experience through operating nine leased low-rise apartment buildings containing 437 units, located in the Portland State University Urban Renewal Area. A PSS official stated that PSS had consistently maintained an average of at least 90-percent occupancy in these units.

Factors that may have a downward effect on the occupancy rates follow.

1. PSS's continued operation of the nine low-rise apartment buildings could siphon off some of the potential renters of the planned PSS high-rise apartment building. The nine buildings were scheduled for demolition, but, pursuant to a September 1969 city resolution, they have been rehabilitated and now meet all city building codes. There is no indication as to when or if the buildings will be demolished.

2. The site of the proposed PSS high-rise apartment building in the Goose Hollow area is bounded on two sides by freeways and on a third side by an electric power substation, which may lessen its desirability. One of the freeways passes between the site and the University, which further lessens the site's desirability.

3. The PSS high-rise apartment building, as proposed, will not be air-conditioned, which lessens its appeal during hot weather.

With respect to college housing project loans, we noted that, as of June 30, 1970, there was only one loan foreclosure from inception of the loan program in 1950.

THE HISTORY OF THE REAL ESTATE TRANSACTIONS

Beginning in 1966, 10 of the 16 parcels in the Goose Hollow area comprising the site of the PSS apartment building were acquired piecemeal by the National Hospital Association, a Portland insurance company. In 1968 the property was transferred to the Goose Hollow Investment Company for \$128,282, even though it had been acquired at a cost of \$172,000. An attorney for the association told us that, at the time of these transactions, Mr. Glenn Bechtold was the president of Goose Hollow Investment Company and of the National Hospital Association. The association was sold at the time the property was transferred to the Goose Hollow Investment Company. The attorney advised us also that the purchaser of the association did not want to retain any real estate and therefore disposed of the Goose Hollow real estate. Other properties in the Portland area were also transferred out of the association's ownership at that time.

The Goose Hollow Investment Company, subsequent to its 1968 acquisition of the 10 parcels of land in the Goose Hollow area at a cost of \$128,282, acquired two other parcels of land in the same area at a combined cost of \$64,500. These 12 parcels were sold to PSS for \$336,950. PSS acquired the remaining four parcels for the site of the apartment building from various individual owners at prices ranging from \$5 to \$6.51 a square foot. The following table summarizes the Goose Hollow land purchases.

<u>Seller</u>	<u>Square feet</u>	<u>Cost per square foot</u>
Goose Hollow Investment Company	53,167	\$6.33
Kolberg et al.	10,000	5.00
Mrs. Odette Watson	5,833	6.27
Magdalena and Gary Bowman	2,500	6.51

The real estate broker, Mr. Linden Bowman, who handled the search for a site for the PSS apartment building and negotiated the purchase of the land in the Goose Hollow area, told us that he was not related to any of the former land-holders and had never conducted any business with them prior to his retention by PSS.

A history of recent transactions in the Goose Hollow site is set forth in schedule 1.

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We did not obtain formal written comments from any of the parties involved in the matters discussed in this report.

Since disclosure of information included in this report may be prohibited by the United States Code (18 U.S.C. 1905), we shall not disclose its contents to the public. That

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statute makes it a criminal offense to disclose the "amount or source of any income, profits, losses, or expenditures" of any person or firm.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Elmer P. Rau".

Comptroller General
of the United States

The Honorable Edith Green
House of Representatives

GOOSE HOLLOW SITE
RECENT HISTORY OF LAND OWNERSHIP

<u>Parcel number</u>	<u>Who sold it to PSS and price</u>	<u>First previous owner, date sold, and price</u>	<u>Second previous owner, date sold, and price</u>
1	Goose Hollow Investment Company (note a)	National Hospital Association on contract from B Melburn 7-1-68 (note b)	Bertha Melburn 5-20-66 \$40,000
2	Goose Hollow Investment Company (note a)	National Hospital Association on contract from H Munson 7-1-68 (note b)	Hulda Munson 5-20-66 \$22,500
3	Goose Hollow Investment Company (note a)	National Hospital Association 7-1-68 (note b)	Josephine Poore 5-25-66 \$10,000
4	Goose Hollow Investment Company (note a)	National Hospital Association 7-1-68 (note b)	Signe Elde 5-16-66 \$12,500
5	Goose Hollow Investment Company (note a)	National Hospital Association 7-1-68 (note b)	E. A Weidenkeller 11-66 \$14,000
6	Goose Hollow Investment Company (note a)	National Hospital Association 7-1-68 (note b)	Paul W Kean--owner of record, 1963 2-1-67 \$16,500
7	Goose Hollow Investment Company (note a)	National Hospital Association 7-1-68 (note b)	M. F Bishop 5-17-66 \$8,500
8	Goose Hollow Investment Company (note a)	National Hospital Association 7-1-68 (note b)	Helen Phillips--owner of record, 1963 5-17-67 \$14,500
9	Goose Hollow Investment Company (note a)	National Hospital Association 7-1-68 (note b)	Stella Ragen, Nadine Rich 3-18-68 \$14,500
10	Goose Hollow Investment Company (note a)	National Hospital Association 7-1-68 (note b)	John and Patty Hallinan 1-3-67 \$19,000
11	Mrs Odette Watson	Purchased on contract by Mrs Watson from Mr and Mrs James Ragen 7-6-61 \$7,293	
12	Mrs Odette Watson \$36,600 (Both parcels purchased as one package)	Ben Gale 1961 \$4,500 (approximate)	
13	Goose Hollow Investment Company (note a)	Mr and Mrs Elmer Kolberg 10-1-68 \$32,500	Ting D Lee and family 11-30-67 No price disclosed
14	Kolberg et al \$50,000	Francis Lambert 10-7-68 \$39,689	Lambert purchased on contract from Mr and Mrs. James Ragen 9-20-62
15	Magdalena and Gary Bowman \$16,290	John Roberts 4-9-69 \$13,500	John Roberts--owner of record, 1963
16	Goose Hollow Investment Company (note a)	Wood's Estate 12-1-69 \$32,000	Dorance and Bertha Woods--owners of record and contract purchaser, 1963

^aAll property included in total package was sold by the Goose Hollow Investment Company to Portland Student Services, Inc , for \$336,950

^bAll property included in total package was previously owned by the National Hospital Association and sold to the Goose Hollow Investment Company on 7-1-68 for \$128,282

SCHEDULE 1

SKETCH OF PARCELS OF LAND ACQUIRED
FOR PSS HIGH-RISE APARTMENT BUILDING
KEYED TO DENOTE PRIOR OWNERSHIP

