REPORT TO THE CONGRESS

Benefits Could Be Realized By Revising Policies And Practices For Acquiring Existing Structures For Low-Rent Public Housing B-114863

Department of Housing and
Urban Development

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

SEPT 7,1972

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WASHINGTON D C 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This is our report on benefits that could be realized by revising policies and practices for acquiring existing structures for low-rent public housing administered by the Department of Housing and Urban Development

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S C. 53), and the Housing Act of 1954 (42 U.S C. 1435)

Copies of this report are being sent to the Director, Office of Management and Budget, and to the Secretary of Housing and Urban Development

Acting Comptroller General
of the United States

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ABBREVIATIONS

GAO General Accounting Office

HUD Department of Housing and Urban Development

LHA local housing authority

CHAPTER 1

INTRODUCTION

The Housing Act of 1937, as amended (42 U.S.C. 1401), provides for a low-rent public housing program designed to make decent, safe, and sanitary dwellings available to low-income families at rents within their financial means. The act authorizes the Department of Housing and Urban Development (HUD) to administer a program of housing assistance under which local governments establish independent legal entities--known as local housing authorities (LHAs)--to develop and/or acquire, own, and operate low-rent public housing projects.

The LHAs are primarily responsible for the development and administration of federally subsidized low-rent public housing projects. HUD provides financial and technical assistance to the LHAs in the development of low-rent public housing projects and reviews the administration of the projects after acquisition or after construction is completed, to determine whether the projects are being operated and maintained in conformance with statutory requirements and in a manner which promotes efficiency, economy, and service to the tenants.

Financial assistance is furnished by HUD in the form of development loans and in the form of annual contributions (subsidies) made pursuant to contracts with the LHAs. The contracts provide for contributions by HUD which, if made in the maximum allowable amounts, will be sufficient to pay the principal and interest on bonds and notes sold by the LHAs to the public or, in some cases, to HUD, to obtain funds to pay the costs of developing the projects. The contracts provide also for reducing the maximum allowable contributions by the residual receipts, if any, from project operations. During fiscal year 1971 HUD's contributions to all LHAs operating low-rent public housing projects amounted to about $437 million, or about 96 percent of the maximum allowable annual contributions.

To provide low-rent public housing, LHAs use several methods--conventional construction, turnkey, direct

acquisition of existing privately owned dwellings (needing little or no rehabilitation or needing substantial rehabilitation), and leasing. Under the conventional construction method, the LHA usually acquires the site and acts as its own developer; employs its own design teams; and, when plans are complete, solicits competitive bids for construction. Under the turnkey method, the LHA contracts with private developers, builders, or rehabilitators (who have sites or have options to purchase sites) to purchase, upon completion, housing which they will have built or rehabilitated.

Our review was directed toward HUD's and the LHAs' practices and procedures relating to the direct acquisition method of obtaining existing, occupied standard structures for use as low-rent public housing. Although this method has the advantage of being expedient, it has certain disadvantages which tend to make it less desirable than other methods.

DESCRIPTION OF DIRECT ACQUISITION METHOD

In some situations, according to HUD officials, the direct acquisition of existing structures for low-rent public housing can be more desirable than constructing new units. HUD officials told us that housing could be provided under the direct acquisition method more quickly than new housing could be constructed and that the scattering of public housing sites could be facilitated. They also said that the acquisition and rehabilitation of substandard structures could result in improving residential neighborhoods while maintaining and enhancing their heterogeneous social and economic characteristics. HUD officials stated also that rehabilitation was particularly appropriate when communities combined it with urban renewal rehabilitation programs or with other actions leading to full-scale social and physical neighborhood improvement.

HUD's annual contributions contract with an LHA provides for financing the cost of acquiring and rehabilitating existing structures in the same manner that HUD provides for financing the cost of constructing new housing. In the case of the acquisition of a structure without its being

rehabilitated, the annual contribution contract provides for financing the agreed-upon purchase price.

Subsequent to an LHA's acquisition of privately owned structures, the tenants are required to vacate them upon expiration of a reasonable length of time, unless the tenants can qualify for housing assistance under the low-rent public housing program.

Using HUD records and statistics, we estimated that as of June 30, 1971, LHAs had acquired about 16,400 dwelling units requiring little or no rehabilitation. The dwellings had been privately owned, had been occupied, and were largely multifamily structures. We estimated that the total cost to acquire these dwellings was $235 million. HUD plans to provide assistance to LHAs for the acquisition of 1,100 additional units during fiscal year 1972.

SCOPE OF REVIEW

We reviewed 15 acquired projects which contained about 6,700 dwelling units. The projects were located in the following eight cities or metropolitan areas: Cleveland and Akron, Ohio; New York and Rochester, N.Y.; Oklahoma City, Okla.; Russellville, Ark.; the Washington, D.C., metropolitan area; and Wilmington, Del.

Our review was made at the above locations; at HUD headquarters in Washington, D.C.; and at HUD regional offices in New York, N.Y.; Philadelphia, Pa.; Chicago, Ill.; and Fort Worth, Tex. We interviewed HUD and LHA officials and obtained information from prior tenants of the acquired properties through questionnaires.

CHAPTER 2

ACQUISITION OF STANDARD HOUSING DOES NOT DIRECTLY HELP ACHIEVE THE NATIONAL HOUSING GOAL

The national housing goal has been formulated over the last 35 years. In the Housing Act of 1949, the Congress established a national housing goal of a decent home and a suitable living environment for every American family as soon as feasible. In 1968 the Congress recognized that the Nation's housing supply was not increasing rapidly enough to satisfy the urgent need for decent, safe, and sanitary housing. Thus in the Housing and Urban Development Act of 1968 (42 U.S.C. 1441) it reaffirmed that goal and asserted that it could be substantially achieved within the next decade through the construction and rehabilitation of 26 million additional housing units, 6 million of which would be for low- and moderate-income families.

Although the LHAs' acquisition of privately owned standard housing had increased the supply of low-rent public housing, our review showed that such acquisitions had not directly helped to achieve the national housing goal by alleviating the shortage of standard housing, because the dwelling units acquired were standard units.

Our review of 15 acquired projects containing about 6,700 units in eight selected cities or metropolitan areas showed that about $80 million had been expended by the LHAs to acquire the projects without increasing the supply of standard housing by a single unit. The acquisition of these projects was of particular significance, because HUD's analyses of housing-market conditions showed that, in seven of the eight cities, a need for both subsidized and nonsubsidized standard housing existed at the time of their acquisitions and continued to exist at the time of our review. In most of the cities, the need for additional private, nonsubsidized standard housing was as great as, or greater than, the need for additional private and public subsidized housing.

For example, in the Washington metropolitan area, the demand was for 27,500 additional nonsubsidized housing units and for 6,500 additional subsidized housing units. In Cleveland the demand was for 7,500 additional nonsubsidized housing units and for 7,200 additional subsidized housing units. In Oklahoma City the demand was for 6,200 additional nonsubsidized housing units and for 2,600 additional subsidized housing units.

The acquisition of nonsubsidized standard housing by LHAs in areas where demands for both nonsubsidized and subsidized housing exist merely increases the quantity of subsidized standard housing at the expense of nonsubsidized standard housing and does not improve the overall condition of the housing market. It appears that in such cases the construction of new housing and the rehabilitation of substandard housing would be the preferred methods of meeting the demand for standard housing.

Use of the aforementioned two approaches would be consistent with the statement of the Secretary of HUD before the Subcommittee on Housing and Urban Affairs, Senate Committee on Banking and Currency, on March 4, 1971, that "We think it is more important to add to the housing supply than to compete for housing in the existing supply." Although our analysis of housing-market information was limited to eight cities and/or metropolitan areas, the need for additional housing appears to be nationwide. The nationwide housing-vacancy data published by the Department of Commerce indicated that the supply of available housing was decreasing; housing vacancies during 1970 were at their lowest level since 1956.

LHAs have spent an estimated $235 million, nationwide--primarily since 1965--to acquire about 16,400 low-rent housing units which required little or no rehabilitation. The funds would, in our opinion, have been much more effectively spent if the total standard housing supply had been expanded by using these funds for the construction of standard units or for the purchase and rehabilitation of substandard units.

We were informed by HUD and LHA officials that the primary reasons for acquiring existing, occupied, privately owned standard housing were (1) it was a quicker method of

obtaining public housing units, (2) it was less costly than other methods, and (3) HUD and the LHAs were anxious to meet certain quotas of low-rent public housing units by certain dates.

Although our review and HUD studies generally support the statements by HUD and LHA officials that acquisition of housing units requiring little or no rehabilitation was a quicker and less costly method of obtaining low-rent public housing, we believe that, in the long run, the resulting savings do not compensate for the lost opportunity to have used the funds to increase the Nation's housing supply by several thousand units.

The following comparisons, based on HUD's data, show that the savings of time and money due to the direct acquisition of existing housing needing little or no rehabilitation are not significant.

Development Cost and Time
for Various Methods of Providing Low-Rent Housing
Subsequent to June 30, 1969

Method	Number of weeks between application approval and initial occupancy	Total development cost per unit
Conventional construction	187	$18,691
Turnkey construction	116	18,464
Acquisition of existing housing needing rehabilitation	141	19,904
Acquisition of existing housing needing little or no rehabilitation	93	18,472

Although the difference in time between the acquisition of existing housing requiring little or no rehabilitation and the acquisition of conventional construction housing is relatively lengthy, we believe that it is not particularly significant because the use of the turnkey method is

becoming more predominant than the conventional method. The difference in time between acquisition by the turnkey method and the acquisition of existing housing needing little or no rehabilitation is about 6 months, which does not appear significant in relation to the problems associated with the direct acquisition method.

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Because the acquisition of existing privately owned standard housing for use as low-rent public housing does not add to the supply of standard housing but merely shifts the housing units from one element of society to another, those Federal funds used for such acquisitions, in our opinion, could have been used more effectively toward the achievement of the national housing goal by constructing new housing or by purchasing and rehabilitating existing substandard housing.

AGENCY COMMENTS

In commenting on our draft report (see app. I), HUD stated that, as of June 30, 1971, 12,490 units not needing rehabilitation, rather than 16,400 units as stated in our report, had been acquired and placed under management. HUD stated also that, although the structures required little or no rehabilitation, the cost of improvements could be sizable. Under HUD's current definition, alterations or improvements are considered to be repairs, rather than rehabilitation, if the cost thereof is less than 20 percent of total acquisition cost for multifamily structures or is less than 25 percent of total acquisition cost for single-family structures.

The number of acquired existing units that needed little or no rehabilitation, as shown in our report, does not agree with HUD's figures, because HUD's figures were compiled on a basis different from ours. HUD used the cost of improvements or alterations made to acquired units as the basis for classifying the units as not needing rehabilitation. We reviewed the files for the 15 acquired projects to determine the nature of the improvements to be made to the units, because we were concerned about whether they were in standard or substandard conditions prior to the expenditure of funds for improvements or alterations.

We recognized that substantial expenditures could be made to modernize, or add facilities to, acquired units to make them more functional for low-rent-housing tenants even though the units may have been of standard quality when acquired. Although we are not questioning the accuracy of HUD's figures, we believe that the cost of improvements or alterations made to acquired units would not necessarily show whether the units were in standard or substandard conditions when they were acquired.

HUD did not agree with our proposals in the draft report that financial assistance to LHAs be limited to the acquisition of privately owned standard housing in specific locations where the supply of standard housing exceeded the need for such housing and that the acquisition of existing, currently occupied, privately owned standard housing which is in the planning or early development stages be terminated (except at the specific locations mentioned above) HUD stated that this practice would be too restrictive and that a more reasonable guideline for the use of the acquisition method would be its effect on the private rental market. We agree with HUD that to limit acquisitions to specific locations where the supply of standard housing exceeded the need for such housing might be too restrictive.

HUD pointed out that, despite an overall demand for unsubsidized housing in a community, some structures, for various reasons, would not serve to meet that demand. We agree that, if certain standard housing has a high vacancy rate and can be acquired at an acceptable price, its acquisition by an LHA would be beneficial. For the acquired properties included in our review, we noted, however, that the occupancy rates prior to their acquisition averaged in excess of 90 percent of capacity. In our opinion, this illustrates that these properties had been helping to meet the demand for standard housing.

HUD stated that, in recognition of the fact that housing acquired by the direct acquisition method had not added to the Nation's housing supply, targets for the acquisition of housing for fiscal years 1969 through 1972 were very small.

HUD also commented that many benefits result from the direct acquisition method other than the time and cost factors cited in the draft report.

HUD cited such benefits as

--conservation, improvement, and stabilization of existing neighborhoods;

--locally acceptable and compatible designs, scattered sites, and larger units not otherwise obtainable;

--a reduction in the concentration of subsidized housing;

--the availability of more amenities, such as individual private yards; and

--the sale of single-family structures to low-income families.

Most of the cited benefits of the direct acquisition method were included in our draft report and are included on page 6 of this report.

RECOMMENDATIONS TO THE SECRETARY OF HUD

We recommend that HUD limit its financial assistance to LHAs to the acquisition of privately owned standard housing (1) in those locations where the supply of such housing exceeds the demand and (2) which has experienced substantial vacancy rates. We recommend also that HUD terminate the acquisition of existing, currently occupied, privately owned standard housing which is in the planning or early development stages (except as mentioned above) and use the funds set aside for such acquisitions to finance the construction of new low-rent public housing or to purchase and rehabilitate existing substandard housing.

CHAPTER 3

ACQUIRED UNITS ARE NOT BEING USED TO HOUSE THOSE MOST IN NEED

Our review showed that the acquisition of privately owned standard housing generally had not resulted in substantially reducing the number of families or persons living in substandard housing, because many of the low-income occupants of the acquired housing units had previously lived in standard housing. Some of the families occupying the acquired units had incomes exceeding the amounts, set forth in HUD's contributions contracts with the LHAs, entitling them to reside in public housing. Also some persons were occupying larger units than those suggested in HUD's guidelines.

The following table shows that, in five of the eight locations, 50 percent or more of the low-income occupants of the units in the 15 acquired projects we reviewed had previously resided in standard private housing.

Prior Housing of Low-Income Families or Individuals Occupying 15 Acquired Projects at the Time of Our Review (note a)

Location of acquired projects	Privately-owned housing: Standard Number	Standard Percent	Substandard Number	Substandard Percent	Other public housing (Federal) Number	Other public housing (Federal) Percent	None Number	None Percent	Unknown Number	Unknown Percent
Akron	78	52	26	18	14	9	31	21	-	-
Cleveland	118	44	44	17	67	25	17	6	22	8
New York City	4,120	88	-	-	-	-	-	-	576	12
Oklahoma City	60	43	78	55	-	-	3	2	-	-
Rochester	98	54	44	24	-	-	28	15	13	7
Russellville	29	50	25	43	-	-	4	7	-	-
Washington (note b)	367	41	344	39	41	5	40	5	92	10
Wilmington	152	65	56	24	9	4	-	-	17	7

[a]By number of occupants and percent of total occupants

[b]The Washington metropolitan area

As indicated by the table, in some instances we were unable to determine, from the information contained in LHA files, the condition of the prior housing of the occupants of the acquired housing, because (1) they had not included such information on their applications for admittance, even though the information was requested on the application form, and (2) the LHAs had not determined the nature of the occupants' prior housing.

We visited the prior residences of a selected number of occupants of the acquired housing who had indicated that they had lived in standard housing prior to moving into the acquired housing. Our visits generally indicated that the prior housing was in apparent good condition. For example, as shown in the preceding table, 29 of the occupants of 58 units in the acquired project at Russellville indicated that they had previously lived in standard housing. Our visits to the prior residences of 14 of these occupants revealed that each of the 14 residences was in good condition, as indicated by the following selected photographs.

While a large number of families were moving from non-subsidized, privately owned standard housing to low-rent public housing, a substantial number of the applicants for low-rent housing included in our review were living in sub-standard housing, as indicated by our sampling and analyses, as shown below.

--A sampling of applicants for low-rent housing in Cleveland indicated that between 277 and 417 of the 1,194 elderly applicants were living in substandard housing.

--A sampling of applicants for low-rent housing in Oklahoma City indicated that about 126 of the 387 applicants were living in substandard housing.

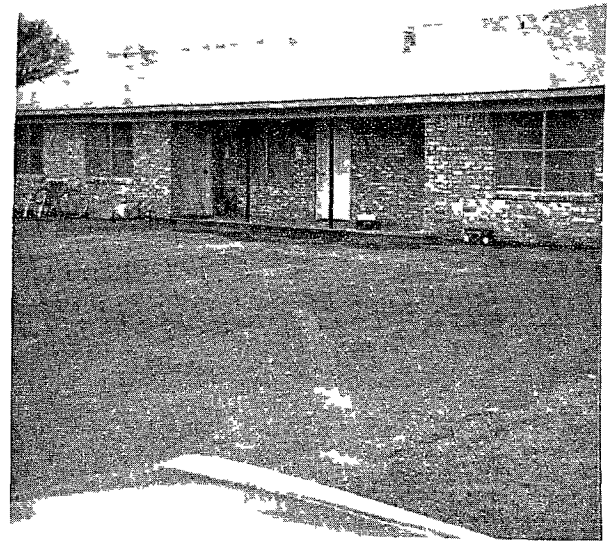
--An analysis of the waiting list for low-rent housing in Russellville showed that 64 of the 175 applicants were living in substandard housing.

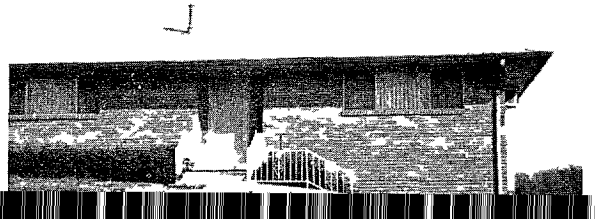
--An analysis of 225 of the 793 families applying for low-rent housing in Washington showed that 91 of the 225 families resided in substandard housing.

--An analysis of 292 of the 1,760 elderly applicants for low-rent housing in Washington showed that 177 of the applicants lived in substandard housing.

We found many cases where occupants of an acquired housing project were ineligible for low-rent public housing because they had incomes exceeding the established limits entitling them to public housing. We noted also that occupants were occupying units larger than suggested in HUD's guidelines.

Prior residences of occuparts
of acquired housing





In New York City the incomes of about 1,400, or 30 percent, of the families living in an acquired project exceeded the established income limits. Most of these families had resided in the project prior to its acquisition by the LHA. However, the LHA had not required these tenants to relocate, because of the tight housing market in New York City.

Our review of LHA records showed also that 152 of the 576 families admitted into the above project after it was acquired had incomes that exceeded the approved income limits for admission at the time they entered the project. Furthermore, the income of 32 of the 152 families exceeded the approved income limits for continued occupancy, which were higher than the limits for admission. This information is particularly significant, considering that about 135,000 families were on the waiting list for low-rent housing in New York City. It seems inappropriate for the LHA to have admitted 152 ineligible families when so many eligible families were waiting for housing.

In addition, 456 persons or couples living in this project were occupying apartments larger than suggested by HUD guidelines, as shown below.

Occupant	Size of apartment (number of bedrooms) Suggested	Occupied	Number of occupants
Single person	1	2	120
Single person	1	3	4
Married couple	1	2	332
			456

HUD established these occupancy guidelines to help insure efficient utilization of available units.

At one project in the Washington metropolitan area, 37 of the 96 units were occupied by families which were living in the project prior to its acquisition by the LHA but which were ineligible for low-rent public housing because of having incomes exceeding the prescribed limits. Even though these families were continuing to pay rent at the rate in effect when the project was under private ownership, their

occupancy of the units precluded the availability of the units for rent by eligible low-income families which were on the LHA's waiting list. We were informed by the resident project manager that these families would be allowed to live in the project indefinitely, due to the public clamor that had arisen against the acquisition of the project and against the subsequent relocation of the occupants.

In addition, the LHA's practice of renting two-bedroom units only to the elderly and to childless couples resulted in one two-bedroom unit's being occupied by one person and in 15 two-bedroom units' each being occupied by two persons. We were informed by the resident project manager that the reasons for this renting practice were that (1) occupancy by children tended to result in a rundown appearance of a project and (2) the LHA wanted to keep the project "looking nice," because of the considerable public controversy regarding its acquisition.

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The Housing Act of 1937, as amended in 1961, placed responsibility with LHAs for establishing admission policies for low-rent public housing projects. Under the act, HUD has no authority to establish specific admission policies but it is required to approve, and to include in the contributions contracts, the income limits for eligibility for occupancy of acquired housing projects as established by the LHAs.

Because only a relatively small number of the occupants of the acquired housing projects included in our review had previously occupied substandard housing, a need exists for standard admission policies to insure that those families or persons most in need are given preference.

Although we recognize that some occupants of the acquired public housing projects who had been living in standard housing may have had needs for public housing, from an economic standpoint (because they could not afford the rent they were paying), as urgent as did persons living in substandard housing, we believe that it is not a valid reason, in most cases, for having admitted such occupants. Our belief is based on the many cases noted where occupants of the acquired

projects had incomes exceeding the established limits entitling them to occupy public housing.

We are not making any recommendations regarding those families admitted and/or residing in acquired low-rent public housing with incomes exceeding the prescribed limits nor are we making recommendations concerning persons or couples occupying units larger than those suggested by HUD guidelines. We are currently performing review work in these areas, and if our findings warrant, appropriate recommendations will be made. We are, however, presenting the following matters for consideration by the Congress.

MATTERS FOR CONSIDERATION BY THE CONGRESS

The LHAs included in our review allowed occupancy of acquired public housing by families and persons that previously had occupied private standard housing even though occupants of private substandard housing had applied for admission. Therefore the Congress may wish to require that LHAs give preference for admission to public housing to occupants of private substandard housing.

CHAPTER 4

PROBLEMS ASSOCIATED WITH ACQUIRING PROPERTIES AND DISPLACING OCCUPANTS

Although the acquisition of privately owned standard housing by LHAs for use as low-rent public housing has provided standard housing to certain low-income families sooner than it could have been provided under the other methods discussed on page 5, it has, conversely, resulted in (1) hardships to former occupants of acquired projects who were forced to move and (2) the loss to local governments of tax revenues.

HARDSHIPS TO PRIOR OCCUPANTS OF ACQUIRED HOUSING

Our review showed that prior occupants of acquired projects who were forced to move had experienced (1) financial losses, (2) physical hardships, and (3) other relocation problems. In some cases prior occupants of the acquired properties were in only slightly better positions than were those low-income families which were eligible to move into the acquired properties.

At the time the selected projects were acquired, HUD regulations provided that the LHAs make relocation payments for reasonable and necessary moving expenses and for any actual direct losses of property to individuals and families displaced from properties acquired by LHAs for public housing.

HUD regulations provided also that a displaced person was eligible for a total relocation payment not to exceed $200. The amount was subsequently changed and is now a maximum of $300 for actual moving expenses plus a relocation allowance of $200, both as provided for by the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (42 U.S.C. 4601).

The regulations defined "a displaced person" as one who occupied the property to be acquired on the date of the execution of the annual contributions contract or on the date of HUD's approval of the site, whichever was later.

Financial losses

Our review of records maintained by LHAs and interviews with HUD regional and LHA officials showed that no relocation payments had been made to a number of persons displaced from acquired properties. In addition, even when relocation payments were made, such payments in many cases were not sufficient to reimburse the displaced persons for expenses incurred in moving.

Our review of the records maintained by LHAs showed that at least 130 families and/or individuals in three of the cities--Rochester, Russellville, and Wilmington--had been displaced from the acquired projects without receiving any relocation payments. The greatest number was in Wilmington, where at least 105 families and/or individuals were relocated from the Electra Arms Apartments without receiving such financial assistance.

The LHA (Wilmington Housing Authority) purchased the Electra Arms Apartments from the International Brotherhood of Electrical Workers, Local No. 313, on February 5, 1968, for $3.8 million. We were advised by officials of the HUD insuring office in Wilmington that, at the time the LHA purchased the Electra Arms, it was the only apartment house in the private rental market of the Wilmington area that was designed primarily to house the elderly and/or the handicapped.

After the acquisition of the Electra Arms, the LHA displaced those occupants who could not qualify for low-rent public housing. In no instance did the LHA pay relocation expenses, even though its application to HUD's Philadelphia regional office for approval of the project indicated that relocation assistance would be necessary if the property were acquired. However, the acquisition of the Electra Arms was approved by the HUD regional office on January 18, 1968, without any funds' being budgeted for relocation expenses.

On February 11, 1970, HUD's Assistant Regional Administrator for Housing Assistance was advised by the Director of the regional office's Relocation Division that no relocation payments had ever been considered by the LHA for any

families and/or individuals relocated from the Electra Arms. He was advised further that no one displaced by the LHA had ever received relocation payments and that the regional office should insist that relocation payments be made to all those displaced from the project.

The executive director of the LHA informed us that he was reluctant to authorize any relocation payments for the occupants of the Electra Arms because he felt that the occupants could afford the expenses of moving.

The question of whether to make relocation payments to families and/or individuals displaced from the Electra Arms was not settled, however, until February 26, 1971, when a HUD Associate Regional Counsel for General Legal Services ruled that the relocatees from the Electra Arms were not eligible to receive relocation payments. The reason he gave was that relocation payments, as provided for by section 406 of the Housing Act of 1964 (which was in effect at the time of this acquisition), were not mandatory. It was not until November 15, 1968, that HUD made it mandatory that relocation payments be made to all tenants of directly acquired projects. Because the Electra Arms was acquired prior to November 1968, the relocatees, by administrative action, were determined to be ineligible for relocation payments.

The same HUD regional office which handed down the above ruling approved the payment of relocation expenses to families and/or individuals relocated from Judiciary House in Washington. Judiciary House also was acquired prior to November 15, 1968.

Because relocation assistance and payments minimize the hardship of displacement and because at least 130 families and/or individuals were relocated and were not given relocation payments, we believe that neither HUD nor the LHAs at three of the eight locations covered in our review fulfilled their obligations. The LHAs did not insure, and HUD did not insist, that all families and/or individuals be assisted in their relocation and that relocation payments be made available in a consistent and equitable manner.

We noted that, in addition to those that <u>had not</u> received relocation payments, many families and/or individuals

that had received relocation payments had incurred expenses and/or had sustained losses substantially in excess of such payments. We found many instances where (1) moving expenses had exceeded the maximum relocation allowance of $200, (2) furniture had been damaged and the owners had been forced to absorb the losses, (3) fixtures and wall-to-wall carpeting had to be removed and modified to fit in the new residences and the owners had been forced to absorb the additional expenses, and (4) relocated persons had to travel farther to work and thereby were incurring increased travel costs.

The larger relocation payments authorized by the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 should lessen the financial losses of future relocated persons.

Physical hardships

Many of the families and/or individuals forced to relocate from the acquired properties were elderly. Relocation problems of many of the elderly were compounded by the fact that they suffered from physical disabilities. The occupants of one acquired property consisted entirely of elderly or disabled families and/or individuals.

The elderly who have limited incomes suffer the problems of both the old and the poor in relocating, as illustrated by the following cases.

A 75-year-old relocatee, partially crippled with arthritis, was forced to move from an acquired property which was close to stores, a hospital, and a church to a new location which was inconvenient to all three. In addition, the relocatee's monthly rent changed from $130 to $157. To pay the higher rent, the relocatee had to use all of her savings. Now that her savings are gone, she can no longer pay her rent from her only income--social security.

A relocatee and his wife, 70 and 66 years of age, respectively, had been living in an acquired property with the intention of making it their permanent retirement residence. The relocatee's wife told us that the forced move from that property was a physical shock to her husband that had resulted in two admittances to the hospital. She also

said that they would face, in addition to a substantially higher rent for a smaller apartment, a rent increase in the near future which would be a strain on their budget. She stated that the conveniences of their current apartment were something less than they had had at their prior residence and added that:

> "We now live on the third floor of a garden apartment, there is no elevator and we have a parking problem. They have not given us any allotted storage space and this was not a problem at *** [their former residence]."

The problems associated with relocation for those suffering from physical disabilities is illustrated by the following example.

A relocatee, whose wife is confined to a wheelchair as a result of infantile paralysis, had lived since March 19, 1965, in the Electra Arms complex (consisting of the Electra Arms Medical Center and the Electra Arms Apartments) located in Wilmington. The relocatee originally rented an apartment at this location because his wife could live there without being a burden on anyone or needing outside assistance in her everyday life. The Electra Arms complex included one building which housed medical care and treatment facilities and which was designed for ease in caring for senior citizens and persons with infirmities, such as the relocatee's wife.

The suitability of the Electra Arms as a place of residence for the relocatee's wife was expressed in a letter from the relocatee's physician to the LHA, as follows:

> "This patient is a polio victim of years ago. She has very limited ambulatory capacity and is confined to a wheel chair most of the time. She has found the facilities at the Electra Arms particularly suitable to her use of the wheel chair, not only in getting around her own apartment - being able to transfer from chair to toilet, etc. without aid - but in allowing her relatively free communication to the various facilities in the building. She has been able to live a more full and complete life than previously possible."

The relocatees occupied an apartment which was designed for invalids and which, for $133 a month, allowed them to live as normal a life as possible under the circumstances.

The LHA purchased the Electra Arms Apartments on February 5, 1968. In April 1968 the relocatees were advised that they had 6 months to find a suitable place to live. They were granted a 6-month extension to March 31, 1969, however, because their efforts to locate suitable housing had not been successful. Their particular problems included finding a suitable dwelling that (1) was accessible to a person confined to a wheelchair, (2) contained doors more than 27-1/2 inches wide, (3) had a bathroom with sufficient space for manuevering a wheelchair, and (4) was within their economic means.

The relocatees were unable to find a suitable place to live and continued residing at the Electra Arms. On August 28, 1969, they were sent a notice to vacate, which gave them until September 30, 1969, to move. The relocatees replied that they had been unable to locate housing, asked for another extension of time, and continued to reside at the Electra Arms. A real estate broker hired by the relocatees to find them an apartment wrote a letter which was sent to the executive director of the LHA on September 18, 1969, and which stated, in part, that.

> "To this date I have been unable to find them a rental that would be within their range of income to maintain. This is principally due to the extraordinary requirement necessitated by the inability of the *** [wife of the relocatee] to move from room to room without the use of her wheelchair. I have found that in all cases the hallways, the door widths, the entrance way, or the size of the bathroom has prevented successful and comfortable mobility for *** [her]. Of particular concern has been the lack of wheelchair maneuverability in the bathroom."

An interdepartmental memorandum dated February 11, 1970, from HUD's Philadelphia regional office stated that eviction proceedings had been initiated in the local courts. The same memorandum recommended, however, that eviction be

postponed because "all steps have not been taken to assist this family in obtaining a new unit."

On December 22, 1970, the relocatees bought a home in a small community in the vicinity of Wilmington. No relocation payment was made to the relocatees.

Although we recognize that the above example probably would not be typical of the relocation problems experienced by all persons suffering physical disabilities, information obtained during our review indicated that in many cases the physically disabled lost, through relocation, many of the conveniences of their previous residences.

Other relocation problems

HUD's regulations pertaining to the direct acquisition of properties provide that LHAs must (1) demonstrate that adequate resources are, or will be, available for relocating tenants and (2) develop a relocation plan to be submitted to HUD for review and approval. The procedures provide also that LHAs assist tenants in finding suitable housing.

Our review showed that in one case the LHA had not complied with HUD regulations in that the LHA had not prepared or submitted a relocation plan for HUD's review and approval prior to displacing the former residents of the acquired project. In addition, we found that tenants of that acquired project had experienced difficulties in finding suitable housing at comparable costs and had received little assistance from the LHA in their searches.

Our review of LHA records for 477 families and/or individuals that had relocated from three selected acquired projects in Washington showed that 122 of these families had moved out of the District of Columbia into the Maryland and Virginia suburbs. Information we obtained from 48 of the families that moved into Maryland and Virginia showed that 20 individuals who had previously used public transportation were forced either to drive to and from work or to incur additional transportation expenses.

Information from relocatees in five of the eight locations showed that in numerous cases families which had been

forced to move from the acquired projects either had worse housing at their subsequent dwellings yet were paying higher rents or, to obtain housing that they considered comparable, had moved out of their immediate areas and were paying substantially higher rents.

LOSS OF TAX REVENUES

Federally assisted low-rent public housing projects are exempt from real and personal property taxes, however, LHAs generally pay the local governing or taxing bodies 10 percent of the annual rents charged in such projects in lieu of paying taxes.

Our review of the 15 directly acquired projects (which, in several cases--as shown in the following photographs--were luxury, high-rise apartments) showed that most communities had lost substantial property tax revenues and that some communities also had lost substantial revenues from other forms of local taxes because some of the tenants had moved to other taxing jurisdictions.

For 10 of the 15 acquired projects, we were able to obtain information which showed that real estate taxes of about $377,400 had been paid annually on the properties prior to their acquisition by the LHAs. We estimated that the annual payments in lieu of taxes on these properties would be about $66,500, or a loss in tax revenue of about $310,900 annually.

Because many of the families and/or individuals that moved from acquired projects left the taxing jurisdictions where the projects were located, other tax revenues were reduced. For example, 122 families which had occupied the acquired projects in the District of Columbia moved to the Virginia and Maryland suburbs. We estimate that the District lost approximately $58,000 annually in income tax revenues from the 122 families.

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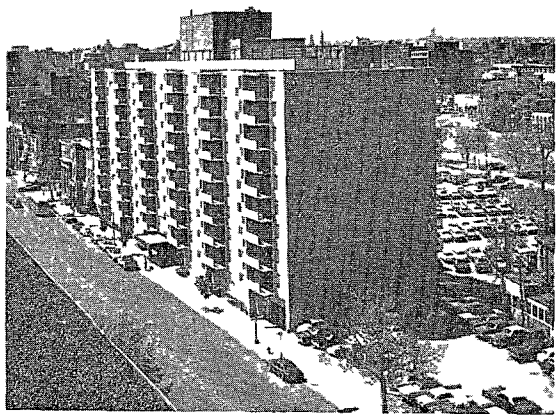
Although the acquisition of low-rent public housing through the purchase of existing standard housing has provided some low-income families with decent, safe, and sanitary housing, we believe that, in certain cases, the housing was acquired without adequate planning and without due regard to the hardships being imposed on existing tenants.

AGENCY COMMENTS

HUD commented that the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970



JUDICIARY HOUSE
WASHINGTON

1400 FENWICK
MONTGOMERY COUNTY, MD

LA RONDA TOWERS
CLEVELAND

1400 FENWICK
MONTGOMERY COUNTY, MD
Swimming pool area

Selected acquired projects

HARVARD TOWERS
WASHINGTON

REGENCY HOUSE
WASHINGTON

specifically addresses the kinds of hardships cited in our report. HUD stated that its relocation handbook set forth the procedures for implementing this legislation under HUD programs. HUD informed us that it was preparing a program description of the acquisition methods that would provide that relocation responsibilities and requirements be fulfilled in accordance with its relocation handbook which requires the submission of a complete relocation plan.

HUD stated that the cases of the tenants displaced from the Electra Arms complex would be reopened and that, if appropriate, the LHA would be instructed to provide the displaced tenants with appropriate relocation benefits.

We believe that the regulations requiring an adequate relocation plan, if properly implemented, should help to alleviate relocation hardships similar to those discussed in this report.

RECOMMENDATION TO THE SECRETARY OF HUD

We recommend that HUD, prior to approving the LHAs' acquisition of occupied, privately owned standard housing, require the LHAs to adequately demonstrate that housing of comparable quality and rents exists in the areas and that adequate relocation assistance will be available for tenants who will be displaced.

CHAPTER 5

NEED FOR IMPROVED PROCEDURES FOR ESTABLISHING ACQUISITION PRICES

HUD needs to improve its procedures to provide adequate assurance that the prices of acquired properties are reasonable.

HUD requires a minimum of one appraisal of a property to be acquired under the direct acquisition method. In many cases more than one appraisal had been obtained. However, HUD was inconsistent in approving purchase prices due to the lack of specific guidelines. HUD had approved prices that were higher, lower, equal to, or between appraised values.

For example, the appraisal, made jointly by three appraisers, for a project in Cleveland set the value for the project by three methods--the cost approach, $794,500; the market approach, $751,000; and the income approach, $746,000. The appraisers indicated that the fair market value was $751,000 but that, for immediate housing purposes, a buyer might be willing to pay $794,500. The price paid by the LHA--$825,000--was $74,000 more than the appraised fair market value and $30,500 more than the highest appraised value. HUD approved the purchase price.

In another case a project located in Washington was appraised by two independent appraisers who assigned fair market values of $2.3 million and $2.35 million, respectively. The LHA submitted a request to the HUD regional office for approval of the purchase of the project at the seller's asking price of $2,475,000. The price was about $150,000 more than the higher of the two appraisals. HUD headquarters officials refused to accept a price in excess of the higher appraised value of $2.35 million. Only after the seller dropped his price by $50,000 to $2,425,000 and after the LHA was able to raise $75,000 from private donations did HUD approve the acquisition at a commitment by the Federal Government of $2.35 million.

We noted that two or more appraisals had been obtained for each of seven of the 15 acquired projects covered in our review, one appraisal had been obtained for each of seven other projects, and no appraisal had been obtained for the remaining project. The following table shows the relationship between the appraised values and the purchase prices for the 14 projects for which appraisals had been obtained.

Purchase price	Number of projects to which applicable
Lower than appraised value	6
Higher than appraised value	3
Equal to highest or only appraised value	1
Between appraised values	4

Another method which HUD uses to provide low-rent public housing is the turnkey method. However, in contrast to HUD's regulations pertaining to the direct acquisition method, which require only one appraisal and which provide no specific guidelines regarding the purchase price to be paid for a project, the regulations pertaining to the turnkey method require that two independent cost estimates be obtained and provide that the total price in no event be greater than the average of the approved cost estimates.

- - - -

We believe that HUD's regulations applicable to appraisals and to subsequent approval of the purchase prices are inadequate for insuring that, under the direct acquisition method, properties are acquired at the lowest and most equitable prices.

RECOMMENDATION TO THE SECRETARY OF HUD

We recommend that HUD establish appraisal requirements for the direct acquisition method similar to those established for the turnkey method.

AGENCY COMMENTS

HUD informed us that it agreed with our recommendation. HUD stated that revised procedures for acquisition of existing housing were being developed that would include "pertinent portions of instructions and regulations from both the conventionally bid and turnkey handbooks."

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D C 20411

ASSISTANT SECRETARY-COMMISSIONER

MAY 11 1972

Mr. B. E. Birkle
Associate Director
Resources and Economic Development Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Birkle:

Secretary Romney asked me to respond to your request of February 11, 1972 for comments on your draft of a proposed report to the Congress entitled "Benefits Could Be Realized By Revising Policies And Practices Relating To Acquisition Of Existing Structures For Low-Rent Public Housing".

Our records indicate that as of June 30, 1971, 12,490 units, rather than 16,400 units as stated in the report, had been acquired under the acquisition without rehabilitation method and placed under management. This number includes vacant or single family structures and dwellings in which the United States has interest as well as privately owned, previously occupied multifamily structures.

Although these structures required little or no rehabilitation, as stated in the report, the cost of repairs or improvements can be sizable. Under our current definition, alterations or improvements are considered repairs rather than rehabilitation if the cost thereof is less than 20% of total acquisition cost in the case of multifamily structure or less than 25% of total acquisition cost in the case of single family housing.

I do not concur in the recommendation of the report that financial assistance to LHAs should be limited to the acquisition of privately-owned standard housing in specific locations where the supply of standard housing is in excess of the need for such housing and that action on projects in the planning or early development stages should be terminated.

In its administration of the acquisition method HUD has had a clear understanding that units provided under this method do not add to the Nation's housing supply and do not help meet the production targets established by the Housing and Urban Development Act of 1968 as subsequently modified by the Second Annual Report on the National Housing Goals, nor do they alleviate the shortage of standard housing units. Accordingly, production targets from fiscal year 1969 through 1972 for the acquisition program have been very small Current targets for fiscal year 1972 call for approximately 95,000 units under ACC's executed Of that total only 1100 units (not 1500 units as indicated in the draft report) are to be provided under the acquisition without rehabilitation method

There are many benefits derived from the acquisition method other than the time and cost factors cited in the report The method contributes to the conservation, improvement and stabilization of an existing neighborhood, it makes available locally acceptable and compatible designs, sites, and larger units not otherwise obtainable, it reduces concentration of subsidized housing and concommitant stigma, it permits the use of family structures and scattered sites, it makes available more amenities such as individual private yards, basements and larger living areas, it permits greater flexibility in using housing with an economic life of less than 40 years and it permits the conversion of single family structures to the Homeownership Opportunity Program Further, when buildings have been partially or wholly vacant for any length of time, regardless of the fact that there is a shortage of standard housing in the locality, acquisition for public housing should be considered provided, of course, that a need is demonstrated.

Despite an overall demand in a community for unsubsidized housing which may be as great or greater than that for subsidized housing, some structures, for various reasons, will not serve to meet that demand, e g they are not acceptable to the unsubsidized market, are freely offered to an LHA and represent a purchase clearly in the best interest of the tenants to be served, the LHA, and HUD Thus, to limit financial assistance to LHAs to acquire privately-owned standard housing to specific locations where the supply is in excess of the need would be far too restrictive when factors such as those indicated above are considered ' A more reasonable guideline for the use of the acquisition method is its effect on the private rental market Current acquisition method procedures provide that before acquiring existing standard rental housing, consideration shall be given to the possible inflationary effect

on the private rental market of such acquisition. The revision of the program description currently in preparation also uses effect on the private rental market as a guiding principle.

I do not have the authority under current legislation to comply with the recommendation that a requirement be established that vacancies in acquired low rent public housing be filed first by families who meet income and asset requirements and who presently live in substandard housing units. Section 10g of the United States Housing Act of 1937 was amended by Section 205 of the Housing Act of 1961, Public Law 87-70 to place greater responsibility in the local housing authorities for admission policies. As a result where there once were specific statutory requirements, since the passage of the 1961 legislation it is the responsibility of LHAs to establish their individual policies and standards based on general HUD guidelines.

Following the passage of the 1961 legislation, the following was issued in Part IV Section I of the local Housing Authority management guide:

> Among requirements formerly contained in Federal law but eliminated by amendments in 1961 were (1) that, except as waived, there be admitted only families displaced or to be displaced by public action, without or about to be without housing through no fault of their own, or living under substandard or overcrowded conditions; (2) that preference in admission be given to displaced, veteran, service, or elderly families, and (3) that there be no discrimination against welfare families ...
>
> The Local Authority has latitude as to how it will give effect to its responsibility to those displaced by governmental action and to others in the community who should receive special consideration. It might do so through the establishment of conditions for eligibility or through preferences in admission. For example, a Local Authority might establish housing need as a condition of eligibility, specifying qualifying conditions such as displacement (actual or pending) by public action, being or about to be without housing through no fault of the applicant, living under substandard, overcrowded, or doubled up conditions, or paying an unreasonable proportion of family income for rent Such other of the factors listed in the Act warranting special

> consideration might be reflected through preferences as the applicant's status as a veteran or serviceman, the applicant's age or physical condition, or urgency of housing need.

The current HUD recommended admission policy (Paragraph 5a, Low-Rent Housing Income Limits, Rents, and Occupancy Handbook, 7465.1) as a result of the 1961 amendments, states

> The Local Authority shall formally adopt and promulgate, by publication or posting in a conspicuous place for examination by prospective tenants, regulations establishing its admission policies, and all revision thereof. Such regulations must be reasonable and must give full consideration to the Local Authority's public responsibility for rehousing displaced families, to the applicant's status as a serviceman or veteran or relationship to a serviceman or veteran or to a disabled serviceman or veteran, and to the applicant's age or disability, housing conditions, urgency of housing need, and source of income, and shall accord to families consisting of two or more persons such priority over families consisting of single persons as the Local Authority determines to be necessary to avoid undue hardship.

Thus an applicant who occupies a unit in standard condition, but who is required to pay an unreasonable percentage of his income for housing may be determined by a LHA to have an urgent need for housing, perhaps just as great as an applicant who occupies a substandard unit. Additionally, it should be noted that a requirement for disclosure by an applicant of the condition of present housing is also an LHA-determined policy.

It should be noted further that the establishment of any asset limitations as a condition of eligibility and specific admission regulations are the sole responsibility of a local housing authority. The statute only requires the establishment of income limits and vests in LHAs responsibility for establishing other such eligibility and specific admission criteria. Although HUD cannot require LHAs to establish asset limitations, we strongly recommend they do so to ensure that families are not being assisted who could obtain standard private housing when their assets are considered in combination with their income. HUD recommendations on assets limitations are contained in Part VII, Section 6 of the LHA Management Guide.

The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 specifically address the kinds of hardships cited in the GAO report. The Act requires suitable relocation housing prior to displacement, provides increased moving and related expense benefits, and increases the payment to tenants and owners to ease the financial burden of increased costs of obtaining comparable and needed housing.

The incident cited with reference to the elderly couple in the Electra Arms complex was unquestionably callous and unfortunate. It should be noted that the Wilmington Housing Authority proceeded in a manner that was contrary to the intent and possibly the letter of the law of relocation policies as established in 1968. Present regulations would prohibit the eviction of this couple under the circumstances described. The present interpretation of suitability with reference to relocation housing would require that the couple be provided with a series of services and benefits, including delaying displacement until housing resources which met their physical (medical) needs were available, and the provision of housing within their ability to pay (including subsidies and payments). The cases will be reopened and, if appropriate, the Wilmington Housing Authority will be instructed to provide the displacees with appropriate benefits.

HUD Relocation Handbook 1371.1, published July 30, 1971, sets forth the procedures for implementation of the 1970 legislation under HUD programs. We have in preparation a program description of the acquisition methods, with and without rehabilitation. This document provides that relocation responsibilities and requirements be fulfilled in accordance with HUD Relocation Handbook 1371.1. The submission of a complete relocation plan is one of these requirements.

I concur in the recommendation that regulations similar to those for the turnkey method be established for the direct acquisition method insofar as appraisals are concerned. Revised procedures for acquisition of existing housing are now being written. They will include a requirement for a HUD staff appraisal in lieu of an appraisal by an independent appraiser. The basis for an appraisal will be described. However, it will permit, in addition, the employment of professionals (cost estimators, architects, etc.) when necessary. Procedures will include pertinent portions of

instructions and regulations from both the conventionally bid and turnkey handbooks. The Turnkey procedure (which provides for construction) as a whole would not be applicable to acquisition procedures (which provide for the purchase of existing housing with rehabilitation being involved in some cases) because of the different objectives of the two procedures.

HUD's role extends beyond the increase of the national supply of housing. Its mandate is to provide "a decent home and a suitable living environment for every American family". The implementation of this goal necessitates that HUD's resources be used in part and simultaneously to fulfill a broad spectrum of housing and community improvement needs in local communities. The direct acquisition of existing housing enables the department to pursue that goal.

Sincerely,

Eugene A. Gulledge

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
SECRETARY OF HOUSING AND URBAN DEVELOPMENT (formerly Administrator, Housing and Home Finance Agency).		
Robert C. Weaver	Feb. 1961	Dec. 1968
Robert C. Wood	Jan. 1969	Jan. 1969
George W. Romney	Jan. 1969	Present
ASSISTANT SECRETARY FOR HOUSING MANAGEMENT:		
Don Hummel	May 1966	Feb. 1969
Howard J. Wharton (acting)	Feb. 1969	Mar. 1969
Lawrence M. Cox	Mar. 1969	July 1970
Norman V. Watson	July 1970	Present
ASSISTANT SECRETARY FOR HOUSING PRODUCTION AND MORTGAGE CREDIT AND FEDERAL HOUSING COMMISSIONER.		
Eugene A. Gulledge	Oct. 1969	Present

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