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Fact Sheet for the Chairman, Subcommittee on Housing and Community Development, Committee on Banking, Finance and Urban Affairs, House of Representatives

April 1994

MULTIFAMILY HOUSING

Information on Selected Properties Owned by HUD

GAO

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General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-256759

April 11, 1994

The Honorable Henry B. Gonzalez
Chairman, Subcommittee on Housing
and Community Development
Committee on Banking, Finance
and Urban Affairs
House of Representatives

Dear Mr. Chairman:

As you know, the size of the Department of Housing and Urban Development's (HUD) inventory of foreclosed multifamily properties (HUD-owned properties) has increased substantially in the past 4 years. HUD acquired this inventory mostly through foreclosing on properties for which the defaulted loans were originally insured by its Federal Housing Administration. HUD's multifamily property disposition program was established to sell these properties to new owners.

Current law requires HUD to preserve some of the units in its multifamily inventory as affordable rental housing for low- to moderate-income people for 15 years. To ensure that these units are available and affordable to low- and moderate-income people, HUD generally uses a federal rental subsidy program known as project-based Section 8 assistance. Under this program, HUD pays the project's owner the difference between a unit's rent and the portion the tenant pays (30 percent of his or her income). Such assistance is also needed, in some cases, to help potential purchasers obtain private financing. However, as we testified before your Committee in May 1993,[1] the amount of Section 8 budget authority that HUD has available has been insufficient to allow HUD to sell most of its multifamily properties. As a result, HUD's inventory increased from about 10,000 units in 1990 to 31,000 units in 1993. In addition, as of the end of fiscal year 1993, HUD had initiated foreclosure on another 38,000 units.

To help you evaluate the impact of new legislative requirements aimed at improving HUD's ability to dispose of this inventory, we developed specific information on HUD-owned multifamily properties in the cities of Dallas, Texas, and Kansas City, Missouri. A total of 19 properties—9 subsidized

[1]Multifamily Housing: Impediments to Disposition of Properties Owned by the Department of Housing and Urban Development (GAO/T-RCED-93-37, May 12, 1993).

and 10 unsubsidized[2] —were included in our analysis. This fact sheet provides information on (1) the size and vacancy rates of the properties, the number of units receiving project-based Section 8 assistance, and the distribution of the units by the number of bedrooms; (2) HUD's estimates of the funds needed to rehabilitate the properties; and (3) the current tenants' income levels and percentage of income spent on rent.

In summary, we found the following:

Characteristics of the Projects

- The size of the subsidized properties we analyzed ranged from 85 to 620 units, with an overall vacancy rate of about 39 percent. The size of the unsubsidized properties ranged from 51 to 394 units, with an overall vacancy rate of about 55 percent.
- A majority of the units in the subsidized properties received rent subsidies under the project-based Section 8 assistance program. Only a small number of the units in the unsubsidized properties received such rent subsidies.
- About 60 percent of the total units in the subsidized properties had two bedrooms. For the unsubsidized properties, about 47 percent of the units had two bedrooms and about 35 percent had one bedroom.

Rehabilitation Costs

- For the subsidized properties, preliminary estimates of the rehabilitation costs for deteriorated units ranged from about $2,400 per unit to about $27,100 per unit. The subsidized properties would require, on average, about $14,200 per unit to rehabilitate.
- For the unsubsidized properties, preliminary estimates of the rehabilitation costs ranged from about $1,100 per unit to about $10,800 per unit—an average of about $4,700 per unit.

Tenants' Incomes and Rent Costs

- Tenants in the subsidized properties generally had lower incomes than those in the unsubsidized properties. Specifically, most of the tenants in the subsidized properties (about 64 percent) had incomes of 20 percent or less of the area's median income. In contrast, most of the tenants in the unsubsidized properties (about 62 percent) had incomes between 21 and 50 percent of the area's median income.

[2]A subsidized property is one that, before HUD acquired it, was receiving a mortgage assistance subsidy (such as a below-market-interest-rate loan or other rental payment assistance) or a housing assistance payment (such as project-based Section 8 assistance) for more than 50 percent of its units. An unsubsidized property is one that was not receiving a mortgage assistance subsidy or was receiving a housing assistance payment for fewer than 50 percent of its units.

- In terms of the amount of rent paid as a percentage of household income ("rent burden"), the majority of tenants in both the subsidized and unsubsidized properties were paying 30 percent or less of their income for rent.

Section 1 of this fact sheet contains detailed information on project size, vacancy rates, the number of units that received Section 8 assistance, and the distribution of the units by the number of bedrooms. Section 2 gives detailed information on the estimates of rehabilitation costs. Section 3 provides additional details on the tenants' incomes and rent burdens.

Scope and Methodology

We performed our work at HUD field offices responsible for overseeing HUD-owned properties in Dallas, Texas, and Kansas City, Missouri. We chose Dallas and Kansas City for our analysis because of the large number of properties in the multifamily inventory at each location. We obtained property characteristics and other related information from HUD files and HUD officials at each location. We developed information on the households' demographics and incomes using data provided by HUD officials and management agents for each property. These data reflect households in the Dallas properties in August and September 1993 and in the Kansas City properties in October 1993. Since that time, some of the HUD properties we reviewed have been sold, according to HUD officials. We did not verify the accuracy of the data provided by HUD and the management agents. We discussed this fact sheet with HUD's Federal Housing Administration Comptroller and the Director of HUD's Office of Preservation and Property Disposition, who agreed with the information presented.

We are sending copies of this fact sheet to interested congressional committees; the Secretary of Housing and Urban Development; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others on request.

Please contact me at (202) 512-7631 if you or your staff have any questions. Major contributors to this fact sheet are listed in appendix I.

Sincerely yours,

Judy England-Joseph

Judy A. England-Joseph
Director, Housing and
Community Development Issues

Contents

Abbreviations

GAO	General Accounting Office
HUD	Department of Housing and Urban Development

Section 1

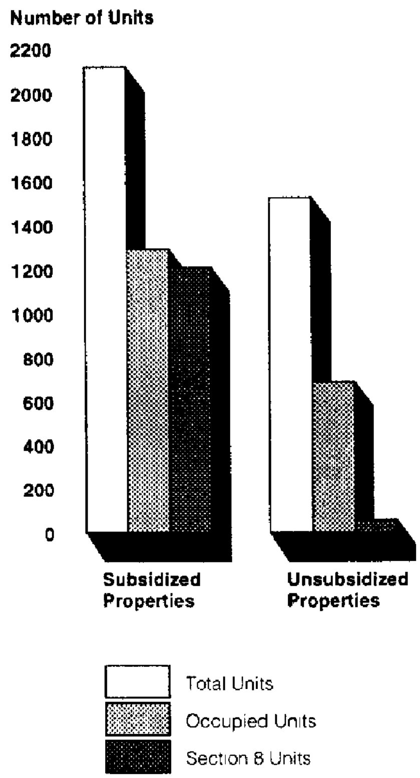
Characteristics of the Projects

In this section, we provide information on the general project characteristics of the properties in HUD's foreclosed multifamily inventory (HUD-owned properties), including project size, vacancy rates, and the number of units receiving project-based Section 8 assistance.

In the 19 properties we analyzed, there are a total of 3,638 units—2,115 units in the subsidized inventory and 1,523 units in the unsubsidized inventory. Out of a total of 2,115 units in the subsidized inventory, 1,289 units were occupied, resulting in a 39-percent vacancy rate. For the unsubsidized inventory, 687 out of the 1,523 units were occupied, resulting in a vacancy rate of about 55 percent.

HUD uses Section 8 assistance to meet the statutory goals of preserving units in multifamily properties as affordable rental housing for low- to moderate-income families as mandated by the Housing and Community Development Act of 1978. We found that the number of units assisted by project-based Section 8 subsidies differed significantly between the subsidized and unsubsidized properties. In the subsidized inventory, 1,206 units received project-based Section 8 assistance. In the unsubsidized inventory, however, only 56 units received project-based Section 8 assistance. Figure 1.1 shows the total number of units, number of occupied units, and number of units receiving project-based Section 8 assistance for the subsidized and unsubsidized properties we reviewed.

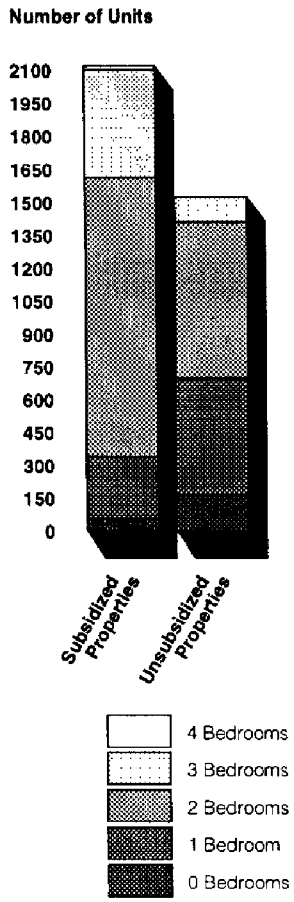
Figure 1.1: Total Units, Number of Occupied Units, and Number of Units Receiving Project-Based Section 8 Assistance



Source: GAO's analysis of HUD's data.

As illustrated in figure 1.2, the most common type of unit in both the subsidized and unsubsidized properties was a two-bedroom unit. The subsidized properties we reviewed had about three times as many three- and four-bedroom units, on average, as the unsubsidized properties did.

Figure 1.2: Distribution of Units by Number of Bedrooms



Source: GAO's analysis of HUD's data.

Project Size, Vacancy Rate, and Number of Assisted Units

As shown in table 1.1, the size of the subsidized projects ranged from 85 units in a Kansas City project to 620 units in a property in Dallas. The size of the unsubsidized projects ranged from 51 to 394 units.

Vacancy rates ranged from 11 to 64 percent in the subsidized properties and 22 to 86 percent in the unsubsidized properties. According to HUD officials, the vacancy rates at some of these properties were high because (1) most of the properties were in poor physical condition and (2) renovation was being performed on many units. HUD officials noted that vacancy rates could also be affected by rental market conditions in some neighborhoods where the properties are located. For example, the high vacancy rates for many of the Dallas properties may be due, in part, to the fact that they were located in areas where the average vacancy levels were above citywide averages for the apartment rental market.

We also found that the vast majority of the units that received project-based Section 8 assistance were in the subsidized properties. At four of the properties, all of the units received project-based Section 8 assistance. In total, 1,206 units receiving project-based Section 8 assistance were in subsidized properties and 56 units receiving this assistance were in unsubsidized properties.

Table 1.1: Size, Vacancy Rate, and Number of Units Receiving Project-Based Section 8 Assistance

Project name	Total units	Occupied units	Vacancy rate	Section 8 units
Subsidized projects				
Dallas				
Cedar Glen	250	200	20%	250
Estell Village	291	219	25%	40
Fawn Ridge West	200	85	57%	44
Georgetown II	620	255	59%	400
Royal Crest	167	132	21%	0
Subtotal - Dallas 1	,528 8	91 4	2% 7	34
Kansas City				
Friendship Village	144	52	64%	29
Holy Temple	198	150	24%	198
Mid City Towers	85	76	11%	85
Silver City	160	120	25%	160
Subtotal - Kansas City	587	398	32% (average)	472
Total - subsidized projects	**2,115**	**1,289**	**39% (average)**	**1,206**
Unsubsidized projects				
Dallas				
Bennett Plaza	68	15	78%	0
Buckner Village	172	54	69%	0
Georgetown I	172	61	65%	56
Glen Hills I & II	394	306	22%	0
Golden Helmet	74	23	69%	0
Pavilion	176	24	86%	0
Plantation Royal	172	75	56%	0
Subtotal - Dallas	1,228	558	55% (average)	56
Kansas City				
French Village	51	16	68%	0
Newbern	134	85	37%	0
Parkgate	110	28	75%	0
Subtotal - Kansas City	295	129	56% (average)	0
Total - unsubsidized projects	**1,523**	**687**	**55% (average)**	**56**

Distribution of Unit Types

As shown in table 1.2, the most common unit size—in 60 percent of the units—in the subsidized inventory was two bedrooms; 23 percent of the units had three bedrooms and 13 percent of the units had one bedroom. For the 10 unsubsidized properties we examined, most of the units had either one or two bedrooms. Specifically, we found that about 35 percent of the units had one bedroom and about 47 percent of the units had two bedrooms.

Table 1.2: Distribution of Units by Number of Bedrooms

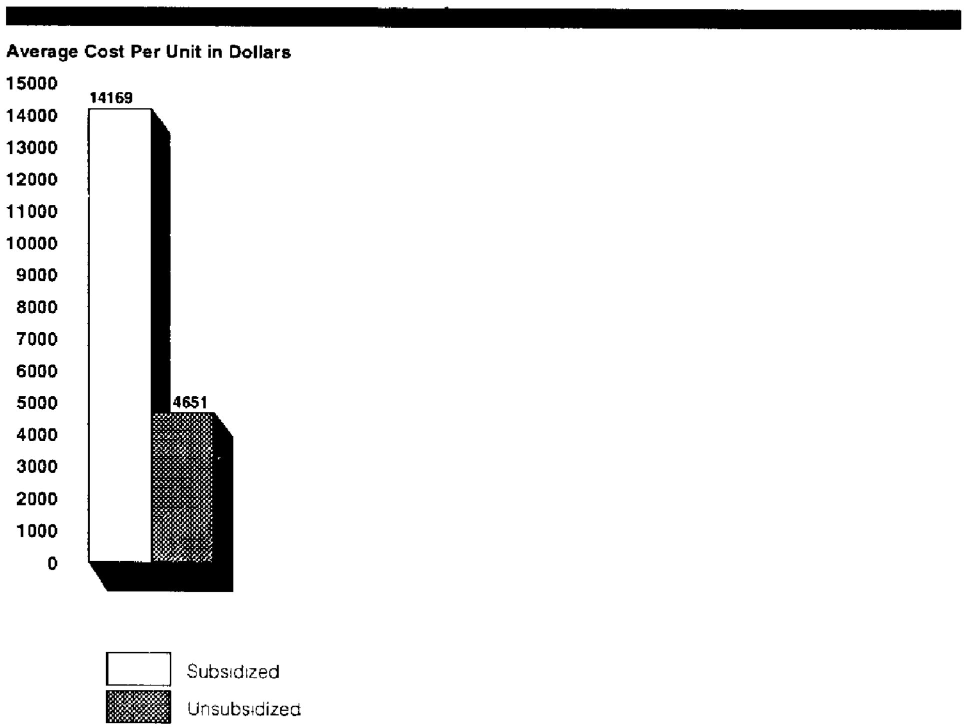
Project name	Number of bedrooms 0	1	2	3	4	Total number of units
Subsidized projects						
Dallas						
Cedar Glen	0	40	178	32	0	250
Estell Village	0	72	134	76	9	291
Fawn Ridge West	0	80	80	40	0	200
Georgetown II	0	4	601	7	8	620
Royal Crest	0	16	120	31	0	167
Subtotal - Dallas	0	212	1,113	186	17	1,528
Percentage of distribution	0%	14%	73%	12%	1%	100%
Kansas City						
Friendship Village	0	10	44	90	0	144
Holy Temple	0	30	42	126	0	198
Mid City Towers	52	32	1	0	0	85
Silver City	0	0	74	86	0	160
Subtotal - Kansas City	52	72	161	302	0	587
Percentage of distribution	9%	12%	27%	51%	0%	100%
Total - subsidized projects	**52**	**284**	**1,274**	**488**	**17**	**2,115**
Percentage of Distribution	**2%**	**13%**	**60%**	**23%**	**1%**	**100%**
Unsubsidized projects						
Dallas						
Bennett Plaza	4	56	8	0	0	68
Buckner Village	0	70	81	21	0	172
Georgetown I	0	0	172	0	0	172
Glen Hills I & II	80	174	107	33	0	394
Golden Helmet	0	6	68	0	0	74
Pavilion	0	40	96	40	0	176
Plantation Royal	0	80	78	14	0	172
Subtotal - Dallas	84	426	610	108	0	1,228
Percentage of distribution	7%	35%	50%	9%	0%	100%
Kansas City						
French Village	11	18	22	0	0	51
Newbern	66	57	11	0	0	134
Parkgate	3	31	70	6	0	110
Subtotal - Kansas City	80	106	103	6	0	295
Percentage of distribution	27%	36%	35%	2%	0%	100%
Total - unsubsidized projects	**164**	**532**	**713**	**114**	**0**	**1,523**
Percentage of distribution	**11%**	**35%**	**47%**	**7%**	**0%**	**100%**

Rehabilitation Costs

In this section, we provide information on HUD's preliminary estimates of the funds needed to rehabilitate the projects. HUD officials were able to provide estimates for 17 of the 19 projects we examined in Dallas, Texas, and Kansas City, Missouri.

As indicated in figure 2.1, the average rehabilitation cost was estimated at $14,169 per unit for subsidized properties and $4,651 per unit for unsubsidized properties.

Figure 2.1: Comparison of HUD's Preliminary Estimates of Rehabilitation Costs



Source: GAO's analysis of HUD's data.

As table 2.1 indicates, HUD's estimates of the per-unit rehabilitation costs for the subsidized properties we reviewed ranged from $2,395 to $27,097. One of these properties, a large Dallas property named Georgetown II, had serious problems, including asbestos, which resulted in a high rehabilitation cost estimate.

As the table also shows, HUD's estimates of the per-unit rehabilitation costs for the unsubsidized properties in Dallas and Kansas City ranged from $1,105 to $10,795. The average per-unit rehabilitation cost for the unsubsidized properties was estimated at $4,651.

Table 2.1: HUD's Preliminary Estimates of Rehabilitation Costs

Project name	Total number of units	Estimated rehabilitation costs	
		Per project	Per unit
Subsidized projects			
Dallas			
Cedar Glen	250	$ 2,200,000	$ 8,800
Estell Village	291	1,200,000	4,124
Fawn Ridge West	200	3,100,000	15,500
Georgetown II	620	16,800,000	27,097
Royal Crest	167	400,000	2,395
Average - Dallas	306	$ 4,740,000	$15,510
Kansas City			
Friendship Village	144	2,000,000	13,889
Holy Temple	198	1,500,000	7,576
Mid City Towers	85	500,000	5,882
Silver City	160	Unknown	N.A.[a]
Average - Kansas City	147	$1,333,333	$ 9,368
Average - subsidized projects	**235**	**$3,462,500**	**$14,169**
Unsubsidized projects			
Dallas			
Bennett Plaza	68	400,000	5,882
Buckner Village	172	1,300,000	7,558
Georgetown I	172	210,000	1,221
Glen Hills I & II	394	1,600,000	4,061
Golden Helmet	74	260,000	3,514
Pavilion	176	1,900,000	10,795
Plantation Royal	172	190,000	1,105
Average - Dallas	175	$ 837,143	$ 4,772
Kansas City			
French Village	51	300,000	5,882
Newbern	134	Unknown	N.A.[a]
Parkgate	110	300,000	2,727
Average - Kansas City	98	$ 300,000	$ 3,727
Average - unsubsidized projects	**152**	**$ 646,000**	**$ 4,651**

[a]N.A. = not applicable.

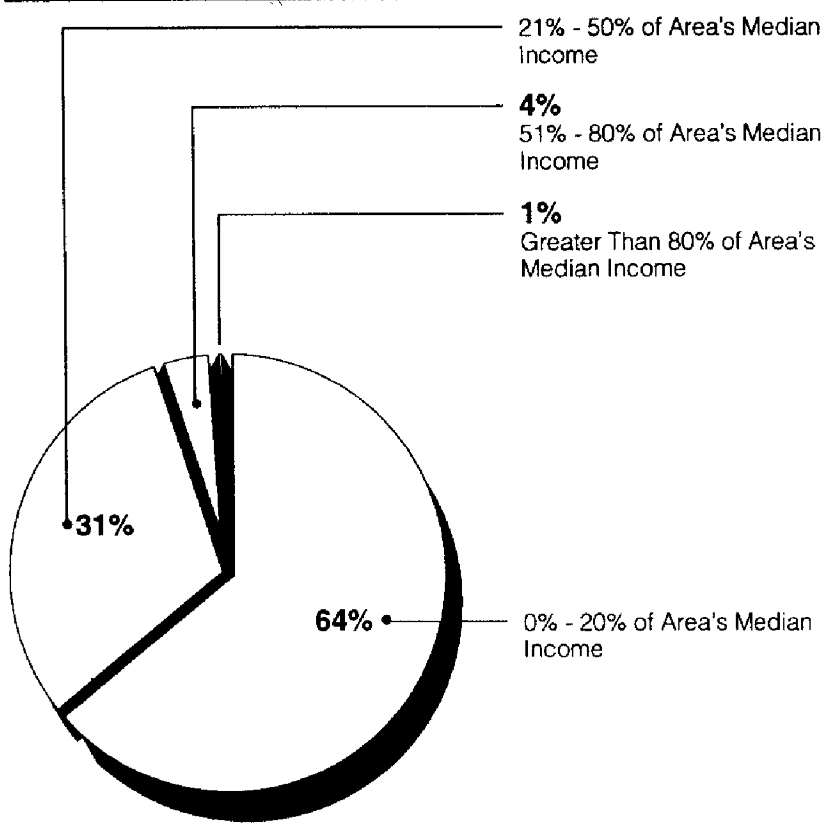
Tenants' Incomes and Rent Costs

In this section, we provide information on the distribution of tenants' incomes as a percentage of the area's median income and tenants' rent costs as a percentage of tenants' income ("rent burden").

As shown in figures 3.1 and 3.2, the vast majority of the tenants in both the subsidized and unsubsidized properties we reviewed had very low incomes (50 percent or less of the area's median income). However, tenants in the subsidized properties generally had lower incomes than those in the unsubsidized properties.

Of the 1,276 households residing in the nine subsidized properties we examined, about 95 percent had incomes in the very-low range. Furthermore, as indicated in figure 3.1, most of the tenants in the subsidized properties—about 64 percent—had incomes of 20 percent or less of the area's median income. About 31 percent of the tenants in the subsidized properties had incomes between 21 and 50 percent of the area's median income.

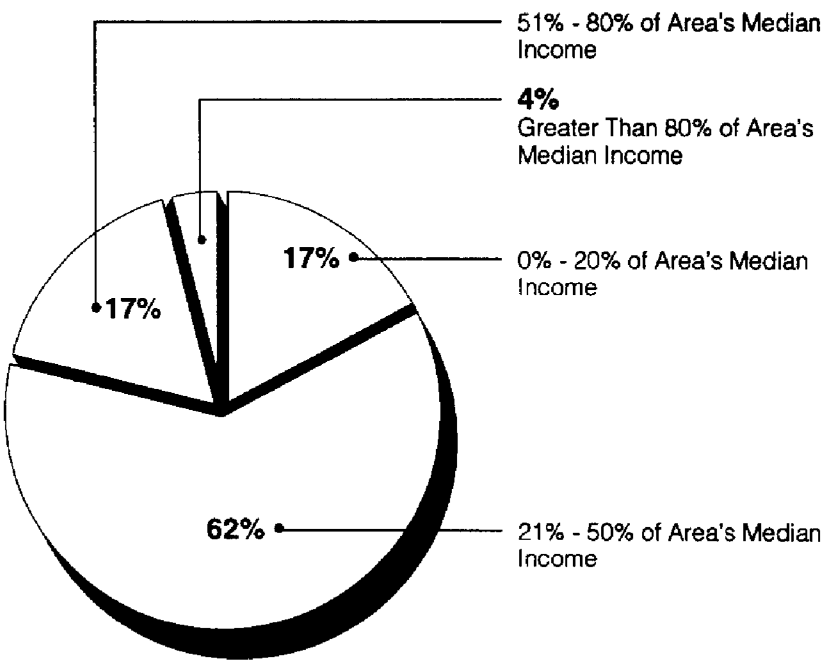
Figure 3.1: Tenants' Income Distribution as a Percentage of Area's Median Income for Nine Subsidized Properties



Source: GAO's analysis of HUD's data.

There was also a high concentration of very-low-income households in the 10 unsubsidized properties we examined. However, as shown in figure 3.2, only 17 percent of the tenants had incomes of 20 percent or less of the area's median income. Most of the tenants in the unsubsidized properties—about 62 percent—had incomes between 21 and 50 percent of the area's median income.

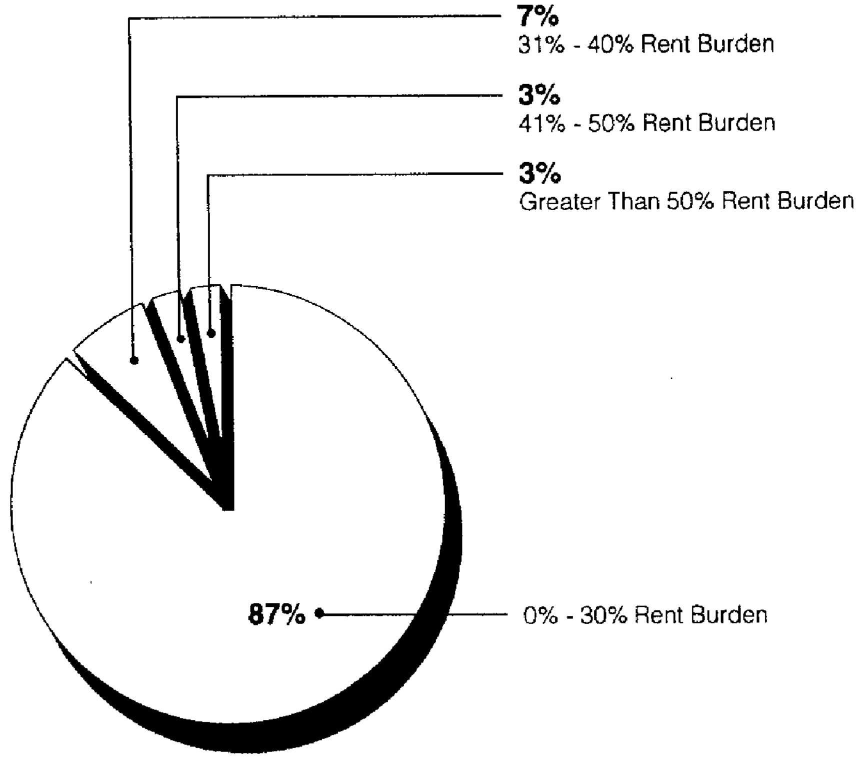
Figure 3.2: Tenants' Income Distribution as a Percentage of Area's Median Income for 10 Unsubsidized Properties



Source: GAO's analysis of HUD's data.

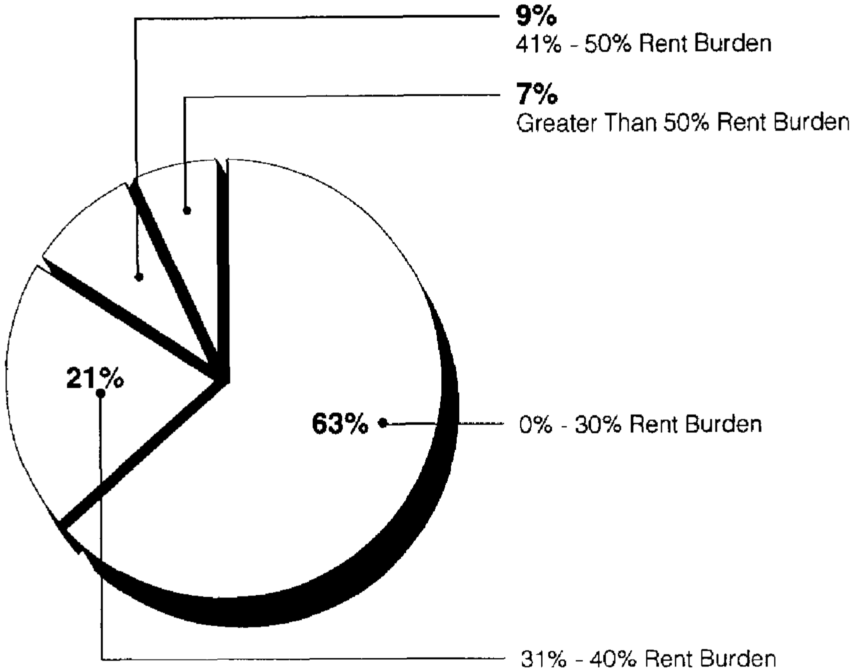
According to HUD's standards, the tenants' rent burden is considered affordable when it is limited to 30 percent or less of household income. As illustrated in figures 3.3 and 3.4, most of the tenants in both the subsidized and unsubsidized properties we reviewed had rent burdens in this range. Only 13 percent of the tenants in the subsidized properties and about 37 percent of the tenants in the unsubsidized properties were experiencing rent burdens that exceeded 30 percent.

Figure 3.3: Rent Burden Profile for Tenants in Nine Subsidized Properties



Source: GAO's analysis of HUD's data.

Figure 3.4: Rent Burden Profile for Tenants in 10 Unsubsidized Properties



Source: GAO's analysis of HUD's data.

Tenants' Incomes

Table 3.1 presents information on the tenants' incomes in each of the subsidized and unsubsidized properties we reviewed. As the table shows, the percentage of tenants in the subsidized properties that had incomes of 20 percent or less of the area's median income ranged from 28 percent (Royal Crest) to 87 percent (Georgetown II). As discussed in section 1, most of the units in the subsidized properties receive project-based Section 8 assistance. In the unsubsidized properties, where most units are unassisted, the percentage of tenants that had incomes of 20 percent or less of the area's median income ranged from 5 percent (Glen Hills I & II) to 82 percent (Georgetown I).

Table 3.1: Tenants' Income Profile

Project name	Number of occupied units	Renter's income as a percentage of area's median income			
		0%-20%	21%-50%	51%-80%	>80%
Subsidized projects					
Dallas					
Cedar Glen	200	83%	17%	0%	0%
Estell Village	219	34	57	6	3
Fawn Ridge West	85	49	44	6	1
Georgetown II	242	87	13	0	0
Royal Crest	132	28	52	18	2
Subtotal/average - Dallas	878	60	34	5	1
Kansas City					
Friendship Village	52	52	40	8	0
Holy Temple	150	81	19	0	0
Mid City Towers	76	58	42	0	0
Silver City	120	74	20	6	0
Subtotal/average - Kansas City	398	71	26	3	0
Total/average - subsidized projects	**1,276**	**64%**	**31%**	**4%**	**1%**
Unsubsidized projects					
Dallas					
Bennett Plaza	15	27	27	33	13
Buckner Village	51	14	69	16	2
Georgetown I	45	82	18	0	0
Glen Hills I & II	281	5	75	17	3
Golden Helmet	23	48	43	4	4
Pavilion	24	54	29	17	0
Plantation Royal	72	18	53	22	7
Subtotal/average - Dallas	511	20	61	16	3
Kansas City					
French Village	16	19	50	25	6
Newbern	85	6	66	20	8
Parkgate	28	7	61	25	7
Subtotal/average - Kansas City	129	8	62	22	8
Total/average - unsubsidized projects	**640**	**17%**	**62%**	**17%**	**4%**

Note: Percentages are rounded Our analysis was limited to units for which data were available.

Rent Burdens

As shown in table 3.2, most of the tenants in both the subsidized and unsubsidized properties were paying 30 percent or less of their income for rent. Specifically, about 87 percent of the tenants living in the subsidized properties and about 63 percent of the tenants living in the unsubsidized properties have a rent burden of 30 percent or less. Tenants residing in subsidized properties can reduce rent burdens because their units receive Section 8 assistance (see section 1). Most units in unsubsidized properties did not receive such assistance.

Table 3.2: Rent Burden Profile

Project name	Number of occupied units	Rent as a percentage of household income			
		0%-30%	31%-40%	41%-50%	>50%
Subsidized projects					
Dallas					
Cedar Glen	200	99%	1%	0%	1%
Estell Village	219	64	21	7	7
Fawn Ridge West	85	80	11	5	4
Georgetown II	242	99	0	0	0
Royal Crest	132	58	20	13	9
Subtotal/average - Dallas	878	82	9	4	4
Kansas City					
Friendship Village	52	94	0	0	6
Holy Temple	150	100	0	0	0
Mid City Towers	76	100	0	0	0
Silver City	120	100	0	0	0
Subtotal/average - Kansas City	398	99	0	0	1
Total/average - subsidized projects	**1,276**	**87%**	**7%**	**3%**	**3%**
Unsubsidized projects					
Dallas					
Bennett Plaza	15	53	7	13	27
Buckner Village	51	76	18	4	2
Georgetown I	45	100	0	0	0
Glen Hills I & II	281	53	32	9	6
Golden Helmet	23	53	17	13	17
Pavilion	24	88	8	0	4
Plantation Royal	75	53	16	17	13
Subtotal/average - Dallas	514	61	23	9	7
Kansas City					
French Village	16	63	6	19	13
Newbern	85	74	13	8	5
Parkgate	28	75	14	7	4
Subtotal/average - Kansas City	129	73	12	9	6
Total/average - unsubsidized projects	**643**	**63%**	**21%**	**9%**	**7%**

Note: Percentages are rounded. Rents at Bennett Plaza, Buckner Village, Cedar Glen, Georgetown I and II, Glen Hills I and II, Pavilion, Friendship Village, Holy Temple, and Silver City did not include utility expenses. At the remaining properties, rents included utilities. Our analysis was limited to units for which data were available.

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Multifamily Housing: Impediments to Disposition of Properties Owned by the Department of Housing and Urban Development (GAO/T-RCED-93-37, May 12, 1993).

Multifamily Housing: Status of HUD's Multifamily Loan Portfolios (GAO/RCED-94-173FS, Apr. 12, 1994).

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