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June 25, 1981

The Honorable Arlen Specter
United States Senate



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Dear Senator Specter:

Subject: Analysis of HUD's May 4, 1981, Response Concerning
Its Efforts to Alleviate Housing Abandonment
(CED-81-130)

In response to your January 26, 1981, request and as modified through subsequent discussions with your office, we have analyzed the Department of Housing and Urban Development's (HUD's) May 4, 1981, response to your March 16, 1981, letter of inquiry concerning housing abandonment and HUD's efforts to alleviate the problem. Specifically, your questions and the HUD response focused on the following four subject areas:

- Strategies for alleviating housing abandonment.
- Laws and regulations which impede solutions to the abandonment problem.
- Impact of HUD programs on housing abandonment.
- "Squatters" in HUD-owned houses.

These topics are discussed below along with comments from the city of Philadelphia, Pennsylvania, concerning its views on HUD's efforts to solve housing abandonment problems within the city's jurisdiction. Also, we have included our observations concerning the information that may have to be obtained from HUD to determine whether its ongoing actions will be effective in satisfying your concerns about the housing abandonment problem.

Our review was performed at HUD headquarters in Washington, D.C., and at its area office in Philadelphia, Pennsylvania. We interviewed agency representatives at those locations and examined pertinent agency records, regulations, and handbooks. Also, we interviewed cognizant city of Philadelphia officials from the city's Office of Housing and Community Development and its Managing Director's Office. Our review was made during the period February to June 1981.

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STRATEGIES FOR ALLEVIATING HOUSING ABANDONMENT

In response to your questions concerning whether HUD has developed a specific strategy to combat the problem of housing abandonment, the Secretary of HUD in his May 4, 1981, reply discussed ongoing efforts to help cities deal with abandonment. However, the Secretary of HUD has determined, as did the previous administration's HUD Secretary, that there can be no specific strategy developed nationally by HUD to alleviate housing abandonment. The Secretary has basically made a policy decision to allow cities to develop their own specific strategies for minimizing future abandonment and reducing current abandonment. HUD believes its role to be one of directing a two-prong approach for coping with the housing abandonment problem in this country, namely by (1) providing flexible funding sources such as the Community Development Block Grant (CDBG) Program to help cities address the problem and (2) sponsoring technical assistance and demonstration projects from which cities may learn more about abandonment and its solutions. As far as the city of Philadelphia is concerned, representatives from the city's Office of Housing and Community Development and its Managing Director's Office said that they have developed their own strategy for combating housing abandonment with HUD assistance under the CDBG Program and through certain HUD technical assistance efforts.

In describing its two-prong approach for alleviating the national housing abandonment problem, the Secretary briefly described each facet of its approach. Although he did not respond to your specific question on linkages HUD has established with State and local governments and/or private interests and their effect on alleviating the housing abandonment problem, he described certain discretionary opportunities provided to local governments in programming Federal dollars. For example, CDBG funds may be used for property rehabilitation and other activities related to the elimination of abandonment. Currently, almost 30 percent of CDBG dollars are used by local governments for rehabilitation activities.

Regarding the second part of its approach, that is, technical assistance and demonstration programs, the HUD Secretary states that his Office of Community Planning and Development provides rehabilitation technical assistance directly to cities and cites a Rehabilitation Advisory Service contract as HUD's largest effort to date. According to the Secretary, this ongoing contract will provide direct rehabilitation assistance to over 100 cities and counties between January 1981 and June 1982. Similarly, he states that HUD also is sponsoring several ongoing demonstration programs which address the abandonment problem. These include a multifamily homesteading demonstration and a section 510 demonstration.

In addition, HUD has underway two research projects in the abandonment area to provide it further information in its efforts to address the abandonment problem. There is (1) a guidebook

("The Adaptive Reuse Handbook") developed from a Rutgers University study to assist local officials in developing a comprehensive program for reducing the incidence of housing abandonment and (2) a national survey of the abandonment problem in 150 cities.

According to the HUD Secretary and confirmed by Philadelphia Housing and Community Development Office officials, the city of Philadelphia's housing abandonment strategy is being carried out in basically two ways. First, the city is minimizing potential future abandonment by providing citywide residential code inspections on a complaint basis; a CDBG-funded housing rehabilitation grant program to homeowners in neighborhood strategy areas; and a CDBG-funded emergency repair program which can resolve major roof leaks, electrical outages, faulty heating units, and similar problems. Second, the city is addressing existing residential abandonment problems through programs such as the CDBG-funded Preservation of Vacant Units Program. For the past 6 years, the city has used CDBG funds to acquire and rehabilitate vacant property through this program. The city also operates the Gift Property Program through which tax-delinquent landlords are encouraged to give their structures to the city in lieu of paying overdue taxes. Properties received that are worthy of rehabilitation are conditionally transferred to low- and moderate-income persons who agree to rehabilitate the structures.

LAWS AND REGULATIONS WHICH IMPEDE SOLUTIONS TO THE ABANDONMENT PROBLEM .

In responding to your questions as to whether Federal, State, or local laws or regulations, particularly those relating to health and safety issues, impede solutions to the abandonment problem, the HUD Secretary said that there are a number of State and local laws that adversely affect the problem. However, he does not believe HUD's policies or implementing regulations contribute to delays in decisions in disposing of HUD-owned properties. Rather, the Secretary believes the difficulties in disposing of HUD-owned properties are attributable to a wide variety of conditions, including the declining state of the neighborhoods in which the properties are located and the poor physical condition of the properties when HUD acquires them. In commenting on HUD's response, Philadelphia officials from the city's Managing Director's Office said that some of the State and local law impediments cited by HUD are not quite the problem that HUD indicates. However, they agree with HUD's view that Federal laws and regulations are not a major obstacle in finding solutions to the abandonment problem.

In many jurisdictions, the Secretary says that State and local laws impede the expeditious disposition of properties that are seriously tax delinquent and abandoned. High rates of property tax delinquency are often prevalent in neighborhoods suffering extensive property deterioration and abandonment. However, many States have not devised effective mechanisms for

acquiring tax-delinquent properties and transferring them expeditiously to private ownership. Tax foreclosure provisions in most localities typically include three steps: the tax sale, the redemption period, and title perfection. Many States have enacted statutory provisions that require extended time periods for each of these steps in the process, principally to protect the interests of the delinquent property owners. Before a tax sale is permitted, many States require a grace period of anywhere from 1 to 2 years. After the tax sale, all States require a redemption period during which the previous owner may pay off his or her tax arrearage and redeem his or her property. The redemption period permitted by most States varies from 1 year to as long as 5 years. In addition, localities often take much more time than the particular State tax sale and redemption requirements mandate to complete acquiring and transferring tax-delinquent properties. It is not unusual for cities to take 4 or 5 years to dispose of these tax-delinquent properties.

In discussing the situation in Philadelphia, the Secretary asserts that it takes the city, like other cities, at least 3 years to acquire delinquent, abandoned properties because of (1) minimum local time requirements which establish how long properties must be delinquent before the resulting foreclosure and tax sale takes place and (2) State laws governing tax sales of delinquent properties. With regard to the impact public health or safety issues have on the disposition of HUD-owned properties, the Secretary limited his discussion to the lead-based paint removal issue in Philadelphia. Specifically, this issue concerns a court interpretation of a city ordinance requiring HUD to remove all lead-based paint before selling properties. HUD area office officials advised us that this requirement may delay resales in Philadelphia by as much as 6 months.

Philadelphia officials from the Housing and Community Development Office stated that they have been able to reduce the time frame for acquiring such tax-delinquent properties, in many cases, to about 1 year. This reduction has been accomplished primarily by reducing the right-of-redemption period after acquiring tax-delinquent properties to 3 months through court actions (versus the standard 1 year period) and because so many properties are already tax delinquent for more than the 3-year minimum acquisition period. As a result, they believe that many of the State and local law hindrances cited by HUD and encountered by other government entities are not a problem in Philadelphia. Correspondingly, Philadelphia officials from the Managing Director's Office also said that Federal laws and regulations are not an impediment to the city in resolving housing abandonment problems.

IMPACT OF HUD PROGRAMS ON HOUSING ABANDONMENT

In responding to your questions as to whether HUD has attempted to assess the impact that its programs have had on

alleviating the nationwide housing abandonment problem, the HUD Secretary cited several programs which could have an impact in combating abandonment (such as CDBG, Urban Development Action Grant (UDAG), Urban Homesteading, Section 312 Rehabilitation Loans, etc.). However, he has said that HUD has not made an assessment of their impacts on the abandonment problem. Philadelphia Housing and Community Development Office officials were unaware of any assessment studies conducted or sponsored by HUD to evaluate the impact that HUD programs have had in resolving the abandonment problem nationally or in Philadelphia.

Although the Secretary acknowledged an assessment has not been made on the impact of CDBG funds specifically on abandoned housing, he cited the "Sixth Annual Community Development Block Grant Report," which was submitted to the Congress recently, as demonstrating accomplishments using CDBG funds. In particular, the Secretary referred to selected portions of the study showing that the rehabilitation of residential structures has been the fastest growing CDBG activity, standing at about 28 percent of the total years' accumulated expenditures.

The HUD Secretary says that Philadelphia has used CDBG funds to address its housing abandonment problem. Of the \$184 million in CDBG moneys the city received in June 1980, \$95 million (52 percent) has been designated for rehabilitation activities: 26 percent has been targeted for rehabilitating vacant properties and 26 percent has been targeted to rehabilitate private properties. Even though this amount of money is very substantial, the proportion of the total residential stock needing assistance that will be reached is not significant due to the high rehabilitation costs per unit (in Philadelphia, \$30,000 to \$70,000 per unit).

The Secretary also says that the UDAG Program can be used by communities to address housing abandonment. According to the rules and regulations governing UDAG, many types of activities can be considered for action grant funding, provided they support a project designed to revitalize the local economic base or reclaim neighborhoods having excessive housing abandonment or deterioration. Furthermore, one-third of UDAG funds is currently reserved for neighborhood projects, which can include projects that address the problem of housing abandonment. Some of these projects have been funded. One example is the provision of subsidies to encourage low- to moderate-income persons to purchase vacant houses, as well as houses that are occupied by tenants with no landlords.

The Secretary also acknowledges that HUD has not made a specific assessment of the impact of UDAG funds on helping to alleviate the nationwide abandonment problem. He said that Philadelphia applied for UDAG funds in December 1980 to address its housing abandonment problem. However, the application did

not compete well enough with other neighborhood projects and was not funded.

In a related topic the Section 312 Rehabilitation Loan Program has been the primary source of financing for over three-quarters of all HUD-approved Urban Homesteading programs with almost one-half of the programs relying exclusively on Section 312 funds. As a result, the Secretary anticipates that the proposed termination of the Section 312 Program and the present "freeze" on Section 312 funds will shift future responsibility for funding these programs to CDBG funds.

Philadelphia officials were not aware of any assessments or studies conducted by HUD to evaluate the impact of HUD programs on abandonment problems in Philadelphia or on a national basis.

"SQUATTERS" IN HUD-OWNED HOUSES

In responding to your questions as to how HUD considers "squatting" by nonpaying residents a problem in abandoned HUD-owned properties, the HUD Secretary indicates that it is a problem, particularly in Philadelphia where such activity is organized and on a large-volume basis. Further, he says that squatting is a problem which adversely affects the integrity of HUD's disposition program. Philadelphia City Planning Commission officials also indicated that squatters are a problem affecting their city, particularly because the squatters in the HUD-owned properties make it difficult for the city to acquire them from HUD.

The Secretary says that properties occupied by organized squatters, Inner City Organizing Network (ICON), now number about 160. Since many of these properties are valued in the \$19,000 to \$35,000 price range and have been repaired by HUD for sale, the problem is not related to just lower value and so-called abandoned properties. Certain properties occupied by squatters have been sold or are in the process of being sold to private individuals, are needed by HUD to resolve litigation, or are involved in a program for transferring properties to the city. The inability of HUD to deliver possession--because of squatter activity--to legitimate property purchasers will destroy HUD's sales program. Private purchasers will lose interest in purchase of HUD-owned properties, and the private sector real estate brokers, through loss of sales commissions, will lose the incentive to sell these properties.

According to the Secretary, large-scale and organized squatter activities have not been of major proportions or widespread in other areas. In other cities, such as Detroit and Chicago, squatter activity has been on an individual and random basis rather than organized. Preventive measures such as adequately securing the properties, turning off lights and heat, and preventing the utilities from being restored have largely discouraged squatting. Even small-volume, random squatter

activity hinders the orderly disposition of properties and unnecessarily dissipates HUD's local staff resources.

Because squatter activity on a large-volume and organized basis is a relatively recent phenomenon and not widespread in HUD properties nationwide, no published national directives deal with such activity, according to the Secretary. Generally, local HUD offices have dealt with squatters occupying HUD-owned properties as adverse occupants on a case-by-case basis. As previously mentioned, other actions as seem appropriate or effective locally are taken by HUD staff to make properties less desirable or accessible for adverse or illegal occupants.

Regarding HUD actions on squatters in Philadelphia, the Secretary says that on two occasions in the past in the Philadelphia area, HUD has attempted to negotiate a solution with the city and ICON to stop organized squatting. In the current squatting problem in Philadelphia, the HUD area office has been provided guidance to take a firm position against further squatter activity and to take no steps which would encourage such illegal activity. Court-approved civil eviction actions are underway for present adverse occupants, and HUD's legal staff is exploring the advisability of additional or alternative legal steps.

The squatters in Philadelphia are impeding solutions to the abandonment problem because, while HUD-owned properties are being illegally occupied, the normal process of HUD's property disposition program is at a standstill. This includes an ongoing program between HUD and Philadelphia for the orderly transfer of certain eligible properties to the city for use in its housing programs. Furthermore, the inability of HUD to deliver possession, because of squatter activity, to legitimate property purchasers, threatens to destroy HUD's disposition (sales) program there. The Secretary believes that granting squatters any rights of occupancy--be they in the form of HUD providing alternative relocation housing, transferring properties to the city for sale or rental to occupying squatters, or selling properties to squatters on a direct negotiated basis--promotes a moral dilemma of giving squatters rights and benefits beyond what is normally given to those people who obey the "rules" and work through the usual processes of HUD and local city government programs.

Officials from the city's planning commission agree with HUD that squatting in Philadelphia is a problem requiring a disposition and enforcement program to return illegally occupied HUD-owned properties to private ownership.

OBSERVATIONS

HUD believes that there can be no specific national strategy addressing the housing abandonment problem. The Secretary of HUD believes that cities should develop their own specific strategies for minimizing future abandonment and reducing current abandonment

with HUD assistance through various flexible funding sources and through technical assistance and demonstration programs from which cities may learn more about housing abandonment and its solutions. Regarding the specific instance of Philadelphia, representatives from the city's Office of Housing and Community Development and its Managing Director's Office said that they have developed their own strategy for combating housing abandonment with the assistance of HUD under the CDBG program and through certain HUD technical assistance efforts. However, no assessment of the impact or effectiveness of Federal programs in combating the housing abandonment problem has been made in Philadelphia or nationwide.

Since HUD has not ascertained the impact of its programs specifically as they relate to the problem of housing abandonment, it is uncertain whether the HUD policy decision to use individual city strategies is the most effective way to combat the problem. It would seem logical that at the appropriate time HUD would assess the impact that its programs have had on helping to alleviate the abandonment problem. At that time, further decisions likely would be made as to what, if any, changes are needed in HUD's efforts and whether the HUD policy decision to use individual city strategies is effective or whether a national strategy may be warranted.

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As requested, we did not obtain written agency comments on our review. However, our report is based on the Secretary's reply dated May 4, 1981, to your March 16, 1981, letter of inquiry concerning housing abandonment.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days from the date of the report. At that time, we will send copies to interested parties and make copies available to others upon request.

If we can be of any further assistance, please do not hesitate to contact us.

Sincerely yours,



Henry Eschwege
Director