United States General Accounting Office

GAO

Testimony

Before the Employment, Housing
and Aviation Subcommittee,
Committee on Government Operations,
House of Representatives

For Release on Delivery
Expected at
10 a.m. EDT
Tuesday
July 26, 1994

FEDERALLY ASSISTED HOUSING

Condition of Some Properties Receiving Section 8 Project-Based Assistance Is Below Housing Quality Standards

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GAO/T-RCED-94-273

060547/152195

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the results of our work for this Subcommittee and for the Ranking Minority Member of the House Committee on Appropriations on the Department of Housing and Urban Development's (HUD) Section 8 project-based assisted housing programs. Under these programs, HUD pays a portion of the rent for low-income families living in privately owned rental housing.

HUD provides this assistance for over 20,000 privately owned properties nationwide at an estimated annual cost of $5.8 billion. The mortgages for about 10,000 of these properties are also insured or held by HUD. Although many of these properties are considered to be in good physical condition, reports by HUD's field offices, HUD's Office of Inspector General, and the media have identified assisted properties where low-income families are living in very poor physical conditions. Concerned about these situations, you asked us to examine whether (1) the properties being subsidized by the Section 8 programs meet HUD's housing quality standards for safe, decent, and sanitary housing and (2) HUD is effectively using its enforcement tools to ensure that the assisted properties are adequately maintained. You also asked us to provide our observations on actions either HUD or the Congress might take to help resolve situations in which the properties are very poorly maintained.

Our testimony is based on visits we made in June and July 1994 to properties, in both good and bad physical condition, in seven locations throughout the country. (See app. I.) We selected these properties in consultation with HUD headquarters and field office staff. We reviewed property files and discussed the properties' history with HUD officials, management agents and some owners, and tenants. We also documented the rents charged for the properties we reviewed and compared these rents with those of other properties in the same area. In addition, we reviewed contractual obligations between owners, lenders, and HUD and the implications of HUD's taking various actions when properties fail to meet the housing quality standards.

In summary, we found the following:

-- Physical conditions in the Section 8 assisted properties we visited ranged from very good to very poor. The properties in good physical condition demonstrate that the Section 8 program can work. However, conditions in some properties we visited clearly violate HUD's housing quality standards. These standards require, among other things, that tenants be provided with properly operating sanitary facilities, adequate security, properly operating heating and air conditioning, and ceiling and walls without serious defects. In the distressed properties we visited, families were housed in units with, among other things, leaking toilets and sinks, exposed electrical wiring, holes in walls and ceilings, inoperative air conditioners and smoke detectors, missing and broken kitchen cabinets, and evidence of roach and rodent infestation. HUD does not know the full extent of these conditions in properties assisted under the Section 8 project-based programs.

-- The unit rents for some of the distressed properties we visited are equal to or higher than those of other properties in the same area whose physical condition and amenities are much better. Thus, the government is paying sizeable rent subsidies for poor quality housing.

-- HUD has various enforcement tools to ensure that owners maintain assisted properties in compliance with the housing quality standards--including administrative sanctions such as barring or suspending owners from further participation in Section 8 programs and terminating the housing assistance contract. However, HUD has used these tools sparingly and inconsistently. Poor management information systems and ineffective oversight of properties have seriously impeded HUD's ability to document problems and pursue enforcement actions. In addition, under current laws, if HUD applied the more severe enforcement penalties, (1) low-income tenants could be displaced and (2) the federal government could incur significant additional costs, depending on the interpretation of laws requiring that properties continue to serve low-income tenants.

-- Administrative and legislative initiatives are under way to help HUD overcome some of the impediments to dealing with properties in serious disrepair. However, HUD does not have an immediate plan of action for assisting tenants in the most severely distressed properties and for addressing the problems at each property. Moreover, because some of the initiatives that have been introduced have broader public policy implications, they require further analysis.

Before we discuss the results of our work in more detail, we will show a video tape depicting the conditions in some of the assisted properties we visited. Following the video tape, we will provide some background information on the Section 8 program and discuss further the results of our work.

BACKGROUND

HUD's Section 8 project-based rental assistance programs[1] were established under Section 8 of the United States Housing Act of 1937, as amended (42 U.S.C. 1437 et seq.). The subsidies provided under these programs allow about 1.5 million lower-income households to obtain housing from private owners. Households receiving this assistance must live in designated properties, and they are generally required to pay 30 percent of their income for rent. HUD generally enters into housing assistance payment contracts with the owners of the properties and provides rent subsidies to them. The subsidy represents the difference between the tenant's payment and the agreed-upon rent. Because these rent subsidies are attached to particular units, tenants who move lose their rental assistance unless they move to another subsidized unit.

Although not the subject of today's testimony, two other types of tenant-based rental assistance--certificates and vouchers--are provided under HUD's Section 8 programs. An additional 1.3 million households use certificates or vouchers to obtain housing. Generally, these assisted households may use certificates and vouchers to rent from owners of their choice, provided the units meet HUD's requirements for rent levels and housing quality standards.

HUD's Section 8 project-based assistance programs are administered by the Office of Multifamily Housing Management, within the Office of the Assistant Secretary for Housing--Federal Housing Commissioner. To a large extent, HUD's field offices carry out the programs' activities under the direction of this office.

Two documents governing HUD and the property owners--the housing assistance payments contract and the regulatory agreement

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[1]Unlike tenant-based subsidies, project-based subsidies are attached to particular property units. The primary project-based assistance programs are (1) the Section 8 Property Disposition program, which provides assistance to ensure that properties acquired by HUD through foreclosure and eventually resold are maintained as low-income housing; (2) the Section 8 Loan Management Set-Aside program, which provides assistance to projects with HUD-insured and HUD-held mortgages that are experiencing immediate or potentially serious financial difficulties; and (3) the Section 8 New Construction and Substantial Rehabilitation programs, which provide assistance to private developers to construct new units or to substantially rehabilitate units for rental to low- and moderate-income families.

(for HUD-insured properties)--require owners to maintain assisted properties in good physical condition. Also, lenders providing mortgages for HUD-insured properties are required, in servicing their mortgages, to annually inspect the property and send copies of the inspection results to the local HUD field office, the property owner, and the management agent.

For HUD-insured and -assisted properties, HUD is required, as part of its loan servicing activities, to oversee project owners, management agents, and lenders to ensure that Section 8 assisted properties are maintained in good physical condition.[2] According to the provisions of the housing assistance payments contract, HUD is required to have the units inspected at least annually to ensure that the property owners are complying with the housing quality standards. Inspections are to be conducted by HUD's field offices or contractors to (1) assess the performance of management agents in operating a project; (2) determine the condition of a property's buildings, grounds, and mechanical systems; and (3) look at the interiors of a sample of units to determine whether the units meet the housing quality standards. In addition, lenders with HUD-insured mortgages are required to inspect properties at least once a year and report to HUD.

CONDITIONS IN SOME HUD-ASSISTED PROPERTIES VIOLATE HOUSING QUALITY STANDARDS

During our review, we found physical conditions ranging from very good to very poor in properties receiving Section 8 project-based assistance. Properties in good condition were well maintained throughout the interior and exterior of the buildings. Also, the tenants were afforded various services and amenities, such as child care and youth activities. However, the focus of our review was on properties in poor physical condition, so that we could obtain a perspective on the severity of the problems and understand the factors that impede HUD from enforcing its housing quality standards.

HUD does not have complete information on the condition of the more than 20,000 properties that receive project-based assistance. In our review, we found properties in conditions far below HUD's housing quality standards. Nevertheless, some of these properties had rents that were equal to or greater than those at other properties in the same area. Thus, the federal government is paying large subsidies for poor quality housing.

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[2]In addition to HUD, public housing agencies and state housing finance agencies carry out loan servicing activities for some Section 8 assisted properties.

Some Assisted Properties Are in Poor Condition

Ten distressed properties, located in seven cities, are the focus of our testimony today. These 10 properties house over 1,200 families, cost the federal government about $7 million in rent subsidies in 1993, and reflect conditions far below HUD's housing quality standards. (App. II summarizes the conditions in these 10 properties.)

Among the problems we found in the 10 distressed properties we visited were

- -- boarded-up units, some of which were easily accessible through unlocked front doors;
- -- missing kitchen cabinets, appliances that were not in proper working condition, and leaking toilets and sinks;
- -- inoperative air conditioners and inoperative or missing smoke detectors;
- -- exposed wiring and electrical outlets;
- -- evidence of roach and/or rodent infestation;
- -- poorly maintained walkways, stairs, common areas, and laundry rooms;
- -- inadequate exterior and interior lighting and other security problems such as holes in security fences; and
- -- interior ceilings, walls, and floors damaged by water leakage.

In reviewing HUD's inspection reports, we found that many of the problems we observed had been previously documented and, in some cases, were long-standing. For example:

- -- At Holiday Lake Apartments in Pompano Beach, Florida, HUD's Jacksonville Field Office noted significant physical deficiencies in the property's exterior and in many of the units inspected in May 1993. Also, three inspections over the last year rated the property's overall physical condition and maintenance policies and practices as unsatisfactory. In the November 1993 inspection, for example, 114 out of 222 units inspected (51 percent) failed to meet the housing quality standards. Furthermore, in the March 1994 inspection, the field office found life-threatening problems, such as exposed 220 volt wires on outside air conditioning units.

-- At Edgewood Terrace Apartments in Washington, D.C., HUD's Washington, D.C., Field Office rated the property as unsatisfactory in overall management operations from 1989 through 1993. A November 1992 review stated that "many occupied and vacant units are unfit for human habitation" and described existing physical conditions as "deplorable." During a physical inspection conducted in January 1993, all of the units inspected failed to meet the housing quality standards. An architectural report prepared for HUD in July 1994 stated that the property required replacement of roofs, windows, heating/air conditioning units, kitchens, and bathroom components.

Large Subsidies Are Being Paid for Poor Quality Housing

HUD is paying significant subsidies to house low-income families in the 10 properties we visited with serious physical problems. Table 1 provides data on the rents for these properties and the rents for well-maintained two-bedroom units in other properties in the same area.

Table 1: Unit Rent, Rental Income, and Subsidies for 10 Physically Distressed Properties

City/project	Unit rent[a]	Rent in neighboring buildings[b]	Rental income--calendar year 1993: Property's rental income	Section 8 subsidy	Subsidy as a percent of rental income
Washington, D.C.					
Edgewood Terrace	$751	$895-920	$1,415,981	$558,147	39
Skytower	734	499-549	788,595	638,344	81
New York, New York					
Unity[c]	1,138	600-750	880,680	681,829	77
De Diego Beekman IV	980	700-840	1,374,256	904,809	66
Chicago, Illinois					
6000 S. Indiana Apts.	849	435-475	413,736	270,553	65
Tyler, Texas					
Liberty Arms[d]	374	281-439[e]	306,594	228,960	75
Pompano Beach, Florida					
Holiday Lake[d]	434	[f]	943,610	647,556	69
Las Vegas, Nevada					
Sierra Nevada Arms	468	600	1,166,300	999,507	86
Carey Arms	820	380	2,479,712	1,823,000	74
Los Angeles, California					
Urban Rehab II	667	659[e]	354,902	208,059	59

Note: Section 8 subsidies totaled about $7 million for these 10 properties.

[a]Rent charged for a two-bedroom unit.

[b]Rent charged for a two-bedroom unit in a neighboring unsubsidized property.

[c]Rental income and Section 8 subsidy reported are for calendar year 1992.

[d]Rental income and Section 8 subsidy reported are for fiscal year 1993.

[e]Since there are no unsubsidized properties in the area, the rent for a two-bedroom unit in a well-maintained subsidized property is used here.

[f]There are no subsidized or unsubsidized properties in the immediate area.

In 1993, HUD paid about $7 million in subsidies for the 10 properties shown in table 1. These subsidies represent between 39 percent and 86 percent of the owners' total rental income from the properties. In five cases, the rents in these subsidized units exceeded those of well-maintained properties in the same area; in two cases they were comparable; in two cases they were below those rents; and in one case there was no other rental property in the immediate area. Furthermore, these other properties in the area offered residents amenities and services that were superior to those offered at the properties in disrepair. For example, one property in southeast Washington, D.C., offers day care facilities, a learning center, and a special summer program for young people in cooperation with the local police.

FACTORS IMPEDING HUD'S EFFECTIVE ENFORCEMENT OF HOUSING QUALITY STANDARDS

HUD has a wide range of enforcement tools intended to ensure that its subsidized housing is maintained according to the housing quality standards. These tools, used correctly, can help to ensure that Section 8 assisted properties are well maintained, but they have certain limitations. In addition, certain factors have diminished HUD's ability to effectively use these tools to enforce the housing quality standards.

Enforcement Tools Range in Severity but Have Certain Limitations

HUD's enforcement tools provide a wide range of penalties that the Department can apply if the owners of properties receiving Section 8 assistance do not comply with the housing quality standards. These tools range in their severity and impact. Among the least severe are various administrative sanctions that can limit the owners' or management agents' future participation in HUD programs. These sanctions are particularly effective with owners or management agents who want to continue to participate in HUD programs but are less useful when the parties are no longer interested in working with HUD.

Civil money penalties have potentially greater impact. Authorized by the HUD Reform Act of 1989, these penalties apply to violations of the regulatory agreement governing HUD-insured properties. Since the regulatory agreement stipulates that owners must maintain their properties in good repair, failure to do so is a clear violation. According to the law, HUD may assess a penalty of up to $25,000 for each violation. However, there are three notable limitations to civil money penalties. First, under current law, these penalties are limited to the entity that owns the property, which in many cases is a partnership with few resources other than the insured property. Thus, any money penalty may have a limited effect. Second, civil money penalties only apply to owners of Section 8 assisted properties whose mortgages are insured by HUD. Finally, identity-of-interest management companies[3] are not covered by civil money penalties.

Among the most severe penalties HUD can apply are (1) suspending Section 8 assistance for individual units in a property that do not comply with the housing quality standards and (2) terminating the housing assistance payments contract in cases in which a property has a history of serious physical neglect. Either action can have serious repercussions for tenants and a property's financial viability. At present, HUD generally does not have the funding to provide tenants with long-term alternative housing assistance if they are displaced from a property receiving Section 8 project-based assistance. However, according to the terms of the housing assistance payments contract, HUD can use the suspended Section 8 assistance payment to temporarily rehouse the tenants in other units. Aside from the effect on the tenants, suspension or termination of Section 8 assistance would directly affect a property's cash flow. As a result, these actions are likely to be effective with owners who wish to retain their properties but less effective with owners of properties that are no longer profitable.

Problems in HUD's Data Systems and Loan Servicing Impede Use of Enforcement Tools

Because of limitations in its capacity, HUD has been impeded in its ability to adequately oversee its assisted properties and take appropriate action when conditions warrant it. These limitations center on poor management information systems and a lack of staff capacity to perform effective loan servicing.

More specifically, HUD's ability to routinely identify and monitor properties in deteriorating physical condition--and thus to initiate appropriate enforcement actions--is impaired because the Department's information systems do not contain the data necessary to do so. Although the information systems in HUD's field offices contain data from physical inspection reports, the systems do not (1) contain data on, or reflect, the number of units in each property that do not meet HUD's standards for safe and decent housing or (2) track the actions taken to address problem conditions.

Unstable financial conditions in a property, if left unresolved, can also contribute to deterioration of the property's physical condition and possibly warrant enforcement penalties if the financial problems can be attributed to abuses by the owners. However, HUD's financial systems, which support oversight of the inventory of assisted properties, have been so deficient that they

[3]An identity-of-interest management company is one in which the owner of a property also has an ownership interest in the management company.

have been (1) classified as part of a material internal control weakness in loan servicing, under the Federal Managers' Financial Integrity Act, since 1987 and (2) cited as not containing adequate data to provide early warning of deteriorating financial conditions in the properties.

In addition to problems with the information systems, problems with loan servicing also affect HUD's performance in enforcing compliance with the housing quality standards. For example, field offices, as part of their loan servicing activities, perform physical inspections, review financial statements, and conduct on-site management reviews of HUD-insured and Section 8 assisted properties. However, in an April 1993 report on six field offices, HUD's Office of Inspector General stated that such reviews were not conducted in a manner that would consistently identify substandard living conditions.[4]

The Inspector General's report was one of over a dozen audit reports, studies, task forces, and management reviews over the last two decades that have identified long-standing problems with HUD's loan servicing activities. These problems included heavy staff workloads, the incomplete training of loan servicers, and poor supervision and oversight of the loan servicing function. Without effective oversight of properties, HUD is not in a position to effectively enforce its housing quality standards.

Other Factors Further Impede Enforcement Actions

HUD has the authority to terminate Section 8 assistance in all units in properties that are in very serious disrepair. However, it has rarely taken this action. Furthermore, depending on how current laws are interpreted, doing so could create a new set of problems, some of which may be costly.

First, under appropriations law, if Section 8 funds for a property are terminated, these "recaptured" funds must be returned to the Treasury and cannot be reused by HUD to relocate tenants in decent housing in the community. Thus, removing Section 8 assistance from a run-down property could, unless other funding were available, result in the displacement of families.

Second, if HUD attempts to acquire a distressed property in order to improve its physical condition, it may meet resistance from the current owners because of the tax consequences. Specifically, under current tax law, owners may be required to pay

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[4]Multi-Region Audit of HUD's Servicing of Insured Multifamily Projects, U.S. Department of Housing and Urban Development, Office of Inspector General, 93-HQ111-0014 (Washington, D.C.: Apr. 30, 1993).

a significant tax even if they receive no cash from the sale of the property. This tax, known as an "exit tax," is often associated with older properties that have been significantly depreciated.

Finally, if HUD were to apply its most severe enforcement penalty--termination of the Section 8 contract on an insured property--foreclosure proceedings could result in HUD's becoming the property owner. Depending on how the recently enacted provisions of federal "preservation" laws are interpreted, HUD may be required, if it disposes of any units receiving project-based assistance, to replace them with new assisted units. Consequently, even if the appropriations law were changed to give HUD the authority to reuse recaptured Section 8 funds to relocate tenants in decent housing in the community, HUD might need roughly an equivalent amount of additional budget authority to sell a distressed property.

SOME CORRECTIVE INITIATIVES ARE UNDER WAY, BUT IMMEDIATE ATTENTION IS NEEDED FOR SEVERELY DISTRESSED PROPERTIES

HUD is taking steps to improve its information systems and loan servicing activities, and legislation has been introduced in the Congress to assist HUD in overcoming certain impediments to dealing with properties in very poor physical condition. While these actions are a step in the right direction, they do not resolve the immediate problems facing tenants living in the most severely distressed Section 8 assisted housing.

HUD's Actions to Improve Its Oversight of Properties Do Not Address the Immediate Needs of Tenants

HUD is making an effort to identify the information needed to provide proper oversight of the physical condition of its assisted properties and to take steps to collect this information. Likewise, to address weaknesses in its financial systems, HUD is developing a national system that it expects to contain an early warning component to help identify properties with potential problems. According to HUD officials, 75 percent of the 1993 financial statements for assisted properties have been entered into the system, and the Department has begun to analyze a portion of them. Finally, HUD is trying to improve its loan servicing performance, in part through the use of contractor personnel to conduct physical inspections of the assisted properties.

These are all positive initiatives which, if carried out effectively, should place HUD in a better position to manage its inventory of assisted properties and take appropriate action if the physical condition of any properties begins to decline. However, there are some issues in the implementation of these initiatives that need to be addressed, and immediate action is needed to assist tenants living in the most severely distressed properties.

First, as we noted earlier, HUD has experienced long-standing problems with its information systems, and reports by HUD's Inspector General have for years pointed to deficiencies in HUD's capacity to effectively service its inventory of assisted properties. Although HUD is taking action to correct these problems, it will likely take a number of years to resolve them.

Second, while we did not assess the quality of property inspections performed by outside contractors, staff in some HUD field offices expressed concerns about this issue. For example, one field office told us that it had required a contractor to redo 9 of its first 11 inspections because the inspections were considered inadequate. In addition, an owner provided us with documentation showing that although his property was inspected by a contractor in August 1993, he did not receive the report from HUD until April 1994. This delay diminished the report's utility.

Third, as noted earlier, lenders with HUD-insured Section 8 assisted properties are required to inspect these properties at least once a year and send a copy of the report to HUD. Staff at some of the HUD field offices we visited said they relied on lenders' inspections because the field offices lacked sufficient staff of their own. However, the staff considered these inspections generally unreliable in documenting the actual physical condition of the properties.

Finally, although HUD is taking actions on selected distressed properties, including some of those we visited, it has not developed a comprehensive strategy for promptly identifying and dealing with the severely distressed Section 8 assisted properties in its inventory.

Legislation Has Been Proposed to Increase HUD's Flexibility on Distressed Properties

Legislative proposals have been introduced that would provide HUD with additional flexibility in dealing with assisted properties in very poor physical condition. While these initiatives are designed to address specific problems that HUD faces with distressed properties, some raise other issues when they are considered in the context of existing laws.

Three key initiatives are being considered. Senate Bill 2049 provides for (1) the reuse of recaptured Section 8 project-based assistance and (2) an expansion of civil money penalties. Senate Bill 1986 and House Bill 3322 provide for tax relief for owners of troubled properties.

Under one provision in Senate Bill 2049, HUD would be allowed to reuse Section 8 project-based assistance, recaptured when housing assistance payments contracts are terminated, to relocate tenants currently living in distressed properties. The bill provides HUD with the choice of relocating tenants using either certificates or vouchers or providing alternative Section 8 project-based housing. HUD supports this provision because it provides a means to protect tenants who might be displaced if HUD terminates the Section 8 housing assistance payments contract for a property. In concept, we also support this provision. However, as we pointed out earlier, depending on how this provision is interpreted, it could, under the current preservation laws, increase both the total number of subsidized units and the subsidies required to support them.

Senate Bill 2049 would also expand the application of civil money penalties to include all Section 8 project-based assisted properties, not just those currently insured by HUD. This bill allows civil money penalties to be imposed on owners, general partners, and identity of-interest management companies. Although HUD has no overall statistics on the results of applying civil money penalties, Department officials cited instances in which these penalties have been successfully used to get owners to remedy problems. However, these officials would like to be able to apply these penalties to all Section 8 assisted properties and directly to general partners and/or identity-of-interest management companies. Although we have not analyzed this option in any detail, we support the principle of giving HUD added flexibility in dealing with owners of distressed properties.

To address the problems associated with "exit taxes," Senate Bill 1986 and House Bill 3322 propose to amend the tax code to relieve current owners of part of their tax liability when they sell their properties. If the current tax disincentive to sell were removed, some owners of severely distressed properties might be replaced with new owners who have the financial incentive and means to improve the physical condition of the properties. We should point out, however, that the level of the exit tax that owners are subject to varies widely among physically distressed properties. For example, for one property we reviewed, the exit tax would be negligible; for another property, the tax could exceed $5 million. Without further analysis, it is not clear to what extent the provisions of Senate Bill 1986 and House Bill 3322 would assist HUD in getting new owners for distressed properties nor whether this policy would be the most economically efficient or equitable way to accomplish this purpose.

CONCLUSIONS

Section 8 project-based assistance is providing low-income tenants with decent, safe, and sanitary housing. However, this assistance is sometimes providing tenants with inferior housing at a substantial cost to the federal government.

In the current budgetary climate, all federal agencies are forced to consider the cost implications of their policy decisions. With limited funding, HUD needs to make cost-effective choices to address distressed housing. However, hampered by inadequate information systems and long-standing problems in its loan servicing, HUD cannot (1) accurately report on the condition of its inventory of Section 8 project-based assisted properties or (2) make the appropriate economic choices. The lack of information also impedes HUD from initiating prompt enforcement actions to address serious violations of its housing quality standards.

Further complicating HUD's problems is the Department's lack of authority to reuse funds recaptured from terminated Section 8 contracts to relocate tenants from severely distressed properties to other properties of higher quality. Even if new legislation gave HUD the flexibility to relocate tenants from a distressed property, the Department could, depending on how current preservation laws are interpreted, still incur significant additional costs for preserving the property.

HUD has taken steps to begin dealing with its problem properties, such as identifying the information needed to provide proper oversight of the physical condition of its assisted properties and addressing weaknesses in its financial systems. The legislation that has been introduced would complement these initiatives. Nevertheless, these initiatives have not been pulled together into the kind of comprehensive strategy necessary to best ensure (1) a prompt remedy for tenants living in the most deplorable conditions and (2) effective oversight to minimize future occurrences of, and costs associated with, distressed properties. In the absence of a strategy that focuses priority on the most severely distressed properties and a clear assessment for the Congress of HUD's resource and legislative needs, tenants may continue to live in the conditions we have described, at a considerable cost to the federal government.

RECOMMENDATIONS TO THE SECRETARY OF HUD

We recommend that the Secretary of HUD begin immediately to develop a comprehensive strategy to address the very poor physical conditions under which some families supported by Section 8 project-based assistance are living. As part of this strategy, HUD should, through the use of its field staff (1) promptly identify all Section 8 assisted properties with severe physical problems and offer affected tenants temporary assistance to relocate to safe and decent housing, (2) systematically notify owners of the problems identified, and (3) take appropriate enforcement actions in cases in which owners do not bring their properties into compliance with the housing quality standards. To the extent that budgetary or legislative constraints prevent HUD from addressing these conditions, we further recommend that the Secretary provide the Congress with an assessment of the resources and legislative changes the Department needs.

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Mr. Chairman, the focus of our testimony today has been on some of the more severely distressed Section 8 project-based assisted properties and the need for HUD to take immediate action to improve the living conditions of tenants in these and other similarly distressed properties. However, HUD's effectiveness in dealing with these conditions and minimizing similar situations in the future will depend on the Department's (1) building the capacity necessary to manage its large inventory of assisted properties and (2) identifying and successfully working with the Congress and the Office of Management and Budget on the budgetary and legislative issues related to this matter.

PROPERTIES DEPICTED IN THE TESTIMONY AND VIDEO TAPE

DISTRESSED PROPERTIES

Washington, D.C.

Edgewood Terrace Apartments
601 Edgewood Terrace, NE
Washington, DC 20017

Skytower Apartments
1045 Wahler Place, SE
Washington, DC 20032

New York

Unity Apartments (consists of two buildings)
1545 St. John's Place
Brooklyn, New York 11213

and

260 Buffalo Avenue
Brooklyn, New York 11213

Jose de Diego Beekman IV Apartments
637-639 East 140th Street
Bronx, New York 10454

Illinois

6000 South Indiana Apartments
6000 South Indiana Avenue
Chicago, Illinois 60616

Texas

Liberty Arms Apartments
2601 North Broadway Avenue
Tyler, Texas 75702

Florida

Holiday Lake Apartments
831 North Powerline Road
Pompano Beach, Florida 33069

Nevada

Sierra Nevada Arms Apartments
1971 Carrara Street
Las Vegas, Nevada 89106

Carey Arms Apartments
2417 Morton Street
North Las Vegas, Nevada 89030

California

Urban Rehab II Apartments
11605 South Avalon Street
Los Angeles, California 90071

WELL MAINTAINED PROPERTIES

Washington, D.C.

Atlantic Gardens
4319 3rd Street, SE
Washington, DC 20032

Florida

Driftwood Terrace
3146 North West 19th Street
Ft. Lauderdale, Florida 33311

PHYSICAL CONDITION OF 10 DISTRESSED PROPERTIES GAO VISITED

This appendix describes the physical condition of the ten properties we visited.

Edgewood Terrace Apartments (Washington, D.C.)

Edgewood Terrace Apartments, located in northeast Washington, D.C., is a 292-unit complex consisting of one 8-story mid-rise building and three 3-story garden apartment buildings. The property was sold to its current owners in 1983. The current owners have defaulted on the mortgage, which HUD now holds. At the time of our inspection in June 1994, 114 units were occupied and 178 were vacant. In 1993, this property received $558,000 in Section 8 project-based assistance. A two-bedroom apartment in this complex rents for $751 a month. The monthly rent for a two-bedroom apartment in a neighboring unsubsidized property in good physical condition is $895 to $920.

In 1992, a nonprofit organization, interested in purchasing this property, assessed the capital needed and identified repair expenses in excess of $23 million. More recently, after HUD became the mortgagee in possession, the Department conducted a needs assessment and concluded that the property could be repaired for about $10 million. Regardless of the total costs, according to inspection reports that were verified in part by our own on-site inspection, the project will require replacement of roofing, windows, kitchens, and components of bathrooms and heating and air conditioning systems within each apartment. Also, the elevators must be upgraded to meet building codes, and the boilers need repair or replacement.

During our visit to the property, we also observed a collapsed parking garage and exterior grounds in serious disrepair, including play areas, benches, sidewalks, stairways, and general landscaping. In addition, we found buildings with filthy and poorly lit hallways and common laundry areas. There were marked differences in the condition of individual units. A unit in the mid-rise building, for example, was in very good condition except for a malfunctioning air conditioner and some molding missing from the kitchen counter. On the other extreme, some units had broken kitchen cabinets; missing security locks; water damage from a leaking roof; insect infestation; and, according to some tenants, a serious rodent problem.

Skytower Apartments (Washington, D.C.)

Skytower Apartments, located in southeast Washington, D.C., is a 91-unit complex consisting of 10 buildings. Nine of the 10 garden-style buildings have three floors and one has four floors. Individual units range in size from one to six bedrooms. At present, five units are vacant and the remaining 86 are occupied. In 1993, this complex received $638,344 in Section 8 project-based assistance. A two-bedroom apartment in this complex rents for $734 a month. The monthly rent for a two-bedroom apartment in a neighboring unsubsidized property in good physical condition is $499 to $549.

In 1993, both a comprehensive management review and a physical inspection, which found 20 units below HUD's housing quality standards, rated the property as "unsatisfactory." Moreover, during a reinspection of housing quality standards conducted from May 27 to June 3, 1994, Skytower Apartments was again rated as unsatisfactory. According to the inspection report's findings, which were verified in part by our own on-site inspection, lawns in common areas were almost completely bare with noticeable erosion; all emergency lights, exit lights, and fire extinguishers were missing; all 10 buildings required drywall repair and paint; and all 10 buildings had inoperative air conditioning systems--some systems have not worked for years.

In our on-site inspection of several units, we also noticed ceilings and walls with evidence of water leaks, kitchen and bathroom areas in poor condition, and laundry rooms chained and off limits to tenants. We also observed a significant insect problem, and tenants told us they kept cats to combat a worsening infestation of rats.

Holiday Lake Apartments (Pompano Beach, Florida)

Holiday Lake Apartments, located in Pompano Beach, Florida, is a 232-unit complex consisting of 16 two-story and three-story buildings. The original owner died in 1992, and his brother became the property's owner. Currently, 185 units receive Section 8 project-based assistance and 31 units are vacant. In 1993, this property received $648,000 in Section 8 project-based assistance. A two-bedroom apartment in this complex rents for $434 a month. There are no other subsidized or unsubsidized rental properties in the vicinity of this complex, so we could not compare rents.

HUD's Jacksonville Field Office became aware of the poor condition of this property in May of 1993, when a management review rated the overall management operations as unsatisfactory. Since 1993, the field office has conducted three comprehensive physical inspections, all resulting in unsatisfactory ratings. In the June 1993 inspection report, the inspector concluded that $546,205 was needed to repair the property's physical deficiencies, which included poorly maintained grounds and inoperative exterior lighting and smoke detectors. Although some of the physical deficiencies have been corrected since that time, according to HUD's documents, the property still has serious physical problems, as we observed during our visit in June 1994.

Our observations confirmed many of the same physical problems that were reported in HUD physical inspections over the last year. These problems included missing kitchen cabinets and doors, large holes in walls and floors, unstable toilets and sinks, roach infestation, water damage in rooms from outside leaks, and unkempt grounds.

Unity Apartments (New York, New York)

Unity Apartments, located in the East New York section of Brooklyn, New York, is an 83-unit project consisting of two mid-rise buildings about a block apart. Currently, two units are vacant. It has been owned and managed by the same partners since it was developed. In 1992, the property received about $682,000 in Section 8 project-based assistance.[5] A two-bedroom apartment at Unity rents for $1,138. In contrast, the rent for a two-bedroom unit in an well-maintained unsubsidized property in the same general area is between $600 and $750 per month.

HUD's New York Field Office has classified Unity Apartments as a "potentially troubled" property both because of its physical condition and for financial reasons. The field office's most recent inspections of this property indicated, among other things, electrical and plumbing problems, inoperative fire alarm and intercom systems, broken boilers and elevators, flaking exterior walls, and seriously deteriorated windows. According to the field office's estimates, it will cost $149,000 to repair these and other problems. Financial statements filed by the owner in 1991 and 1992 show that the property has also sustained large operating losses over the last several years.

While the management company has usually responded to HUD's inspection findings by indicating that deficiencies have been corrected, our visit in late June showed continuing physical deterioration. The problems we noted included an inoperative fire alarm system (HUD had made the same finding), a vandalized laundry room, a missing entrance door and window, graffiti inside and outside, a broken elevator, and a security system that

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[5]The assistance amount for 1992 was used because complete data for 1993 were not available.

tenants told us had not worked for years. The HUD inspector we talked to said the property had not improved over the 6 years that he has been inspecting it.

Jose de Diego Beekman IV Apartments (New York, New York)

De Diego Beekman IV Apartments, located in the Mott Haven section of the Bronx, New York, is a 134-unit complex consisting of five separate buildings on several streets. Beekman IV is one component of a larger Beekman Houses property, which contains more than 1,100 apartments in 38 buildings that were renovated in different phases during the 1970s. According to the property's June 1994 vacancy report, Beekman IV had two vacant apartments. All of the apartments are subsidized with Section 8 project-based assistance. In 1993, the property received $904,809 in Section 8 project-based assistance. A two-bedroom apartment rents for $980; according to several local real estate brokers, the monthly rent for a two-bedroom unit in a well-maintained unsubsidized property in the same area ranges from $700 to $840.

HUD's New York Field Office has classified Beekman IV and other components of Beekman Houses as "troubled" properties. Inspection reports show a long history of inadequate repair practices, including major problems with the roofs of numerous buildings. An inspection in January 1994 resulted in a "below average" rating for the Beekman IV building because of broken elevators, rat and mice infestation, leaking sewage, roof leaks, and other deficiencies.

During our visit at the end of June 1994, it appeared that the project's management had taken actions to correct some deficiencies; for example, repair and replacement of roofs had occurred. However, there are still extensive graffiti inside and outside the buildings, broken doors and windows, and elevators that are unreliable at best. One factor working against the correction effort, however, is the high level of vandalism and illegal drug activity in the neighborhood. The project manager said it is a constant struggle to replace doors, windows, and locks that are frequently broken or stolen. To curb some of the vandalism and illegal activity, the management company uses a corps of building monitors to patrol common areas and report incidents to the police.

6000 South Indiana Apartments (Chicago, Illinois)

6000 South Indiana Apartments, located on the south side of Chicago, Illinois, is a 70-unit, 12-story, high-rise building. At present, 13 units are vacant and 68 units receive Section 8 project-based assistance. In 1993, the property received $270,553 in assistance. The monthly rent for a two-bedroom apartment is $849. According to local real estate agents, the monthly rent for a two-bedroom unit in well-maintained unsubsidized properties in the same area ranges from $435 to $475. In 1988, the owner of 6000 South Indiana Apartments defaulted on the mortgage, which HUD now holds.

This property has been rated as unsatisfactory in four physical inspections conducted by HUD's Chicago Field Office since 1989. In 1991, 18 apartments were inspected and all failed to meet HUD's housing quality standards. The 1993 inspection report noted that the building would require over $933,000 in repairs. These repairs would include entirely replacing--in all units--all kitchen fixtures and appliances, windows, and floor tiles and, in bathrooms, replacing medicine cabinets, lighting, and plumbing fixtures. In addition, the inspection report noted that exterior and common areas needed extensive repair. Many of the findings involved safety items such as elevators, emergency lights, and smoke detectors. Under a 1994 HUD-approved management improvement plan, $910,000 worth of repairs are scheduled, to be paid for with revenues from a recent rent increase. HUD has also awarded the building a $175,000 drug elimination grant to address physical security deficiencies and provide drug counseling to tenants. HUD did not require the owner to contribute to the repair costs.

Our visit to this property verified the physical conditions noted in the field office's inspection reports. We also discovered additional safety violations, such as missing hallway fire doors and unlit emergency stairways. The building is under new management, and we observed one apartment in relatively good shape, except that the new kitchen cabinets and sinks that have been ordered for all apartments were not yet installed. On the other extreme, we observed some units with large holes in the walls caused by water leaking through the roof and from broken plumbing fixtures. One hole in a tenant's bathroom opened into the building's garbage room, giving insects, rats, and mice direct access into this inhabited apartment. Indeed, several tenants complained of rat and mice infestation. We also observed kitchen cabinets falling apart, missing floor tiles in almost every room, and a broken elevator (one of two in this 12-story building). We learned that this elevator had been broken for 3 months.

Liberty Arms Apartments (Tyler, Texas)

Liberty Arms Apartments is located in Tyler, Texas, about 100 miles east of Dallas. A 100-unit complex, it consists of eight 2-story garden apartment buildings. At present, 20 of the 100 units are vacant. In 1993, this property received $228,960 in Section 8 project-based assistance. The monthly rent for a two-bedroom unit is $374. While there is no unsubsidized housing in the same neighborhood or area of town, neighboring subsidized apartment complexes in good condition charge between $281 and $439 a month for a two-bedroom unit. The owners of the Liberty Arms Apartments are current on their mortgage now but have been delinquent on several occasions in the past.

In June 1994 management review and physical inspection reports, HUD's Dallas Field Office identified repair expenses in excess of $655,000. According to these reports, this apartment complex will require the replacement of roofing, windows, siding, plumbing, electrical fixtures, and floor coverings, and at least a third of the property's units will need replacement ranges, refrigerators, countertops, cabinets, and sheetrock. The reports also estimated that it will take at least an additional $100,000 to repair the air conditioning system, and it could well cost many times this amount. The inspection report concluded that all units in this complex are in unsatisfactory condition and that the 20 vacant units are uninhabitable. Overall, this property was considered a health and safety risk to all its residents.

Aside from those problems that the field office staff reported, our visit to the property revealed exterior grounds in serious need of improvement--including play areas, sidewalks, stairways, and general landscaping. Furthermore, the exterior of the buildings had rotted siding, rusted stairs, and broken light fixtures. Most of the individual units we observed were in very poor condition. For example, one unit had damage to ceiling and floor tiles throughout the premises, holes in the ceilings of both bathrooms, a continuously running toilet, and serious insect infestation.

Urban Rehab II Apartments (Los Angeles, California)

Urban Rehab II Apartments, located in south central Los Angeles, consists of six 2-story buildings with 48 two-bedroom units. Currently, all units are occupied. In 1993, this property received $208,059 in Section 8 project-based assistance. A two-bedroom apartment rents for $667 a month. While there is no unsubsidized housing in this area of the city, a neighboring subsidized complex in better physical condition charges $659 a month for a two-bedroom unit.

Physical inspections and management reviews conducted by HUD's Los Angeles Field Office have rated this property as unsatisfactory since 1990. Urban Rehab II Apartments has been a continual problem for the field office, and tenants have filed numerous complaints about its deplorable physical condition. The property's documented physical problems include inadequate exterior security, termite infestation in the balconies of upper units, and serious disrepair in the landscaping. Individual units had visible signs of roach, rat, and mice infestation.

During our visit to the property, we noted that exhaust fans were missing in kitchens and observed signs of leakage in interior bathrooms and kitchen ceilings, bullet holes through kitchen windows, torn linoleum and carpeting throughout the units, and inoperative smoke alarms. None of the units had working air conditioning. In addition, this property is located in a high-crime district where theft, vandalism, and graffiti are constant problems. Because of the vandals and thieves, the laundry room on the site has been closed off and is no longer in use.

Carey Arms Apartments (Las Vegas, Nevada)

Carey Arms Apartments, located in north Las Vegas, Nevada, is a 289-unit complex consisting of 72 two-story buildings. Currently, 77 units are vacant. In 1993, the property received $1,823,000 in Section 8 project-based assistance. A two-bedroom unit rents for $820 a month. Rent for a two-bedroom unit in a well-maintained unsubsidized project in the same vicinity is $380 a month. Since January 1991, the owners have not made a mortgage payment. HUD currently holds the mortgage and is now foreclosing.

Physical inspections and management reviews conducted by HUD's Las Vegas Field Office have rated this property as below average or unsatisfactory for the past several years. Many of the vacant apartments are in such poor condition that the management company is considering demolishing them. The last physical inspection report, dated October 1993, indicated the property was in need of repairs and maintenance estimated to cost $3,055,603. Problems cited in this report include dysfunctional and defective irrigation and sewer systems, missing or damaged appliances in the vacant units, defective heating and air conditioning systems, termite and roach infestations, and a high degree of crime-related activities.

During our visit we observed inoperative smoke alarms, garbage disposals, and kitchen and bath exhaust fans; water damage and leaks from kitchen and bathroom plumbing; and torn and soiled carpeting. Exterior walls and sidewalks were covered with graffiti, buildings and fences were in need of paint, pot holes and loose gravel littered the parking lots, and eight units had been severely damaged by fire.

Sierra Nevada Arms Apartments (Las Vegas, Nevada)

Sierra Nevada Arms Apartments, located in north Las Vegas, Nevada, is a 352-unit complex consisting of 82 two-story buildings. Currently, 113 units are vacant. In 1993, this property received $999,507 in Section 8 project-based assistance. A two-bedroom unit in this apartment complex rents for $468 a month. The rent for a two-bedroom unit in a well-maintained unsubsidized property in the same vicinity is $600 a month.

According to officials in HUD's Las Vegas Field Office, Sierra Nevada Arms Apartments is the worst project the office manages. Physical and financial problems with this complex have been long-standing, principally because of the owners' inability to accumulate a reserve large enough to deal with all the needed repairs. While the owners are behind in their mortgage payments, they are not yet technically in default. HUD has proposed barring the owners from further participation in the Section 8 project-based assistance programs because of their negligence at Sierra Nevada Arms and because they maintain Section 8 properties in substandard condition throughout the country.

Physical inspections and management reviews conducted by the field office have rated this property as below average or unsatisfactory for several years. According to these reviews, the property is located in a high-crime area, and many vacant units have had kitchen appliances, bathroom fixtures, air conditioning and heating units, and electrical fixtures stripped or cannibalized. Problems in the occupied units noted in the reviews included inoperative appliances, heating systems, air conditioning systems, bathroom exhaust fans, and kitchen exhaust fans; plumbing leaks; and visible signs of insect infestation.

Our on-site inspection of this property revealed interior units with soiled, stained, and torn carpet and linoleum; inoperative appliances, smoke alarms, air conditioning, and heating systems; damaged kitchen cabinets with loose and missing drawers; severely damaged bathroom vanity tops and commodes; missing closet doors; torn and missing window screens; filthy walls; leaking toilets, bathtubs and sinks; and roach, rat and mice infestation. Our inspection of the project's exterior revealed faulty sprinkler systems with numerous leaks causing flooding throughout the grounds. We found that many vacant units were missing doors, windows, and screens. Moreover, the laundry room was filthy and in poor condition, with extensive graffiti and garbage strewn throughout.

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