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The Honorable William L. Scott
United States Senate

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Dear Senator Scott:

In accordance with your request of June 7, 1976, and the agreement reached with your office on June 21, 1976, we have reviewed the Department of Housing and Urban Development's consideration of Strawbridge Square--a housing project proposed for Fairfax County, Virginia. The Department will provide mortgage insurance for the project and rental assistance to its tenants if the project receives approval for both. We examined the Department's initial determinations concerning both matters, and we looked into certain other matters brought to your attention by a group of constituents known as the Little River Village Community Council, Inc.

We examined mortgage insurance and rental assistance files at the Department's Washington, D.C., area office. Discussions were held with officials of this office and the Department's headquarters office in Washington.

Briefly we found that:

- The project is jointly sponsored by the Wesley Housing Development Corporation (a nonprofit organization of 99 Methodist churches) and the National Housing Partnership (an organization created to encourage private investors to participate in programs providing low- and moderate-income housing).
- A site appraisal and market analysis which we believe is adequate to justify continued processing of the sponsors' proposal for mortgage insurance was performed by the Washington, D.C., area office.
- Rents approved in the sponsors' preliminary proposal are within the established fair market rental limits determined by the area office director pursuant to section 8, title II, Housing and Community Development Act of 1974.

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- The project, if approved, will result in the Federal Government insuring a mortgage in an amount initially estimated to be about \$4 million. Additionally, it will require the expenditure of Federal funds for rental assistance payments although it is not possible at this time to make a reliable estimate of how much these payments will be. However, they will be within the established limits for section 8 assistance.
- The average cost to construct each of the project's 128 units is estimated at \$31,580. This is greater than the \$15,000 to \$20,000 units which the constituent group claimed were available on the open market. Strawbridge Square is included in the section 8 new construction portion of the Fairfax County housing assistance plan and acquisition of existing housing would not satisfy the county's need for new construction. Also, the Department doubts that housing units in the \$15,000 to \$20,000 range are available in any large quantity in Fairfax County.
- The project has the support of Fairfax County and the Washington Metropolitan Council of Governments.

BACKGROUND

On May 6, 1976, the Wesley Housing Development Corporation together with the National Housing Partnership submitted an initial proposal to the Department's Washington, D.C., area office for the development of a 128-unit project, to be called Strawbridge Square, in the Lincolnia area of Fairfax County, Virginia. Included in the proposal was a preliminary application for mortgage insurance under section 221(d)(4) of the National Housing Act of 1934, as amended, and rental assistance under section 8, title II of the Housing and Community Development Act of 1974. The purpose of the section 8 program is to aid lower income families in obtaining decent housing.

The Wesley Housing Development Corporation is a nonprofit organization of 99 Methodist churches incorporated in 1974 for the purpose of providing housing for low- and moderate-income families in Northern Virginia. The National Housing Partnership was formed in accordance with the Housing and Urban Development Act of 1968. Title IX of this act states that a private organization will be created to encourage wide participation by private investors in programs and projects to provide low- and moderate-income housing. To achieve this, the partnership may construct, rehabilitate, purchase, lease, or manage housing units for low- and moderate-income families. No Federal funds, title IX or otherwise, are provided for operating the partnership or for developing projects sponsored by the partnership other than what would be available to any other sponsor of a federally insured or subsidized project.

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Under the section 8 program, families whose incomes do not exceed 80 percent of the median income of the area in which they live (\$21,100 for Fairfax County in 1975) generally are eligible to participate. Families in the program pay between 15 and 25 percent of their gross incomes for rent. A federal subsidy equals the difference between the Department's established rent for the project and that part of the rent paid by the tenants. According to program requirements, at least 30 percent of the assisted units shall be occupied initially by families whose incomes do not exceed 50 percent of the area median income.

As proposed, Strawbridge Square will have one- and two-bedroom walkups and two-, three-, and four-bedroom townhouses situated in eight buildings on 20 acres of land. The property for the project was donated by an individual as a charitable contribution to the Wesley Housing Development Corporation and will revert to the donor if the project is not constructed. The National Housing Partnership will manage the project which is estimated to cost about \$4 million.

MORTGAGE INSURANCE SITE APPRAISAL
AND MARKET ANALYSIS

Upon receipt of an application for mortgage insurance the Department makes what is known as a site appraisal and market analysis. Approval of the proposal based on such analysis does not commit the Department to insure the project, but rather assures acceptance of the sponsor's application for further processing at a later date.

On June 24, 1976, the Department's Washington, D.C., area office notified Wesley Housing Development Corporation and the National Housing Partnership by letter that their proposal for mortgage insurance had been approved for further study should they decide to submit an application for a conditional commitment for mortgage insurance. The sponsors were given 60 days from the date of the letter to submit an application for conditional commitment of mortgage insurance or 120 days from the date of the letter in which they must submit an application for firm commitment of mortgage insurance. An application for either conditional or firm commitment must be consistent with the initially approved proposal and in line with Department requirements regarding cost and operating expense estimates and credit and financial analyses.

The Department's site appraisal and market analysis for Strawbridge Square established the value of the land when fully improved at \$473,600 and the types, numbers, and sizes of the project's units as follows:

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<u>Unit type</u>	<u>Number</u>	<u>Square feet</u>
one-bedroom walkup	20	625
two-bedroom walkup	28	725
two-bedroom townhouse	24	860
three-bedroom townhouse	36	1,150
four-bedroom townhouse	20	1,362

The three- and four-bedroom townhouses have two baths and roughed-in space for future laundry facilities. The cost of oil heat, hot and cold water, and sewer service will be included in the monthly rent. Tenants will pay for electricity which will operate the lights, range, refrigerator, air conditioning, and other appliances.

The Department added two conditions to its approval of the site. First, noise from the adjacent interstate highway must be reduced by provision of an earth berm in the center area of the project and blank walls in the north townhouse area. Second, additional recreation facilities must be provided for the children who will live in the project.

Rents are approved to establish the maximum amount of the insurable mortgage--tenant rents are determined during the section 8 rental assistance approval process. The Department obtained occupancy data and compared the Strawbridge Square proposed rents with rents for 10 similar, existing, nonsubsidized projects in the area. Adjustments were made for differences in amenities and for the projection of rents to the anticipated date of project occupancy. Strawbridge Square was allowed 5 percent more for its rents than the comparable projects to cover the added costs of managing a subsidized project.

Each of the 10 existing projects had an occupancy rate of 99 or 100 percent at the time this data was collected, which indicates that the market potential for another project in this area is good.

SECTION 8 RENTAL ASSISTANCE APPROVAL

On June 26, 1976, the Department's Washington, D.C., area office notified the Strawbridge Square sponsors that their preliminary proposal for section 8 rental assistance had been approved. Upon approval of the final rental assistance proposal, which the sponsors must now submit, approval of the project for mortgage insurance, and fulfillment of all other administrative and statutory requirements, the Department will enter into a housing assistance payments contract with the project sponsors.

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The approved section 8 rents for the project, based on the preliminary proposal, are:

<u>Unit type</u>	<u>Contract rents</u>	<u>Estimated cost of electricity</u>	<u>Gross rents</u>
one-bedroom walkup	\$293	\$26	\$319
two-bedroom walkup	351	28	379
two-bedroom townhouse	380	32	412
three-bedroom townhouse	447	36	483
four-bedroom townhouse	484	39	523

The approved gross rents for the project exceed the established fair market rents for these types of units in the Fairfax County area; however, they are not exceeded by more than 10 percent. The cognizant Department area office director has the authority to increase the fair market limits for a given project by as much as 10 percent. The Washington, D.C., area office director's decision to increase the limits for this project was justified on the basis that the approved section 8 rents include a factor for the added cost of financing subsidized projects and the fact that Department officials can accept the proposed rental amounts if considered reasonable for the area.

The approved contract rents are the same as proposed by the project sponsors for each unit except the four-bedroom townhouses. The rents for these unit. were approved at \$37 per month less than proposed because the Department's comparability analysis indicated the lower rent to be more fair and reasonable for the Fairfax County area.

CONSTITUENTS OBJECTIONS TO THE PROJECT

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/ In its May 29, 1976, letter to you, the Little River Village Community Council, Inc., objected to the proposed construction of D. 1271 Strawbridge Square on the grounds that the project

- is being sponsored by a nonprofit church related group which has no assets and absolutely no experience in housing development or management,
- will require huge Federal funding guarantees and indefinite rental assistance funds, and
- will duplicate, at a higher cost, housing that already exists.

As mentioned earlier, the project is being sponsored jointly by the Wesley Housing Development Corporation and the National Housing Partnership.

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Wesley was incorporated in 1974 and to date has few cash assets. It will, however, be providing the land for the proposed project site which it acquired through a charitable donation. The National Housing Partnership's 1975 annual report showed about \$51.6 million in assets, including partners' capital of about \$25 million.

The National Housing Partnership is the proposed manager of the Strawbridge Square project. The partnership is an organization whose purpose is to develop and manage projects for low- and moderate-income families. As of May 1976 the partnership was managing 18 projects totaling 3,451 units in 9 states. The Department's Washington, D.C., area office, however, in its section 8 preliminary evaluation of the project, commented that the partnership's management of a Department-supported project in the Washington area was less than satisfactory. Problems with late monthly accounting audit reports and high staff turnover were cited. The partnership's recent performance at this project improved and as a result, the area office approved the proposed management plan for Strawbridge Square.

Strawbridge Square, if approved, will result in the Federal Government insuring a mortgage in an amount initially estimated to be about \$4 million. Additionally, it will require spending Federal funds for rental assistance payments although it is not possible at this time to make a reliable estimate of how much these payments will be. These however, will be within the established limits for section 8 assistance.

With an estimated construction cost of about \$4 million, the average cost of each of the 128 units will be \$31,580. This is in excess of the \$15,000 to \$20,000 units which the constituent group claimed were available for sale on the open market. It must be kept in mind, however, that the Strawbridge Square project is a part of the section 8 new construction portion of the Fairfax County housing assistance plan and the acquisition of existing structures would not satisfy the county's stated need for new construction. The Department's response to you of June 11, 1976, pointed out that it has worked with Fairfax County in other programs which did involve acquisition of existing housing. On the basis of this, the Department considered it doubtful that many units meeting its minimum standards could be found in the \$15,000 to \$20,000 range.

COMMUNITY SUPPORT FOR PROJECT

The Department has stated that no section 8 proposals will be approved which are not in compliance with the locally developed housing

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assistance plan. Fairfax County has developed such a plan and the proposed Strawbridge Square project is in compliance with it. In fact, the project will meet a part of the section 8 new construction goal of Fairfax County which is set forth in the plan. Additionally, the Fairfax County Board of Supervisors has specifically requested, by resolution, approval of the project for section 8 assistance.

Strawbridge Square has also received favorable review by the Metropolitan Clearinghouse of the Washington Metropolitan Council of Governments. The Clearinghouse's review dealt with whether the project and its approval by the Department are consistent with and support the Council of Government's Fair Share Housing Plan.

CONCLUSIONS

The Department's site appraisal and market analysis and its review of the sponsors' proposal for rental assistance appear to have been made in an adequate manner and its approvals of the preliminary proposals for mortgage insurance and rental assistance appear to be reasonable.

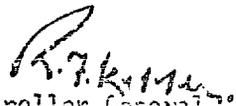
Although objection has been voiced concerning its construction, the proposed Strawbridge Square project seems to conform to its intended purpose of aiding lower income families in obtaining decent housing. The proposed management organization appears to have the necessary experience to manage the project and the amount of Federal resources to be used to insure and support the project is within the established limits for section 8 assistance. Although the project's estimated unit cost does exceed the cost of existing units which the constituent group claims to be available, the Department has cast doubt on such a claim and, furthermore, existing housing would not satisfy Fairfax County's need for new construction according to its housing assistance plan. In addition, the project has the support of Fairfax County and the Washington Metropolitan Council of Governments.

The project is still in the early stages of processing, approvals rendered to date by the Department are preliminary, and Federal funds have not as yet been committed to the project. Before such a commitment takes place, the sponsors must submit final applications for mortgage insurance and rental assistance in accordance with Department requirements demonstrating that the project is viable with respect to construction costs, operating expense estimates, and credit or financial analyses. The Department has assured you that the applications will

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receive appropriate review at each point of processing and also that the project will not be selected for funding if the rents are considered excessive.

Sincerely yours,


DEPUTY Comptroller General
of the United States