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Bobby

REPORT BY THE U.S.

General Accounting Office

Public Housing Vacancies And The Related Impact Of HUD's Proposal To Reduce Operating Subsidies

The Department of Housing and Urban Development's (HUD's) public housing program houses 3.4 million low-income people in 1.2 million housing units. These units are administered by over 3,000 public housing authorities (PHAs), which receive operating subsidies from HUD. PHAs are eligible for these subsidies for all units, including vacant ones. However, HUD has proposed reducing its financial assistance to PHAs that have vacancies in excess of 3 percent.

According to HUD data, about 70,000 units, or 5.8 percent of all public housing units, were vacant on September 30, 1984. Vacancy rates exceeded 3 percent at 1,250 PHAs.

Officials at the seven PHAs visited by GAO cited normal turnover, modernization and demolition activities, physical deterioration, poor management, and inadequate demand as reasons for vacancies. Actions to reduce vacancies were underway or planned at each of these PHAs.

Most of the public comments received on HUD's proposal were unfavorable. However, at the seven PHAs visited, five anticipated that HUD's proposal would have little effect on their operating subsidies. Two PHAs estimated that HUD's proposal would significantly reduce their operating subsidies and impair their operations.



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RESOURCES, COMMUNITY,
AND ECONOMIC DEVELOPMENT
DIVISION

B-217902

The Honorable Chic Hecht
Chairman, Subcommittee on Housing
and Urban Affairs
Committee on Banking, Housing
and Urban Affairs
United States Senate

Dear Mr. Chairman:

This report responds to your Subcommittee's interest in vacant units in the Department of Housing and Urban Development's (HUD's) public housing program. This program is one of the nation's largest federal housing assistance programs designed to provide decent, safe, and sanitary housing for low-income families. The program assists states and local communities in establishing and operating public housing authorities (PHAs), which are responsible for the management of public housing projects.

As of September 30, 1984, 3,060 PHAs housed approximately 3.4 million people in 1.2 million housing units. HUD financially assists PHAs by providing subsidies for the construction, operation, and modernization of public housing projects. In fiscal year 1985, HUD will provide PHAs with a total of about \$4.5 billion in assistance, including \$1.2 billion in operating subsidies.

In October 1984 your Subcommittee expressed interest in the high level of vacancies in the public housing program. In response, we agreed to look into

- the extent of public housing vacancies nation-wide,
- what selected PHAs believed were the reasons for vacancies and what they were doing about vacancies, and
- the rationale for and the anticipated impact on selected PHAs of HUD's May 1984 proposed regulations for reducing operating subsidies for vacant units.

We briefed your Subcommittee staff on the results of our review on February 20, 1985. At that time, we were requested to provide you with this report.

HUD data showed that about 70,000 units, or about 5.8 percent of all public housing units, were vacant on September 30, 1984. Twenty-five large PHAs¹ accounted for 46 percent of the vacancies. These PHAs had a disproportionate share of the vacant units. Further, vacancy rates at most of these PHAs exceeded the rates for private rental projects in the area.

Officials at the seven PHAs we visited attributed vacancies to normal turnover, modernization and demolition activities, lack of demand, and poor management. However, PHAs anticipate that modernization and demolition actions, when completed, will also help reduce the PHAs' vacancy problems. At the seven PHAs we visited, vacancy reduction efforts had met with varying degrees of success.

Vacant units are currently eligible for full operating subsidies. HUD estimates that its operating subsidies for vacant units amount to about \$179 million annually. In May 1984 HUD proposed changes in its regulations that would reduce subsidies for vacant units by about \$35 million and affect about 500 PHAs. HUD is considering revising its proposed regulation on the basis of public comments that were largely against the proposed changes. At the seven PHAs we visited, five expected HUD's proposal to have little effect on their operating subsidies while two estimated that their operating subsidies would be reduced significantly, thereby impairing their operations.

SCOPE AND METHODOLOGY

We used HUD's data to determine the extent of PHA vacancies nation-wide because they were the only centralized source of information on PHA vacancies. Because we found and corrected a number of errors in these data, we have questions about the data's reliability.

We visited seven PHAs to determine (1) what they believed were the reasons for vacancies, (2) what actions they took or planned to take to reduce vacancies, and (3) the anticipated impact of HUD's May 1984 proposed rule. These PHAs were located in Bloomington and Decatur, Illinois; Columbus, Ohio; Dallas and

¹According to HUD, large PHAs contain 1,250 units or more.

Fort Worth, Texas; Indianapolis, Indiana; and Kansas City, Missouri. These PHAs were selected judgmentally; therefore, they are not representative of all PHAs.

Appendix X contains additional details on our scope and methodology. As you requested, we did not obtain written agency comments on this report, but we did discuss its contents with HUD officials, and their views were included in this report.

OVERVIEW OF PUBLIC HOUSING VACANCIES

HUD data² show that 5.8 percent of the 1.2 million public housing units, or 69,890 units, were vacant as of September 30, 1984. Of the 3,060 PHAs reporting to HUD, 1,809 PHAs, or 59 percent, had a vacancy rate of 3 percent or less; 1,251 PHAs, or 41 percent, had a vacancy rate in excess of 3 percent; and 700 PHAs, or 23 percent, had vacancy rates exceeding 6 percent. The following table shows the level of vacancies for PHAs. Additional details are shown in appendix I.

Vacancy Rate Distributions for PHAs

<u>Vacancy rate</u>	<u>PHAs</u>		<u>Vacant units</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
(percent)				
0 - 3	1,809	59	5,853	8
3.1- 6	551	18	9,297	13
6.1-10	297	10	14,992	22
10.1-20	263	9	23,806	34
Over 20	<u>140</u>	<u>4</u>	<u>15,942</u>	<u>23</u>
Total	<u>3,060</u>	<u>100</u>	<u>69,890</u>	<u>100</u>

²As stated earlier, we found and corrected a number of errors in these data. Because of these errors, we have questions about the reliability of these data. (See app. X for details.)

Twenty-five large PHAs³ accounted for about 46 percent of the vacant units. However, these 25 PHAs only accounted for about 19 percent of all public housing units. In addition, these 25 PHAs had 1,038 vacant buildings, or about 75 percent of the 1,393 vacant buildings reported to HUD as of March 1984.

Vacancy rates at the 25 large PHAs ranged from 3.3 percent in Baltimore, Maryland, to 37.1 percent in Newark, New Jersey. We obtained private rental vacancy rates for the areas covered by 20 of the 25 PHAs. On the basis of these data, 19 of the PHAs had vacancy rates exceeding those for private rental units. For example, the San Francisco PHA's vacancy rate of 12.1 percent as of September 1984 was well above the 0.4-percent vacancy rate for private rental projects in San Francisco. Details on each of the 25 large PHAs are presented in appendix II.

The private rental vacancy rates were obtained from HUD field offices on the basis of vacancy surveys of multi-family units conducted by the U.S. Postal Service. We understand that these surveys may not provide an accurate representation of an area's true vacancy rate at any one time. In addition, a HUD official told us that private sector and PHA vacancy rate comparisons are somewhat misleading. This is because most private sector vacancies result from insufficient demand, whereas PHA's typically have long waiting lists for their units.

Reasons for vacancies

HUD does not have overall data on the reasons for vacancies in PHA projects. To obtain information on these reasons, we visited seven PHAs. The following reasons for vacancies were cited by PHA officials:

--Seven attributed vacancies to a normal turnover in residents.

--Six said units were vacant because of ongoing or pending modernization or demolition activities.

³According to HUD data, these 25 PHAs had the largest number of vacancies, but on the basis of the errors we found in HUD's data, this might not be the case.

--Five said there was a lack of demand for certain units.

--Four attributed vacancies to prior mismanagement, which resulted in the slow reoccupancy of units becoming vacant, a lack of maintenance, and deterioration and vandalism of units.

HUD's Office of Inspector General reports and available HUD data disclosed similar reasons for vacancies.

Each of the seven PHAs had some units vacant because of normal turnover. However, at one PHA visited--the Bloomington Housing Authority--a large number of vacancies at one project were attributed to an unusually high number of residents moving out during the previous summer.

The Decatur PHA illustrates the relationship of vacancies to PHA modernization activities. According to Decatur PHA officials, 337 of the authority's 340 vacancies were attributable to the authority's ongoing modernization program. One project with 295 vacant units has been undergoing modernization since 1980. Another 42 units were being held vacant to accommodate the relocation of tenants displaced by the authority's modernization program.

Demand for certain vacant public housing units, primarily for the elderly, was considered weak by officials at five PHAs because of the size or location of the units or competition from other federal housing assistance programs. For example, a Columbus Housing Authority official attributed high vacancy rates at several elderly housing projects to a weak market demand for efficiency units. We were advised by a PHA official that 297 elderly units were vacant partly because of competition from units funded under other federal housing assistance programs, such as HUD's section 202/8 elderly housing rental assistance program. In addition, this official said that 233 of these vacant units were poorly designed efficiency units located in an undesirable area of the city. Inadequate demand for efficiency units at elderly projects was also cited as a reason for vacancies at the Bloomington, Indianapolis, and Kansas City PHAs.

In addition to our visits to seven PHAs, HUD's Office of Inspector General found that high vacancies existed at 11 of the

16 financially troubled PHAs it reported on between October 1983 and March 1984. The Inspector General attributed high vacancies primarily to (1) general deterioration, (2) questionable management practices to hold units vacant in anticipation of modernization, (3) inefficient and ineffective use of modernization funds, and (4) lack of or ineffective preventive maintenance programs. According to the Inspector General, these reasons were additional examples of the poor management practices that were followed by financially troubled PHAs.

HUD is in the process of obtaining data from PHAs on the reasons for vacant units in projects with vacancy rates in excess of 6 percent. HUD data⁴ available as of February 5, 1985, showed that of 12,007 vacant units in 471 PHA projects

--4,532 units, about 38 percent, were approved by HUD for modernization or demolition;

--2,180 units, about 18 percent, were in need of modernization or demolition but were not covered by a HUD-approved plan;

--3,412 units, about 28 percent, were vacant because of normal turnover; and

--1,883 units, about 16 percent, were vacant because of a lack of applicants willing to move into these units.

VACANCY REDUCTION EFFORTS AND
RESULTS AT SELECTED PHAS

The seven PHAs visited had taken one or more of the following actions to reduce vacancies during fiscal years 1982 and 1984:

⁴As of February 5, 1985, HUD had received reports on 942 of the 2,271 projects with vacancy rates of 6 percent or more; however, 302 projects had provided erroneous or incomplete data, and 169 projects either had vacancy rates of 3 percent or less or were not receiving HUD operating subsidies.

- Six instituted a modernization program.
- Four increased their marketing efforts.
- Three demolished or sold units.
- Three changed their maintenance program.

At six of the seven PHAs, HUD had approved \$73.2 million in capital improvement funds for modernization between fiscal years 1982 and 1984. The amount of these funds spent on vacant units was not available. The impact that modernization projects can have on reducing vacancies, however, was apparent at the Indianapolis PHA. Authority officials said vacancies were reduced by 166 units by completing the modernization of several projects between 1982 and 1984, thereby helping to reduce the PHA's vacancy rate from 25 to 18 percent.

Nation-wide, HUD had about \$3.7 billion in capital improvement funds available for modernization for fiscal years 1982 to 1985, including about \$98 million in special set-aside funds to modernize vacant units or buildings.

Three of the seven PHAs visited had or planned to demolish or dispose of public housing units. From fiscal years 1982 to 1984, HUD authorized the Columbus, Dallas, and Kansas City PHAs to demolish or dispose of 697 units. Units approved for demolition and disposition are eventually removed from the PHAs' inventory, thereby lowering vacancy rates. For example, according to one Dallas PHA official, their vacancy rate was reduced from 27 to 22 percent from fiscal years 1983 to 1984, primarily as a result of selling a 347-unit building that had a 78-percent vacancy rate. Until units are removed from a PHA's inventory, they continue to be eligible for HUD operating subsidies.

Between January 1980 and September 1984, HUD authorized PHAs to demolish or dispose of 5,466 units.⁵ Details are shown in the following table:

⁵Data were not available at HUD headquarters for periods prior to January 1980.

PHA Demolition/Disposition Activities

<u>Fiscal year</u>	<u>Units approved for</u>		<u>Total</u>
	<u>Demolition</u>	<u>Disposition</u>	
1980 ^a	845	187	1,032
1981	917	460	1,377
1982	1,310	480	1,790
1983	733	147	880
1984	<u>370</u>	<u>17</u>	<u>387</u>
Total	<u>4,175</u>	<u>1,291</u>	<u>5,466</u>

^aJanuary 1980 to September 1980.

Source: HUD.

Efforts to improve the maintenance and aggressive marketing of units have also helped PHAs to reduce vacancies. For example, Kansas City PHA officials said that these efforts were used to reduce vacancies by 171 units between 1982 and 1984, thereby helping to lower the PHA's vacancy rate from 28 to 14 percent.

Overall, five of the seven PHAs visited had reduced their vacancy rates between fiscal years 1982 and 1984 by 2 to 14 percentage points. Vacancy rates increased slightly at the Fort Worth PHA. But at the Decatur PHA, vacancy rates increased 3 percentage points. According to a Decatur PHA official, vacancies increased because of ongoing modernization activities. Details for each of the seven PHAs are included in appendixes III to IX.

While the PHAs visited were acting to reduce vacancies, HUD also has been working with troubled PHAs to help overcome their problems, including high vacancies. In 1979 HUD began requiring financially troubled PHAs to develop work-out plans. This effort was expanded in April 1984 to include large PHAs with operational problems such as high vacancies (in excess of 6 percent). Other PHAs with similar problems were to be included at the discretion of HUD's regional offices. The required work-out plans describe how and when the PHA will reach an acceptable level of financial solvency and/or operational effectiveness. According to a HUD official, the success of

these work-out plans cannot be assessed for operationally troubled PHAs because of the newness of these procedures. However, this official said that in the case of financially troubled PHAs, these plans have helped 16 PHAs to become solvent since the program began in 1979.

PROPOSED CHANGES IN HUD
SUBSIDIES FOR VACANT UNITS

In May 1984 HUD proposed changes in its regulations that would reduce PHA operating subsidies for vacant units. These changes were intended to reduce federal costs and encourage PHAs to better manage their housing stock. Officials at two of the seven PHAs visited said that these changes would significantly reduce their operating subsidies, thereby impairing their operations.

Under current HUD regulations, the operating subsidies cover the difference between a PHA's estimated operating costs and anticipated rental income. The PHA's estimated operating costs consist of an allowable expense level for such things as management and maintenance costs, a utility expense level, and audit costs. For the most part, HUD regulations provide the same allowable expense level for vacant units as they do for occupied units. The PHA's projected income, largely from tenant rent contributions, is deducted from its estimated operating costs to determine the subsidy payment. Because vacant units produce no rental income, the subsidy for vacant units equals the total estimated operating costs for the vacant units.

HUD's proposed regulations would limit the number of vacant units eligible for full subsidies to 3 percent. For vacant units in excess of 3 percent, HUD's proposal would (1) allow partial subsidies for 3 to 5 years for units under modernization and (2) provide funds to cover security and utility expenses for units not under modernization. Units covered under the latter provision would be phased out over 4 years.

HUD proposed changing its regulations to improve the management of the public housing stock, control increases in operating subsidies, provide for a more equitable distribution of subsidies, and reduce the incentive for PHAs to hold units vacant. HUD expects that the changes would encourage PHAs with

high vacancies to take action within a 4-year period to obtain modernization funding or obtain HUD approval to demolish or dispose of units. According to the Director of HUD's Office of Policy for Public and Indian Housing, the current system provides an economic incentive for PHAs to hold units vacant. This is because a 100-unit project that is completely vacant (boarded up) receives a subsidy for full operations while incurring only the costs to limit access to the building.

HUD estimated that its proposal would reduce subsidy payments for vacant units by about \$35 million annually. We did not review the accuracy of HUD's estimate. The following table shows HUD's estimates of how the subsidy reductions would affect the total amount of funds available to PHAs:

Impact of Proposal to Reduce
Operating Subsidies for Vacant Units

<u>PHAs</u>		<u>Subsidy reduction</u>	
<u>Number</u>	<u>Percent</u>	<u>Amount</u>	<u>As percent of total PHA income</u>
		(millions)	
830	62	\$ 0.0	None
442	33	17.7	0 to 5
<u>66</u>	<u>5</u>	<u>17.1</u>	5 to 10
<u>1,338^a</u>	<u>100</u>	<u>\$34.8</u>	

^aHUD excluded all extra-small PHAs (under 100 units) from its estimate.

In developing its proposed rule, HUD analyzed two other alternatives. HUD's analysis showed that annual subsidy payments could be reduced by

- \$179 million, if no subsidies were provided for vacant units, and
- \$106 million, if full subsidies for vacant units were restricted to vacant units within a 3-percent allowable vacancy rate.

According to a HUD official, HUD considered these alternatives unreasonable. This official explained that HUD wanted to improve public housing units without overly penalizing PHAs.

Impact of proposal on PHAs visited

At the seven PHAs we visited, only the Columbus and Dallas PHAs anticipated that they would be significantly affected by HUD's proposed rule. At the Columbus Housing Authority, PHA officials estimated they could lose about \$600,000, or about 13 percent of their annual operating subsidy. Columbus PHA officials said this loss would force the PHA to use its operating reserves, which could put the authority back on HUD's list of financially troubled projects, and/or reduce staffing or tenant services.

The Dallas Housing Authority estimated it would lose \$1 million, or about 13 percent of its annual operating subsidy. A Dallas PHA official said this reduction would force the authority to reduce nonroutine maintenance, thereby contributing to project deterioration and increasing future needs for modernization funds.

At the other five PHAs, officials did not anticipate any serious impact from HUD's proposed rule. They said that the vacancy reduction actions underway or planned would resolve their vacancy problems.

HUD received comments from 41 entities on its proposed regulation--33 from PHAs, 5 from housing associations, and 3 from legal groups. The PHAs were generally against the proposed changes. Their comments, among other things, questioned whether

--a 3-percent vacancy rate was reasonable in light of such things as the marketable condition of the vacant units, the time required to prepare units for reoccupancy, and the availability of HUD modernization funds;

--the rule changes adequately recognize the expenses that are attributable to vacant units;

--PHAs would be able to cover unanticipated expenses, such as major repairs, without depleting reserves or deferring routine maintenance; and

--the proposal recognized HUD's contribution to the vacancy problem, for example, HUD's approval of other federally assisted housing in close proximity to PHA projects.

PHAs also expressed considerable concern over the added burden the proposed rule would have on PHA recordkeeping, reporting, and administrative activities.

Two of the five housing associations supported the concept of minimizing vacancies or putting limits on the payments of operating subsidies for vacant units provided that (1) adequate assistance is provided to restore units, (2) a reasonable time period is allowed to rehabilitate and reoccupy units, and (3) HUD works with PHAs with chronically high vacancy rates to develop work-out plans aimed at restoring units.

HUD is considering changes to its proposed rule on the basis of these comments.

SUMMARY

HUD data showed that about 70,000 units, or 5.8 percent of the public housing units, were vacant in fiscal year 1984. HUD estimates that operating subsidies for vacant units cost \$179 million annually. Forty-six percent of the vacant units were held by 25 large PHAs, yet these PHAs only had 19 percent of the public housing units. Vacancy rates at 19 of these PHAs exceeded the rate for private rental projects in the area. Officials at the PHAs we visited attributed vacancies to normal turnover, modernization and demolition activities, lack of demand, and poor management.

At the PHAs we visited, PHAs reported either instituting a modernization program, demolishing or disposing of units, increasing marketing efforts, and/or changing their maintenance program, in an effort to reduce vacancies. Five of the seven PHAs had reduced vacancy rates, while rates increased at the other two between fiscal years 1982 and 1984.

HUD estimated that its proposed May 1984 regulation would have the effect of reducing subsidies for vacant units at 508 PHAs by about \$35 million. Public comments on the proposed rule were generally not favorable, and HUD is considering revisions. Five of the PHAs visited stated that vacancies were or would be in the near future under sufficient control to avoid or minimize any adverse impact should HUD's proposed rule be finalized. Two of the seven PHAs visited commented that the rule change would significantly reduce their finances and impair their operations.

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As agreed with your office, we are sending copies of this report to the appropriate House and Senate Committees; the Secretary of Housing and Urban Development; the Director, Office of Management and Budget; and other interested parties. We also will make copies available to others on request.

Sincerely,



for J. Dexter Peach
Director



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ABBREVIATIONS

GAO	General Accounting Office
HUD	Department of Housing and Urban Development
PHA	public housing authority



DISTRIBUTION OF PUBLIC HOUSING AUTHORITIESAND VACANT UNITS BY VACANCY RATESAS OF SEPTEMBER 30, 1984^a

Vacancy rate	Number of PHAs					Number of vacant units ^b				
	Size of PHAs ^c			Total	Percent	Size of PHAs ^c			Total	Percent
	Large	Medium	Small			Large	Medium	Small		
0 - 1	20	51	1,146	1,217	39.8	563	170	243	976	1.4
1.1 - 2	19	35	282	336	11.0	667	381	759	1,807	2.6
2.1 - 3	14	30	212	256	8.4	1,581	607	882	3,070	4.4
3.1 - 4	11	20	185	216	7.1	1,996	506	861	3,363	4.8
4.1 - 5	10	18	162	190	6.2	1,297	497	915	2,709	3.9
5.1 - 6	11	13	121	145	4.7	1,626	531	1,068	3,225	4.6
6.1 - 7	10	14	79	103	3.3	1,616	708	701	3,025	4.3
7.1 - 8	6	7	61	74	2.4	1,199	349	771	2,319	3.3
8.1 - 9	6	6	49	61	2.0	5,298	471	507	6,276	9.0
9.1 - 10	6	4	49	59	1.9	2,611	286	475	3,372	4.8
10.1 - 15	17	19	145	181	5.9	10,371	1,694	2,019	14,084	20.2
15.1 - 20	8	9	65	82	2.7	7,262	1,207	1,253	9,722	13.9
Over 20	6	7	127	140	4.6	10,736	1,516	3,690	15,942	22.8
Total	144	233	2,683	3,060	100.0	46,823	8,923	14,144	69,890	100.0
	===	===	=====	=====	=====	=====	=====	=====	=====	=====
Percent	4.7	7.6	87.7	100.0		67.0	12.8	20.2	100.0	

^aExcludes Alaska and Puerto Rico.

^bA number of errors were found and corrected in HUD's data; consequently, caution should be used in relying on it.

^cLarge size PHAs have 1,250 units or more, medium size PHAs have 500 to 1,249 units, and small size PHAs have less than 500 units.

Source: HUD.

SUMMARY OF 25 LARGE PHAS WITHVACANT UNITS IN 1984^a

PHA	Vacant buildings, March 1984	September 1984 ^b			Private sector vacancy rate ^c
		Total	Vacant	Vacancy rate	
Newark	10	12,567	4,663	37.1	N/A
Chicago	0	39,383	3,268	8.3	1.1
Detroit	60	10,012	2,826	28.2	4.1
Philadelphia	4	23,326	2,522	10.8	N/A
Cleveland	21	11,717	2,336	19.9	N/A
Boston	120	12,663	2,264	17.9	1.9
Washington, D.C.	36	11,606	1,600	13.8	N/A
Dallas	120	6,963	1,515	21.8	8.0
Atlanta	5	15,220	1,414	9.3	4.5
Minneapolis	461	6,780	944	13.9	2.3
East St. Louis	13	3,266	860	26.3	3.6
San Francisco	19	6,888	834	12.1	0.4
Pittsburgh	5	9,467	833	8.8	2.4
Columbus	102	5,101	730	14.3	4.5
Houston	2	3,661	720	19.7	19.0
Baltimore	0	17,877	593	3.3	2.2
Buffalo	0	5,164	552	10.7	N/A
Fall River, Mass.	38	1,880	552	29.4	2.5
St. Louis	7	6,062	543	9.0	3.8
Indianapolis	6	2,616	519	19.8	7.2
New Haven	0	3,792	462	12.2	1.0
Camden	6	2,331	459	19.7	4.6
Chattanooga	0	3,682	449	12.2	8.4
San Antonio	0	8,164	386	4.7	15.0
Kansas City, Mo.	3	2,350	318	13.5	6.3
Total	1,038 ^d	232,538	32,162		

^aIn 1984 these PHAs accounted for about 19 percent of all public housing units and 46 percent of the vacant units.

^bA number of errors were found and corrected in HUD's data; consequently, caution should be used in relying on it.

^cRates were provided by HUD field/regional offices on the basis of the most recent (4/83-10/84) postal vacancy survey of multi-family units in each city. The postal survey is useful in determining the general trend of housing vacancies. It is not necessarily an accurate representation of an area's true vacancy rate at any one time.

^dIncludes 529 vacant homes (scattered sites) as follows: 4 at Detroit, 461 at Minneapolis, 1 at East St. Louis, and 63 at Columbus.

N/A = not available

Source: HUD.

SUMMARY OF PUBLIC HOUSING VACANCIESAT THE DALLAS HOUSING AUTHORITYOVERVIEW

The Dallas Housing Authority manages 19 public housing projects consisting of 6,963 units. According to the executive director, the authority has experienced serious vacancy problems for many years. In both 1982 and 1983, the authority had nearly 2,000 vacant units, or about a 27-percent vacancy rate. As of September 30, 1984, the authority had 1,515 vacant units,¹ or a 22-percent rate. In contrast, the private market vacancy rate for rental projects in the Dallas area was 8 percent as of September 1984.

REASONS FOR VACANCIES

According to authority officials and records, 1,366 of the 1,515 vacancies were uninhabitable units in need of rehabilitation. According to the executive director, the authority's vacancy problems go back to the 1960's, when project rehabilitation needs were neglected. Thirty years of wear, deferred maintenance, and vandalism led to an increasing number of uninhabitable units and 120 vacant buildings. Authority records showed that only 149 vacancies were due to normal turnover.

ACTIONS TAKEN/PLANNED TO REDUCE VACANCIES

Since 1979 authority officials said that aggressive efforts had been made to modernize and occupy every available housing unit. The authority's executive director said that with the assistance of local government, various community groups, and local businesses, the authority developed and began implementing a long-term plan to reoccupy all vacant units. Since 1981 the authority has received from HUD over \$41 million in modernization funds, of which \$31 million was targeted to five of its six problem projects. Two projects have been completely funded, and rehabilitation was being completed on 76 units; three projects received \$25 million and will need an estimated \$18.3 to complete modernization; one project, which needs an estimated

¹One thousand two hundred and twenty-four (1,224) of the vacant units were located in three projects in West Dallas.

\$23 million for modernization, had not yet been approved for funding by HUD.

From 1983 to 1984, the authority reduced its vacancy rate from 27 to 22 percent primarily as a result of selling a 347-unit building. According to an authority report, the building had a serious vacancy problem (78 percent in 1983), and the authority could not have managed the additional modernization activity needed to make it habitable. The units are currently being replaced with 106 public housing units and 242 Section 8 units.

EFFECT OF REDUCING OPERATING SUBSIDIES

In fiscal year 1984, the authority was eligible to receive about \$7.9 million in HUD operating subsidies. According to the authority's executive director and its budget director, HUD's proposed reduction in subsidies for vacant units would have a significant impact on the Dallas Housing Authority if implemented within the next 5 years. Using 1985 budget data, the budget director estimated that the authority could lose about \$1 million annually in operating subsidies under HUD's proposed rule. Authority officials said this loss would force the authority to defer nonroutine maintenance, thereby increasing the authority's need for future modernization funds. However, the executive director was confident that all the authority's projects would be completely modernized and fully occupied within 5 years. He said that the number of applicants on its waiting list is adequate to fill all the public housing units as they are rehabilitated.

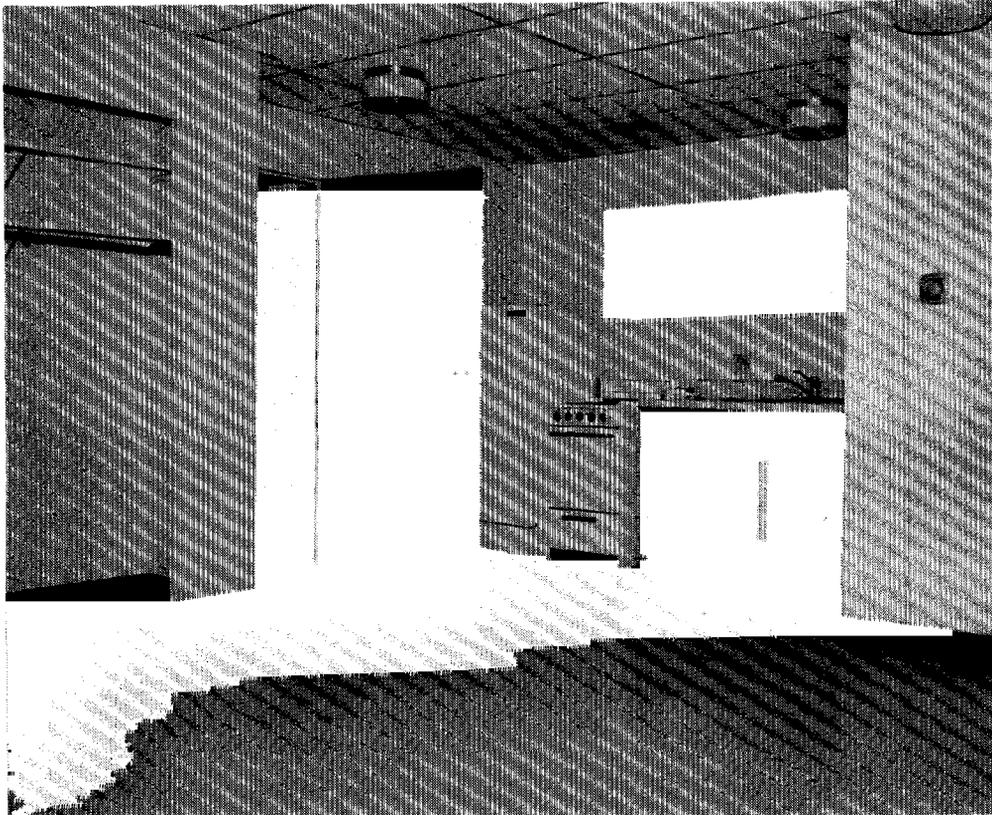
SUMMARY OF PUBLIC HOUSING VACANCIES
AT THE INDIANAPOLIS HOUSING AUTHORITY

OVERVIEW

The Indianapolis Housing Authority manages 14 public housing projects (10 family and 4 elderly/disabled) with 2,622 units. As of October 25, 1984, 480 units, or about 18 percent, were vacant. Project records showed that the vacancy rate was 23 percent in the 10 family projects and 11 percent in the 4 elderly projects. In contrast, the private market vacancy rate for rental projects in the Indianapolis area was 7.2 percent as of March 1984.

REASON FOR VACANCIES

According to authority records, 355 of the 480 vacant units were uninhabitable and in need of rehabilitation. The executive director said these units deteriorated because of vandalism and inadequate maintenance during the 1975-81 period. Another 80 vacant units are efficiency units (see photograph below) for the elderly for which there was little demand. Only 45 units were vacant because of normal turnover.



Vacant efficiency unit in an Indianapolis Housing Authority project

ACTIONS TAKEN/PLANNED TO REDUCE VACANCIES

From 1982 to 1984, the authority reduced its vacancy rate from about 25 to 18 percent. According to authority officials, the authority reduced vacancies by 166 units primarily by completing rehabilitation on several projects. The authority plans to rehabilitate another 234 units. HUD has already approved funds for 119 of these units. No specific plans have been developed as yet to deal with the remaining 121 uninhabitable units. However, the authority intends to modernize these units.

Regarding vacancies in the elderly units, the authority has increased its marketing efforts and is developing plans for converting efficiency units into one-bedroom units. The authority has also taken steps to improve maintenance so as to reduce the time that units remain vacant.

EFFECT OF REDUCING OPERATING SUBSIDIES

For fiscal year 1984, the authority was eligible to receive about \$3.7 million in operating subsidies from HUD. Despite its current high level of vacancies, the executive director stated that HUD's proposed reduction in operating subsidies for vacant units would have little or no effect on the PHA's operations. This is because the authority expects to reduce its vacancies to less than 5 percent by 1987.

SUMMARY OF PUBLIC HOUSING VACANCIESAT THE COLUMBUS HOUSING AUTHORITYOVERVIEW

The Columbus Metropolitan Housing Authority manages 26 public housing projects (15 family, 8 elderly, 2 scattered site, and 1 family/elderly) with 5,101 housing units. As of September 30, 1984, 730 units, or about 14 percent, were vacant. The vacancy rate has not varied significantly since 1982. In contrast, the private market vacancy rate for rental projects in the Columbus area was 4.5 percent as of December 1983.

REASONS FOR VACANCIES

According to PHA officials and records, 355, or almost half, of its vacancies were uninhabitable because of inadequate maintenance and project deterioration. For example, one project with 252 units that is completely vacant has had a history of high vacancies because of general disrepair and an obsolete heating system. In two other projects, 103 units were vacant also because of deterioration and poor physical condition.

Another reason cited by PHA officials for high vacancies was lack of demand for 297 elderly units. This lack of demand was attributed in part to competition from other federal housing programs, such as HUD's section 202/8 elderly housing rental assistance programs. The majority, or 233, of the 297 units were located in one project. This project had a 45-percent vacancy rate. According to a PHA official, there was a lack of applicants for these small, poorly designed efficiency units. This project was also located in an undesirable area.

Normal turnover accounted for 78 vacant units, or less than 2 percent of the authority's total units.

ACTIONS TAKEN/PLANNED TO REDUCE VACANCIES

The Columbus Housing Authority has planned a combination of modernization, demolition, and disposition actions in an effort to reduce its vacancy rate. For example, a \$4.4 million comprehensive modernization/demolition program is to be initiated on a 252-vacant-unit project. Under this program, 128 units will be modernized and 124 units will be demolished. Further, the authority has studied the potential for disposing

of as many as 130 units. At the time of our review, the authority was planning to submit for HUD approval 47 of these units for demolition or disposal.

Regarding vacant elderly units, the director of housing and management services told us that an extensive outreach effort has been made in an attempt to increase demand for elderly public housing units. These efforts included radio advertising, public speaking engagements and slide show presentations before elderly audiences, distributing posters, and holding open house at elderly units. The executive director told us that the PHA was considering other actions, such as converting efficiency units into one-bedroom units, but the perceived lack of modernization funding from HUD and other priorities had thus far precluded action.

EFFECT OF REDUCING OPERATING SUBSIDIES

In fiscal year 1984, the authority was eligible to receive about \$4.7 million in HUD operating subsidies. Authority officials said that HUD's proposed rule for reducing operating subsidies for vacant units would have a significantly negative effect on the authority. The director of finance estimated that the proposed rule would have reduced its 1985 operating subsidy by \$602,000, or about 13 percent. He added that a loss of this magnitude would force the authority to reduce staff and tenant services and use some of its operating reserves, which could put the authority back on HUD's list of financially troubled PHAs.

SUMMARY OF PUBLIC HOUSING VACANCIES
AT THE DECATUR HOUSING AUTHORITY

OVERVIEW

The Decatur Housing Authority manages seven public housing projects consisting of 898 housing units. As of September 30, 1984, 340 units, or 38 percent, were vacant. In contrast, the private market vacancy rate for rental projects in the Decatur area was 14 percent as of August 1984.

REASONS FOR VACANCIES

According to an authority official, 337 of the authority's 340 vacancies were attributable to the authority's ongoing modernization program. One project with 295 vacant units has been undergoing modernization since 1980. Another 42 units in the six other projects were being held vacant to accommodate the relocation of tenants displaced by the authority's modernization activities. The remaining three units had been taken out of service because of a water leakage problem.

ACTIONS TAKEN/PLANNED TO REDUCE VACANCIES

Although the authority's vacancy rate increased 3 percentage points from fiscal year 1982 to fiscal year 1984, the authority's executive director attributed this increase to its modernization program. However, he said that the authority expects to fully occupy the vacant units in its modernization program when modernization work is completed some time in 1987. In addition, the authority is currently involved in a law suit with the construction company concerning the leakage problem. The executive director hopes to settle this matter soon and return these units to occupancy.

EFFECT OF REDUCING OPERATING SUBSIDIES

In fiscal year 1984, the authority was eligible to receive \$0.5 million in HUD operating subsidies. The executive director said he was not concerned about HUD's proposal for reducing subsidies for vacant units; in fact, he favors the proposal. He said the authority will have less than a 3-percent vacancy rate within 2 years. In the meantime, all of the vacant units exceeding 3 percent are undergoing modernization and would not be subject to a significant reduction in operating subsidies under HUD's proposed rule.

SUMMARY OF PUBLIC HOUSING VACANCIESAT THE KANSAS CITY HOUSING AUTHORITYOVERVIEW

The Kansas City Housing Authority manages 13 public housing projects (7 for families, 4 for elderly/disabled, and 2 at scattered sites) with 2,350 units. As of September 30, 1984, 318 units, or 14 percent, were vacant. In contrast, the private market vacancy rate for rental projects in the Kansas City area was 6.3 percent as of May 1983.

REASONS FOR VACANCIES

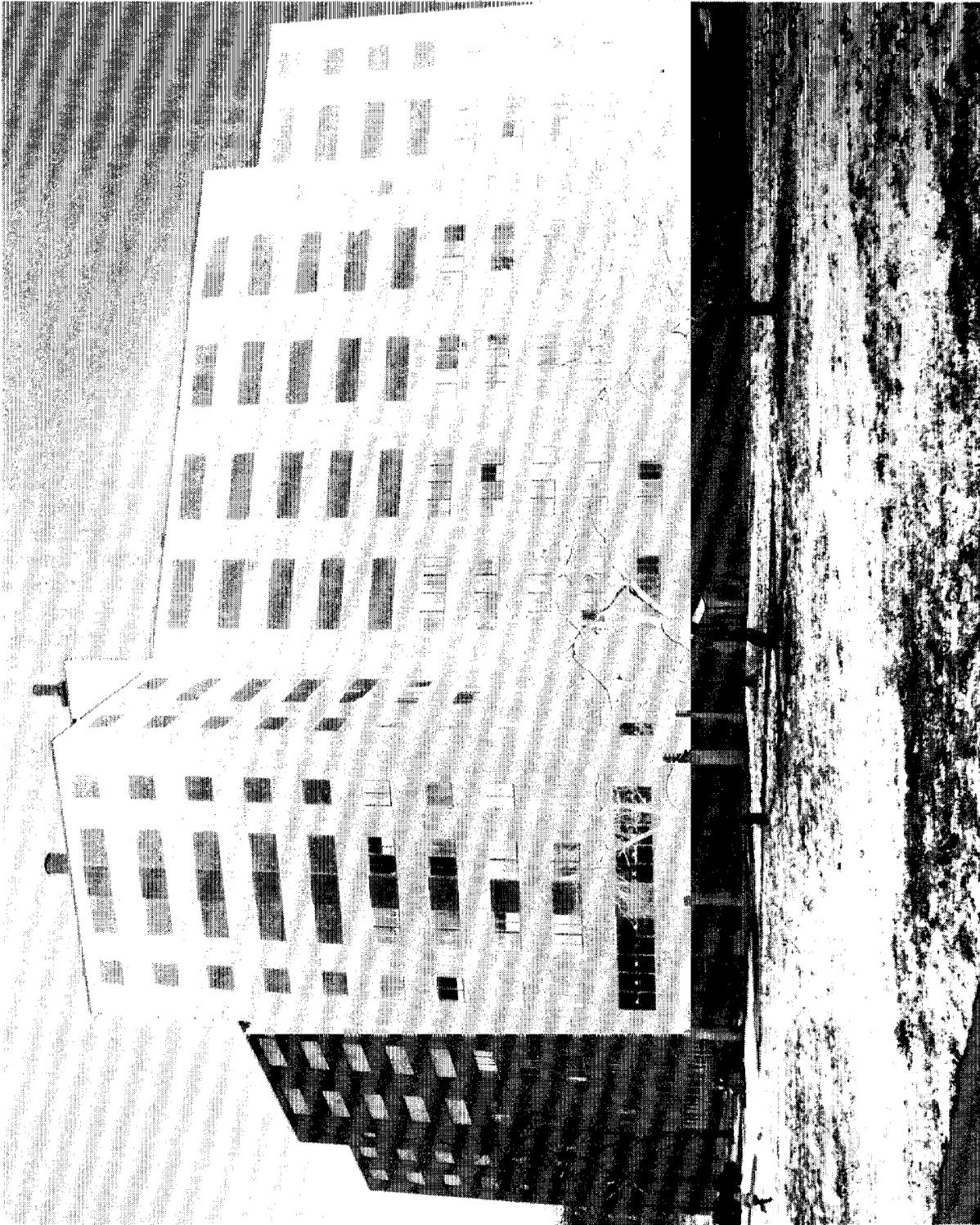
Authority officials told us that the basic cause for its high vacancies was the lack of demand for certain types of units. For example, the authority's director of housing programs told us that three high-rise buildings in one family project are closed off above the fifth floor, resulting in a total of 202 vacancies. The photograph on page 11 shows one of the three buildings. The authority's assistant executive director said that these units are not in demand because of a negative public stigma attached to the project and the surrounding area. In addition, high-rise family housing is an anomaly in the Kansas City area.

Fifty units were being held vacant to accommodate an ongoing modernization program in two projects. The remaining 66 vacancies were attributed to normal turnover.

ACTIONS TAKEN/PLANNED TO REDUCE VACANCIES

From 1982 to 1984, the authority reduced its vacancy rate from about 28 to about 14 percent. During these years, vacancies were reduced by 415 units--244 of these were removed from the inventory as a result of demolition and modernization. The remaining 171 units were rented as a result of improved maintenance practices, more aggressive marketing, and other management improvements.

The authority plans to demolish three, family high-rise buildings with 222 vacancies and to modernize 50 vacant units, thereby, further reducing vacancies by 272 units.



A Kansas City Housing Authority high-rise family project with boarded-up units

EFFECT OF REDUCING OPERATING SUBSIDIES

For fiscal year 1984, the authority received about \$2.9 million in HUD operating subsidies. Authority officials said that HUD's proposed vacancy rule will not have a significant impact on their operations. The authority's director of administration said that the ongoing and planned actions would reduce the authority's vacancy rate to a level where subsidy losses, if any, would be minimal.

SUMMARY OF PUBLIC HOUSING VACANCIESAT THE FORT WORTH HOUSING AUTHORITYOVERVIEW

The Fort Worth Housing Authority manages four public housing projects consisting of 1,303 units. As of December 1984, 102 units, or 8 percent, were vacant. In contrast, the private market vacancy rate for rental projects in the Fort Worth area was 15 percent as of September 1984.

REASONS FOR VACANCIES

According to authority records and officials, 78 units were vacant because of normal turnover. According to the authority's executive director, 59 of these units, which were located in one project, were in a rentable condition. But the project had a poor reputation and applicants were reluctant to move in. He said that several other factors contributed to the high vacancies in this project, including (1) inadequate project management, (2) inefficient maintenance, and (3) aggressive eviction practices. The authority's remaining vacant units, 24 of 102 vacancies, were undergoing modernization.

ACTIONS TAKEN/PLANNED TO REDUCE VACANCIES

Authority officials said that actions had been taken at its one problem project to replace the manager and improve maintenance. In addition, the authority was attempting to identify the reasons for this project's poor reputation and develop solutions.

The authority was completing work on the final 24 units of a 300-unit, \$4.6 million modernization project that began in 1981. The executive director said these units will be completed and reoccupied early in 1985.

The authority is currently negotiating the sale of 124 units to the State Department of Highways and Public Transportation to accommodate highway expansion. However, this action is not related to the authority's vacancy problem. The 124 units are located in a 493-unit project with a 12-percent vacancy rate. The authority expects to use the proceeds from the sale to build and/or purchase 150 replacement units.

EFFECT OF REDUCING OPERATING SUBSIDIES

In fiscal year 1984, the authority was eligible to receive \$0.9 million in HUD operating subsidies. Despite its recent vacancy rate of 8 percent, the authority's executive director said that the authority does not have a serious vacancy problem. He said he is confident that the authority will soon be within the allowable 3-percent vacancy rate and, thus, would not be greatly affected by HUD's proposal to reduce operating subsidies for vacant units. However, if the revised subsidy rules were in effect now, the executive director said he would be forced to reduce staff and expend operating reserves, thus jeopardizing the authority's overall financial condition.

SUMMARY OF PUBLIC HOUSING VACANCIES
AT THE BLOOMINGTON HOUSING AUTHORITY

OVERVIEW

The Bloomington Housing Authority manages five public housing projects consisting of 630 units. As of September 30, 1984, it reported 30 vacant units--a 4.8-percent vacancy rate. This rate is the same as the private market vacancy rate for rental projects in Bloomington as of October 1984.

REASONS FOR VACANCIES

The authority's assistant executive director said that the 20 vacancies located in its family projects were vacant because of normal turnover. Normally, family units becoming vacant rent quickly because of demand. However, at one 200-unit family project, 18 units were vacant because of an unusually large exodus of tenants during the summer. The assistant executive director could not provide reasons for the large exodus; however, vacancies in this project were reduced to four units as of December 31, 1984.

Elderly units, on the other hand, have not been renting quickly according to authority officials. For example, while only 10 elderly units were vacant as of September 30, 1984, 4 units had been vacant since 1981. According to the authority's assistant executive director, the lack of demand for these elderly units was due, in part, to a recent increase in the supply of elderly units built under HUD's section 8 rental housing assistance program. In the late 1970's, private developers used the authority's waiting list of 600 elderly persons to justify the need for section 8 units. However, the assistant executive director said that once these units became available for occupancy, the authority not only lost 24 tenants, but its waiting list was also depleted. According to this official, elderly persons prefer section 8 units because they offer other amenities and more one-bedroom units than are provided in the authority's projects.

ACTIONS TAKEN/PLANNED TO REDUCE VACANCIES

Because family projects have not posed turnover problems in the past, actions taken to reduce vacancies have been targeted toward elderly units. According to the authority's assistant executive director, the authority in the past had implemented an

aggressive advertising program to inform the elderly community of available units. This program included newspaper and radio advertisements and flyers to churches and social organizations. The authority also lowered its admission age from 65 to 55; however, these efforts attracted few new tenants.

EFFECT OF REDUCING OPERATING SUBSIDIES

In fiscal year 1984, the authority was eligible to receive \$0.4 million in HUD operating subsidies. The authority's assistant executive director said she was not concerned about HUD's proposal to reduce operating subsidies for vacant units. She was confident that the authority's vacancy rate will be within the allowable 3-percent rate if and when HUD's proposed rule is implemented. As of December 31, 1984, the authority reported 16 vacant units, thus lowering its vacancy rate to less than 3 percent.

SCOPE AND METHODOLOGY

On October 18, 1984, the Subcommittee on Housing and Urban Affairs, Senate Committee on Banking, Housing and Urban Affairs told us of its interest in the high vacancy rates in the public housing program. At that time, we agreed to look into

- the extent of the vacancy problem nation-wide,
- what selected PHAs believed were the reasons for vacancies and what they were doing about the vacancy problem, and
- the rationale for and the anticipated impact at selected PHAs of HUD's May 1984 proposed regulations for reducing operating subsidies for vacant units.

On February 20, 1985, we briefed the Subcommittee staff on the results of our review. At that time, we were requested to provide the Subcommittee with this report.

To determine the extent of vacancies in public housing projects nation-wide, we used data from HUD's Field Office Reporting Management System. At the PHAs we visited, we found several errors regarding the vacancies reported by HUD and actual PHA vacancies. We also followed up on the vacancy data reported by HUD for some of the PHAs reportedly having the largest number of vacancies. For one of these PHAs (South Bend, Indiana), HUD data had shown that vacancies had increased from 2,371 units on September 30, 1983, to 6,802 units on September 30, 1984. According to a South Bend PHA official, however, vacancies actually totaled 209 units on September 30, 1983, and 204 units on September 30, 1984. We corrected HUD's data to account for this and other errors we found.

In addition, we noted that 200 PHAs that had not reported vacancy data to HUD in 1983 did so in 1984. According to a HUD official, about 5 percent of the PHAs have yet to report their September 30, 1984, vacancies to HUD. We also understand that HUD's vacancy data on these PHAs are not updated until a new vacancy report is received. Therefore, HUD's vacancy data on these PHAs still reflect vacancies for previous reporting periods.

According to a HUD official, HUD recognizes that problems still exist in collecting and verifying vacancy data. This official attributed these problems to the newness of the vacancy reporting system, which was started in 1982. While problems exist with HUD's data, we used them because they were the only central sources of information readily available. However, we believe caution should be used in relying on these data.

We visited seven PHAs to determine (1) what PHAs believed were the reasons for vacancies, (2) the actions they had or were planning to take to reduce vacancies, and (3) the anticipated impact of HUD's May 1984 proposed rule. These PHAs were located in Bloomington and Decatur, Illinois; Columbus, Ohio; Dallas and Fort Worth, Texas; Indianapolis, Indiana; and Kansas City, Missouri. The Decatur and Bloomington PHAs were included in our initial survey. The other five PHAs were selected judgmentally on the basis of such factors as vacancy rates; the presence of modernization, demolition, and disposition activities; and geographic distribution. At the PHAs visited, we interviewed PHA officials, reviewed PHA records, and visited selected projects.

To gain further insight into the reasons for vacancies, we reviewed HUD Office of Inspector General audit reports issued between October 1983 and March 1984 on 16 financially troubled PHAs. Those reports included the Inspector General's conclusions regarding reasons for high vacancies. We did not verify the adequacy of the information supporting these conclusions.

In addition, we reviewed available HUD data on the reasons for vacancies in PHA projects with vacancy rates of 6 percent or more. These data came from a new HUD reporting requirement started in September 1984. The first reports on 2,271 projects with vacancies exceeding 6 percent were due to HUD by December 31, 1984. As of February 5, 1985, HUD had received reports on 942 projects; however, complete data were provided on only 471 projects. These limited data are not representative of the total universe but were included in our assessment to provide additional insight on the reasons for vacancies. (See p. 6.)

To determine HUD's rationale for its May 1984 proposal for reducing PHA operating subsidies for vacant units, we reviewed HUD records on its proposed regulation and discussed this matter with HUD officials. We also reviewed public comments HUD received on its proposed regulation to further assess the potential impact of this regulation.

Our review was conducted between November 1984 and February 1985 and included data on PHA activities primarily between fiscal years 1982 and 1984.

As you requested, we did not obtain written agency comments on this report. However, we did discuss its contents with HUD program officials, and their views were included in this report. Except as noted above, we made our review in accordance with generally accepted government auditing standards.

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