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A GUIDE TO THE "TURNKEY" METHOD
OF PUBLIC HOUSING CONSTRUCTION



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Housing Assistance Administration
Washington, D.C. 20410

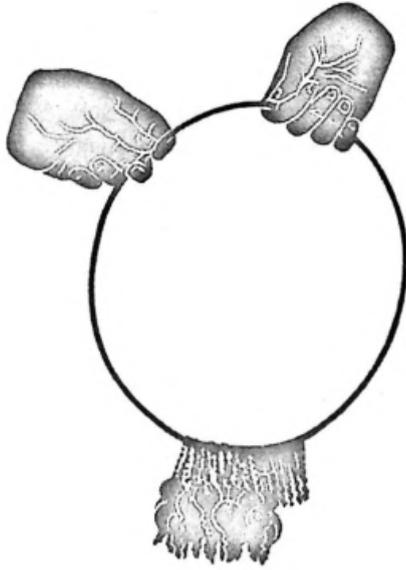
DEPARTMENT OF HOUSING
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We owe the quality of American housing to the initiative and vitality of our private housing industry. It has provided the homes which have made most of our citizens the best housed people in the world. Our Federal housing programs are designed to work in support of private effort, and to meet the critical needs which can only be met through government action.

Lyndon B. Johnson



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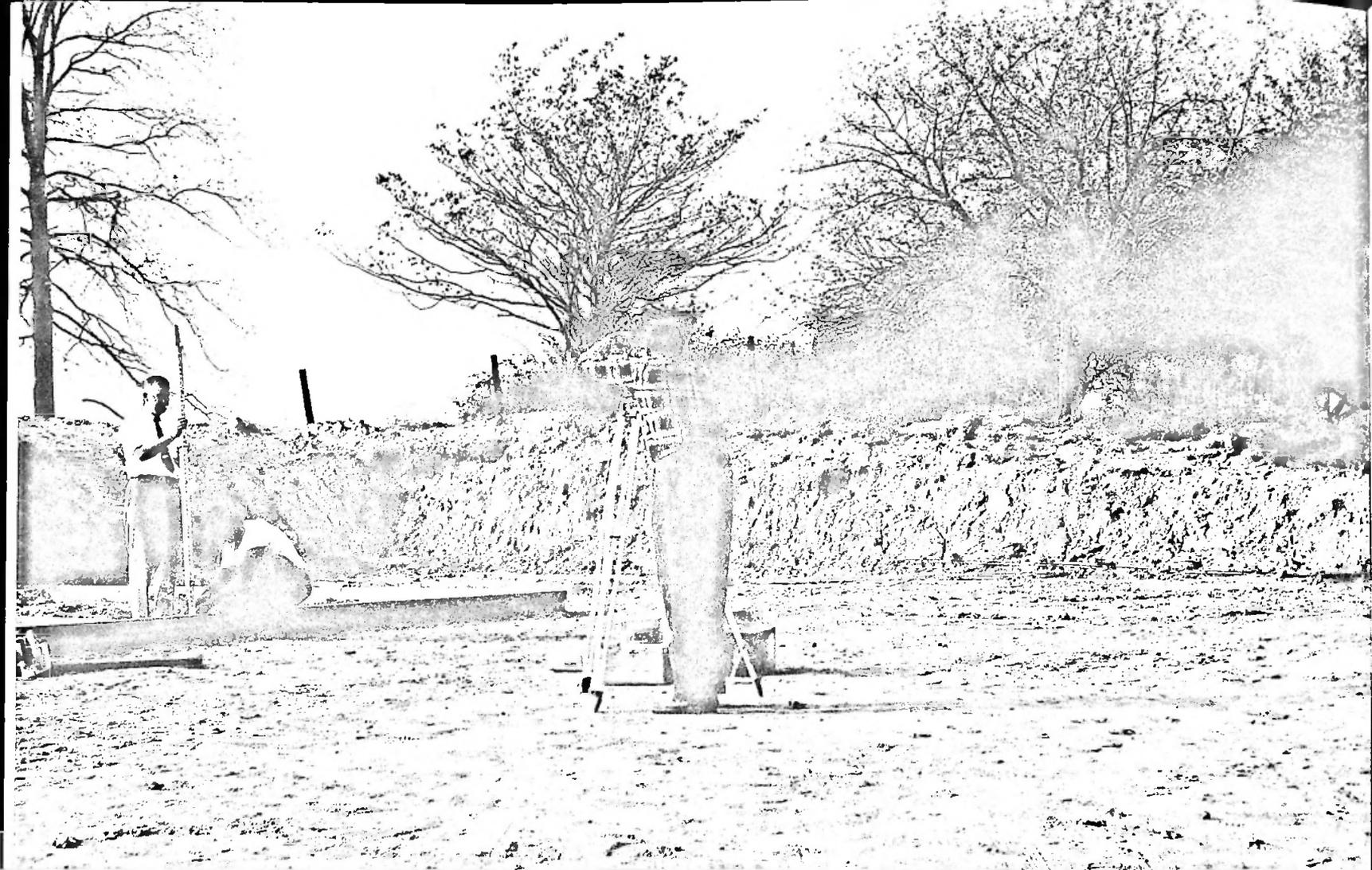


U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Robert C. Weaver, Secretary
Housing Assistance Administration
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In his State of the Union Message of January 1967, President Johnson urged the Nation to "call upon the genius of private industry" to solve the problems of the cities.

One of the most critical of these problems is the scarcity of decent housing at low rents. Neither public nor private financing mechanisms have been able to increase the supply of such housing fast enough to serve more than a fraction of the millions of low-income Americans with acute housing needs.

Under the new method, private industry can now join with local and Federal governments to get the necessary low-rent housing built—and built faster and at much lower cost. At the same time, the new method is more attractive to members of the private building industry because it enables them to use construction and financing techniques and procedures with which they are familiar.

The method is called "turnkey"—a term familiar to those engaged in residential building. It means that the prospective purchaser of a piece of residential property contracts to buy it at the point when all he needs to do is turn the door key and move himself or his tenants in. It

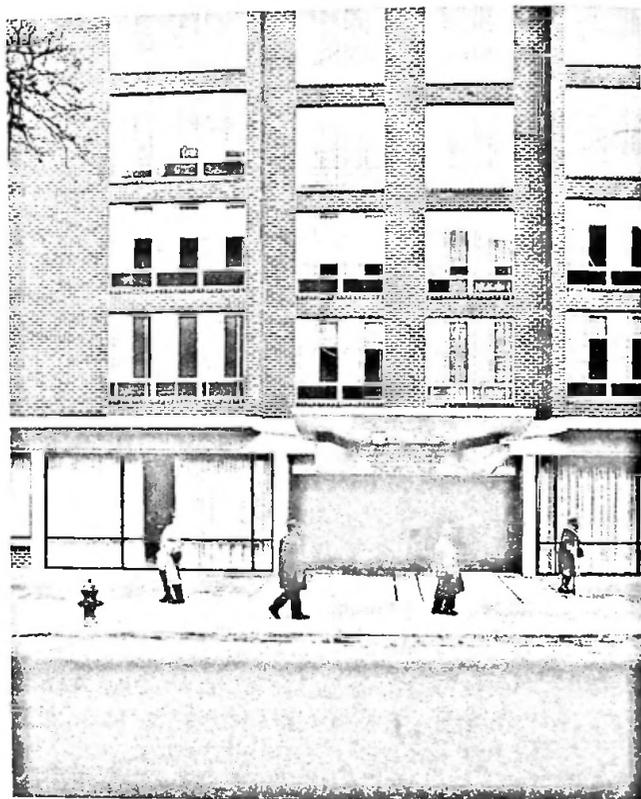
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reverses the traditional public housing construction system under which a local housing authority (LHA) buys a site, develops plans and specifications, and selects a contractor to do the work from among those who bid on the job.

The application of "turnkey" to public housing construction was developed by the Department of Housing and Urban Development in conjunction with the private residential building industry. It utilizes the statutory authority of the U.S. Housing Act of 1937, as amended.

This is the way "turnkey" works:

A developer who has an appropriate site, or structures in need of rehabilitation, makes a proposal to the LHA for the area to build or rehabilitate some housing in accordance with his own plans and specifications. If the proposal is acceptable, the parties enter into a Letter of Intent followed by a contract of sale under which the LHA agrees to purchase the completed housing. The Letter of Intent and contract of sale are backed up by the financial commitment by the Department of Housing and Urban Development to the LHA and to the developer. This commitment as-





The first contract for a "turnkey" development—the 343-unit Claridge Towers apartment building in Washington, D.C.—was approved in April 1966. Designed specifically for the elderly, the structure was occupied in January 1967.

In addition to Washington's recently completed Claridge Towers, three other "turnkey" apartment buildings were started in 1966—one containing 28 dwelling units in Miami, Florida; one of 102 units in Roseville, Michigan; and one of 192 units in Flint, Michigan. Besides these, three "turnkey" projects are under construction on Indian reservations in Minnesota, each of 15 dwelling units—one on Leech Lake, one on Red Lake, and one on White Earth.

sure the availability of the purchase money upon completion and assures the developer (or his financing institution) that if the LHA should fail to carry out its contract, HUD will take over the rights and obligations of the LHA and carry out its contract. With this LHA-HUD commitment, the developer obtains his financing through normal private lending channels. Construction and inspection standards and practices under "turnkey" conform in general to private commercial practices.

The method is being applied to housing that includes highrise developments with special facilities for the elderly, new or rehabilitated row houses, and detached prefabricated homes. Construction techniques are being tailored to fit local conditions and needs and the developer's usual practices. Large-scale rehabilitators, for example, are developing mass rehabilitation techniques which are being used in large cities. Other rehabilitation techniques are being applied to smaller groups of houses in different kinds of communities by different types of builders.

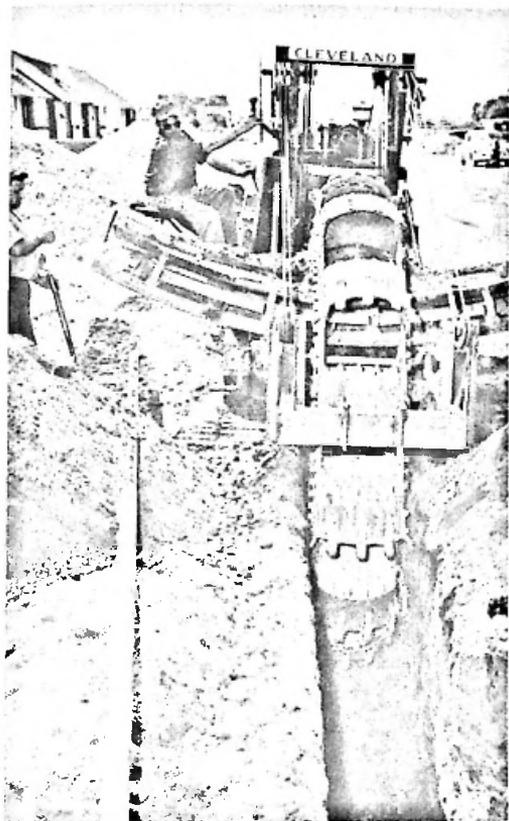
Initial experience has shown numerous advantages of "turnkey" over traditional government

construction. In addition, this method offers new business opportunities to members of local building and financing enterprises that have been engaged only in private construction. Its advantages, enjoyed by both the community at large and the low-income population, include:

- Substantial cost savings (up to 15 percent).
- Substantial time savings in getting needed low-rent housing built (as much as two or three years).
- Better possibilities for developing projects and neighborhoods without too high concentrations of very poor families.
- Extreme flexibility in design type, construction techniques, and types of entrepreneurs taking part.

The flexibility of "turnkey" makes it especially appropriate for builders who want to engage in rehabilitation. Depending upon the structural type of the housing in rundown condition, homebuilders, remodelers, and contractors can all find opportunities.

Outlined below are the steps the developer should take and the key governmental processes required to produce a "turnkey" job:



1 Developer's Initial Point of Contact

An LHA must exist wherever a public housing "turnkey" job is to be undertaken. LHA's are independent public bodies, established in accordance with State and local law to provide housing for low-income people with HUD's financial assistance. By early 1967, more than 2,000 localities and Indian tribes had organized LHA's serving nearly 3,000 communities, which include most cities with populations over 50,000. HUD will advise any developer whether his site falls within an area served by an LHA.

To determine whether a particular LHA contemplates a building program, the developer should inquire at the LHA office or at a HUD Regional or Washington, D.C., office; or, if the developer prefers, he may ask HUD for a current copy of *Public Housing Directory of Applications and Reservations* (Report S-10, published monthly).

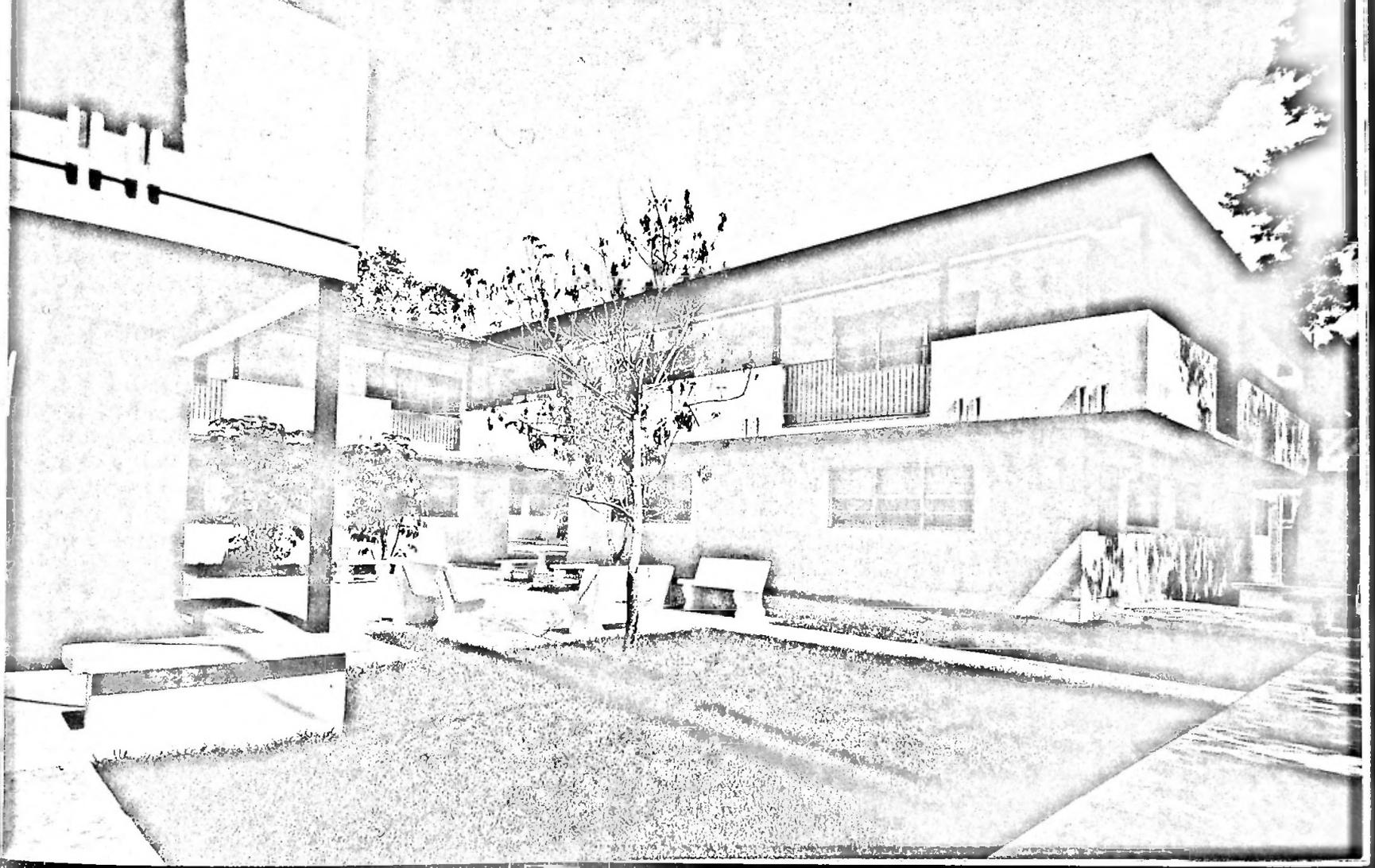
If the developer's locality has no LHA, he should consult with his local officials about setting one up. The process is simple. HUD Regional officials will provide technical guidance.

HUD is encouraging LHA's to make known locally all information regarding contemplated building programs so that any potential local "turnkey" developers will know of them.

A developer with a site in a community served by an LHA which has no active building program should not hesitate to make a housing proposal. If the need for more low-rent housing in the community can be demonstrated, his proposal may induce the LHA to undertake a program.

2 Developer's Preliminary Discussions with the LHA

The next step is for the developer to arrange for a preliminary discussion or discussions with the LHA regarding his site and the type of housing





and construction and related community facilities, if any, he plans to propose.

General Requirements. During these discussions the LHA will inform the developer of certain requirements for a public housing "turnkey" job, such as the payment of prevailing wages as determined by the Secretary of Labor, equal opportunity in employment, and room cost limitations. At the developer's request, the LHA will also provide him with guidelines as to room sizes, special facilities needed by the elderly and handicapped, and other information that HUD or the LHA believes will assist him in producing well-designed, well-constructed dwellings suited to the living requirements of low-income people.

3 Developer's Preliminary Proposal

When the developer and the LHA reach the point of giving serious consideration to the site and housing plan, the developer submits a formal preliminary proposal. This consists of a schematic site plan, the number and size of dwellings and related facilities proposed (either outline specifications or the address of comparable construc-

tion he has handled), and a proposed completed sales price.

4 Development Program

When agreement has been reached on the foregoing factors, the LHA presents them in the form of a Development Program to HUD for approval.

The Development Program must include a description of the proposed improvements. In addition to the housing units, the improvements can include space for community activities, and, under certain circumstances, shops and stores needed by the tenants. The Development Program must also include evidence that the locality has approved the site, where such approval is required by law.

If HUD approves the Development Program, it enters into a financial assistance contract—known as an annual contributions contract (ACC)—with the LHA to cover the latter's full purchase price of the finished job. The ACC is also the Federal Government's financing mechanism (subsidy) that enables the rents to be kept within the means of low-income families.



5 Developer's Final Proposal

When the financial contract with HUD is signed, the LHA issues the developer a Letter of Intent to enter into a sales contract. The letter sets forth the proposed purchase price, procedures for its adjustment, and a schedule for completion of working drawings and specifications, if any. The developer may use the Letter of Intent in negotiating with private lenders for his financing.

Copies of a sample Letter of Intent and other documents mentioned herein are available from HUD upon request. The HUD commitment to go through with the transaction should the LHA fail to do so starts at this point.

Within the time schedule specified, the developer completes any required working drawings and specifications. These must meet all State and local laws, codes, or ordinances and regulations, and other legal requirements, unless modified by special waiver. The working drawings and speci-

Architect's rendering of a portion of the "turnkey" development in Flint, Michigan.

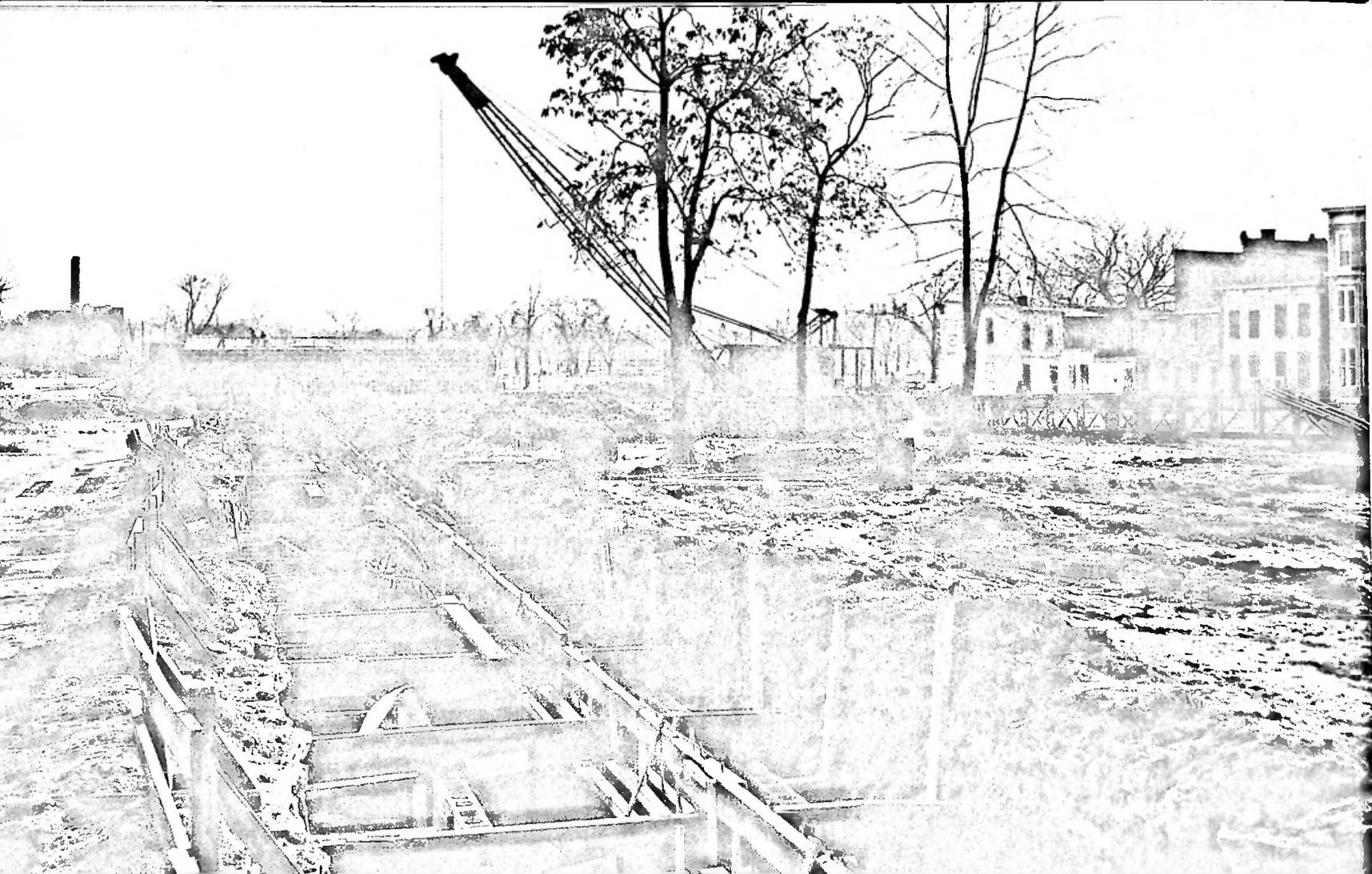
fications also must set forth in detail the work to be done and must be prepared under the supervision of a registered architect.

6 Confirming Final Price

The developer's proposed price is now confirmed or opened to renegotiation on the basis of two independent appraisals of the final housing plan.

The purchase price that the LHA may accept is the one specified in the Letter of Intent or the midpoint of the two appraisals, whichever is lower.

If the midpoint is less than 95 percent of the specified price, and a price satisfactory to the parties and HUD can not be negotiated, the developer and the LHA are not obligated to proceed further. If the project does not proceed, the developer, at his option, may sell the site and plans to the LHA at the price previously agreed upon for the plans, and at the developer's cost for the land or the midpoint of the two land appraisals, whichever is lower.



7 Sales Contract

When the sales price has been negotiated to the satisfaction of both parties, the LHA enters into a Contract of Sale with the developer. The contract commits the LHA to buy the property upon satisfactory completion of the improvements. A summary of the contract provisions follows:

- **Standards of construction.** Improvements must be built to the agreed-to working drawings and specifications, conditions, standards or workmanship and materials, etc. These standards may be expressed or supplemented by reference to another building in the community agreed upon by the LHA and developer jointly. If the reference technique for expressing standards is followed, it is incorporated into the Contract of Sale.
- **Guarantees.** The contract includes the conventional one-year clause for remedying defects, backed up by a surety bond, escrow of cash or

negotiable securities, or an irrevocable letter of credit amounting to 2½ percent of the purchase price.

- **Inspections.** An independent architect with private development experience, selected and hired by the LHA, inspects the job periodically. The frequency and type of inspection are in accord with prudent private practice. Employees of HUD and the LHA may also make inspections, but only for the purpose of informing HUD or the LHA on conformance to the working drawings, specifications, and agreed-upon standards.

- **Completion time.** A time for completion is specified, but automatic extension is provided for delays due to causes beyond the developer's control and for delays authorized by the LHA.

- **Change orders.** The contract specifies that HUD will approve only change orders increasing or decreasing the purchase price by a substantial amount.

8 Purchase and Settlement

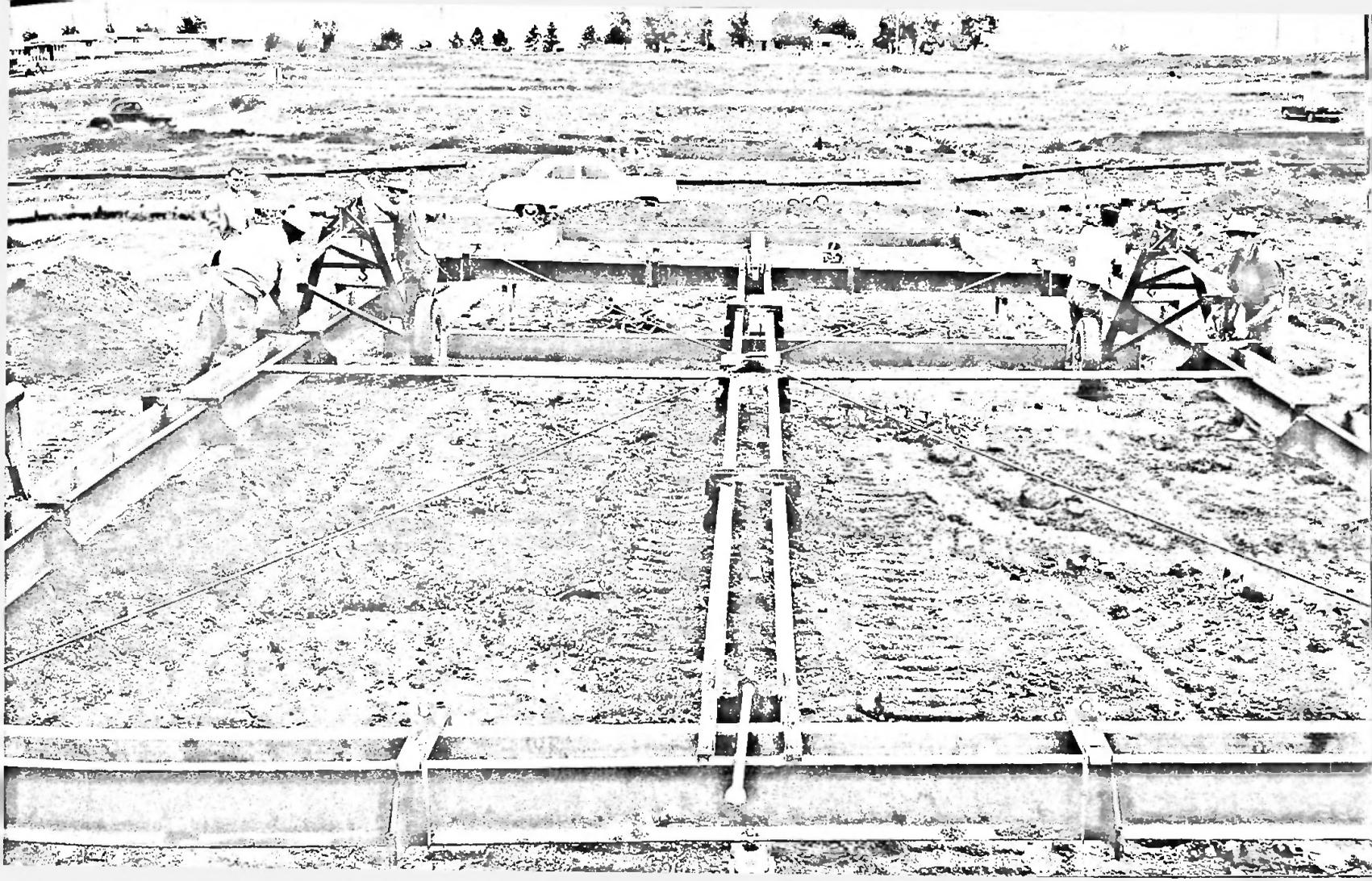
The Contract of Sale provides for full settlement within the shortest possible time after completion. Completion is based on any required approvals by local officials of the structure for occupancy and certification by the LHA's inspecting architect that the property is in good and tenable condition. The architect also enumerates any uncompleted work and provides an estimate of the cost of completion. Pending completion, the LHA may withhold this estimated amount from the purchase price.

9 Financial Assurance to Developer

If, for any reason, the LHA fails to carry out

the terms of its Letter of Intent or sales contract with the developer, HUD takes over the project. This assurance to the developer and the lender is incorporated in the original annual contributions contract between HUD and the LHA. (A similar assurance under the conventional direct contract method of financing and building public housing has meant that for many years LHA bonds have stood among the most highly rated municipal bonds on the market and have sold at the lowest interest rates.)

The developer who is dealing with a lending institution unfamiliar with public housing "turn-key" jobs may desire tangible evidence that the Federal Government stands back of its contract with the LHA. In such instances, the developer requests and obtains from HUD a written legal opinion stating this fact to be true.

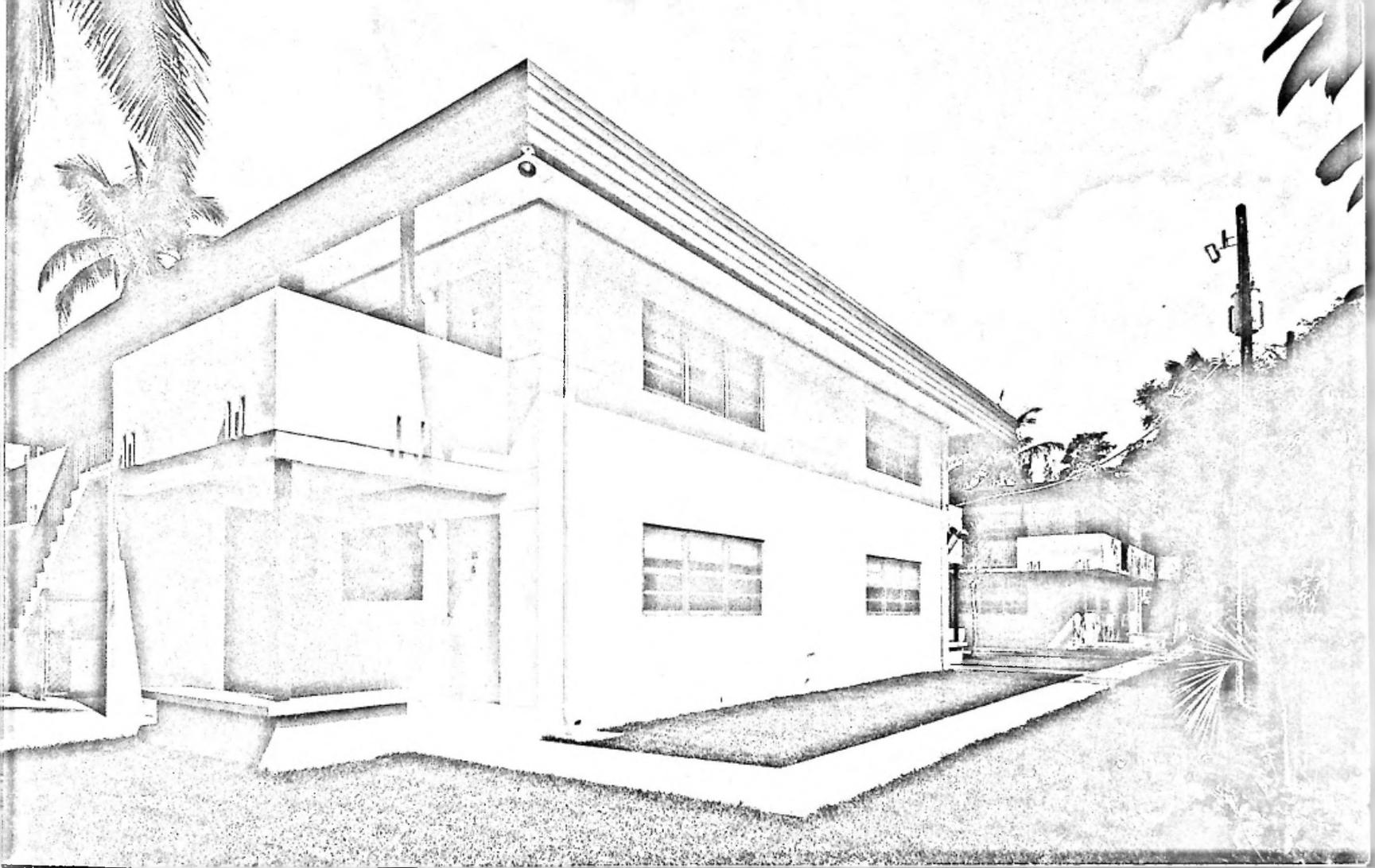


Mixed-Income Developments

HUD is encouraging housing developments for occupancy by families belonging to different income groups. This is so that the low-income families eligible for public housing can learn how to improve their economic and social positions through neighborly association with financially more successful families. Therefore, HUD will assist developers with sites considered to be too large for public housing alone in the planning of combined public-private developments. Under such arrangements, the basic housing plan and site should be attractive to tenants of higher income.

HUD's financial participation in such projects can help to protect the financial interests of the developer who plans to retain ownership of the completed project. Operating through LHA's, HUD can provide funds, in most instances, to buy or to lease units or sections of privately owned developments, thus shoring up the developer-owner's investment.





REGIONAL OFFICES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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