Claire Knowlton
CONSULTING

How Sector Funding Dynamics Led to the Closure of the Skid Row Housing Trust

Presented by: Claire Knowlton

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The Skid Row Housing Trust Background

- Operating in Los Angeles, CA
- Early adopter of LIHTC, one of first in the nation to adopt PSH
- Rehabilitated 21 early 20th century hotels into SROs between 1989-2004
- Developed 8 new buildings, placed into operation between 2008-2019
- Owned and operated nearly 2,000 units of PSH across 29 buildings

The Closure

- Announced closure early in 2023
- Almost 25% vacancy rate
- Placed under court appointed receivership in April 2023
- First receiver failed, new receiver appointed June 2023
- Higher performing buildings transferred to other nonprofit operators
- Failing buildings sold to for-profit developer in Aug 2024, with all debt stripped but all affordability covenants intact
- The Trust filed for Chapter 11 (reorganization) bankruptcy in Sept 2024, and Chapter 7 (liquidation) in Jan 2025
- Cost of receivership estimated at $40M, paid by City of Los Angeles

The Research

- Guiding questions: How did systemic funding and financing dynamics play a role in the Trust's closure? What lessons can we learn to inform policy and prevent future closures moving forward?
- Building-level analysis of financial performance from 2008-2022, primarily using trial balance information from the Trust's accounting system (Yardi)
- Funded by Conrad N. Hilton Foundation

The Findings: Old Buildings Lose Money

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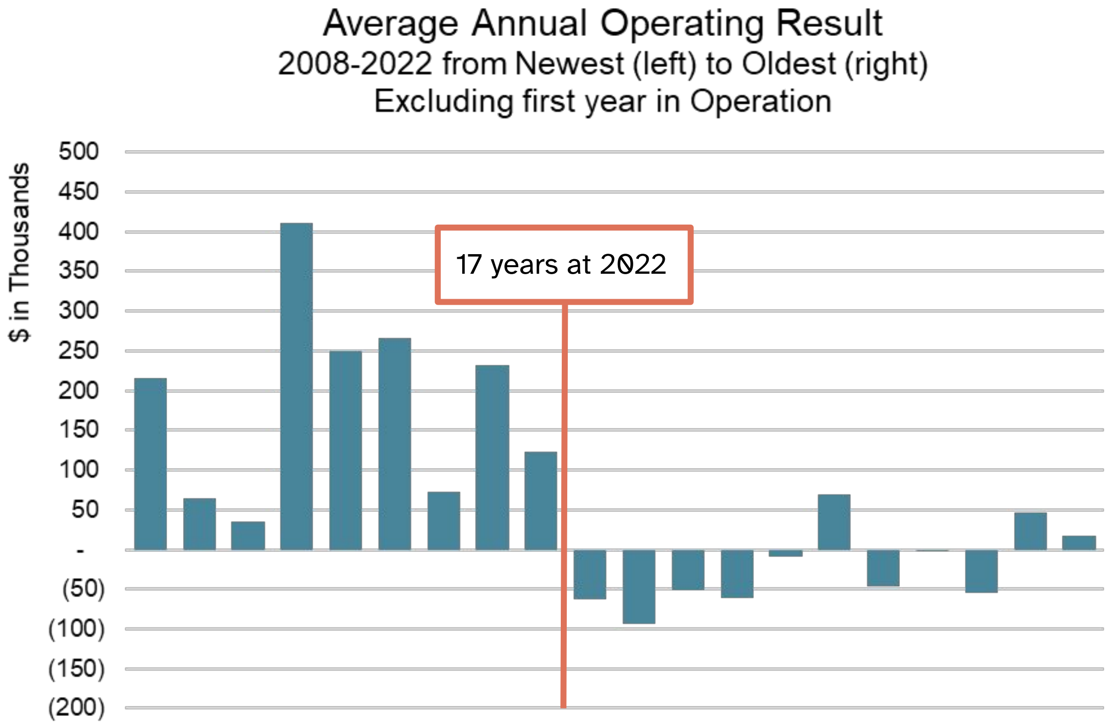
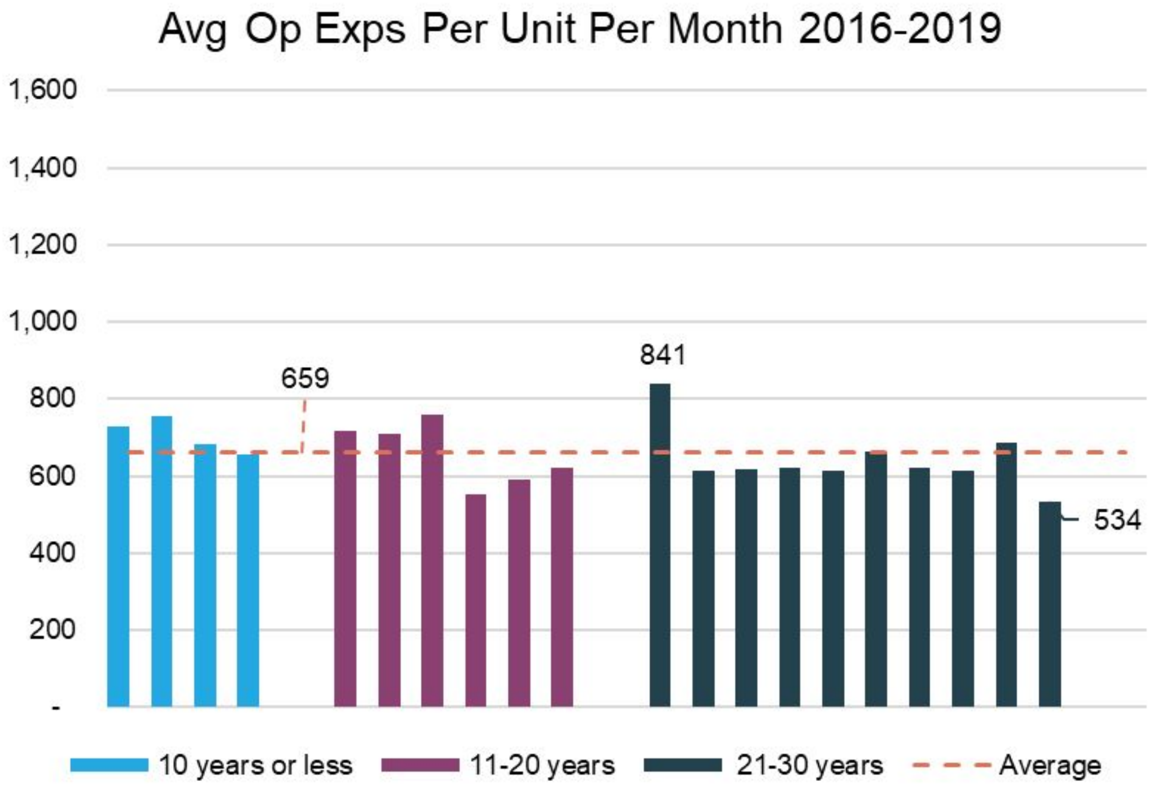
CONSULTING
www.claireconsulting.org

- Newer buildings are more likely to have averaged operating surpluses than older buildings
- This is driven by difference in income rather than differences in expenses
- Operating income excludes debt forgiveness
- Operating expenses exclude interest, amortization, depreciation, and gains/losses



The Findings: Expenses are Narrow

- Building operating expenses are similar, regardless of building age, unit type, or subsidy type
- The building with the highest average operating expenses was 57% higher than the lowest
- 18 of the 20 buildings analyzed deviate from the mean by less than $100 PUPM
- Expected to see higher spending on maintenance, repairs for older buildings, but that was not the case
- Average from 2016-2019 to avoid pandemic influence, post CES launch



The Findings: Rents Vary Widely

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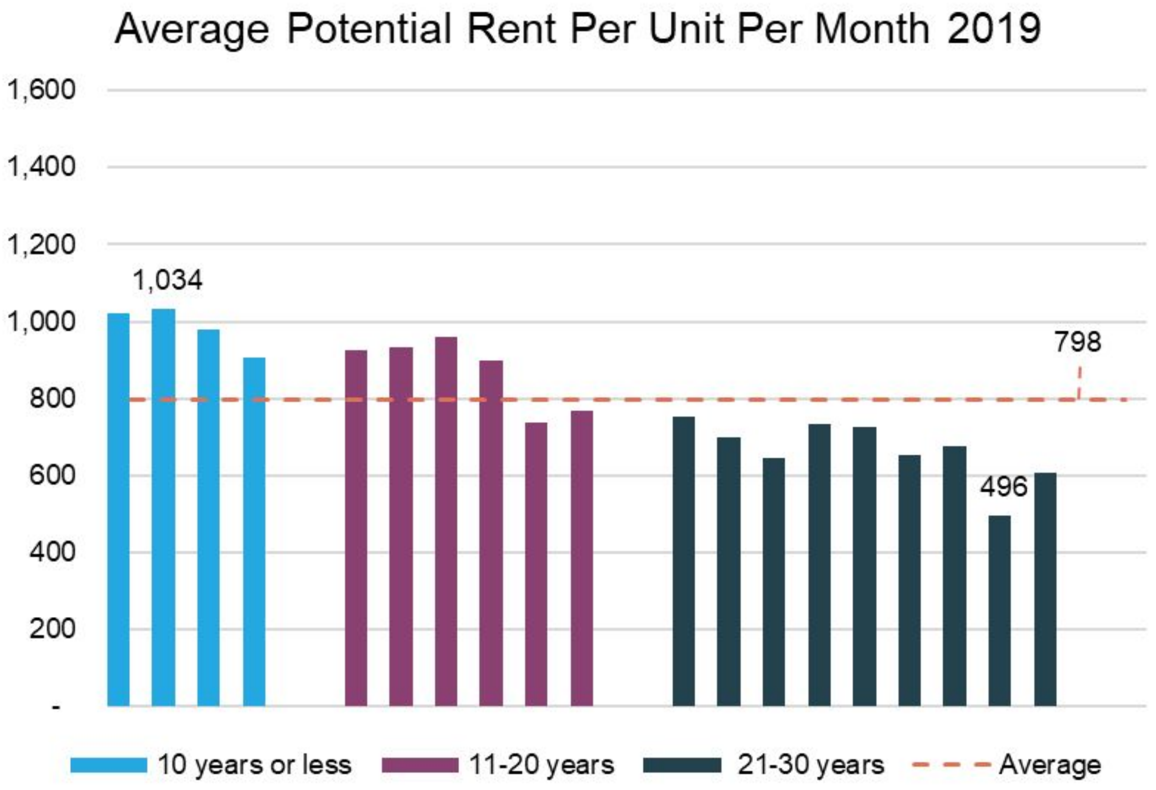
- Building operating expenses are similar, regardless of building age, unit type, or subsidy type
- The building with the highest rent was 108% higher than the lowest
- Building age was a better predictor of low rent rates than was unit type or subsidy type, as low starting subsidies became 'locked in' over time
- Buildings include PBV (highest payor), CoC/Shelter Plus Care (middle), and ModRehab (lowest payor)



The Findings: Rents Below Fair Market

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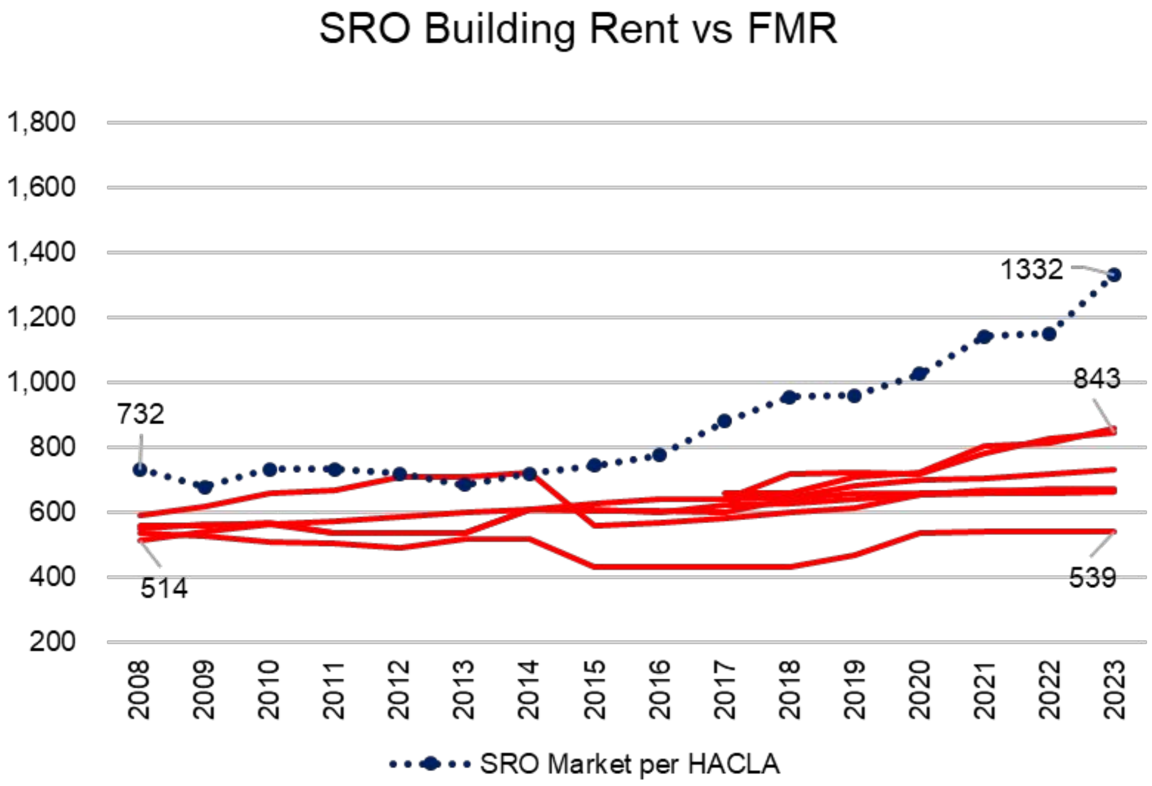
- Rarely do any SRO buildings have rent rates at or close to the FMR
- Each red line represents one of the seven SRO-only buildings, and the PUPM allowable rent rate for that building each year
- The dark blue line represents the published SRO fair market rates per the public housing authority (HACLA)



The Findings: Rents Below Fair Market

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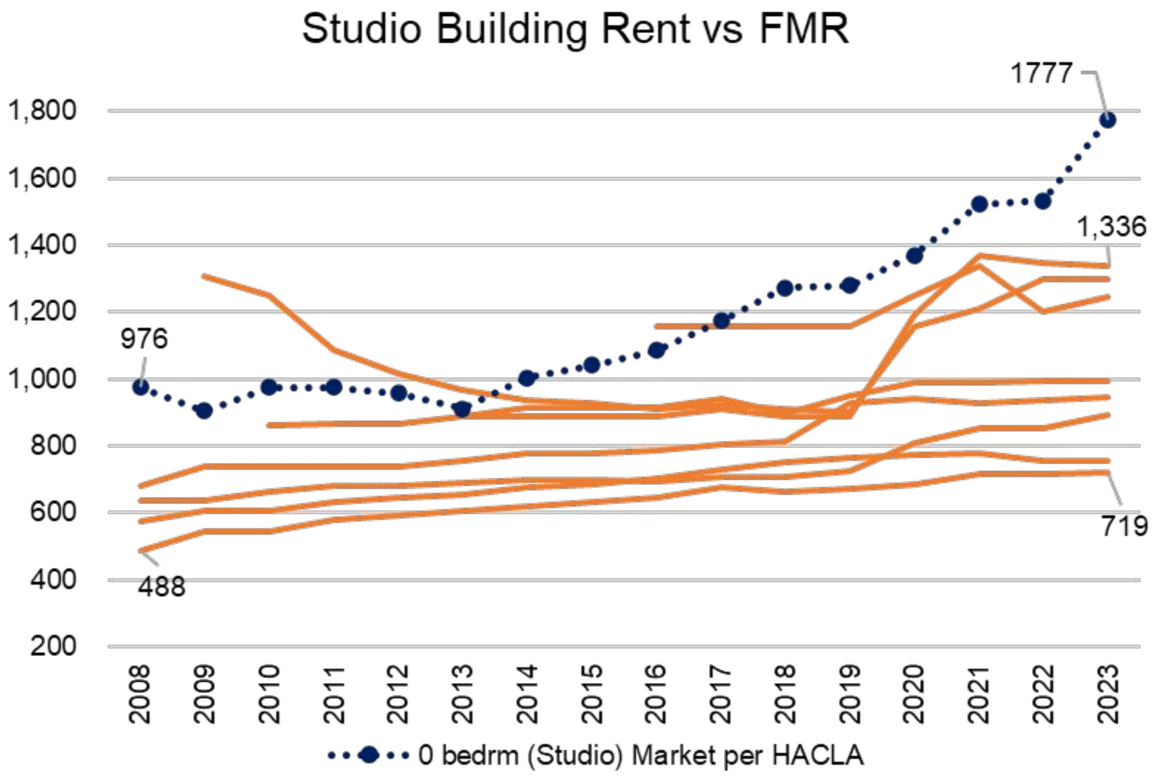
- Rarely do any studio buildings have rent rates at or close to the FMR
- Each orange line represents one of the eight studio-only buildings, and the PUPM allowable rent rate for that building each year
- The dark blue line represents the published SRO fair market rates per the public housing authority (HACLA)



$46M

The difference between the approved rent and FMR for about half of the Trust’s portfolio: the 7 SRO-only and 8 Studio-only buildings, from 2008-2022

No Mechanism to Reset Rents

- One successful RAD conversion, but others incomplete due to lack of capital to make repairs
- Inflation factors for increasing rents have not kept pace with rising wages, security, and insurance expenses
- Current approach to setting rents is divorced from the expense reality of serving high needs populations

All Risk, No Reward for General Partner

- From a financial standpoint, the "portfolio" is an illusion. Surpluses at one building cannot be used to support another building. The general partner ends up needing to cover individual building deficits from their own pocket. Financial statement presentation can obscure this reality
- It is not enough for rents to cover operating expenses - depreciation needs to be included in order to maintain safe, dignified housing

Claire Knowlton
CONSULTING

A report on the financial dynamics that contributed to the closure of the Skid Row Housing Trust will be published May 2025, available to the sector for free.

Email ck@claireconsulting.org to be notified of report release and related events.

Thank you!