

Preserving an Aging Permanent Supportive Housing Portfolio in Los Angeles: Assessing Risk and Opportunities

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Background and Purpose of this Research

Since 2015, Enterprise Southern California has been leading a regional initiative to preserve a cohort of aging, at-risk permanent supportive housing (PSH) sites across Los Angeles County. We do so through research, convening and educating practitioners and policymakers, technical assistance and training, and public policy advocacy. This research project serves to assess and characterize the aging PSH stock across Los Angeles, to ensure policymakers and housing officials have a clear understanding of PSH risk profiles and that solutions are calibrated to those risk characteristics. This brief builds upon earlier risk assessments, dating back to [2017](#) and issued most recently in [2022](#).

Methodology

During the spring and summer of 2025, Enterprise partnered directly with PSH owners, through interviews and surveys, to collect and analyze project-level data. Most often, the research simply updated data from our last set of findings in 2022, while in other cases we gathered information on at-risk projects for the first time.¹

The Importance and Uniqueness of Preserving Permanent Supportive Housing

Ensuring the long-term sustainability of a growing universe of PSH assets offers multiple benefits for policymakers, owners, and residents, including:

- Protecting and extending housing affordability for another generation of use (e.g., 30-55 years)
- Upgrading major building systems to improve energy-efficiency, promote compliance with state and federal accessibility laws, and address seismic risk
- Redesigning dated physical layouts to be more compatible for on-site supportive services delivery, community building, and building management
- Improving financial health and increasing operating income through loan restructuring, recapitalization, and adding or modifying rental subsidies
- Improving the quality of life and ensuring housing stability for vulnerable households

Preserving and modernizing our existing project-based permanent supportive housing (PSH) is an integral strategy toward the long-term goal of ending homelessness and a companion approach which complements PSH production efforts.

¹ For the purposes of this assessment, risk is defined as projects that are at least 15 years since they were placed in service or since their original acquisition and rehabilitation date and include one or more of the following criteria: 1) projects with affordability restrictions expiring within the next five years; 2) projects that require physical or financial restructuring within the next five years to remain viable.

Preservation Barriers

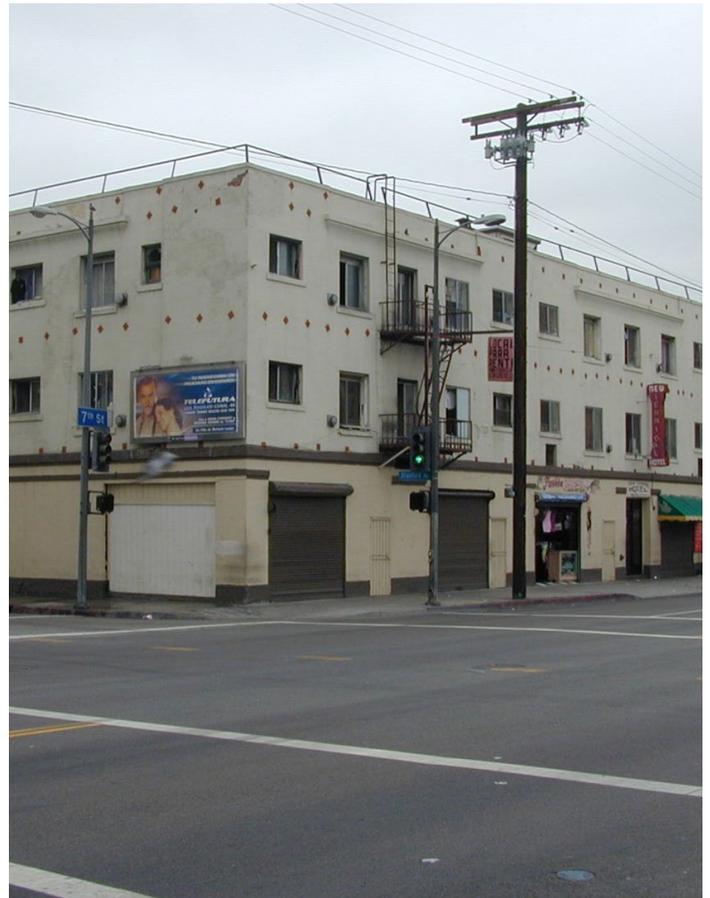
Just like creating and operating PSH is distinctive relative to other forms of affordable housing — from specific financing sources, deeper income targeting, higher operating costs, and focal population (households exiting homelessness with physical and/or behavioral health needs) — so is the preservation of these communities. Preservation strategies therefore must address these unique elements and barriers to be successful.

Preservation barriers fall into three main categories but boil down to this simple maxim: the earliest supportive housing projects in Los Angeles, created largely through acquisition and rehab approaches of existing housing stock (including SRO buildings), were simply not designed to meet modern expectations and demands.

Those barriers are physical, financial, and public policy-related.

- **Physical:** PSH owners are looking to address deferred maintenance needs, upgrade outdated building systems, create or expand on-site supportive services spaces, renovate common areas, and add features to meet accessibility requirements and other mandates related to energy efficiency and seismic risk.
- **Financial:** Aging PSH projects generally run on thin financial margins and receive insufficient operating support to cover escalating costs like insurance, utilities, security, maintenance, and long-term vacancies that outpace revenue. As a result, these sites are far more likely to have little or depleted project reserves, have negative cash flow, and require owners to subsidize properties through their own organizational resources.

- **Public Policy:** The requirement for nearly all PSH projects to use the regional Coordinated Entry System (CES) for referrals means that the “highest acuity” households in the homelessness system are prioritized for these housing resources when buildings and vacant units become available. Regrettably, it has become difficult to sustain aging buildings that were not structured financially (or have sufficient supportive services capacity and resources) to absorb the higher operating expenses and lengthy vacancies that have become commonplace and commensurate with delivering high quality PSH for the highest acuity households. Another principal policy concern is that PSH owners looking to preserve these properties face a limited set of public finance tools that either make these projects ineligible or non-competitive for recapitalization financing.



Observations and Trends from the Previous Assessment

We last reported on the aging, at-risk PSH portfolio in 2022 and there have been some notable sectoral shifts in the supportive housing environment that are worth sharing before we take a closer look into the latest research findings. These are:

1. **The dissolution of Skid Row Housing Trust**
2. **The emergence of new state and local preservation capital programs**
3. **Dramatic escalations in insurance costs and impacts on affordable housing**
4. **New research examining the physical needs of aging PSH sites**

Dissolution of Skid Row Housing Trust

First, we must mention the tragic dissolution of Skid Row Housing Trust (Trust) in 2024. The Trust was one of the pioneers of the PSH model and an organization that created and operated thousands of PSH units in the past few decades here in Los Angeles. The collapse of the organization and the related impact on the Trust portfolio, initially put into receivership and then transferred to a mix of nonprofit and private owners, is significant on a couple levels. For one, it represents a “worst-case” scenario example on the PSH preservation risk spectrum. The eventual physical and financial deterioration of their earliest sites and thus the need for preservation interventions was increasingly evident over time and is partly what motivated Enterprise to profile aging PSH portfolio risk through assessments like this in hopes of raising awareness and preventing that outcome. Without getting into the debate of which factors put the organization in such jeopardy, clearly there were structural reasons to blame that created an

untenable economic reality operating and sustaining those sites and at the same time opportunities to seek reinvestment and recapitalization remained out of reach.² But secondly, on a more pragmatic level, it means that we have decided to take those units out of our risk assessment. The decision was not an easy one. There were practical considerations that suggested an unlikelihood we could secure project-level updates from the new owner given the timing of our data collection and reporting cycle. We also admit that these sites are in a different risk position than the rest of the properties we are tracking because they are now in private hands. While these reasons may justify the exclusion of 10 Trust sites previously captured in the report, we acknowledge readers may take a different viewpoint as these sites are still in need of deeper reinvestment and rehabilitation.



² For more information on the financial forces that contributed to the failure of Skid Row Housing Trust, refer to Claire Knowlton's illustrative analysis [Redesign Required: Lessons for Permanent Supportive Housing from Skid Row Housing Trust Buildings](#). The study found that “no building in the Trust’s portfolio was self-sustaining or able to fund fixed asset repairs and replacements from its ongoing revenue sources.” (page 10)

The Emergence of New State and Local Capital Preservation Tools

The financing and policy landscape for preserving at-risk PSH sites remains challenging but there have been positive signs in recent years. The state's Portfolio Reinvestment Program (PRP), administered by the California Housing and Community Development Department, represents a key example. It was launched three years ago with an express intent to preserve the legacy stock of state-assisted affordable housing. While PSH projects were not targeted specifically, the program over its first two rounds has facilitated the preservation of 4 projects (and 340 PSH units) that were included in our risk assessments thus far in Los Angeles.³ The program did not receive an allocation in the current 2025-2026 state budget, but proposals are underway to renew program funding in the coming year. On a more local level, the city of Los Angeles has been focused on launching new preservation capital programs as resources have emerged through a new voter-authorized real estate tax measure (United to House LA program or ULA, now called Homes for LA). The city has opted to include a program component dedicated to preserving existing subsidized housing, even if not facing near-term covenant risk, as well as a shallow operating subsidy program that responds directly to project viability concerns. Also of note, the city of Los Angeles piloted a new program in the spring 2025, called the Micro-Operational Reserve Replenishment Program, which directed nearly \$5 million in state housing funds to support immediate capital needs for distressed PSH projects with depleted reserves.

Dramatic Escalations in Insurance Costs and Impacts on Affordable Housing

There are perhaps no greater trend and operational concern regarding the long-term viability of affordable and PSH sites than the dramatic escalations in insurance costs that have occurred in the past two

years across the affordable housing sector. Affordable and PSH developers, owners, and operators are experiencing unprecedented challenges due to increased property casualty, general liability, and builders risk insurance premiums. Enterprise has been studying these impacts over the past year and formed a statewide insurance working group to assess the issue and craft and advance policy solutions.

According to surveys of affordable housing developers across California, between 2019 and 2024:

- Affordable housing providers saw overall insurance premium cost increases between 36% and 618%
- PSH providers saw overall insurance premium cost increases between 81% and 821%

Most organizations stated that they had been dropped or denied coverage, impacting their pipeline viability and future developments. Developers experienced disproportionate impacts on specific project-types including issues of non-coverage for permanent supportive housing, senior housing, areas with environmental risk of fires or floods, wood frame projects, projects in urban areas, and smaller projects/sites.

If unaddressed through state and local policy strategies, the affordable housing insurance crisis will inevitably cause irreparable harm to the sector. Property cash flow and reserves will continue to diminish if not be completely depleted, forcing owners to mitigate higher costs by increasing insurance deductibles and into no-win decisions like deferring maintenance, investing less in property operations, not filing claims, raising rents, and possibly risking default.

³ The four projects were awarded approximately \$70 million in program funding.

New Research Examining the Physical Needs of Aging PSH Sites

Since our last risk assessment update in 2022, Enterprise received additional funding to examine the physical conditions of aging, at-risk PSH sites. This opportunity was attractive because the scope of our biennial risk assessments only provides limited insight into the physical needs of these properties. Drawing on a smaller sample of the 57 properties identified in the 2022 risk assessment, we partnered with a consultant to conduct project-level physical needs assessments on 20 sites by scoring 25 building elements according to their condition, urgency for repair or replacement, safety impact, and cost. [Avoiding the Domino Effect](#), published in July, found that approximately \$15,000 per unit is needed for repairs, deferred maintenance, and replacements (\$4,604 per unit for immediate needs and \$10,264 for needs over the next two years).

The study goes on to recommend an additional \$500 per unit per year in replacement reserve deposits to ensure that owners can stay current with the long-term demands of property upkeep, essentially double current underwriting requirements. Although the project sample was small, the research provided a unique window into the current physical state and needs of the aging PSH portfolio. Building elements like roofs, HVAC systems, and elevators rose to the top of the rankings, all costly upgrades for financially strapped PSH operators that have no cash flow or reserves to draw upon. Encouragingly, the city of Los Angeles leveraged the findings when crafting the Micro Operational Reserve Replenishment Pilot to facilitate immediate capital improvements for distressed PSH properties in their portfolio.⁴



⁴ For more information on the Micro Operational Reserve Replenishment Program, refer to the following LA City Council transmittal: https://cityclerk.lacity.org/onlinedocs/2023/23-0330-S1_misc_04-10-25.pdf. A total of 95 PSH units across three at-risk PSH projects, representing approximately \$1.5 million in grant funding, received assistance through this pilot.

A Deeper Look at Aging PSH in Los Angeles

After successive increases between 2017 and 2022 in the total amount of at-risk projects and units in the aging PSH portfolio that we have been tracking, those totals dropped for the first time. There are now 1,729 PSH units across 45 projects, representing a 21% decline in projects and a 34% decrease in units from the previous assessment in 2022. These shifts reflect both positive and negative circumstances that require explanation.

On the positive side, for the first time since we began tracking this aging PSH portfolio across Los Angeles in 2017, at-risk projects are benefitting from emerging state and local preservation efforts to target legacy affordable and PSH assets, as discussed in the previous section.

A total of five projects, or 297 units, were removed from the risk assessment for these reasons. On a less encouraging note, however, the dissolution of Skid Row Housing Trust resulted in 10 projects (609 units) being removed from the at-risk list (as they continue to function as PSH but were transferred to a private owner).⁵ And finally, as is common during our assessment cycle updates, additional at-risk projects were identified, in this case a total of four projects were added representing 203 units.

Beyond these changes in project and unit totals, here are other high-level takeaways from the 2025 assessment (see Table 1).

- There was a marked increase in the median year built, from 1925 to 1989. This was to be expected with the removal of the Trust properties that comprised of so many early 20th century classic SRO properties that were captured in the previous assessment. But this also reflects buildings that were added that went into operation in early 2000's.

- Overall project and per unit rehabilitation costs rose significantly, the latter figure nearly doubling since we provided the first of such estimates in 2019. We suspect this jump points to a rising level of deferred maintenance that has been challenging for owners to address when so many projects have little to no project reserves and are experiencing negative cash flow.⁶
- The financial health of this aging portfolio continues to show worrisome signs. Indeed, 91% of projects are breaking even financially or operating at a deficit, up from 81% in 2022.
- Affordability risk continues to remain a concern but secondary relative to financial and physical viability threats. A total of 11 projects were found to have expired affordability covenants, like what was found in 2022.



⁵ Additionally, we removed one project that was functioning as interim housing and therefore did not qualify as PSH.

⁶ The 2022 rehab cost estimates also did not include four properties that were considered "tear-downs" and were therefore removed from the rehab category, as the expectation at that time was that these sites would be demolished and rebuilt. Those sites all had per unit estimates above \$200,000.

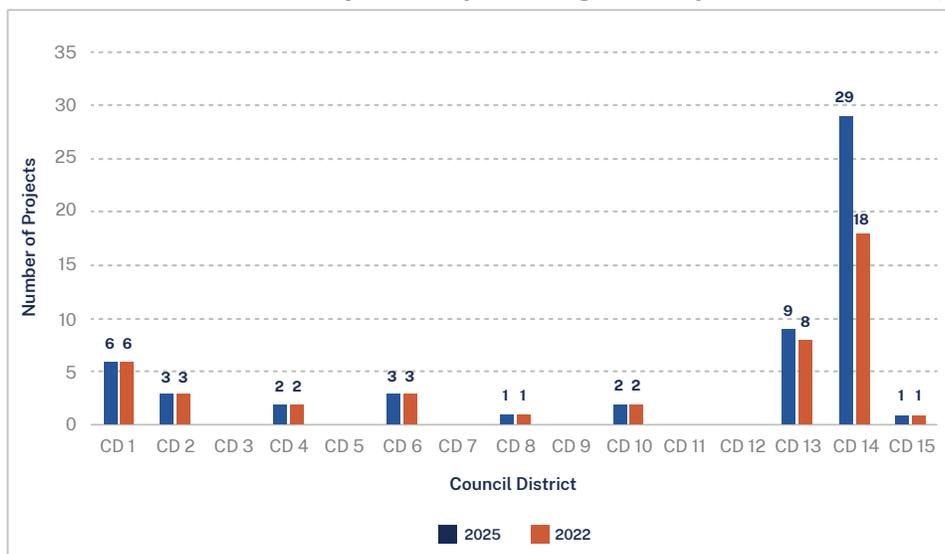
Table 1: Summary Characteristics of Aging PSH Portfolio

Project Characteristic	2022	2025	Change (#/%)
Total Projects	57	45	-21%
Total PSH Units	2,637	1,729	-34%
Median Year Built	1925	1989	+64 years
Financial Health: Percentage of Projects Reporting Breakeven Operations or Deficits	81%	91%	+10%
Total Rehabilitation Cost	\$148,116,348	\$198,187,514	+34%
Average Rehab Cost per Unit	\$63,498	\$98,831	+56%
Projects/Units with Expired Affordability Restrictions	Projects: 12 Units: 649	Projects: 11 Units: 491	
Projects/Units with Near-Term Affordability Risk (within five years)	Projects: 5 Units: 243	Projects: 1 Units: 16	

Physical Characteristics

Geographic Distribution: There was little change in the geographic distribution of aging, at-risk PSH sites, as they still tend to be concentrated in the downtown LA area and Hollywood.⁷ For instance, 40 percent (40%) of at-risk projects are located within Los Angeles City Council District 14, with the balance occurring primarily in Council Districts 13 and 1, followed by small shares in Districts 2, 6, 4, 10, 8, and 15, respectively (see Figure 1). That lack of geographic disparity is also evident countywide. Across the Los Angeles County Service Planning Areas (SPAs), 78% of at-risk projects are in SPA 4 (Metro), which covers downtown Los Angeles and Hollywood (see Figure 2).

Figure 1: Distribution of At-risk PSH Properties by Los Angeles City Council District (N=44 projects)*



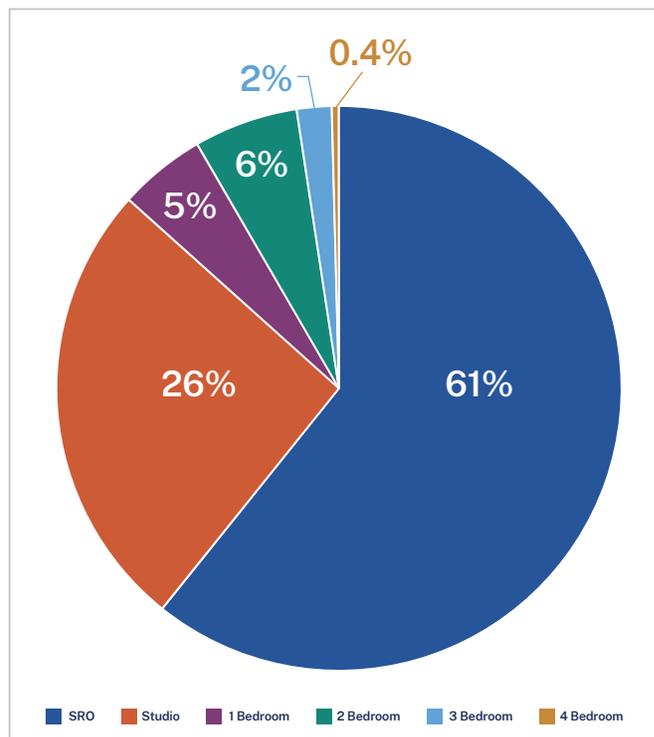
*One of the 45 projects is located outside of the city of Los Angeles (in the city of Pasadena) and therefore not included here.

⁷ Because of where the earliest PSH projects were created, reflective of acquisition and rehabilitation approaches within the city of Los Angeles (such as older SRO buildings transferred through the Community Redevelopment Agency or CRA).

Figure 2: Distribution of At-risk PSH Properties by Los Angeles County Service Planning Area



Figure 3: Types of Unit Configurations across At-risk PSH Portfolio



- Unit Type:** Single Room Occupancy units continue to comprise the majority (61%) of the entire at-risk PSH inventory. In many respects, this housing type has come to define the “face” of the earliest PSH examples across Los Angeles (and frankly in other communities with similar housing stock like San Francisco, Oakland, and even Sacramento). This model of PSH is significant because it has fallen out of favor with public funders and investors that prefer or require “complete” units in the form of studios and efficiencies that have individual kitchens and private bathrooms. These sites also tend to report higher vacancy levels and financial health concerns, which can be viewed in relation to challenges marketing these units and securing timely and qualified referrals through the Coordinated Entry System (see Figure 3).
- On-Site Service Compatibility:** Older PSH buildings typically lack sufficient space to accommodate a full suite of on-site supportive services. Accordingly, only 58% of projects reported adequate on-site services space. Based on the original building design, especially for those properties constructed nearly 100 years ago, dated layouts that are endemic to older properties create challenges for best-practice service delivery that recommends integrating as many social services as possible within the building. Ensuring adequate physical space to accommodate service delivery is a central motivation to preserve and reconfigure properties and rather integral to community building, stabilization and recovery, and the overall care that residents receive.

Financial Health Status

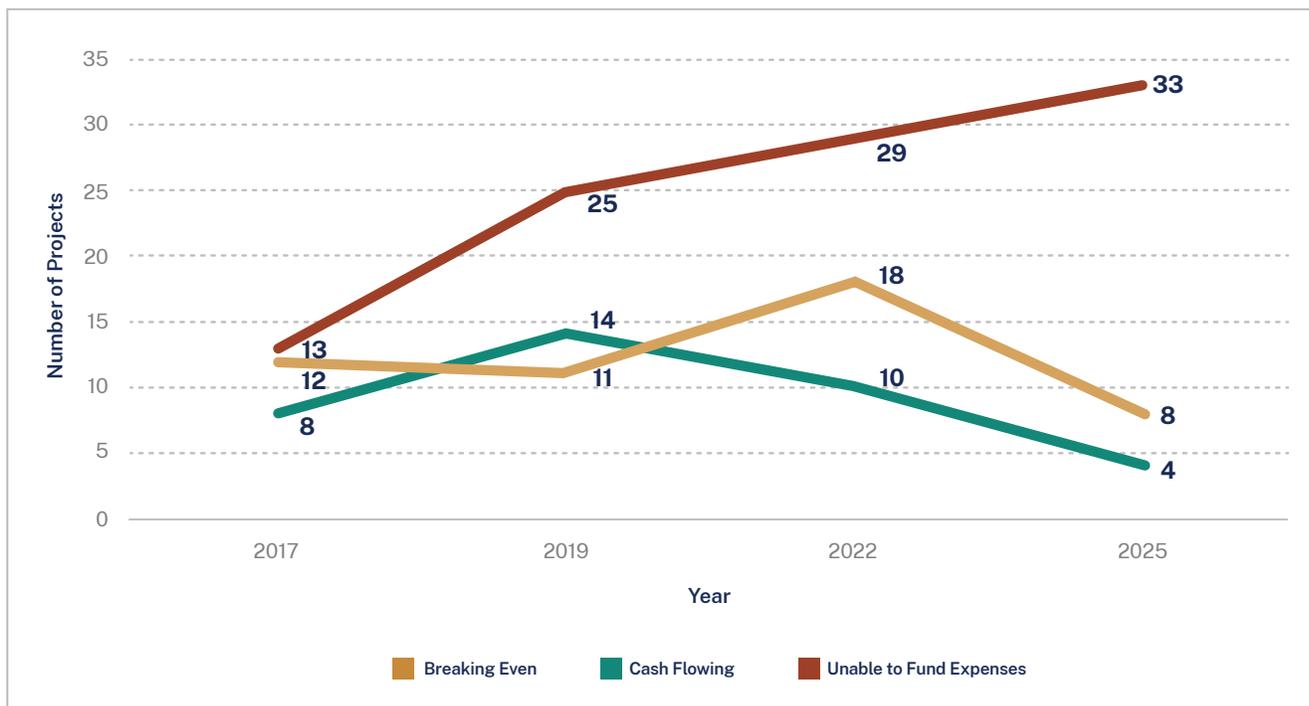
Of all the preservation risk factors that matter most for an aging PSH portfolio, financial viability is certainly at the top of the list.

Aging PSH projects continue to be challenged to sustain healthy financial operations, even more so than they were four years ago. Some nine out of 10 projects (91%) are reporting breakeven operations or worse, with 73% of all projects “underwater”, or unable to fund expenses.

Relatedly, the share of projects reporting positive cash flow continues to fall with each assessment cycle. In this case, a mere 9% of projects reported positive cash flow, which contrasts sharply with the 18% in 2022 and 28% of projects that did so in 2019 (see Figure 4).

As we look to what factors may be contributing to the erosion of financial health in this portfolio over time, there are multiple contributions: rent subsidy levels that are not keeping pace with operating cost escalations, rent delinquencies dating from the pandemic, loss of rental and subsidy income due to higher than expected vacancies and/or abatements through local housing authorities (e.g., for failing to meet inspection standards), and skyrocketing insurance premiums. All these forces are creating tremendous pressure on operating budgets. As a result, owners are subsidizing operations quite significantly through their own organizational resources, representing approximately \$4.7 million annually across all projects. This equates to an average of \$142,118 per project per year and \$3,580 per unit per year.⁸

Figure 4: Project-level Financial Health (2017-2025)



⁸ This form of project subsidization from the project owner is often referred to as a sponsor advance. Of the 33 projects reporting deficits, sponsor advance data were available on sponsor advances for only 27 projects.

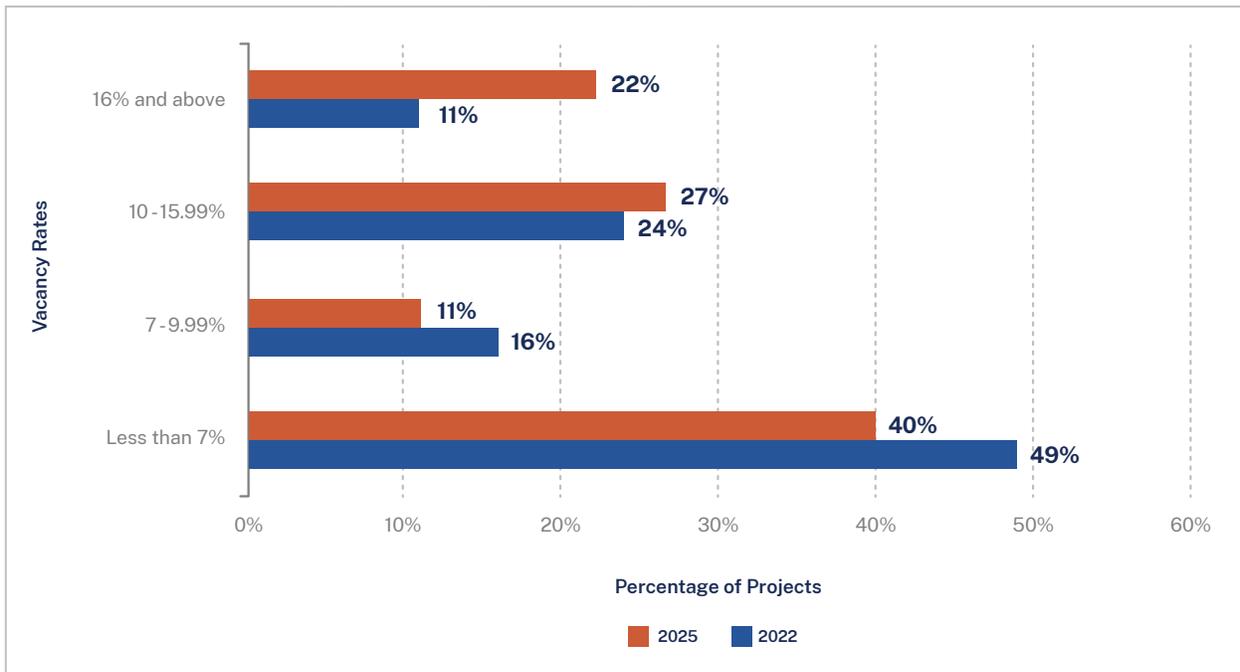
Project Vacancies

Vacancies represent an important operational health metric and are informative for potential trends in project utilization. Overall, vacancy levels are quite high in the aging PSH portfolio, averaging 12%, well above historic norms and certainly higher than even today’s assumptions. Nearly one-half (49%) of all projects reported double-digit vacancies (10% or higher). On the flip side, 40% of projects reported average vacancy rates (below 7%), which is a smaller share than the 49% that did so in 2022 (see Table 2 and Figure 5).

Table 2. 2025 Project Vacancy Rates (n=45)

Vacancy Rate	Number of Projects	% of All Projects (rounded)
Less than 7%	18	40%
7-9.99%	5	11%
10-15.99%	12	27%
16% and above	10	22%

Figure 5. Project Vacancy Rates (2022 & 2025)



Project Vacancies and Unit Damages

We were asked by one of our funders to examine the degree to which PSH units may be offline due to above-average (or excessive) damages created by the previous tenant.⁹ The relationship between vacancies and unit conditions was not an area of focus in previous assessments though there has been increasing anecdotal input from operators that this is an area of growing concern. We also wanted to know how much additional time and cost was needed in those cases to repair the unit and get it back online. As a result, owners indicated how common it was for vacant units to have been damaged beyond the normal wear-and-tear that is expected when preparing and turning that unit over for a new household. Here is more detail on what we found:

- **On average, 41% of vacant units experienced above average levels of damage, resulting in an additional 33 days and \$3,000 more per unit on average to address those repairs.** According to one owner, at worst a single unit can cost up to \$18,000 if it must be gutted and fixtures replaced.¹⁰ Such additional expenses and time create a heavy burden on owners that are already struggling to keep properties stable and possess little recourse but to absorb those expenses.
- While these circumstances may not be unique to aging PSH sites, they point to a new reality emerging within the field. Operators have learned



that typical janitorial and maintenance services are not necessarily sufficient anymore when readying vacant units, which presents capacity and financial implications if in fact they need more serious renovation and/or biohazard mitigation. Accordingly, owners are being forced to rethink their management approach as the scope and cost of unit turnovers intensifies with little evidence to suggest that the trend will lessen in the near future.

- One owner described the layered remediation efforts representative of this experience, ***“A number of units are so damaged and filled with trash that we need to have our pack out team come in and remove the trash, broken furniture, and appliances. Then, the units need to have pest control address pest issues, including roaches, rats, and bed bugs. After this process, maintenance can come in and make repairs. Lastly, we arrange for vendor work such as flooring, tub and sink reglazing, cabinetry work, drywall, window replacement, countertop replacement and repair – all work beyond the scope of our staff. The days of having our janitor clean and turn a unit are gone.”***
- More research or analysis would be helpful to drill into the causal factors behind these unit damage trends, as our research scope or capacity could not reach that far. Are these situations reflective of the housing stability challenges that are common for the highest acuity households prioritized through the Coordinated Entry System, which by nature face complex (and often co-occurring) physical and mental health barriers? Adjusting to living in a private unit can be daunting for many adjusting from living on the streets or interim housing. Could those situations be mitigated or resolved with additional supportive services? These are questions worth exploring if this experience is as common as our findings suggest.

⁹ Above-average damages were defined simply as any that exceeded a normal or typical level of preparation to ready that unit for a new household. There was no cost or scope of work threshold applied to make this determination.

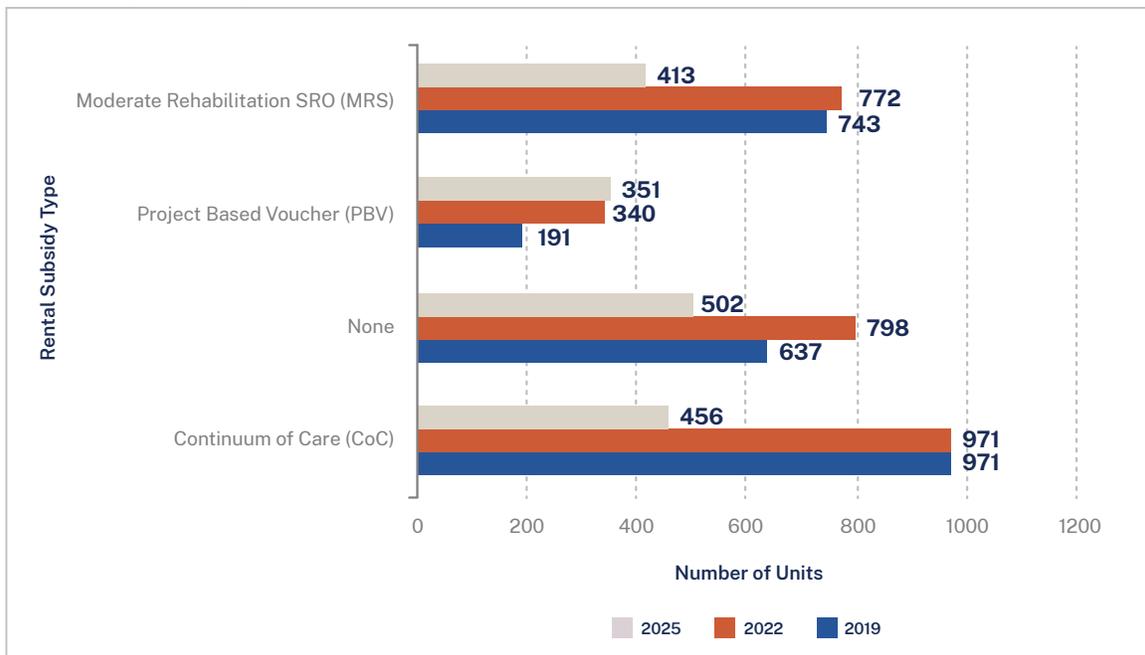
¹⁰ Unit damage information was only available for 32 projects.

Project-based Rent Subsidies

Project-based rental assistance is a fundamental component of modern PSH project financial structuring but was a less common, or at least consistent, tool in the earliest project-based PSH examples. Like what was reported in our past assessments, there are only a few subsidy sources (all federal) associated with the aging PSH portfolio. Sites with project-based rent subsidies receive support through federal programs like the HUD Continuum of Care, or CoC, (456 units), SRO Moderate Rehab (MRS) (413 units), or Section 8 Project-based Voucher (PBV) (351 units) programs. The sizable MRS portfolio is particularly significant because those projects are eligible to convert to a PBV contract through the federal Rental Assistance Demonstration (RAD) program, which offers a superior rental rate and is more attractive to PSH investors and underwriters given the assurance of a long-term contractual commitment. Pursuing these RAD conversions for the 10 MRS projects remains a top priority within a larger set of preservation strategies. A sizable number of PSH units (502) continue to lack project-based operating subsidy, which represents a major threat for healthy project operations and long-term viability (see Figure 6).



Figure 6: Types of Project-based Rent Subsidies (2019 – 2025) (by units)



Comparative Analysis: Looking at the Relationship between Rent Subsidies, Vacancies, and Financial Health

In this section, we take a closer look at the relationship between project-level financial health, vacancy rates, and rental subsidy types. A comparison of these project characteristics was not included in earlier risk assessments but seemed prudent to assess if any patterns emerged that could perhaps better explain what is happening across these aging PSH portfolios. For instance, are certain rental subsidies associated with weaker or stronger financial health? Could we confirm what would be expected that projects suffering higher vacancy rates would be those also reporting negative cash flow? These kinds of questions are explored below.

Financial Health and Rental Subsidy Types

We first assessed project financial health¹¹ according to subsidy type, recalling earlier that 90% of all projects reported breakeven operations or worse (i.e., running a deficit).¹² The comparison showed the following findings:

- Of the 17 projects with CoC funding, they were relatively mixed in terms of financial health: about one half were breaking even (six projects, 35%) or cash flowing (two projects, 12%) but the remainder, nine projects (53%), were unable to fund expenses.
- There were only six projects assisted with Project-based Vouchers. Those sites fared somewhat better than their CoC counterparts, since two projects (33%) were cash flowing and one project breaking even (17%), but overall one-half of PBV projects were still unable to fund expenses. This is interesting because the PBV subsidy type provides higher subsidy amounts as compared to the other subsidy programs.
- Unlike the projects with CoC or PBV subsidies, all (100%) SRO Moderate Rehabilitation (MRS) projects showed the worst financial outcomes, with 100% unable to fund expenses.
- For the nine projects lacking any rental subsidies, not a single project reported positive cash flow and only one broke even.¹³ Perhaps less surprising, 89% were unable to fund expenses (see Table 3).

Table 3. Financial Health and Rental Subsidies

	Projects with CoC	Projects with PBV	Projects with MRS	Unsubsidized Projects	Total Projects in Financial Health Category
Cash flowing	2	2	0	0	4
Breaking Even	6	1	0	1	8
Unable to fund expenses	9	3	10	8	30
TOTAL PROJECTS IN RENTAL SUBSIDY TYPE	17	6	10	9	42

¹¹ Project financial health was differentiated by the following three categories: cash flowing (CF), breaking even (BE), and unable to fund expenses (UFE).

¹² Subsidy types are categorized as follows: Continuum of Care (CoC), SRO Moderate Rehabilitation (MRS), Section 8 Project Based Vouchers (PBV); and unsubsidized projects (i.e., lacking subsidies). For methodological purposes, projects with subsidy on at least 50% of the project units were considered for analysis. Projects qualified as unsubsidized if the entire project was lacking subsidy.

¹³ This particular project that lacked subsidy but still broke even is a set-aside PSH deal (21 of the 49 units are PSH) serving families that also has low vacancy rates (e.g., 2%).

From studying the relationship between rental subsidy type and financial health, we find that projects with CoC and/or PBV rental subsidies tended to experience better financial outcomes from the vantage point of positive cash flow or breakeven operations. All four cash flowing projects resided within these two subsidy categories. But at the same time, there were one-half of those same projects that were unable to fund expenses, showing that subsidy alone cannot guarantee financial health. Certainly, that is the case with the MRS projects. Finally, projects entirely lacking subsidies were predictably worse financial performers.¹⁴

Project Vacancy Rates and Financial Health

Now we turn to the relationship between vacancy rates and project financial health.¹⁵ This connection is important because of ongoing concerns about the need to improve site-based PSH utilization rates and the impact that long-term vacancies especially present for project financial feasibility (e.g., loss of rental and subsidy income). The findings are as follows:

- For the 18 projects that reported vacancies of less than 7%, we naturally see them faring better financially. All four (4) projects that reported positive cash flow were in this vacancy rate

category, as were seven of the eight projects that were breaking even. This shows an important connection between higher project utilization and stronger (or moderate) financial health.

- For the four (4) projects with vacancies between 7-10%, they all faced operating deficits (i.e., unable to fund expenses).
- We observed much poorer financial outcomes for the 20 projects that experienced vacancy rates of 10% or higher. All but one was operating at a deficit and that single exception was breaking even (see Table 4).¹⁶

From analyzing the relationship between financial health and vacancy rates, we observed a clear connection between higher utilization (or occupancy) and better financial health but there were still contradictions. For instance, approximately 40% of projects reporting the lowest vacancy rates were still reporting deficits, pointing to other factors impacting fiscal stability. And as expected, projects suffering financially were also those with higher vacancy rates (e.g., 10% or more); some 63% of projects that were unable to fund expenses were in this vacancy rate category. Interestingly, there was an even distribution across vacancy rate categories for deficit projects, suggesting that more than utilization/occupancy is related to poor financial health.

Table 4. Project Vacancy Rates and Financial Health

Financial Health Category	VACANCY RATE				Total Projects in Financial Health Category
	Less than 7%	7-9.99%	10-15.99%	16% and above	
Cash flowing	4	0	0	0	4
Breaking Even	7	0	1	0	8
Unable to fund expenses	7	4	10	9	30
TOTAL PROJECTS IN RENTAL SUBSIDY TYPE	18	4	11	9	42

¹⁴ See Knowlton's analysis of these disparities in subsidy levels across program types in [Redesign Required](#), which notes that the MRS program has the lowest rent payments relative to the CoC and PBV programs (pages 14-15).

¹⁵ The vacancy rate categories are as follows: less than 7%, 7-9.99%, 10-15.99%, 16% and above.

¹⁶ This exception represents a project that was receiving a relatively rare state-funded subsidy, but that program has since ended, therefore leaving the project without any long-term form of operational support.

Key Takeaways: Financial Health, Vacancy Rate, and Rent Subsidy Type

With financial health now viewed separately according to rental subsidy type and vacancy rates, we compare all three metric categories together to see if any additional patterns emerge or to reaffirm earlier conclusions in the analysis.¹⁷ Here are some additional observations.

- The presence of rental subsidy (at least CoC or PBV) equates to better project financial health (more likely to cash flow or break even). But even sites with PBV assistance with its higher payment standards relative to other subsidy types cannot make projects immune to financial instability or vacancy issues. Of the 6 PBV sites, 50% ran deficits and also reported double digit vacancies.
- By all accounts, projects with MRS subsidies fared the worst. Besides all facing operating deficits, these sites also had the highest proportion of overall projects (within that subsidy type) that reported double-digit vacancy rates. Interestingly, though, 40% of MRS projects reported vacancy rates below 10%, perhaps higher than expected. This rate is not too far off of CoC (53%) and PBV (50%) projects but still well behind the share (67%) for projects with no subsidies. These findings provide strong motivation for owners to convert MRS properties through the federal RAD program because they are chronic negative financial performers and even so in cases where there were low vacancy rates (2 sites with less than 7% vacancy rates).
- Surprisingly, 67% of unsubsidized projects had low vacancy rates (i.e., vacancies less than 7%) but they were still financially weak.
- Higher occupancy generally points to better financial health; all four cash flowing projects reported vacancies of less than 7%. The exceptions, as noted earlier, were the MRS projects and those lacking subsidy (see Table 5).

Table 5: Breakdown of Projects Across Rental Subsidy Type, Vacancy Rate, Financial Health

Vacancy Rate	Projects with CoC			Projects with PBV			Projects with MRS			Projects Lacking Subsidies			Total Projects in Vacancy Rate Categories
	CF	BE	UFE	CF	BE	UFE	CF	BE	UFE	CF	BE	UFE	
Less than 7%	2	5	0	2	1	0	0	0	2	0	1	5	18
7-9.99%	0	0	2	0	0	0	0	0	2	0	0	0	4
10-15.99%	0	1	2	0	0	1	0	0	6	0	0	1	11
16% and above	0	0	5	0	0	2	0	0	0	0	0	2	9
TOTAL PROJECTS IN RENTAL SUBSIDY CATEGORY	17			6			10			9			42

¹⁷ Overall, this comparative analysis shows that rent subsidy types and vacancy rates contribute to a project's financial health, but undoubtedly there are additional factors to consider to more fully understand aging PSH portfolio sustainability and financial health. Moreover, these findings can and should be further pressure tested with a larger sample size.

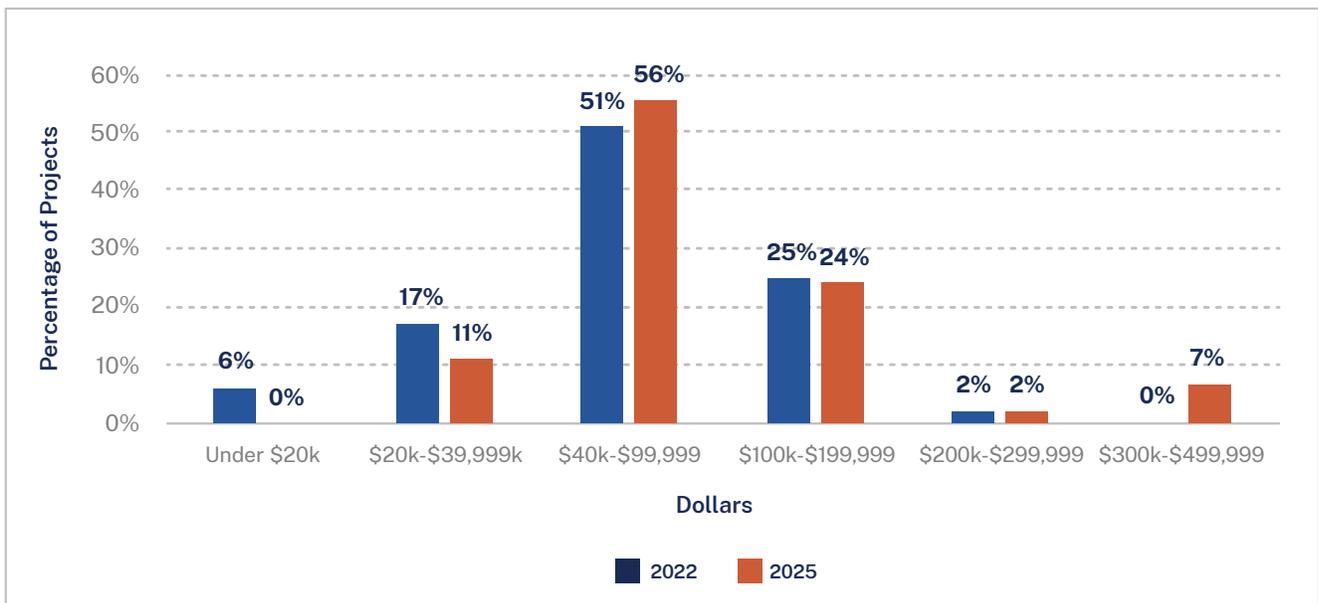


Project Rehabilitation Costs

Across all the at-risk PSH projects, total rehabilitation costs were approximately \$198 million. The average estimated rehab cost per unit (RCPU) was \$98,000, up 56% from 2022. Only 11% of projects required less than \$40,000 rehab costs per unit, which is a significant eligibility threshold for housing credit resyndication (see Figure 7).

Two-thirds of projects have estimated per unit rehab costs below \$100,000 per unit, similar to the previous analysis in 2022. There was a small slice (7%) of projects representing higher cost rehabs (>\$300,000 per unit).

Figure 7: Project Rehabilitation Cost Ranges per Unit (by % of projects)



Capital Financing Sources

Consistent with the geographic concentration of at-risk projects in the city of Los Angeles, the earliest PSH projects were almost exclusively financed (89%) with city funding, either the now-defunct California Community Redevelopment Agencies (CRA) program and/or more recent affordable housing loan programs from the Los Angeles Housing Department (LAHD). The portion of projects with State Housing and Community Development Department (HCD) funding has dropped to 20% (from 40% in 2022), while the share of county-financed projects (through the Los Angeles County Development Authority or LACDA) is up to 18% (eight projects).

Affordability Risk

In its strictest sense, preservation risk in affordable housing is measured according to how soon project-level affordability protections are set to expire. Such risk is often referred to as covenant risk. Typically, the industry views affordability risk as protections that expire within the next five years, though there are some examples that look at a 10-year horizon.

Generally speaking, affordability risk is not a major concern for the aging PSH portfolio, for two reasons:

1. **Depreciation risk, meaning that the property is becoming unviable due to physical and financial needs, poses far greater concern and motivation for preservation assistance than any imminent loss of affordability;**
2. **These properties are all owned and operated by mission driven nonprofits that are deeply committed to keeping the property affordable for the long-term even if those protections should expire.**



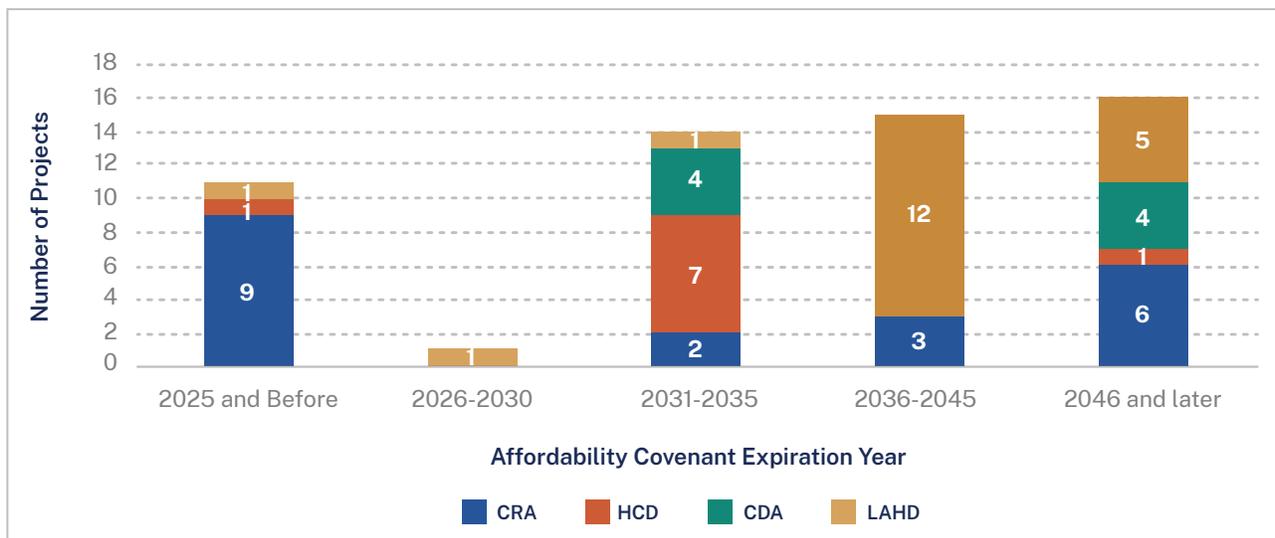
Nevertheless, it is worth assessing affordability risk in the aging PSH portfolio, especially since this project characteristic is often a threshold requirement in determining eligibility for preservation assistance in most affordable housing capital programs. Here is what we found.

- There are 491 units with expired affordability restrictions, while there are an additional 16 units (one project) set to expire within the next five years (through 2030). Together, these two figures indicate that more than one-quarter (or 29%) of all at-risk PSH units have lost or will be losing their affordability protections in the next five years.
- If we look at the horizon for the next five-year window, from 2031 to 2035, another 614 units are set to expire.
- With 630 PSH units facing expirations in the next 10 years, a little over a third (or 36%) of all at-risk PSH units, these figures suggest a moderate affordability threat that will need closer monitoring and redress, even as local housing officials work to resolve long-term recapitalization needs (see Table 6).

Table 6. Degree of Affordability Risk across At-risk PSH Portfolio (by Units)

Affordability Risk Category	Number of PSH Units	Percentage of All At-risk PSH Units (rounded) (n=1,729)
Expired (2025 or before) ¹⁸	491	28%
Near-term (between 2026 -2030)	16	1%
Subtotal (Expired & Near-term)	507	29%
Medium-term (between 2031 -2035)	614	35%
Total	1,121	

When differentiating affordability risk by (capital) funder, it becomes apparent that projects with expired affordability covenants (or those soon to be within the next five years) are nearly all with the city of Los Angeles, specifically CRA-financed buildings and to a lesser degree LAHD-assisted projects. Extending out to the next five to ten years (2031-2035), we see affordability risk emerge for the legacy projects that received rehabilitation support from the state of California (HCD) and LACDA-funded sites. Even farther out, over the next ten to twenty years, the risk returns back to the city of Los Angeles for projects with CRA or LAHD financing (see Figure 8).

Figure 8: Project Affordability Expirations (by projects and public funder)

¹⁸ There are 190 units that are counted in both the expired and medium-term affordability risk categories since they are associated with projects that have covenants with multiple public lenders. For example, a project could have an expired CRA covenant with the city of Los Angeles but also another with the California HCD that expires in the next ten years.

Six Strategies for Preservation

The preservation of our aging, at-risk PSH communities is pivotal in protecting affordable housing for vulnerable households and ensuring the long-term viability of these sites and the organizations that own them. We encourage policymakers to embrace preservation as a “both/and” approach to complement production efforts and to also view it as an important component of our homelessness response. If nothing else, these are investments that have formed the bedrock of our PSH ecosystem and deserve to be protected for the future. Here are six strategies that policymakers and state and local housing officials can draw upon to modernize our aging PSH stock.

Commit to Ongoing PSH Preservation Risk Tracking

Since 2018 and approximately every couple years after, Enterprise has been tracking and publishing regional assessments to quantify and characterize the preservation needs of the aging PSH portfolio in Los Angeles. While this research has been informative and distinctive relative to other preservation-focused risk analyses, successful in part because of our strong working relationships with owners, we believe the time is right for policymakers to require local housing officials to monitor this risk profile on a recurring basis. And that means distinguishing PSH assets from other affordable housing investments in the city and county housing loan portfolio because of their unique public benefits, economic constraints, and role in our homelessness response. On a related note, we also



encourage public lenders and policymakers to view and treat preservation risk as more expansive than just affordability risk. This research points to a need to ensure that financial and physical financial viability metrics are included in preservation risk definitions when determining priorities and eligibility for capital programming (NOFAs, program guidelines, etc.).

Protect Projects with Expired and Near-term Affordability Risk

Ensuring that the oldest PSH projects financed through the city of Los Angeles or the state of California remain affordable for another generation of use, with restrictions in place, should be a top and immediate priority. For two successive risk assessment cycles, we have seen more than 10 projects with expired protections. Sure, affordability risk for PSH owners is slightly less a concern than other private affordable housing owners (not mission-driven or aligned) that have stronger motivations to convert their sites to market-rate housing. But we believe a proactive approach on the part of public lenders to work with PSH owners before those affordability terms mature is more than practical and may uncover other opportunities or desires to restructure loans and regulatory agreements.

Use Regulatory Discretion and Flexibility to Adopt Portfolio Stabilization Policies

As documented in this report and previous assessments, sponsors of aging PSH assets are facing significant operational deficits due to rising expenses and flat or reduced income, especially in the wake of the COVID pandemic. These challenges are acute and require immediate attention so that PSH sponsors can meet their basic obligations to provide quality, safe, and affordable housing. As we have seen in other jurisdictions like San Francisco with their Post-COVID Portfolio Stabilization Policy (instituted in 2024), it is time for public lenders to use their regulatory discretion and flexibility to embrace strategic approaches to long-term affordability and physical and financial sustainability.

Such policies should focus on supporting sponsors in addressing the effects of operating deficits through a variety of avenues, such as leveraging resources for “cash positive” affordable housing projects to support those facing operating deficits, pursuing reasonable rent increases, expediting reserve withdrawals, permitting owners to reallocate operating reserves across properties, allowing owners to request and retain a more favorable share of residual receipts, revisiting fee allowances (and including such allowances for projects that had not been previously approved to take such fees), and other short-term waivers that can help promote property stabilization.

Finally, it is also important that public lenders establish criteria to inform decision making in the more extreme circumstances when properties are in such financial peril that additional cash infusions or regulatory concessions will be unlikely to facilitate stabilization. Our sense is that lenders are looking to establish metrics and indicators that can help them decide when a troubled asset is better served through a disposition strategy, such as transferring that property to another owner, thus avoiding a costly public receivership situation as we saw with Skid Row Housing Trust.

Continue to Prioritize, Dedicate, and Scale Preservation Capital Solutions

Simply put, aging PSH projects do not fare well with our current public finance tools and therefore we continue to see these early PSH projects age over time with little to no access to the capital needed for repositioning and rehabilitation. Our experience suggests it is necessary to have dedicated sources of public capital for aging PSH projects to be competitive or eligible for available and emerging capital funding programs. Reevaluating the suite of current capital programs from a PSH preservation compatibility standpoint is worthwhile and a good prerequisite for state and local advocacy. Programs like the state Portfolio Repositioning Program (PRP), administered by HCD, which targets the state’s legacy, affordable housing portfolio with

nearer-term affordability risk, are important steps in the right direction. The same is true for what the city of Los Angeles has created this year through their Micro Operational Reserve Pilot and Home for LA NOFA programming. We hope those examples can continue and get to greater scale. In the case of PRP, we strongly encourage state legislators to restore funding for the program and consider other changes to widen its reach (as envisioned with AB 1789). Simply put, it is important that there be predictable funding to give time for PSH owners to prepare recapitalization strategies and funding applications.



Maximize Rent Subsidy Payments and Ensure Rent Subsidies are Sustainable and Cost-Aligned

The current slate of rental assistance subsidies, such as those through the federal Continuum of Care program, has proven insufficient to generate revenue needed to sustain modern PSH operations. In the short-term, maximizing subsidy levels and payments standards, where possible, for CoC-assisted sites seems indispensable and should be approached systematically and not just on an individual transactional basis. Longer-term, absent a shallow subsidy intervention to bridge operating gaps or a change in the funding methodology, as Knowlton proposes in her reporting on Skid Row Housing Trust, it appears inevitable that we will have to look for an alternative to project-based CoC rental assistance. Owners are feeling the pressure to offset escalating operating costs and improve cash flow at the same time that federal housing and homelessness policy is seeking to deprioritize PSH funding and rental assistance resources in general. We should aggressively pursue alternatives, such as the Rental Assistance Demonstration (RAD) program, as an early preservation strategy that fits nicely in this voucher-constrained environment. With 10 sites and over 400 units eligible for RAD conversion, which offers higher rents and longer-term contracts, that tactic is tangible – it is a finite universe of projects – and has immediate benefits.

Conduct a Deeper Cost Analysis of PSH Operating Costs and Mitigate Cost Escalations

As exemplified by the recent insurance crisis, the costs of operating PSH are on the rise though we are still learning the impacts on organizational and project budgets. We need to revisit our cost allowances and assumptions, informed by deeper economic analysis on operating trends, to document and acknowledge that housing and serving higher acuity residents is more expensive and requires additional resources. Efforts to strengthen the performance of the regional Coordinated Entry System, like improving housing placement timelines and referral attrition, are also vital to reducing project-based PSH vacancies and the substantial financial loss that presents to PSH owners.



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About Enterprise Community Partners

Enterprise is a national nonprofit that exists to make a good home possible for the millions of families without one. We support community development organizations on the ground, aggregate and invest capital for impact, advance housing policy at every level of government, and build and manage communities ourselves. Since 1982, we have invested \$80.9 billion and created 1 million homes across all 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands – all to make home and community places of pride, power and belonging. Join us at [enterprisecommunity.org](https://www.enterprisecommunity.org).