Background

The rehabilitation of an existing affordable housing development is a complicated endeavor that requires a lot of coordination and flexibility and presents completely different challenges than new construction. The task is much more delicate with the rehab of an occupied permanent supportive housing (PSH) building, ensuring that residents' needs are met during building renovations. In Los Angeles, many PSH developers are turning to an aging portfolio to reconfigure properties physically and financially to meet the modern demands of housing PSH populations, which among other things require security, privacy and sufficient space for on-site supportive services and activities.

To inform this document, Enterprise spoke with PSH developers in the Los Angeles area that have successfully managed a rehab and the balancing act that goes along with financing and managing the rehab process while minimizing disruptions to vulnerable, formerly homeless residents that are still connected to supportive services. This document draws from their perspectives to distill some of the more valuable lessons they learned during the process.

Resident Awareness and Engagement

Executing a successful rehab project takes its toll on the organizational staff. Throughout the rehab process, housing owners need to remain focused on how the work will impact the residents. Keeping the resident perspective in mind at the outset can potentially avoid larger and more costly difficulties as the work progresses. Here are a few resident-related considerations that are worth noting.

- Execute a strategy to keep residents informed and engaged throughout the rehab cycle. Just as you would develop a services plan for an individual resident, the developer should look to the supportive services and property management teams to create a specific plan for the building to ensure that events, activities, classes, meals, even such routine things as laundry services, can be continued without interruption. One critical decision is whether residents will be relocated in a set number of floating vacant units until the rehab is completed, or relocated off-site.
- Once that approach is formalized, it is imperative to communicate that strategy directly to the residents. Establish regular meetings with residents and make sure that information is provided to them in writing, including dates for key activities, so that it serves as a handy reference and can be shared more easily with others.
- One developer cited the importance of creating an informational "booklet" that walks through such key questions as "What should I expect?" and "Who should I talk to?" if there is a particular question to resolve.

- Consideration should be given to what the plan is for resident belongings. Will a service be used to box and relocate these items off-site, or will items be allowed to remain?
- Tenants should also be informed of what particular changes are anticipated to their individual apartment, especially if it will be modified to meet accessibility standards. Residents might be surprised to learn how their home will be reconfigured and look differently than it did before the renovation. It is advisable for the building owner to walk through the apartment with the resident ahead of time so they can better understand and visualize the anticipated changes.
- Communications directed toward residents should be crafted to accommodate language translation needs. Translation needs extend importantly to relocation consultants, since they will be working very closely with residents.
- Maintaining the continuity of supportive services means budgeting for tenant-relations that potentially fall outside the initial scope of resident services programming that is connected to the building.
- Related to budgeting, developers should consider if they want to provide any compensation (e.g., per diem payments) to residents for the inconvenience of a rehab, such as having to leave their home during the day to allow for construction. Some residents may seek that regardless of whether there is a policy.

Managing the Rehab Process

In addition to preparing for how this work will affect residential stability and supportive services engagement, there are important considerations related to preparing for and managing the physical renovations, including working with building contractors and your own personnel.

- Picking the right general contractor (GC) and making sure they are on board from the beginning with your expectations and requirements is vital. The GC needs to be proficient in the "rolling rehab" process, lender requirements, tax credit requirements (e.g., Placed In Service date, milestone payments), fair housing and tenant laws to ensure regulatory compliance and to minimize liabilities. Contractors should know when it is appropriate and under what circumstances to enter an occupied unit.
- The GC scope of work and contract must reinforce the expectation that the units be "turnkey ready," so that developers are not replacing items such as lightbulbs and window covers that could easily fit within the contracted scope.
- Moreover, the GC must be held to a standard where there are consequences if deadlines are missed, for instance triggering permanent relocation. Such standards and ramifications should be clearly stated within the construction contract.
- Rehabilitation also means that units will be brought up to code, if not already, and that means that developers must be knowledgeable of and accountable for both seismic and accessibility requirements. These are important priorities for lenders and investors. These upgrades should not be folded into the design scope at the last minute, so it is wise to submit design plans to the investor and lender BEFORE submitting for plan check. Particularly with seismic retrofits for older buildings, lenders or investors may require a

higher standard of upgrade than what is needed to meet building code requirements.

- Since a significant number of aging PSH units in the region are single room occupancy (SRO), the existing physical constraints of this housing stock will limit the scope of work. However, developers can still be creative. For example, one developer added microwaves or personal air conditioning equipment to improve residents' living environment. In recent years, investors and lenders have become more reticent to invest or lend to true SRO-style properties (units lacking either a kitchen or private bath). Ideally, SRO units would be converted to studios, but if that cannot be accomplished, early communication with financing partners will help to limit changes or modifications that could be imposed late in the pre-development process.
- Developers should also be mindful of local policies or ordinances that could impose additional requirements on the scope or nature of the rehab. In the City of Los Angeles, PSH properties subject to the Rent Stabilization Ordinance are required to prepare tenant habitability plans (THPs), which creates an added administrative burden and possible need for outside legal support to prepare the plan.
- Property managers and site coordinators should attend construction meetings to be kept informed of the process and schedule. It is important that they know of any changes in the schedule as notices may need to be given out. With advance knowledge, the manager will be able to work with the site coordinator and services staff to help residents adjust to the changes in their daily routine. Many residents living in supportive housing do not adapt well to change; therefore, advance notice and coordination is key to their well-being during the construction process.
- Developers need to ensure that there is sufficient representation in these construction meetings from someone cognizant about the use of tax credits and timing the completion and re-occupancy of the unit prior to month-end to maximize credit delivery. Preferably, this would be someone that is familiar with the Low-Income Housing Tax Credit (LIHTC) program and can represent the risks associated with delays, overages, etc.
- Setting up temporary office space for key staff is important since rehabs can often lead to the reconfiguration of common spaces and personnel offices. This applies for property management, resident service coordinator, the tenant rehab coordinator and contractors. It is also important to plan for sufficient phone and internet access during rehab.

Financing the Work

Most experienced PSH developers are well familiar with the complicated task of developing and implementing a financing strategy to complete an affordable housing development. What is unique about working on a PSH rehab project, however, is that the building, depending on its age and level of initial rehab upon acquisition, is likely to require significant physical improvement. Given the limited rental income and deep income targeting in PSH, it may not be in the best financial position to support new debt without some level of financial restructuring. Here are additional financial-related observations for rehab projects.

- For tax credit projects, developers need to be mindful of technical issues related to program compliance. This is important to maximize pricing on the front end and to prevent adjustments later because lack of understanding on the agreed upon credit delivery schedule. Issues include the following: determination of Placed in Service date, timing of income certifications and timing of tax credit delivery.
- Grouping rehab projects together that have similar original funding and unit counts is an appealing approach. One developer took a scattered-site approach to combine the scope of the two separate projects, making them more competitive when applying for funding and seeking private investment. In addition, the higher total unit count between the two buildings increases the chances of receiving new rental subsidies for the entire project. By combining the scope, it allows for the projects to be placed on the same schedule, facilitating project management for the development team.
- Not all PSH projects will be suitable candidates for resyndication. This approach tends to be the preferred method of recapitalization for developers challenged with older buildings in serious physical and financial distress. Resyndication allows for a substantial level of modernization of the building infrastructure while allowing for a reconfiguration of older operating subsidies to generate positive cash flow.
- Resyndication may not represent the best recapitalization strategy for a variety of reasons. Most PSH rehab deals are not competitive as 9 percent LIHTC transactions given state and local public policy emphases on creating new housing. The 4 percent LIHTC route is less competitive and does require raising additional soft financing from state and local sources, many of which have been depleted in recent years. Underwriting guidelines also often dictate sizable per unit investments in assisted rehab units to meet minimum thresholds that can surpass what is needed for the project.
- Some lenders may require accrued interest to be paid down on existing debt which can potentially limit the overall amount of resources available to finance the rehab costs.
- Occupied rehabs also require a sizable reserve to offset payment loss from vacant units, and even other operating dilemmas such as bed bug remediation.
- One developer noted that they are letting units go vacant in one of their older properties so they can bring in new clients through the Los Angeles County Department of Health Services Flexible Housing Subsidy Pool, a relatively new source of regional operating support for PSH owners.
- It is important that the financing plan assesses whether it is more cost effective to move tenants out of the building to accommodate necessary renovations.
- One paramount lesson is the importance to have all lenders on board with the rehab strategy and to document as much as possible in writing to avoid potential future misunderstandings.
- The sheer nature and fluidity of the rehab process constantly demands flexibility and adaptations on the part of the housing owner and the residents, too. One potential oversight for building owners is that core business protocols, like timelines for processing checks,

might have to be altered to accommodate the deadlines and uncertainty related to construction progress.

Need for Dedicated Personnel to Manage the Rehab Process On-Site

A notable emerging practice is dedicated on-site staff to manage the rehab process, attend construction meetings and coordinate with inspectors and tenants. This is a unique position that ideally requires a diverse skill set: a solid grasp of the construction process coupled with knowledge of property management, the PSH model and its residential population, and good interpersonal skills as this person is one of the first points of contact with the residents. This person needs to be brought on board early, before the rehab start, to be part of the decision making.

Expect the Unexpected

Developers experienced with occupied rehabs overwhelmingly came to consensus on one common lesson learned: Expect the unexpected. Such uncertainty can be mitigated with dedicated personnel at the frontline of scenario planning and troubleshooting. Here are some of the questions that are likely to arise during the rehab cycle.

- What happens if the water is shut-off?
- What happens if the building is flooded or catches on fire?
- What are the ramifications if the rehab takes longer than expected?
- How do we handle hoarders?

About the Los Angeles PSH Preservation Initiative

The Los Angeles Permanent Supportive Housing Preservation Initiative is a partnership between Enterprise Community Partners, LISC and the National Equity Fund, created to advance policy solutions and provide capacity building support to the PSH development community. The goal is to ensure that aging PSH assets and the nonprofit housing development organizations that operate them are stable and sustainable over the long-term horizon of ownership.

The lessons presented herein are a reflection of experiences shared by two Los Angeles-area PSH developers – A Community of Friends and Skid Row Housing Trust. We are grateful for their intellectual contributions to this document. We also appreciate the financial support from the Conrad N. Hilton Foundation and United Way of Greater Los Angeles to make this initiative possible.