Preserving Permanent Supportive Housing in Los Angeles
What Will It Take?
Policy Brief (updated October 2019)

Preservation: A Public Benefit
Preserving our existing project-based permanent supportive housing (PSH) should be viewed as a necessary and complementary tool in the affordable housing toolbox and an integral strategy toward the region's long-term goal to end homelessness. While substantially cheaper than new construction, ensuring the long-term sustainability of PSH assets also helps to:

• Preserve and extend housing affordability for an additional 30-55 years;
• Retrofit major building systems to improve efficiency, performance, and compliance;
• Increase operating income by modifying rental subsidies;
• Revitalize the bedrock of a homeless delivery system that is undergoing dramatic scaling in size and complexity with the infusions of Proposition HHH and Measure H.

A Deeper Look at Aging PSH in Los Angeles
In 2016, Enterprise launched the Los Angeles PSH Preservation Initiative to mobilize the PSH development community around consensus capacity building and public policy solutions. Enterprise created a PSH Preservation Workgroup that identified approximately 1,300 aging PSH units within 33 projects that need to be preserved within the next five years.

Since its inception, the PSH Preservation Workgroup has continued to improve our collective understanding of the unique characteristics of these properties (summarized in Table 1). The region’s at-risk portfolio has grown significantly, to more than 2,200 PSH units within 50 projects in 2019. This translates to a higher total cost to preserve this at-risk portfolio and more projects potentially that cannot access conventional recapitalization pathways for modernization. The information in our risk assessment can inform preservation strategies at the local and state levels.

Barriers to Preservation
Early supportive housing projects were simply not designed to meet today’s demands of delivering PSH and of serving the high acuity, chronic homeless population that they are now required to serve. Preservation barriers fall into three main categories:

• Physical: PSH owners are looking to address deferred maintenance needs, upgrade out-of-date building systems, create or deepen supportive services offices, renovate common spaces, and add features to meet accessibility requirements;
• Financial: Aging PSH projects generally run on thin financial margins and receive static, if any, rent subsidies to cover escalating costs;
• Public Policy: The shift to “housing first” and the continued expansion of the Coordinated Entry System (CES) requires PSH owners to serve the highest acuity households in aging buildings, with little to no ability to absorb higher operating expenses and without capacity to provide adequate supportive services.

The Ford Apartments, SRO Housing Corporation
Physical Characteristics

- PSH projects are disbursed throughout Los Angeles County but predominate in Supervisorial Districts 1, 2 and 3. More than half (54%) of at-risk projects are located within Los Angeles City Council District 14, while others are spread throughout eight other Council Districts (see Figure 1).

- One of the key limiting factors in the aging inventory is insufficient space to provide on-site supportive services, creating challenges for service delivery to PSH populations. Only 42% of projects have adequate on-site services space.

- As part of the anticipated rehabilitation scope, the vast majority of projects will incorporate accessibility (90%), energy efficiency (86%), and seismic upgrades (60%).

- SRO units represent 73% of all at-risk PSH units, up from 62% in 2017. This configuration continues to be out of favor with capital funding guidelines, limiting options to modernize this inventory (see Figure 2).

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**Table 1: Aging PSH Portfolio Characteristics**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2019</th>
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</thead>
<tbody>
<tr>
<td>Total Projects</td>
<td>33</td>
<td>50</td>
</tr>
<tr>
<td>Total PSH Units</td>
<td>1,297</td>
<td>2,238</td>
</tr>
<tr>
<td>Median Year Built</td>
<td>1928</td>
<td>1930</td>
</tr>
<tr>
<td>Financial Health (Break even or Worse)</td>
<td>76%</td>
<td>72%</td>
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<tr>
<td>Total Preservation Cost</td>
<td>$43,870,371</td>
<td>$240,514,060</td>
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<tr>
<td>Total Rehabilitation Cost</td>
<td>$43,870,371</td>
<td>$114,114,060</td>
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<tr>
<td>Average Rehabilitation Cost per Unit</td>
<td>$74,840</td>
<td>$56,979</td>
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<tr>
<td>Projects with Expired Covenants</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Projects with Near-Term Covenant Risk</td>
<td>7</td>
<td>10</td>
</tr>
</tbody>
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* Includes estimated costs of 4 projects scheduled as tear-downs
* 2017: covenants expiring by 2021, 2019: covenants expiring by 2023

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**Figure 2: Unit Configurations**

- One of the key limiting factors in the aging inventory is insufficient space to provide on-site supportive services, creating challenges for service delivery to PSH populations. Only 42% of projects have adequate on-site services space.

- As part of the anticipated rehabilitation scope, the vast majority of projects will incorporate accessibility (90%), energy efficiency (86%), and seismic upgrades (60%).
Financial Characteristics

• The portion of projects in ‘break-even’ or worse financial health has remained consistent between 2017 (76%) and 2019 (72%), despite the rise in overall projects considered at-risk. The percentage of projects in good financial health increased slightly (see Figure 3).

Figure 3: PSH Financial Health (by Projects)

- The average estimated rehab cost per unit is $57,000. Thirty-six percent (36%) of units have average rehab costs below $40,000, making them ineligible for conventional recapitalization programs (see Figure 4).

Figure 4: Rehab Cost Per Unit

- The oldest cohort of PSH projects was almost exclusively financed (96%) through the City of Los Angeles, either the Community Redevelopment Agency of Los Angeles (CRA), and/or the Housing and Community Investment Department (HCID). The portion of projects with State Housing and Community Development Department (HCD) funding remained consistent, at approximately 40%, while the number of projects with LA County capital funding doubled since 2017.

- More than one-third of the PSH units have affordability restrictions that have expired or are set to expire in the next five years (see Figure 5).

Figure 5: Expiring Affordability Covenants (by Units)

- There remains a sizable number of PSH units (637) that lack operating subsidy, more than double from 2017. Two projects lost operating support through the state’s Supportive Housing Initiative Act (SHIA) program. The majority of PSH units with operating subsidy in 2019 receive support through the Continuum of Care or SRO Mod Rehab programs.
Six Strategies For Preservation

Amidst public pressure to reduce chronic homelessness and expand the supply of PSH, policymakers should not lose sight of sustaining and revitalizing our existing PSH stock, especially given its pivotal role in housing homeless referrals through CES. Here are strategies that policymakers and state and local housing officials can draw upon to modernize our at-risk PSH.

Set Priorities
Local housing officials can work with PSH stakeholders to establish reasonable unit targets and priorities for preservation efforts. This will require differentiating which projects need a deeper recapitalization path and those that need modest investments or loan modifications or extensions. Preserving projects that align with civic mandates can also help localities to meet their own targets for residential improvements such as energy efficiency and accessibility.

Protect Expiring Covenants
Ensuring that the oldest PSH projects financed through the City of Los Angeles or the State of California remain affordable with restrictions in place should be a top priority, so that the region does not lose desperately needed affordable/PSH units.

Establish Dedicated or Prioritized Capital
Our experience suggests it is necessary to have a dedicated source of capital for consensus preservation goals, in order for aging PSH projects to be competitive or eligible for available and emerging capital funding programs. At $23MM annually, we could modernize more than 400 units for the less than the typical cost ($32MM) of one new PSH project (64 units on average) in the City of Los Angeles.

Ensure Rent Subsidies are Flexible, Sustainable, and Attached to All Unsubsidized Units
The current slate of rental assistance subsidies has proven insufficient to generate revenue needed to sustain operations. Owners would be better equipped to offset escalating operating costs and improve cash flow if they were afforded flexibility to move commitments across buildings and pursue alternatives, such as the Rental Assistance Demonstration (RAD) program. One-third of the at-risk PSH units are eligible for RAD conversion, which offers higher rents and longer-term contracts.

Align Funder Policies
PSH project owners are asked to demonstrate long-term compliance across several public financing programs that often have conflicting restrictions. Program components such as loan servicing fee requirements, supportive services cost allowances, and the use of cash flow or project reserves for capital expenses are notable areas for future alignment.

Mitigate Cost Escalations
The costs of operating PSH are on the rise though we are still learning the impacts on organizational and project budgets. We should acknowledge that housing and serving higher acuity residents is more expensive and creates a need for more resources.