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In 2016, Enterprise launched the Los Angeles PSH Preservation Initiative to mobilize the permanent supportive housing (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.

Preservation: A Public Benefit

Preserving our existing project-based permanent supportive housing should be viewed as a necessary and complementary tool in the affordable housing toolbox and an integral step 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, and
- Revitalize the bedrock of a homeless delivery system that is undergoing dramatic scaling with the advent of Proposition HHH and Measure H.

A Deeper Look at Aging PSH in Los Angeles

- 76% of the aging PSH portfolio are considered to be in poor financial condition, 39% of which are unable to fund expenses (Figure 1).
- 62% of the inventory consists of SRO units, which are currently out of favor with public funding guidelines.
- Just over one-third of units have affordability restrictions set to expire in the next five years (Figure 2).
- The average rehab cost per unit is $72,000. 45% of the overall inventory requires less than $20,000 per unit.
- 306 units lack long-term rental assistance contracts.
- The median original building construction date was 1928.

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 building systems, create supportive services offices, renovate common spaces, and add accessibility features;
- **FINANCIAL** Aging PSH projects generally run on thin financial margins and receive static, if any, rent subsidies to cover escalating costs; and
- **PUBLIC POLICY** The shift to housing first and the advent of the Coordinated Entry System (CES) requires PSII owners to serve the “highest acuity” households despite aging buildings having little to no ability to absorb higher operating expenses and lacking adequate supportive services.

PSH Financial Health (by projects)  
*Figure 1*

- 40% - Unable to Fund Expenses
- 24% - Cash Flowing
- 36% - Breaking Even

Expanding Affordability Covenants (by units)  
*Figure 2*

- HCID Expiring 2017
- CRA Expiring 2017
- HCID Expiring 2017

*HCID: Los Angeles Housing and Community Investment Department, CRA: Community Redevelopment Agency of Los Angeles, HCD: State of California Housing and Community Development Department*
WAYS WE CAN RESPOND

Amidst public pressure to reduce (if not end) 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 referrals through CES. Here are some strategies for policymakers and state and local housing officials.

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 a modest investment or modification or extension of a current loan agreement.

Protec 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. If the City and County of Los Angeles, along with the State of California, jointly set aside $7 million annually, we would be on track to preserve 1,300 PSH units within the next 5-7 years.

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. Allowing greater flexibility for owners to move commitments across buildings and pursue alternatives, such as the RAD program, will help to offset escalating operating costs and improve cash flow.

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.