Redesign Required

Lessons for Permanent Supportive Housing from Skid Row Housing Trust Buildings

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Executive Summary

In late 2022, The Skid Row Housing Trust, a Los Angeles fixture and national model for permanent supportive housing (PSH), was on the brink of failure. For decades, its buildings had provided homes for residents who often had no other options. Now, supporters were scrambling to find a way forward.

Three years later, this report analyzes the underlying economics of the buildings operated by the Trust in service of the questions that remain relevant to today's permanent supportive housing providers: What financial forces contributed to the failure of the Trust? And how can the sector avoid similar outcomes for other PSH buildings?

This research leverages unprecedented access to the Trust's leadership and its financial records. In its waning days, under a data-sharing agreement approved by the Trust's Board of Directors, thousands of reports were exported from its enterprise resource platform. We used this data alongside dozens of in-depth interviews to complete the first comprehensive economic analysis of the Trust's 29 buildings. Among our findings:

- **Rental subsidies don't cover the cost of permanent supportive housing.** More than any other financial factor, including building age and maintenance costs, rent subsidy rates determined the viability or failure of each Trust property.
- **The calculation of subsidy rates is cryptic and its variability is indefensible.** There is not a transparent process for setting or appealing subsidy rates. Similar PSH buildings receive rental subsidies with a difference of up to $600 per unit per month, and rental subsidies fall below fair market value by up to $1,058 per unit per month.
- **The "building-by-building" business model doesn't work.** Legal structures and regulations prohibited the Trust from using profits from one building to offset losses from another. Instead, the Trust was responsible for covering any shortfalls on a building-by-building basis. Consolidated financial reporting obscured this variability by reporting on total performance, making it hard to see how underperforming buildings were creating immense financial problems.
- **There was no plan for the long-term financial viability of PSH buildings.** The current PSH operating model relies on future redevelopment to fund major repairs, but capital is scarce and has been prioritized for new construction over the rehabilitation of existing buildings. The sector has not identified adequate resources or alternative strategies for safeguarding the long-term viability of PSH buildings.

Key Recommendations:

- **Connect costs and rents.** A new approach to establishing rental subsidies should be created – one that is grounded in the actual cost of operating safe, dignified PSH for high acuity individuals over the long term. Rents should be based on maintaining appropriate staffing levels and staff expertise for building size and resident needs. Rents should adequately cover maintenance, repairs, turnover, debt service, deprecation, and reserves in case of emergency.

- **Develop long-term strategies.** The PSH sector needs a long-range framework to guide what happens between a building's initial lease-up and the end of its affordability term. This includes determining when reinvestment makes sense, when a property should be replaced or repurposed, and how to support residents and organizations through those transitions. Developing this framework will require policy changes and coordination across public agencies, funders, developers, and residents to avoid future crises as the housing stock continues to age.

- **Allow for a true portfolio model.** By allowing building owner-operators to share resources among properties, they can more easily absorb financial setbacks and maintain overall stability across housing resources.

- **Change the approach to compliance.** When PSH providers struggle, government agencies need to partner for solutions, not just administer punishment. Current methods of enforcement can exacerbate the very issues they are intended to solve, making it harder to provide safe, dignified housing.

- **Change accounting practices to better map to reality.** We recommend the sector engage with FASB to revise its guidance on the presentation of audited financial statements for affordable housing developers and similar organizations so that users of the statements – government agencies, lenders, philanthropic funders, and others – have a clear picture of the amount of deficit activity the organization is financing from its own resources and the true picture of debt the organization must be prepared to service or repay.

To deliver on the promise of permanent supportive housing, the sector must adopt a clear-eyed view of what it takes to provide housing and services to high acuity residents. We need fair rental subsidies, a shared mental model for stewarding buildings decades into the future, and relevant financial data to guide decision-making. Otherwise, even the best providers are set up to fail.

Introduction

In 2023, the closure of The Skid Row Housing Trust – often held up as a national model of permanent supportive housing – shocked many in Los Angeles and the affordable housing community. How did the Trust go from champions of the supportive housing model to out-of-operation? What does its failure mean for the future of permanent supportive housing? What funding changes could help secure viable housing for Skid Row and other community members? We believe that understanding the financial and economic forces at play will illuminate the path toward a more sustainable approach to permanent supportive housing. Before looking to the future, we considered the Trust's past.

History and Context of Skid Row Housing Trust

Skid Row is an area of approximately 50 square blocks located just east of downtown Los Angeles. Many of the City's working poor, unemployed, disabled, and otherwise marginalized residents have found homes in Skid Row's single room occupancy (SRO) hotels since the early 20th century. Between 1950 and 2000, 15,000 residential hotel apartments were destroyed, threatening Skid Row's residential community and forcing thousands of people onto the City's shelters and sidewalks.[1]

In 1989, the Skid Row Housing Trust (the Trust) was founded by business and civic leaders to respond to the loss of residential hotels by preserving and rehabilitating the remaining hotels. The Trust mobilized private equity through low income tax credits, public finance, and conventional debt to preserve hundreds of housing units that would have been otherwise lost. By 1993, the Trust had completed renovation and transitioned nine hotels into permanent affordable housing for people experiencing homelessness. That same year, the Trust became one of the first organizations in the nation to combine permanent housing and on-site social services to establish permanent supportive housing (PSH), designed to create stability and community for residents and prevent future experiences of homelessness. Residents living in one of the Trust's SRO apartments had their own private bedroom, shared kitchen and bathroom facilities, and on-site access to professionals such as health and social services case workers.

Over the next two decades, the Trust continued to renovate existing historic structures for housing. In 2013, the Trust's Star Apartments opened with a first-of-its-kind design of modular constructed units, 15,000 square feet of open air space, a community garden, track, workout equipment, and a Department of Health Services clinic on the ground floor. Later, the Trust developed and built supportive housing co-located with the Joshua House Clinic, a 25,000-square-foot health clinic operated by LA Christian Health Centers. In total, the Trust renovated or constructed nearly 2,000 units of permanent supportive housing across 29 buildings.[2]

1 "History of Skid Row and the Trust," Skid Row Housing Trust, archived August 3, 2023, at the Wayback Machine, https://web.archive.org/web/20230803185150/https://skidrow.org/about/history/.

2 Ibid.

Financial Challenges and Strategic Redevelopment Efforts

By the mid-2010s, the Trust began grappling with the reality that its aging SRO portfolio was losing money. The Trust's staff observed that demand for SROs was declining as prospective tenants increasingly preferred studio apartments over shared living spaces. Navigating redevelopment requirements at the State, County, and City levels became increasingly complex and costly. Former leadership reported that securing adequate financing for the extensive rehabilitation needs of aging properties became more difficult over time.

The Trust initiated a rehabilitation strategy to resyndicate, renovate, and/or redevelop many of its properties, leveraging available programs such as the Moderate Rehabilitation Program (Mod Rehab) and Rental Assistance Demonstration conversions (RAD) to improve buildings and secure new, increased rental subsidies. It successfully redeveloped two of its older SRO buildings into more desirable studio apartments, and in 2017 began the same work on the next two properties: the Edward and the Hart, both of which had outstanding notes payable due to the California Department of Housing and Community Development (HCD). Interviewees reported that the Trust secured a $2 million loan to fund the renovations and had spent nearly $3 million on pre-development activities before redevelopment of the Edward was halted. In late 2018, HCD found that the Trust had relocated residents from the Edward to another Trust-owned building to begin construction on the Edward, but without the required written approval from HCD. Because of this violation, the Trust was not permitted to move forward with redevelopment of the Edward or the Hart, creating financial challenges due to the carrying costs of the loan, the vacancies in the Edward, and the inability to earn and collect developer fees. The issue remained unresolved. In late 2021, HCD suspended the Trust's developer status, essentially eliminating the Trust's ability to access funding to continue development efforts or to earn developer fees.[3] This is one example of numerous compliance issues and financial setbacks that contributed to the closure of the Trust. The Trust had a series of transitions in key leadership roles around this time, as well as a series of staffing reorganizations, which interviewees frequently cited as two of the main causes of the Trust's compliance issues. The COVID-19 crises that emerged in early 2020 created incredible disruption as well. The Trust was managing four development projects across six sites,[4] but had to put all of these efforts on hold in order to direct resources toward managing the rapidly changing health and safety requirements, operating expenses, and new funding dynamics arising from the pandemic. In addition, three other developments had recently been placed in service, and lease-up activities were disrupted by COVID.

Trust Closure

In the fall of 2022, the Trust notified its limited partners, direct lenders, and philanthropic funders of its unsustainable state. While its struggles had been widely recognized within the sector for years, the full extent of the crisis came as a shock. Recognizing the urgency of stabilizing housing for its residents, the Trust collaborated with stakeholders to identify new owner-operators for its portfolio of buildings.

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3 Per internal cash budget projections, the loss of developer status in 2021 prevented the Trust from collecting $4.5M in developer fees in 2022.

4 Per 2020 audited financial statements.

To generate interest from sector-based PSH owner-operators,[5] the Los Angeles Housing Department (LAHD) developed a strategy to bundle financially viable buildings with distressed ones for sale or transfer. This approach aimed to create at least a break-even scenario for prospective owner-operators while ensuring no building was left without a plan. This strategy did not work for two reasons. First, no established and reputable PSH provider was willing to accept such arrangements. Many explicitly stated that taking on even one distressed property could jeopardize the financial stability of their entire organization. Second, most of the financially viable buildings were still within their tax credit compliance periods, and the limited partners exercised their rights to select replacement general partners[6] to assume control of these properties.[7]

With funds and options depleted and building conditions worsening, the Trust's properties were placed into a court-appointed health and safety receivership in April 2023. Shortly after the receiver assumed control, the Trust closed its resident services and property management operations. The first receiver struggled to effectively manage the portfolio and secure reasonable financing terms, prompting the appointment of a new receiver a few months later. This transition included an agreement with the City of Los Angeles to provide critical funding to the receiver to operate and manage the transfer of buildings, estimated to have reached $40 million.[8]

In summer 2024, the court approved the sale of the remaining buildings. Under the terms of the court order, the receiver managed the sales and transfers while the Trust remained to support the final sale transactions. The Trust officially closed under a Chapter 7 bankruptcy in January 2025.

Goal of This Research and Its Limitations

This research uses the Trust building finances as a case study to analyze the underlying economics of operating PSH. The Trust self-managed its portfolio as the sponsor, general partner, and owner-operator. The portfolio consisted of 29 buildings, most located in or adjacent to Skid Row, of various ages, sizes, unit types, financing structures, and public housing rental subsidies. The size of the Trust's portfolio presents an opportunity to examine how the financial dynamics of buildings varied by these factors, how those dynamics contributed to the Trust's closure, and how those dynamics are likely impacting other PSH owner-operators with similar buildings. The findings can help inform the broader PSH sector, potentially shaping policy decisions and operational strategies, and identify systemic funding challenges that may threaten

5 By *owner-operator*, we mean the entity that both owns and operates the housing units, providing both the physical space and the supportive services to residents. In this context, the term is interchangeable with *general partner*.

6 By *general partner*, we mean the entity responsible for overseeing the development, ownership, and operation of the PSH project, including ensuring compliance with program regulations and providing necessary services in the structure of a limited partnership. In this context, the term is interchangeable with *owner-operator*.

7 Eight of the limited partnerships had the same tax credit investor, National Equity Fund (NEF), which selected the nonprofit People Assisting the Homeless (PATH) to replace the Trust as the general partner. These transitions took place within the first year that the Trust ceased operations.

8 Liam Dillon, "Taxpayer rescue of Skid Row's largest landlord nears $40 million," Los Angeles Times, December 4, 2023, https://www.latimes.com/homeless-housing/story/2023-12-04/taxpayer-rescue-of-skid-rows-largest-landlord-nears-40-million.

the sustainability of other PSH providers. Only with a clear-eyed assessment of what it costs to operate safe, dignified buildings can the sector succeed on behalf of its residents.

This research is not intended to serve as a comprehensive post-mortem of the Skid Row Housing Trust. While numerous factors likely played a role in the closure of this 35-year-old organization, this study does not examine leadership, governance, organizational structure, or other internal or external dynamics that may have contributed to its dissolution. Instead, it focuses specifically on the economic and financial conditions of the buildings that influenced the Trust's financial decline. Many PSH providers in LA and cities across the country are currently operating within the same or similar financial forces and constraints, and these findings are relevant to their survival.[9]

Methodology and Data Sources

Buildings as Limited Partnerships

Each of the buildings examined in this research were operated by the Trust as independent entities, structured in individual limited partnerships (LP).[10] The ownership interests within the LPs were held by the Trust as the general partner and either a tax credit investor or an affiliated Trust entity as the limited partner.[11] This ownership structure meant that the financial performance of each LP – whether profit or loss – was independent from the other LPs. In other words, income and expenses from one building could not be used to offset those of another, nor could reserves from one building be allocated to address critical needs elsewhere. As a result, the financial viability of each building was assessed individually.

This ownership structure is not unique to the Trust. Rather, it is the ownership structure used widely by PSH and other affordable housing projects in order to access tax credits, tax exempt bonds, and loans used to finance the buildings. Therefore, the economics of this structure, as experienced by the Trust, are applicable to organizations across the broader sector.

Data Utilized

The primary data source for this research was Yardi, an enterprise resource platform that the Trust used for all its projects starting in 2008. Under a data-sharing agreement approved by the Trust's Board of Directors, thousands of reports were exported from Yardi prior to the organization's closure for use in this research.

The financial analysis relied most heavily on **Trial Balance** reports for each building from 2008 to 2022, showing the total debits and credits for every general ledger account for each year. For occupancy and rent rate analysis, the research primarily used **Unit Statistics** reports covering

9 As one example, see recent research from Minnesota Housing Stability Coalition's Distressed Property Data Project: "Report II: Using Data to Characterize Distress on Regulated Properties and Housing Providers," O'Neill Consulting, Distressed Property Data Project, February 2025.

10 The Trust's 29 buildings were organized into 26 Limited Partnerships. Three LPs held two buildings each, and 23 LPs held a single building. Most data utilized for this research was maintained at the LP level. For simplicity of language, this research will generally use the term "building" to refer to a single LP.

11 Affiliated Trust entities often replaced the tax credit investor as the limited partner when the tax credit investor withdrew from the limited partnership after 15 years.

the same period, including rent rates and occupancy for each building at the end of each year. Additional Yardi reports were analyzed where relevant.

In general, the analyses performed on building operations utilized data only for **fully stabilized buildings**, those that were operating under their permanent financing structure and appropriately leased-up. Newer projects that had not yet converted to their permanent financing structure, projects undergoing redevelopment, or buildings that were otherwise identified as not stabilized were often excluded from operating analyses. We generally excluded data from a building's first year of operation to avoid skewing the occupancy rates, revenue, and expense calculations. We generally excluded data from 2023 because the buildings had been placed under a health and safety receiver early in that year. Most operating analyses presented in this report are based on 19-20 buildings, though capital structure analyses typically include all buildings. A table in the appendix of this report details which buildings were excluded from analyses.

Buildings were analyzed based on building size (number of units), unit type, subsidy type, years in operation, and tax credit investor status.[12]

This research did **not** access personally identifiable information (PII) for residents, such as names or income details, nor did it include employee data such as names, salaries, titles, or organizational charts.

Additional sources of data included **audited financial statements** (where available), **board minutes**, **loan documents**, **partnership agreements**, and a **literature review** to provide a broader context for the findings.

Qualitative interviews with 30 individuals knowledgeable about the sector or the Trust provided verification, interpretation, and deeper explanation of the data. They represent a wide range of expertise and perspectives, including PSH developers and operators, sector advocates, government funders, former Skid Row Housing Trust staff, and system operators at various levels. Most interviewees are listed in the acknowledgement section of this report, though some chose to remain anonymous.

12 There was no observable pattern in changes to building finance after a tax credit investor exited. This may be due to the limited number of buildings that experienced a tax credit investor exit during the period analyzed.

Analysis

We analyzed the economics of the buildings from several perspectives. Buildings were almost exclusively funded by subsidy and tenant rents, and the majority of operating expenses were connected to staffing and maintaining the facility. The analysis revealed that many of the Trust buildings had a deficit economic structure – where operating expenses routinely surpassed income – and nearly all had extremely limited liquidity. No buildings were able to cover annual depreciation expenses. We expected that older buildings would be less financially viable. While this proved true, it was not because expenses grew over time as we had hypothesized. Rather, expenses were fairly uniform across buildings, but the established rent payment standards were not. Rent subsidy rates were deeply suppressed in older buildings and fully disconnected from fair market rates. Rents were insufficient to meet day-to-day operating needs in older buildings, and insufficient to meet liquidity, reserve, and fixed asset needs in all buildings.

Profitability

Operating Results

To determine whether a building is financially viable, government agencies and building operators tend to consider only income and operating expenses, and exclude expenses such as depreciation, amortization, and non-cash debt service. We aimed to replicate this standard sector view in Fig. 1 in our analysis, though there is some variation that may cause the expenses of some buildings to be understated.[13]

Average annual operating performance of the Trust's buildings is closely correlated with building age. All nine buildings in operation for 16 years or less showed average annual operating surpluses for the years 2008-2022. Of the 11 buildings that had been in operation for 18 years or longer as of 2022, however, only two showed a meaningful average annual operating surplus.

Fig. 1 may give the impression that in the aggregate, the Trust's portfolio was performing reasonably well: Average annual operating deficits were relatively small, and overall surpluses were greater than overall deficits. However, given the ownership structure of the buildings, **surpluses at one building were not available to offset deficits at another building**.[14]

13 Records available for analysis did not adequately delineate which debt service expenses would eventually be forgiven due to the provision of services over time, and which would ultimately need to be paid out in cash. We did analyze cash flow statements contained in the consolidated audits for all Trust related entities from 2009 to 2020, which showed the Trust paid $17.5 million in cash for interest on debt. There was insufficient data to determine which buildings would have been responsible for these cash payments, or which cash payments were for debt belonging to the buildings we analyzed versus new properties under development or other purposes.

14 See buildings as limited partnership under the methodology section of this report.

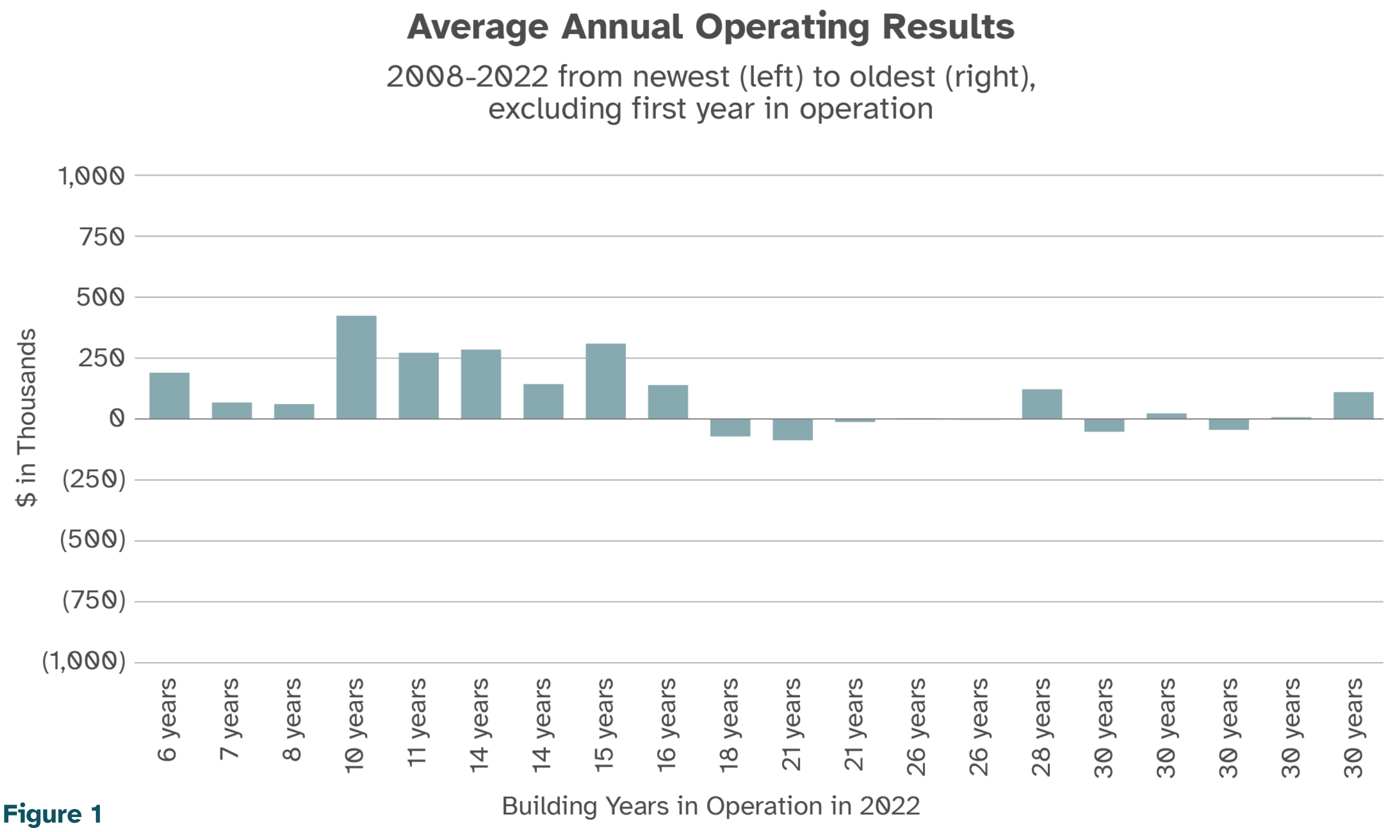

Figure 1

As the building sponsor, the Trust had to cover the deficits from individual buildings with its own funds. Those operating deficits totaled $6 million for fully operational buildings that had cumulative deficits from 2008 to 2022. Buildings still in the process of redevelopment or not fully leased up and stabilized as of 2022 (not included in Fig. 1) had an additional $5 million in cumulative deficits. **In total, the Trust had to finance $11 million in building-level deficits from its own revenue.** One of the Trust's only sources of flexible revenue to finance these deficits was developer fees.[15]

Results Including Depreciation Expenses

In a sector heavy in fixed assets, non-cash depreciation expenses should be used as an important estimate for the eventual cost of replacing critical physical infrastructure, such as roofs, plumbing, HVAC, and electrical. Using depreciation expenses to estimate the wear and tear on fixed assets over the course of the year creates a "forced savings" because the depreciation expense reduces the building's surplus but the cash is not yet expended. Depreciation expense creates an accounting dynamic where funds are set aside to steward fixed assets in the future and keep buildings operational. **Healthy financial performance over the long-term requires that buildings achieve surpluses after depreciation expenses.** By excluding

15 Developer fees incentivize the development of affordable housing properties. The developer fee is built into the project budget and, with LIHTC projects, the fee is a percentage of the project development costs (10-15%) or a capped dollar figure ($12,000-15,000 per unit). Developer fees can be difficult for developers to fully realize in cash because developer fees are reduced by cost overruns on construction or similar. According to consolidated audited financial statements for the Trust from 2009 to 2020, the Trust earned $30.8 million in developer fees, with $16.3 million of that yet to be collected, implying $14.5 million was collected in cash. However, this should not be taken as a reliable calculation of the developer fees actually available to the Trust to use as flexible revenue, as the audited financial statements take a different approach to reflecting developer fees than how they are actually paid and utilized.

Average Annual Operating Results with Depreciation Expense

2008-2022 from newest (left) to oldest (right), excluding first year in operation

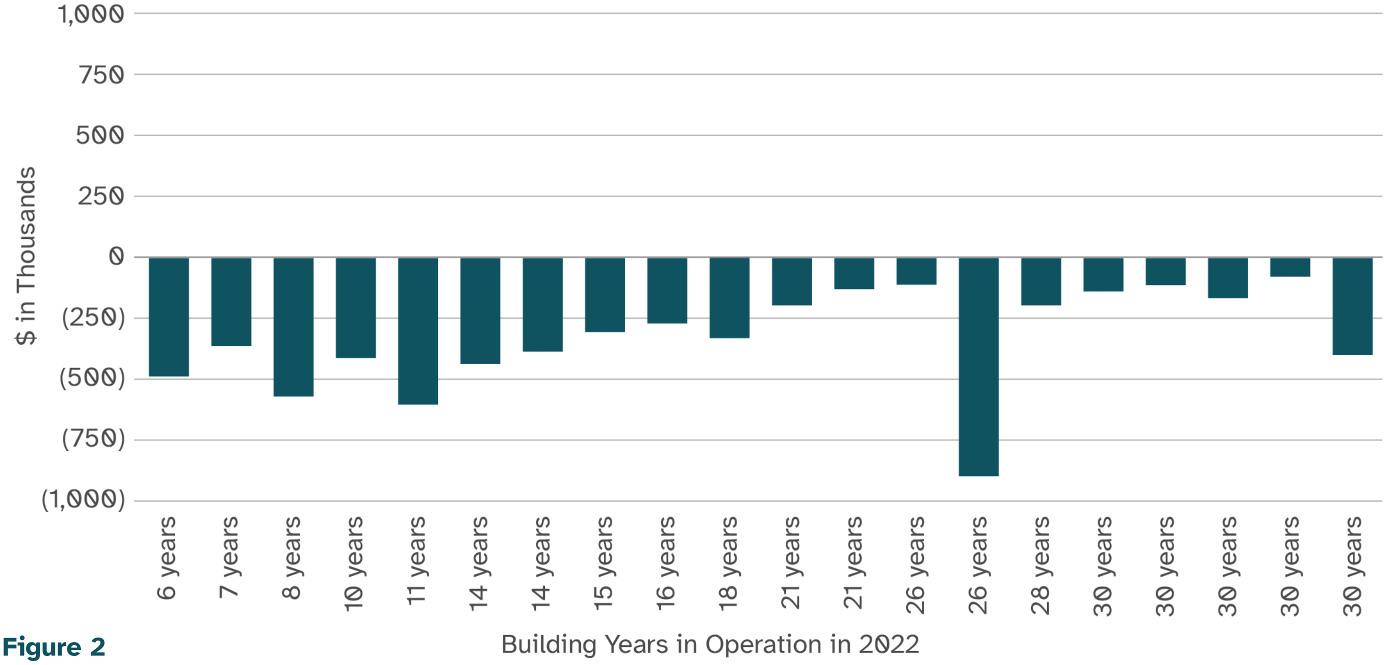

Figure 2

depreciation expenses in standard calculations of profitability, as presented in Fig. 1, the sector assumes that rent revenues do not need to be large enough to maintain the physical condition of buildings over time, and that additional outside funding will always be needed for major fixed asset repair or replacement.

By including depreciation expenses when calculating building performance, the sector would understand better the revenue necessary to maintain a financially sustainable building over time.

When we analyze annual results and include depreciation (Fig. 2), we see a very different picture: **All of the buildings show an average annual deficit when including depreciation expenses.** This means 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.

When including depreciation expenses, newer buildings generate greater average deficits than most older buildings. This is expected based on the way depreciation is calculated and because older buildings in the portfolio had lower valued fixed assets than newer buildings.[16]

Two major external events occurred during the years analyzed that could potentially skew the average operating results. The first was the implementation of the Coordinated Entry System

16 Depreciation is calculated based on the book value of fixed assets, excluding land, and an estimate of their useful lives. Prices rise over time, which means that the book value of fixed assets purchased or built 30 years ago will be significantly less than the book value for the same fixed assets if they were purchased or built today. A smaller depreciable fixed asset base will result in smaller depreciation expenses each year. For the Trust specifically, older buildings had fewer units and tended to be remodels rather than new construction. This is another factor causing the starting book value of older buildings to be lower than newer buildings, and caused the newer buildings to have comparably higher depreciation expenses.

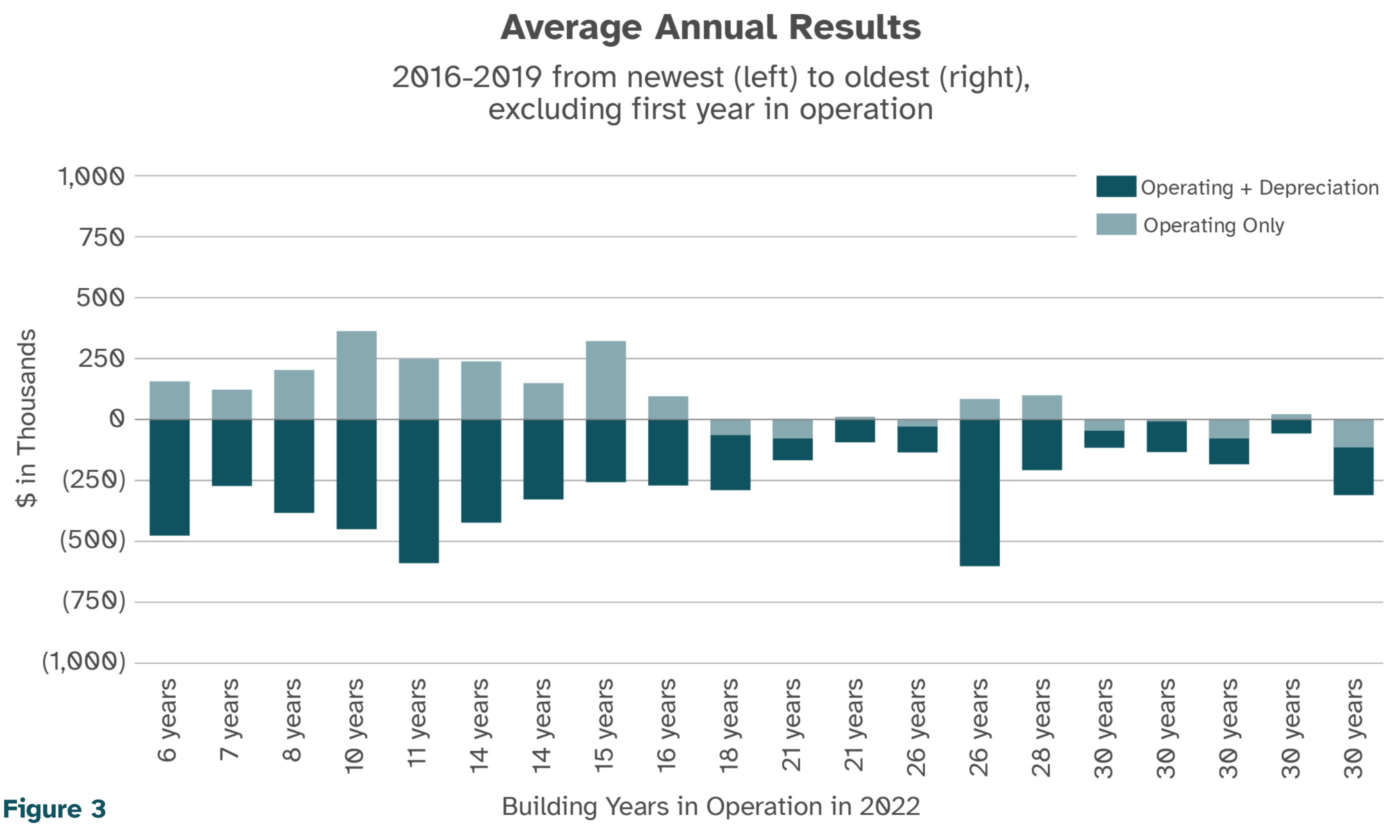

Figure 3

(CES), which was piloted in 2013 in Skid Row and launched county-wide in 2015.[17] CES centralized housing requests and placements, and facilitated the prioritization of housing for those with higher acuity. Any new system takes time before it operates optimally, and reports by Enterprise Community Partners have shown CES increased the time units were vacant between tenants, which negatively impacted rental income (vacant units do not generate rent revenue, typically).[18] The second event was the COVID-19 pandemic, which significantly disrupted operations in 2020, 2021, and 2022. The disruptions included emergency tenant rent collection and eviction policies, emergency funding sources with specific compliance requirements, and additional expenses for personal protective equipment and cleaning services.

We wanted to assess what a "steady state" of operations might look like for PSH buildings, without the effect of a major systems change or global health emergency. To that end, we selected 2016-2019 as the four "Goldilocks" years for analysis to better understand average annual building results (Fig. 3). For comparability to the graphs above, building years in operation is still presented as of 2022.

Analyzing this narrower set of years shows a very similar pattern of performance across buildings, whether considering operating results alone or results including depreciation expenses. This shows that **even without system shocks, the underlying economics of most older buildings were failing from an operating perspective, and no building had adequate revenue to maintain fixed assets over the long-term.**

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17 "A Coordinated Entry System for Los Angeles: Lessons from Early Implementation," Abt Associates Inc., May 15, 2015.

18 See "Assessing PSH Provider Experiences Using CES," Enterprise Community Partners, April 2017. See also "CES Vacancy to Move-In Tracking Pilot: Key Findings & Next Steps Q2 ICMS Provider Meeting," Enterprise Community Partners, June 12, 2019.

Nature of Revenue

The dominant revenue source at all Trust buildings was rental income, which represented 95-100% of total operating revenue (Fig. 4) for each individual building.[19] Rental income consists of two components: tenant rent paid by residents and subsidy rent paid by government sources in the form of grants or contracts. Total rent revenue tended to be one-third from tenants and two-thirds from government subsidies. Six buildings had storefront or office space that was leased to third parties, such as nonprofit partners providing health, legal, and other services.[20] These generated small amounts of commercial rent.

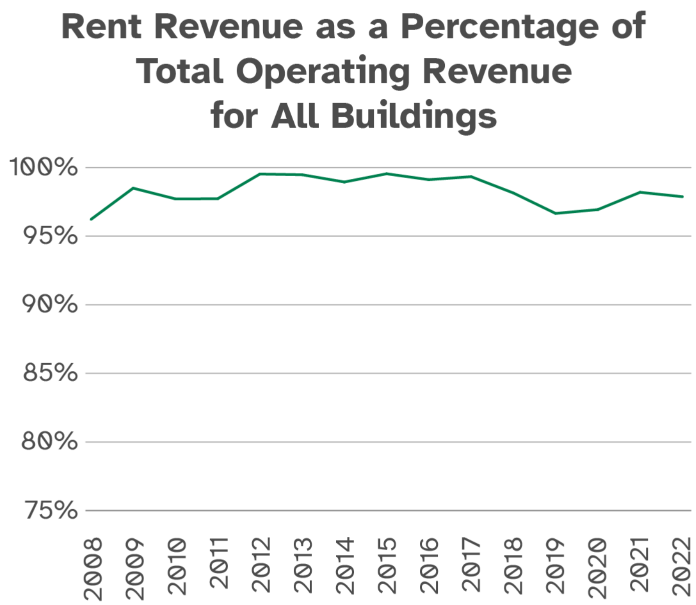

Figure 4

About Rental Subsidies

Most of the Trust's buildings had one of three different types of rental subsidies: Project-Based Vouchers[21] (PBV); Continuum of Care (CoC, formerly Shelter-Plus-Care); and Moderate Rehabilitation Single Room Occupancy Program (Mod Rehab). These subsidies originate at the federal level under the Section 8 housing program and the HEARTH Act of 2009,[22] are administered by different offices within the U.S. Department of Housing and Urban Development (HUD), and are passed through to State and City intermediaries. The Housing Authority of the City of Los Angeles (HACLA) administered these subsidies for the Trust's buildings. Various regulatory agreements, lending documents, and rental subsidy contracts govern PSH buildings for periods of 15 to 55 years. Such agreements determine who qualifies to live in a unit (e.g., veterans experiencing homelessness), how much rent tenants will pay (e.g., 30% of the tenants' income), and define the source of any subsidy rent.

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19 The other sources of operating revenue were fees charged to tenants (e.g., laundry, key replacements) and contributions from non-governmental sources. A few buildings had non-operating revenue in the form of debt forgiveness, which came in the form of non-cash grants from government agencies and were excluded from this analysis.

20 The Trust's chart of accounts did not delineate the expenses for operating commercial space from expenses for operating residential space. Therefore, this research could not determine the net financial impact of commercial space on building operations. Buildings with commercial space showed highly variable operating performance when compared to each other and to buildings without commercial space.

21 Section 8 Housing Choice Vouchers, which HACLA chose to project-base and assign to units. As the local Public Housing Authority, HACLA can determine which Housing Choice Vouchers are tenant-based and which are project-based.

22 The McKinney-Vento Homeless Assistance Act as amended by S. 896 The Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act of 2009, https://www.hud.gov/sites/documents/haaa_hearth.pdf.

Subsidy	Acronym	Description[a]
Project-Based Vouchers	PBV	Provides long-term rental subsidy contracts that facilitate development of housing for homeless individuals and families, targeting seniors, families, transition-aged youth, veterans, and the disabled. *Housing Assistance Payment contracts for 15-20 years, with annual increases based on rent reasonableness studies.*[b]
The Continuum of Care Program (formerly Shelter-Plus-Care)	CoC	Designed to provide permanent housing with supportive services to chronically homeless persons with disabilities, especially mental illness, substance abuse, or HIV/AIDS. *Grants require a match, creating an unfunded mandate for project sponsors.*[c] *Annual increase mechanism unclear.*
Moderate Rehabilitation Single Room Occupancy Program	Mod Rehab	Rental subsidies for converting existing housing, rundown hotels, or abandoned buildings into safe and decent single room occupancy housing. (The program is no longer available, but current SRO projects are being renewed). *Often requires project sponsors to secure their own capital to complete building rehabilitation in order to secure higher rents moving forward.*

a “Homeless Initiatives,” Housing Authority of the City of Los Angeles, accessed February 13, 2025, https://www.hacla.org/en/about-section-8/homeless-initiatives.

b “Housing Assistance Payments (HAP) Contract: Section 8 Tenant-Based Assistance Housing Choice Voucher Program,” Department of Housing and Urban Development, OMB Approval No. 2577-0169,exp. 4/30/2026, https://www.hud.gov/sites/dfiles/OCHCO/documents/52641ENG.pdf.

c “Documentation: How do I document in-kind match?” HUD Exchange, accessed February 13, 2025, https://www.hudexchange.info/homelessness-assistance/coc-esg-virtual-binders/coc-match/in-kind-match/documentation/.

High Variability in Rent Rates

We analyzed the rental rates at 20 buildings by years in operation, subsidy type, unit type, and building size. The average per unit per month (PUPM) rates had extreme variations from building to building, and those variations grew larger over time.

In 2009, rent rates ranged from $469 to $734 PUPM, meaning the highest-rent building was able to charge 57% more than the lowest-rent building. By 2022, the rent rate range had expanded to $557-$1,449 PUPM, with the highest-rent building able to charge 160% more than the lowest. Operational age, which determined the year that the respective subsidy base rent was established, was the driving factor behind rent variability. **The longer a building was in operation, the more depressed its approved rent rates became.**

Analysis of Rent Rates by Subsidy Type

We hypothesized that subsidy type would be a strong predictor of building operating performance. Indeed, the analysis revealed PBVs have the highest rent payments, CoC lower, and Mod Rehab the lowest. However, we found variation in rent rates within the same subsidy type. Mod Rehab buildings had very low rents with a narrow variation of $101 PUPM between buildings, from $668 for an SRO-only building, to $769 for a studio-only building. PBV buildings had the highest subsidies, and also a higher variation of $306 PUPM between buildings, $1,143-$1,449, with both the highest and lowest buildings having a mix of studio and one-bedroom units. CoC buildings had the highest variability of $415 PUPM, from $557 for an SRO-only building to $972 for a studio-only building. Fig. 5 plots the highly variable CoC rent rates against the years a building has been in operation.

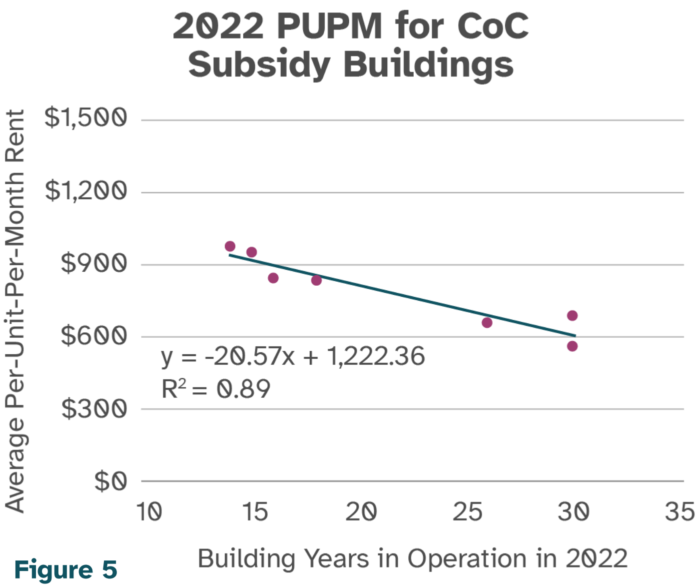

Figure 5

The slope of the line in Fig. 5 shows that for buildings with CoC subsidies, each additional year of operation is associated with a $20.57 lower approved rent rate PUPM. This may seem like an insignificant difference but the implications are important for older buildings. For the purposes of illustration, this means that a 25-year-old building with 80 units and CoC subsidies has annual potential rent that is $197,142 less than a 15-year-old building of the same size and subsidy type.

Analysis of Rent Rates by Unit Type

Some rate variations can also be explained by different unit types, as the fair market rate set by HACLA, using guidance from HUD, applies different rates for SROs, studios, 1-bedrooms, etc. However, the analysis reflects meaningful variations in rent between the Trust's buildings with the same type of units. Comparing buildings that have SROs exclusively, the rent rate variation in 2022 was $557-$849 PUPM, with the highest rent buildings 52% above the lowest. Buildings with only studio units had even greater variation of $732-$1,333 PUPM, with highest rent buildings 82% above the lowest. Fig. 6 plots the highly variable rent rates for studio-only buildings against the years a building has been in operation.

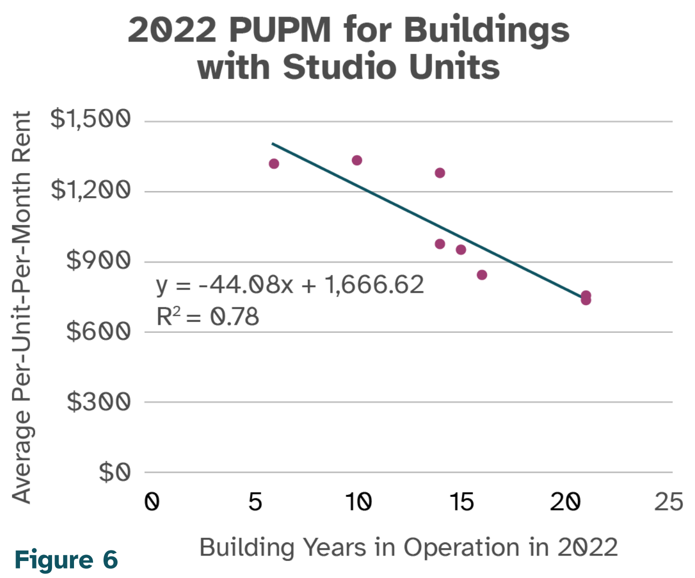

Figure 6

For buildings that exclusively contained studio units in 2022, each additional year of operation is associated with a $44.08 lower approved rent rate PUPM. Imagine two buildings with 80 studio units each. One is 10 years old, and the other is 20 years old. The difference in annual potential rent between these two buildings is $423,168 per year.

Rents Far Below Fair Market Rate

When comparing the rents at buildings that were exclusively SROs or exclusively studios to the fair market rents (FMR) published by HACLA[23] (Fig. 7 and Fig. 8), we again see that **rents become suppressed over time, pointing to flaws in the methodology for annual rent rate increases that fail to keep pace with the real-world operating expense realities.**

By 2023, the gap between the FMR and the highest-rent studio-only building operated by the Trust was $441 PUPM, or $5,292 per year. And the gap between the FMR and the lowest studio-only building was $1,058 PUPM, or $12,695 per year.

When looking at the rates in 2023 for SRO-only buildings, the gap between the FMR and the highest rent building was $489 PUPM, or $5,868 per year. And the gap between the FMR and the lowest rent SRO building was $793 PUPM, or $9,516 per year.

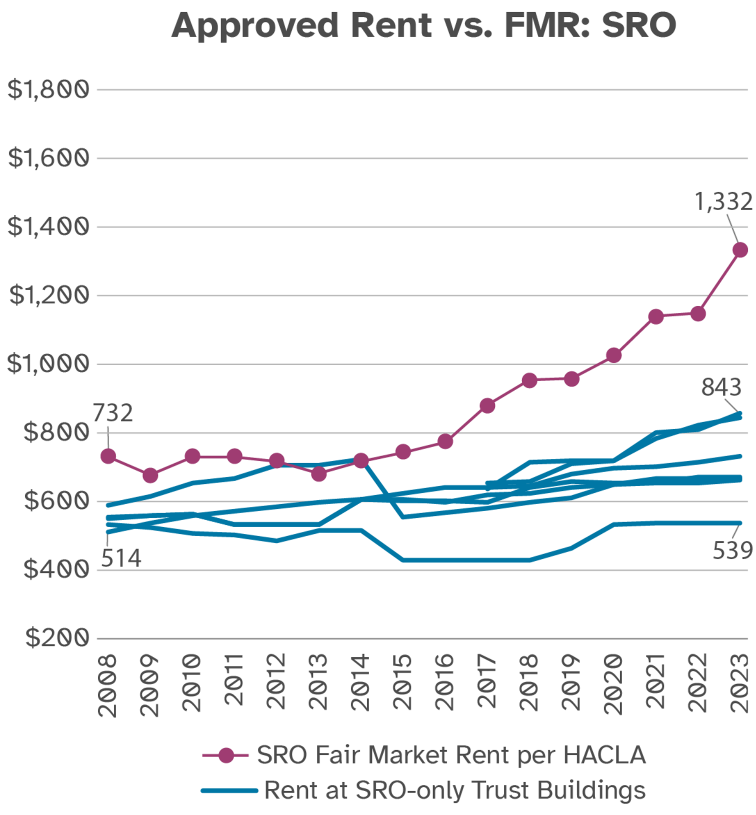

Figure 7

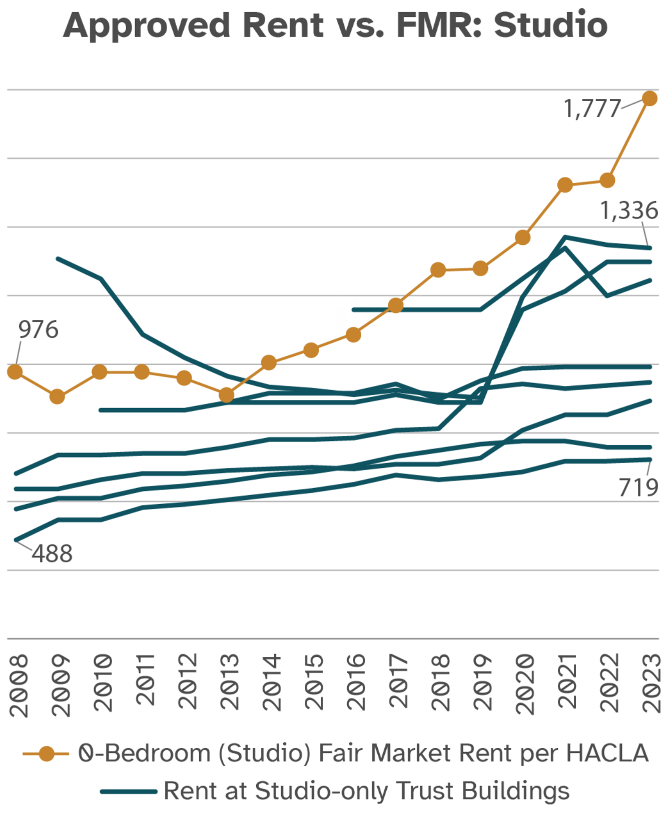

Figure 8

23 "Section 8 Administrative Plan," Housing Authority of the City of Los Angeles 1, chapters 1-12, October 2022, https://www.hacla.org/sites/default/files/Section%208/Admin%20Plan/S8%20AP%202023%20 October%202022.pdf.

For the 15 buildings with a single unit-type captured in Fig. 7 and Fig. 8, **the difference in potential rent between the actual rent rates at each building and the published FMR from 2008-2022 totals $46 million**. Importantly, the individual buildings in this grouping that had cumulative operating deficits could have experienced operating surpluses if rents had kept pace with FMR over time. Note that the $46 million figure **only represents about half of the units operated by the Trust. Insufficient data was available to precisely analyze gaps in rent rates for buildings that contained more than one unit type, but they also appear to have rent rates below FMR and likely had a similar loss in potential rent.**

The reason rent rates fall further below FMR over time is because while FMR may be referenced to set the initial rent rate, annual increases are calculated as a percentage increase on the current rent, often using an insufficient inflationary factor (the exact increase methodology varies by subsidy type). After the first year, FMR is only referenced to ensure rents do not exceed a particular amount. **There is no mechanism to increase rents to current FMR, nor to reflect increasing operating costs.** This points to flaws in the way that rent increases are granted, which eventually creates a dynamic where **building rent rates are the driver of building deficits, threatening the viability of safe, dignified housing for residents.**

Impact of Vacancy Rates on Revenue

Vacancies refer to units that are not occupied and, therefore, do not generate rent revenue. Buildings always have some amount of vacancies due to unit turnover, which is the time between one tenant leaving and another tenant occupying the unit. Turnover activities at PSH buildings involve repairing, cleaning, and furnishing a unit; passing third-party unit-level and building-level inspections; identifying or "matching" a new tenant that meets building and subsidy requirements and restrictions; and other compliance and leasing paperwork. Since vacant units do not generate any revenue, it is in the financial interest of the general partner to fill units as quickly as possible. With a huge lack of housing in the region, it is also a mission and moral imperative to ensure units are occupied.

The Trust maintained high building occupancy levels of 92-95% across all its buildings until 2015 when occupancy dropped to 87% (Fig. 9). This correlates with the county-wide launch of the Coordinated Entry System. From 2015 forward, occupancy rates continued to trend downward, dropping to 77% in 2020: the first year the sector experienced COVID-19 impacts. Occupancy rates reached their lowest level of 72% by the end of 2022.

We explored the potential causes of rising vacancy rates, but were unable to secure adequate data or a consensus among interviewees to reach a conclusion. Potential causes include lack of funding to turnover units, lack of staff capacity or poor

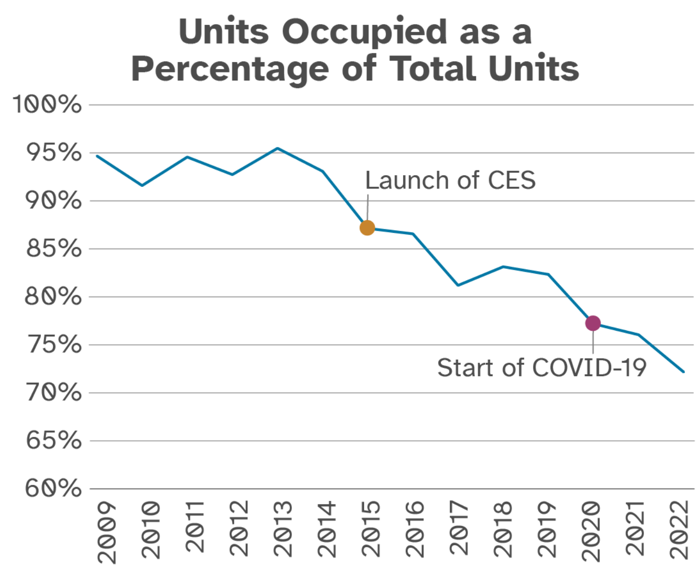

Figure 9

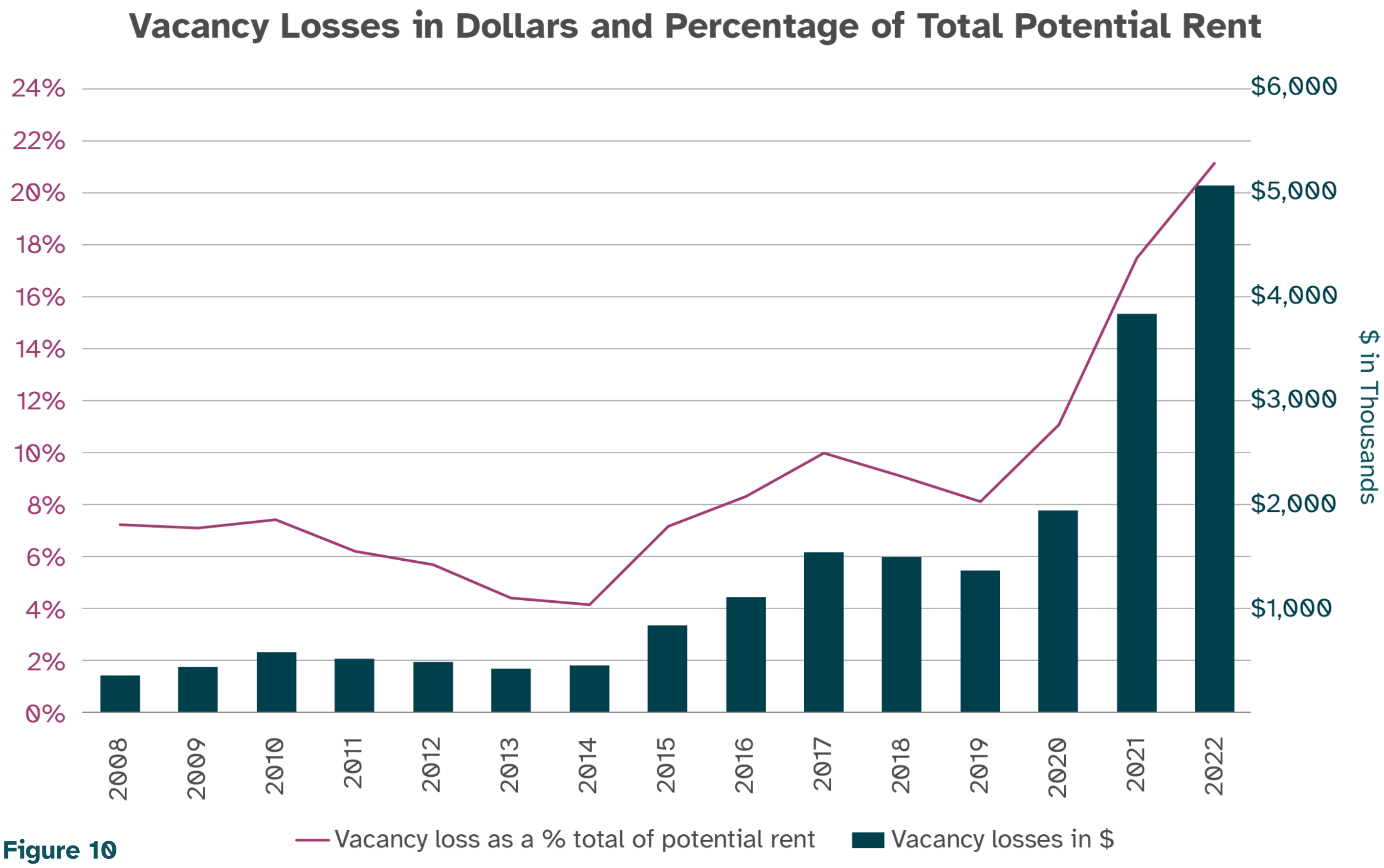

Figure 10

leadership, abatements,[24] and challenges with CES. Possible explanations are explored in more depth in an appendix to this report. We can confirm that as of 2022, abatements accounted for about half of the vacancies, but we were unable to determine how abatements contributed to vacancy rates in prior years.

Whatever the causes may be, vacancies had a dramatic financial impact on the Trust (Fig. 10). Vacancy losses represent the amount of potential rent that was not secured as revenue from both tenant and subsidy portions of the rent due to vacancies. If the Trust had maintained vacancy rates of 6%[25] from 2015-2022, its total vacancy losses would have equaled $8.2 million during that time period. Instead, vacancy rates rose and **vacancy revenue losses exceeded $17 million across all buildings, with more than half of the loss occurring 2021 in 2022.**

24 Abated units may or may not be occupied, but the conditions in the unit or in the building have failed to meet the health and safety criteria of third party inspectors. The building operator is prohibited from collecting rent – from tenants or subsidies – on an abated unit until the conditions are remedied.

25 The average vacancy rate at the Trust from 2008 to 2014.

Nature of Operating Expenses

This research conducted operating expense analysis that excludes depreciation, amortization, and debt service. For the purposes of this analysis, operating expenses were categorized as follows:

Operating Expenses

Personnel	Salaries, payroll taxes, workers compensation insurance, and benefits for employees working on site at a given building. This includes property managers and clerks who collected rent, participated in CES, created and maintained tenant files and income verifications for audit and contract compliance, coordinated the work of vendors, managed unit turnover, and responded to tenant requests, disputes, and needs as it related to living in the building. This also includes janitorial and maintenance staff responsible for keeping the physical building clean and in good working order.
Occupancy	All non-personnel expenses associated with operating the physical location: • Utilities: Water, sewer, gas, electric, telephone, internet, fire alarms, security alarms. • Outside services: Trash and garbage removal, extermination, landscape maintenance. • Fixed asset repairs and maintenance that are not capitalized for: Elevators, emergency generators, appliances, carpentry, electrical, flooring, HVAC, painting, plumbing, roofing, doors, windows, handrails. Minor furniture and equipment purchases that are not capitalized: Appliances, furniture, signage, carpet. • Expenses associated with unit turnover: Locks/keys and locksmith services, bedding, mattresses. • General liability and property insurance.
Contractors	Contracted services for on-site security (primarily), janitorial, and maintenance.
Management fees	Contracted fees to the Trust for performing partnership and property management duties, including: Financial oversight, accounting, treasury functions, budgeting, reporting, investor relations and compliance, annual audit and tax credit compliance, HUD and local regulatory compliance and reporting, asset management, managing technology infrastructure and security for tenant files and rent collection, and major decision-making about the buildings, including capital improvements and redevelopment.
Supportive services fees	Fees to the Trust for resident support services coordinators that directly provided or coordinated with partners to provide on-site supportive services to tenants.
Professional fees	Fee to outside professionals to perform a variety of services for the building, such as leasing support, loan monitoring, audit and tax preparation, consulting, environmental services, legal, and information technology.
Other	A range of expenses for programs and operations not captured in the categories above. Includes program supplies, office supplies, resident incentives, training, travel, bus tokens, taxes, events, marketing, printing, software, postage, fees and penalties, etc.

Buildings tended to operate with a similar distribution of expenses across categories, with occupancy and personnel being the largest categories, together making up approximately two-thirds of building expenses (Fig. 11). There were no meaningful differences in building expense mixes when buildings were grouped by their defining factors, such as by years of operation or unit type. While the distribution of expenses remained similar, our analysis found that during the Goldilocks years of 2016-2019, larger buildings with more than 90 units spent 9-10% less per unit than the smaller buildings.

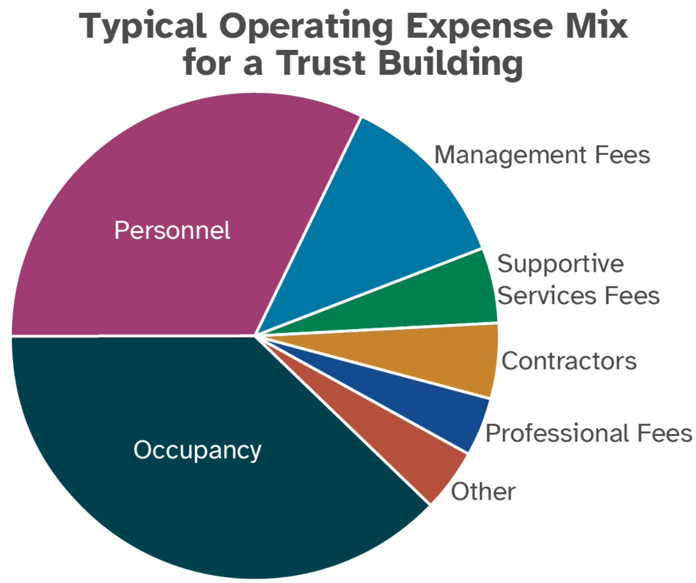

Figure 11

Typical Expense Range as a Percentage of Total Operating Expenses, 2008-2022

Occupancy	Personnel	Management fees	Supportive services fees	Contractors	Professional fees	Other
33-39%	26-35%	11-14%	0-15%	4-6%	3-5%	4-6%

Expense Control Measures for Personnel

In most years from 2008 to 2016, the buildings' average spending on personnel was 34-35% of operating expenses (Fig. 12). In 2017, average spending on personnel dropped to 28% of operating expenses, representing a total reduction in expenses of $562,000 across the portfolio of buildings.

Extending this analysis beyond the buildings to include operations at the Trust and its property management company, staffing cuts totaled $1,075,000. We understand this change in spending reflected reorganization meant to control rising expenses, which reduced staffing at buildings and in centralized functions such as asset management. In the two years prior, 2015 and 2016, building operating expenses

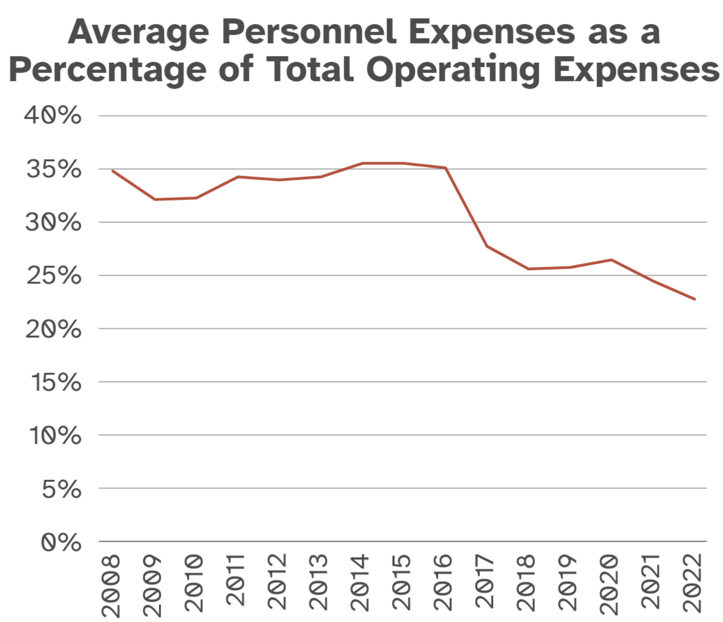

Figure 12

had risen 35%, while potential rent revenue had only risen 22%.[26] Many interviewees, internal and external to the Trust, believe the change in staffing around this time directly resulted in or exacerbated compliance issues, rising vacancy rates, deteriorating building conditions, and reported failures to apply for annual rent increases. Internal reports from 2019 to 2021 suggest particularly high turnover among property managers and assistant property managers, and that not all buildings had dedicated property managers. Whether the root cause was poor building economics or poor management decision-making, the Trust's inability to maintain and invest in a workforce of the appropriate size and with the needed knowledge, skills, and abilities certainly played a role in its mounting challenges and ultimate closure.

Expense Increases

Security

Prior to 2016, security contractors were deployed at select buildings for short periods of time, such as during periods of construction or in response to specific incidents. From 2016 on, security contractors were present at most or all buildings for regular patrols, and annual spending on security rose from under $50,000 per year to well over $500,000 per year (Fig. 13). Interviewees cited a number of reasons for increased security spending: changes to street cleaning and policing that led to deteriorating conditions in the Skid Row neighborhood broadly; an unfunded requirement from local funders that security be provided at all buildings; an increase in the acuity level of residents leading to a greater number of incidents requiring security intervention; and a means of providing coverage at buildings without other assigned overnight staff.

Security Contractor Expenses, All Buildings

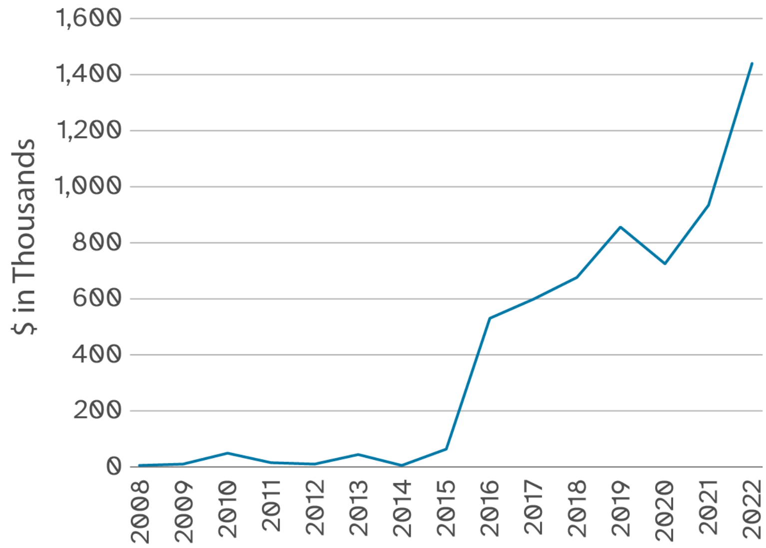

Figure 13

In fact, this increase in security spending may not have met the true need. The receivers found roving security patrols used by the Trust insufficient for the protection of staff and residents, and in 2023 they significantly increased security services, using funding from the City of Los Angeles. The first receiver reportedly hired armed guards to escort their team through the buildings. The second receiver placed "24/7 armed security with two guards on duty overnight… at many buildings" which the new owner described, along with increased janitorial services, as "financially unsustainable, costing more by itself than buildings' annual rent revenues," according to the Los Angeles Times.[27] In the same article, residents interviewed appreciated

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26 Including two new buildings that came online during this time, and assuming 100% occupancy rates.

27 Liam Dillon, "New owner cuts security, janitors at Skid Row homeless housing as tenants fear worsening conditions" Los Angeles Times, November 5, 2024, https://www.latimes.com/homeless-housing/story/2024-11-05/new-owner-cuts-security-janitors-at-skid-row-homeless-housing-as-tenants-fear-worsening-conditions.

the increased services under the receivership and experienced negative repercussions after the services were reduced by the new owner in late 2024. Preliminary consolidated internal statements prepared for tax filings indicate security expenses under the two receivers reached $9 million in 2023.

Insurance

The Trust was not spared from the instability and extreme pricing increases throughout the insurance market in the early 2020's (Fig. 14). Sharp increases continued into early 2023 (before buildings were placed with the receiver), which put a huge cash strain on the already weakened organization. With each building having very limited cash on hand, the high insurance bills required investors to provide an emergency influx of cash and the release of any accessible reserves to keep insurance coverage on the buildings. Note that the receivers paid additional insurance expenses in 2023, not captured in Fig. 14.

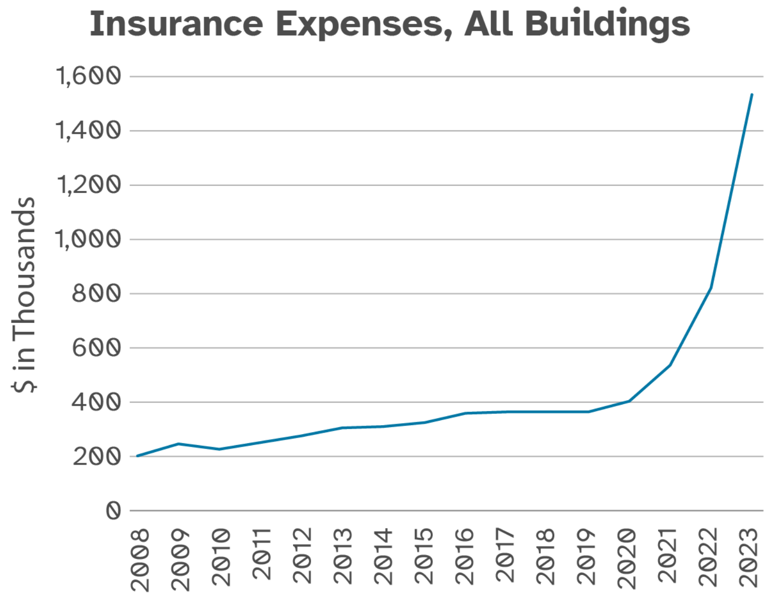

Figure 14

Supportive Services Fees

Supportive services fees for on-site resident support services was the one category of expenses that was quite variable between buildings and from year to year. Some buildings never paid a supportive services fee, some paid the same fee each year, and others fluctuated as much as 16 percentage points over time. This variation is the result of the specific partnership agreements at each building that governed how cash receipts must be directed. Some partnership agreements locked in a fixed supportive services fee, without adjustments for inflation over time. In these instances, buildings were paying the exact same supportive services fee in 2008 as they were in 2022, despite the fact that minimum wage in Los Angeles doubled during that time.

Even when buildings underpaid or paid nothing in supportive services fees, agreements related to the initial property development or the ongoing rental subsidy required that the Trust ensure supportive services were being provided. The Trust worked with partner organizations or secured grants and contracts to help fund services, though these funding sources did not always cover escalating costs.[28] For example, in 2019 the Trust renewed a multi-year agreement with the Los Angeles County Department of Health Services to provide intensive case management services to residents at a rate of $225 per month for low acuity individuals and $450 per month for high

28 These grants or contracts, in most cases, were not part of an individual building's financial records and were instead included in the financial record of the Trust or its property management company.

acuity individuals. When the contract was renewed in June 2022, the same monthly rates were in place, failing to account for increases in minimum wage and wider economic inflation.

Are Buildings More Expensive to Operate as They Age?

We initially hypothesized that buildings became more expensive as they aged and the data would show older buildings to have higher PUPM expenses than newer buildings, particularly for maintenance and repairs. Further, we hypothesized that rising operating expenses at older buildings would be a driving factor in the Trust's closure.

This hypothesis proved false. In fact, regardless of age, unit type, or subsidy type, buildings operated within a narrow operating expense range. Taking the average operating expenses for each building during the four Goldilocks years of 2016-2019, the portfolio shows average PUPM operating expenses of $659, and a median of $640 (Fig. 15). Eighteen of the 20 buildings analyzed deviate from the mean by $100 or less.

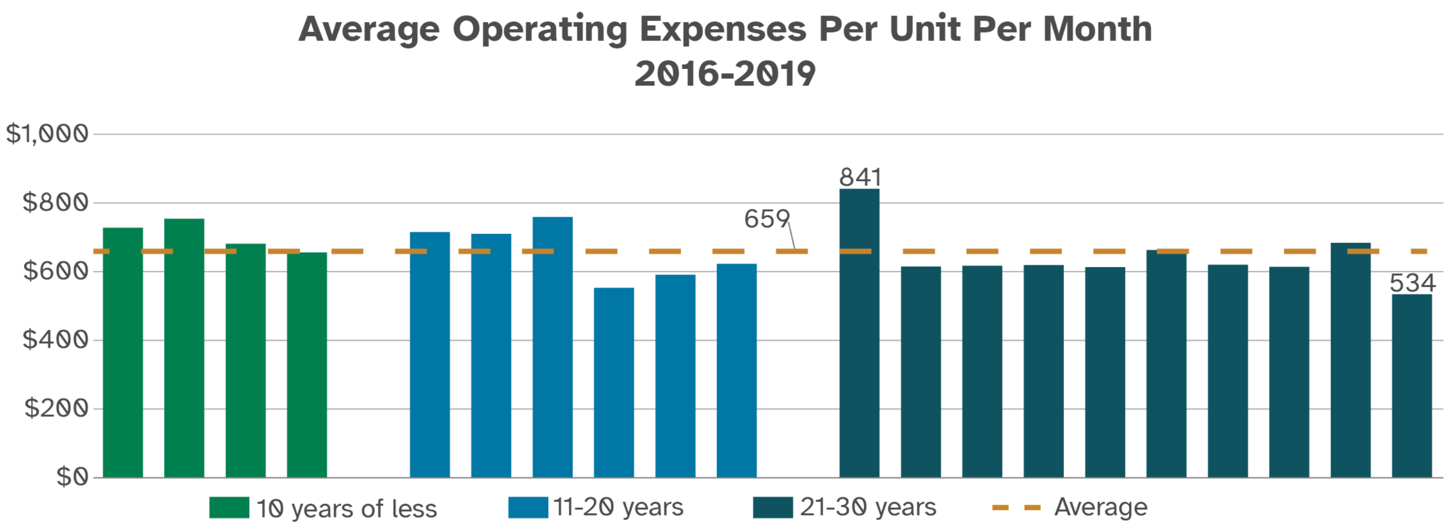

Figure 15

While data show that operating expenses did not rise as buildings aged, perhaps they should have. Multiple media reports documented shameful conditions at the Trust's buildings that failed to provide residents with the safe, dignified housing they deserve,[29] and interviewees familiar with operations at the Trust reported the need to keep spending as low as possible in

29 See, for example: Kristine Lazar, "2 On Your Side: Elevator Breakdown," KCAL News, October 1, 2019, https://www.youtube.com/watch?v=ywvoD796RQ4.

Kristine Lazar, "2 On Your Side: Tenants In Taxpayer Subsidized Housing On Skid Row Coping With Unsanitary, Unsafe Co," KCAL News, March 9, 2022, https://www.youtube.com/watch?v=DdLggCpiaPc.

Benjamin Oreskes and Doug Smith, "One of Skid Row's largest housing providers faces financial implosion," Los Angeles Times, February 7, 2023, https://www.latimes.com/california/story/2023-02-07/los-angeles-skid-row-housing-trust-financial-trouble.

Doug Smith and Benjamin Oreskes, "Bad bets, dysfunction: Inside the collapse of the Skid Row Housing Trust," Los Angeles Times, March 26, 2023, https://www.latimes.com/california/story/2023-03-26/skid-row-housing-trust-collapse-los-angeles-homeless-housing.

an attempt to control deficits. The deeply suppressed rental rates and deficit economics at older buildings meant funds were inadequate to meet building needs, even as conditions became extreme.

Are Per Unit Per Month Expenses Adequate?

In 2023, The Terner Center For Housing Innovation at UC Berkeley released a report documenting the costs of operating 26 high-performing buildings that include PSH units.[30] They found that, "Between 2019-2022, the average annual per-unit cost for the sample of properties with PSH units was $17,000," and that properties in urban areas serving high-need populations had even higher costs. During this same time period, the Trust's average annual per-unit cost was $9,500, suggesting that staffing, maintenance, and other critical areas of work were significantly underfunded per PSH sector norms.

Capital Structure

Capital structure refers to the size and type of the resources on a building's balance sheet: the mix of assets, liabilities, and net assets. The capital structure of each of the Trust's buildings were highly illiquid (limited cash), dominated by fixed assets (buildings, land, and other property and equipment), and heavily leveraged with loan liabilities (a variety of mortgages and other notes payable, typically used to finance the fixed assets). Fixed assets tend to depreciate faster than loans are repaid (or forgiven through the provision of services over time), creating a dynamic where liabilities exceed assets over time, resulting in a negative net asset position.

As an example, Fig. 16 shows the capital structure for the Abbey, a building that became operational in 2008 and had operating surpluses adequate to regularly contribute to a growing reserves balance. Over time, liabilities grew while fixed assets depreciated, until net assets became negative. A negative net asset position means that the building owes more than it owns, and does not have a financial safety net to respond to emergencies, shocks, or a bad year.

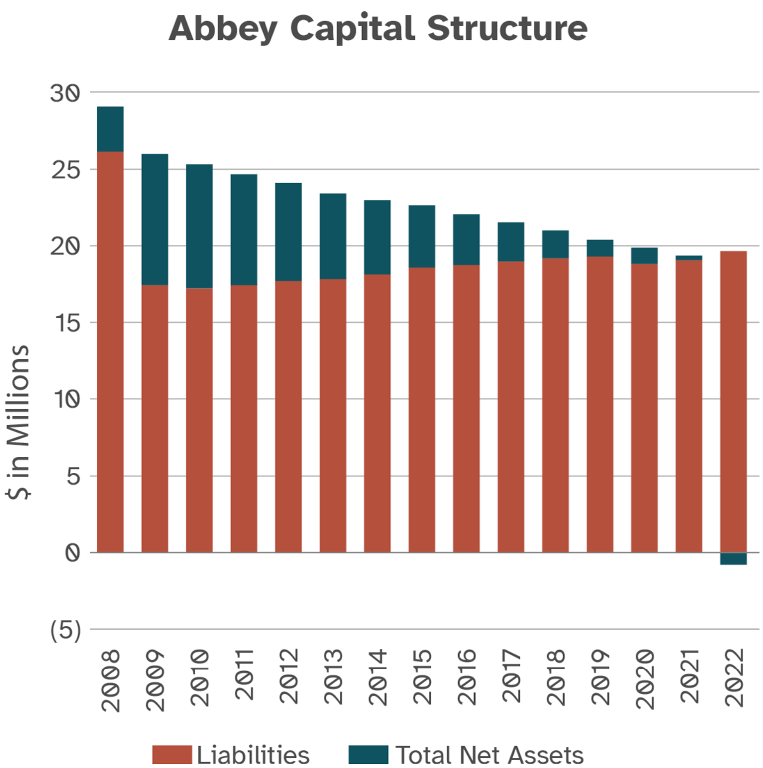

Figure 16

30 Carolina Reid, "Permanent Supportive Housing as a Solution to Homelessness: The Critical Role of Long-Term Operating Subsidies," Terner Center for Housing Innovation, UC Berkeley, June 2023, https://ternercenter.berkeley.edu/wp-content/uploads/2023/06/PSH-Paper-June-2023-Final.pdf.

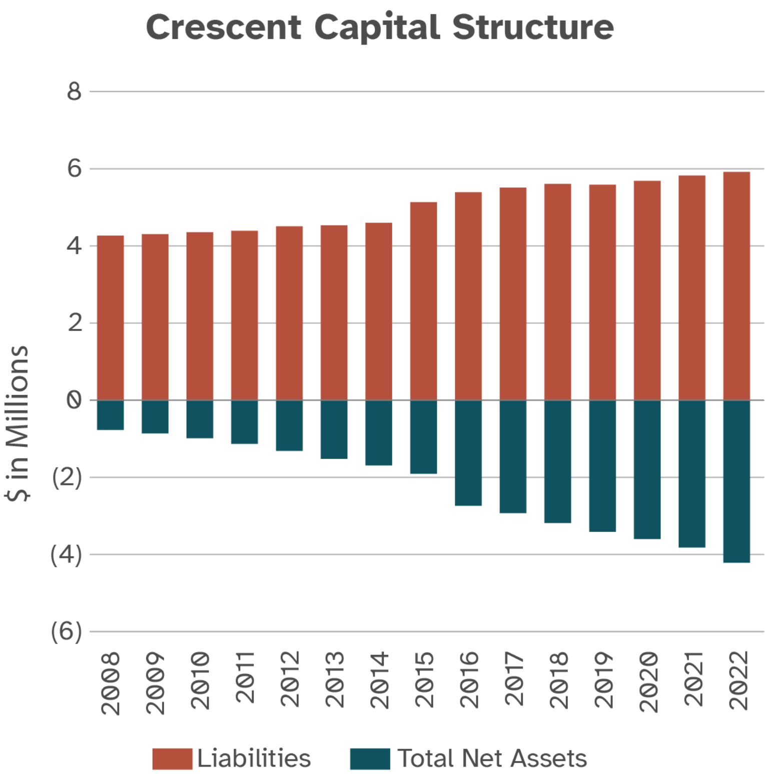

Figure 17

This same basic capital structure is present across the Trust's buildings. A second example, the Crescent, is one of the Trust's oldest buildings, beginning operations in 1992 (Fig. 17). Note how with more time, the pattern of liabilities overtaking the value of assets continued to grow, putting the building further and further into financial distress.

Liquidity

Liquidity is a measure of a building's ability to meet cash obligations for regular operations. In our analysis, we measured months of unrestricted cash on hand at each building at the end of the year to understand whether buildings were able to easily meet their cash obligations.[31] **Nearly all buildings kept extremely low unrestricted cash balances, and it was not uncommon to see cash balances so low that they were better measured in days than months.**

Once buildings were out of the development phase and fully operational, rarely did any hold even three months of cash, which is a frequently referenced minimum amount of cash that nonprofit organizations should have to manage cash flow needs. Unrestricted cash balances averaged less than one month in most years.

Such low cash balances indicate that cash flow challenges would have been a common occurrence, simply because there would not have been enough cash on hand to pay a large or unexpected expense. This is supported by data that shows rising accounts payable balances to vendors (Fig. 18) and by interviews with former Trust staff who cited frequent cash flow challenges for many buildings that grew in severity over time.

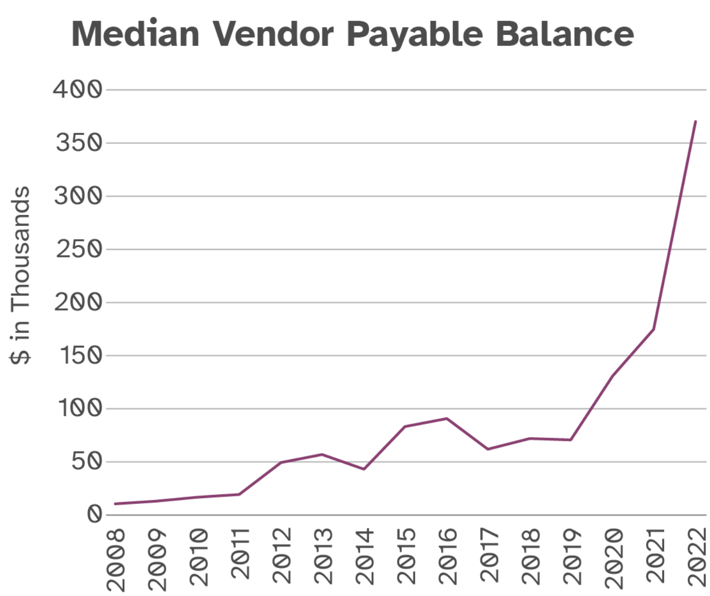

Figure 18

31 Months of cash is calculated by dividing the unrestricted cash balance at 12/31 of a given year by the average monthly operating expenses for the same year. For example, at 12/31/2019 the Lincoln had an unrestricted cash balance of $12,958. Its average monthly operating expenses in 2019 was $26,088 ($313,058 annual operating expenses / 12 months). $12,958 cash balance / $26,088 monthly operating expenses = 0.5 months of cash

Vendors provided services at buildings such as janitorial services, security services, repairs, maintenance, and capital improvements. The same vendors were often contracted across many or all of the buildings, particularly because staff found it challenging to source qualified vendors willing to perform work in the Skid Row neighborhood. As deficits and cash flow challenges mounted at individual buildings, vendors who were not paid timely by one Trust building would stop responding to service calls at other Trust buildings. The inability to pay a vendor at one or two buildings led to extensive challenges in securing services, essential repairs, and maintenance across all buildings. For example, a plumber that performed work at one of the Trust's cash flow-challenged buildings and who hadn't been paid for their work was unlikely to respond to service requests at another building, even if that building had adequate cash to pay for the services needed. The inability to secure vendor services is likely a contributing factor for rising vacancies (discussed in an appendix to this report), which further eroded the financial stability of buildings. As of December 31, 2022, the entire portfolio of buildings owed over $9 million to vendors.

Reserves

Multiple types of reserves existed at buildings, and not all buildings had the same types of reserves. Reserves held for PSH buildings behave differently than reserves held by other types of nonprofits, as PSH reserves are heavily restricted and require permission from investors, limited partners, or government agencies before reserve funds can be accessed and utilized. Certain loans may also require the entity to hold a set amount of cash in reserves. In some cases, the cash balance represented in the reserve account is not held by the Trust but by a third party. For the purposes of this analysis, reserves were grouped into five types, described in the table below.[32] The balance at the end of 2022 is for all buildings, including those that had not yet stabilized operations.

Reserve Type	Description	Analysis Notes	Balance at 12/31/2022
Unrestricted	Funds readily available to management for any building needs.	Smallest reserve, fully expended by all but three buildings by 2018.	$503,695
Replacement and restricted	Generally restricted for fixed asset replacement, but may include other restricted purposes.	Largest balances and most common reserve type across the Trust's buildings.	$7,056,752
Revenue deficit	Restricted to finance annual operating deficits.	Held by only four buildings.	$1,852,121
Transition	Required by regulation. For developments with 55-year affordability covenant in which affordable rents are supported by federal or local rental assistance contracts (such as PBV) that have a duration of 15-20 years, HCD requires the development to set aside enough money up front to continue the assistance for one year after a contract ends in order to transition tenants to higher rents.	Can only be accessed in narrow circumstances that did not occur at the Trust. Present at six buildings. Excluded from reserves analysis graphs presented in this report.	$2,470,163
Construction	Reserves to finance construction of new fixed assets (different from replacement reserves). Fully expended once construction is complete.	Present at only a few buildings for a limited time. There were no construction reserves at any Trust building after 2018.	$0
		TOTAL	**$11,882,731**

32 The Trust maintained 46 reserve accounts in its chart of accounts. Reserve categorization was determined based on account name, account code string, and interviews with former finance staff at the Trust.

At the start of this research, we hypothesized that all or most of the reserves held at buildings would be depleted by the time the Trust determined it would shut down. Instead we found reserve balances of $11.9 million. How can this be explained? First, transition reserves totaling nearly $2.5 million would never be available for use. That leaves $9.4 million in unrestricted, replacement, and revenue deficit reserves.

We also hypothesized that the buildings that had been operating for the longest number of years would spend down their reserves first, and that we would see a steady pattern of reserve balance decline in other buildings as they aged. That was not what we observed.

While unrestricted reserves were fully depleted in all but one building by 2022, we found a number of buildings, even older buildings, had replacement reserve or revenue deficit reserve balances at the time the Trust property management operations were halted. Note in Fig. 19 there are buildings that had been in operation for 6, 7, 14, and 16 years that had lower reserve balances than some buildings that had been in operation for 26 or 30 years. Our data set did not allow for a full analysis of the nature of reserves spending at each building over time, or of the costs of fixed asset replacements needed at all buildings.

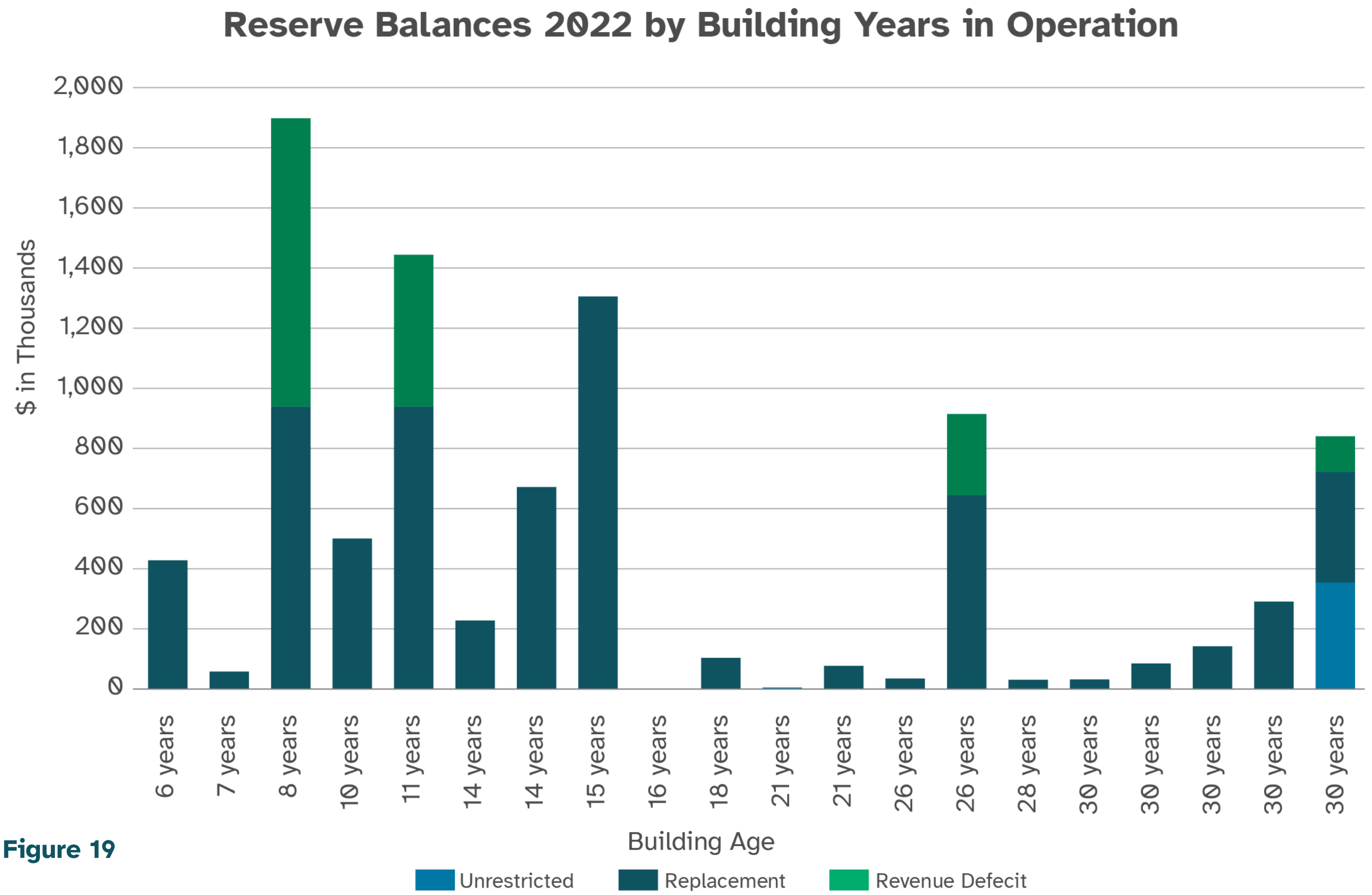

Figure 19

Multiple factors could explain why reserve balances persisted even at the point of closure:

- Buildings with remaining reserves **did not meet the requirements to draw down funds**. That is to say, the building needs were not aligned with the reserves' stated purpose or restriction requirements. For example, the types of physical repair needed at the buildings were not covered by the restrictions on the replacement reserves, or the building did not require physical repairs.
- The **need was beyond the available reserves**. For example, a physical needs assessment at the Produce identified roof replacement work estimated to cost $66,000, but the building only had $30,500 in total reserves. In addition, it is possible that by undertaking certain major repairs, the Trust would have 'triggered' additional improvement requirements that would increase the cost of the project beyond available reserves, such as ADA or other code compliance.
- The Trust was **planning to do a more significant redevelopment** of the building, such as a RAD conversion, and was holding the reserves to be used as part of the redevelopment capital. For example, we know that it was a goal to perform a RAD conversion for the Hart, and that the Hart still had $290,000 in reserves at the end of 2022.
- The Trust **did not gain approval to use the reserves**, either because requests were made but denied by third parties, or because the Trust did not make the requests due to the loss of institutional knowledge from staff turnover or as the result of understaffing asset management functions at the Trust.

Ultimately, reserve types and balances at each building were governed by the terms of their respective partnership agreements and loan agreements. Reserves at one building could not be transferred to meet any needs at another building, no matter how urgent those needs may have been. **The structures limiting the use of reserves meant that even as building conditions deteriorated and the Trust moved toward closure at the end of 2022, reserves equivalent to six months of operating expenses across the entire portfolio were unused.**

Findings

Rental Subsidies Are Divorced from the Costs of Operating PSH, and the Variability in Rates is Indefensible

Certain rules and regulations determine how rent rates are initially set and how those rates can be increased over time. The rules vary by subsidy type, causing the rates to vary *even when the same population is being served in the same type of housing*. Depending on the specific rules governing each subsidy type, annual rental subsidy increases could be based on fair market rate, comparables analysis, a state-wide inflationary factor, a contractually set increase, or similar. In the case that multiple factors could be considered, regulations dictate that the factor that would result in the *lowest* rental subsidy increase applies. None of the factors adequately consider the actual cost of serving high-needs populations, maintaining buildings, or the significant changes to operating cost structures that can or have occurred (rising security costs and rising insurance costs are two examples). As a result, **rental subsidies become suppressed over time, denying the financial resources necessary for buildings to be properly maintained as they age, and setting the stage for residents to endure substandard living conditions.**

Not only is there indefensible variation between different subsidy types, but there is evidence that rent increases are unevenly applied within the same subsidy type. The Supportive Housing Alliance, a network of 12 PSH organizations in Los Angeles, has examples of similar PSH buildings that are yards apart, under the same CoC subsidy type, that are receiving rental subsidies with a difference of $500 per unit per month. The mechanism by which CoC rent rates are (or are not) increased remains unclear to the sector at large, and advocates continue to push for answers. In interviews conducted during this research, we were told HUD has refused City-wide CoC rent increases because the vacancy rates across the City are too high. We were unable to reach the appropriate HUD personnel to confirm this assertion.[33] **The sector is eager to gain clarity on how CoC rents are set, and whether HUD or HACLA has the authority to set and change rent rates.**

Regardless of which agencies ultimately have responsibility for carrying out the work, the method for calculating rent subsidies and rent subsidy increases for PSH is fundamentally flawed.

1. Rental subsidies are established based on fair market rate or a comparability study. This assumes that the cost of operating a building that houses individuals with high acuity needs is the same as operating a building that houses the general public. It is not the same. Setting aside the need for supportive services, some people living with substance use disorders and extreme mental health challenges will require more engagement from skilled building staff than a person who does not face such challenges. PSH operators frequently share stories about the high maintenance and janitorial costs of housing some high acuity individuals, who, as a result of their disorders, damage physical property in their private units or

33 HUD stopped responding to our information requests after the Trump administration launched the Department of Government Efficiency, which indiscriminately terminated staff across federal agencies.

in shared spaces. One operator in California noted that unit turnovers used to mean minor repairs, cleaning, and fresh paint. Now that they house very high acuity individuals, turnovers are more like a remodel, where units have to be taken down to the studs to repair the damage caused by residents in crisis. Critics would say that the building operator should be vigilant and intervene to prevent that type of damage from occurring in the first place. That approach *requires more staffing than operating a building that houses the general public, and the revenues are insufficient to pay for it*.

2. Updated regulations from HUD, implemented through CES, use a prioritization approach that has concentrated the number of individuals with high acuity needs in buildings. While the population being housed in PSH has proportionally higher needs than a decade ago, the rent subsidies did not change to match this reality, putting greater financial strain on building operators and compromising the safe, dignified living environment that should be provided to all residents.

3. Rent subsidies are determined based on unit size. While this is reasonable from a market perspective, the Trust's financials show that it is not cheaper to operate SROs compared with other unit types. While there may be fewer fixtures and equipment cost in SROs due to shared kitchen and bathroom spaces, the nature of shared space means higher-per-unit expenses for janitorial services, security, and building staff to smooth tenant interactions and challenges when utilizing shared space. Again, costs need to be considered when setting rent rates.

4. No building in the Trust's portfolio was able to cover depreciation expenses. In a for-profit, market setting, it is reasonable not to cover depreciation expenses with government subsidies because the fixed assets can always be sold. Even as buildings depreciate, the underlying land is appreciating in value. This is not the case for PSH buildings with 55-year affordability covenants. The buildings and land cannot be sold on the open market. The fixed assets behave more like liabilities than assets, requiring constant care and funding to maintain them in good working order. Depreciation expense is the estimated cost of that care. Without funding it, buildings fall into disrepair and residents suffer the consequences.

General Partners Are in a No-win Position

While the Trust managed the operations at its buildings as a portfolio – centralizing certain functions and sharing staff and vendors – the legal structure, financial accounting, and banking were separate from one another. Profits from a high-performing building cannot be used to support a low-performing building. Surpluses stay within the high performing building that generated them. **Yet when a building generates deficits beyond its own resources, the general partner must step in.** This leaves the general partner in a tenuous financial position, where it carries all of the financial risk for poorly performing buildings but none of the financial benefit from its high-performing buildings, especially once tax-credit investors have exited.[34] The amount of deficits the general partner manages across all of its buildings is obfuscated by the required structure of the audited financial statements, which are consolidated across all properties and combine the net surpluses and deficits of all buildings into a single figure.

34 There are partnership agreements that allow for the General Partner to "withdraw" a certain amount of profit from very-high-performing buildings, but these are often limited to a small annual payout of, say, $25,000.

This dynamic explains why other nonprofit developers rejected the plan proposed by LAHD to transfer Trust buildings to them in groupings that packaged high and low performing buildings. They knew that it made no difference if one building was performing well: They would be responsible to fund the deficit at the poorly performing building from their own resources.

Inadequate Resources Exist to Redevelop Aging PSH

Under the existing operating model, which fails to adequately fund reserves and depreciation on fixed assets through rent revenue, the expectation is that aging PSH properties will eventually be redeveloped or resyndicated using an influx of capital from new tax credit allocations, bonds, and/or debt. It is further assumed that the redevelopment or resyndication process at 15, 20, or 25 years would make all needed physical infrastructure repairs and upgrades to keep the building in good working order.

In reality, capital for redevelopment has become extremely limited and building sponsors are competing for rehabilitation financing against new development projects. New buildings are prioritized in the awarding process. Data extracted from LIHTC applications that were awarded tax credits for the four years between 2020 and 2023 shows that only 8% of dollars allocated went to acquisition or rehabilitation of existing buildings.[35] The availability of tax-exempt bonds is similarly limited. Through interviews, we learned that buildings with high levels of capital needs and long-term affordability restrictions are, in practice, eligible for only a small pool of bonds apportioned to "Other Rehab." In 2021, the California Debt Limit Allocation Committee (CDLAC) set aside less than 1% of available multifamily housing bond authority for these projects. By 2025, the set aside had increased slightly to 3%.

Internal plans and interviews with former Trust staff confirm that one of the greatest challenges to moving certain properties through the RAD conversion process was that tax-exempt bonds and LIHTC allocations were insufficient to meet the projects' capital needs, and the Trust was unable to secure additional capital elsewhere.

The Sector Does Not Have a Mental Model for the Long-term Viability of PSH

The Trust had one of the oldest housing stocks in the region, if not the country. And while a combination of unique internal and external factors contributed to its closure, the underlying economics also played a role, and these economics are broadly shared by PSH providers and threaten their sustainability as well. The lifecycle of a PSH building is well conceptualized from pre-development through construction and being placed into operation.[36] Once operational, the building often has a 55-year affordability covenant to uphold, but there is no shared understanding of how a building will be maintained as a community asset for the next 55 years, or who will

35 Calculation from summarized unpublished data provided by Terner Center.

36 Claire Knowlton and Martin Lenarz-Geisen, "Strengthening Los Angeles Permanent Supportive Housing Developers," Nonprofit Finance Fund, September 2019, https://nff.org/report/strengthening-la-permanent-supportive-housing-developers.

shoulder the responsibility for the cost of that maintenance. The sector lacks a shared mental model for the long-term viability of PSH.[37]

Rents are insufficient for buildings to maintain their physical infrastructure through annual savings. Capital sources are insufficient to rehabilitate all the projects that will require it in the years ahead. There are open questions about the future of SROs, frequently cited in interviews and sector discussions as undesirable housing among people experiencing homelessness, and not believed to be suitable for individuals with high acuity needs. Interviews conducted with government agencies confirmed awareness of the challenges but no plans or answers. **The sector needs a shared understanding of what it will take to sustain a thriving PSH sector over the long-term so that policies and funding sources can be developed and implemented to meet the need.**

37 A mental model is a simplified representation of a system or concept in the human mind, or an internal framework that helps us understand, predict, and interact with the world around us. We use mental models to anticipate how events might unfold, guide problem-solving strategies, and make decisions about causes and solutions.

Recommendations

Connect Costs and Rents: Revise the Methodology for How Rental Subsidy Rates and Annual Increases are Determined

A new approach to establishing rents should be created – one that is grounded in the actual cost of operating safe, dignified PSH for high acuity individuals over the long-term. Rents should be based on maintaining appropriate staffing levels and staff expertise for a given building size and resident acuity expectations. Rents should adequately cover maintenance, repairs, turnover, debt service, deprecation, and reserves in case of emergency. This is not an easy-to-implement recommendation with a clear path forward. It would require a complete overhaul of the standard approach HUD takes to funding housing, and may even require that PSH subsidies move outside of HUD into a services-focused federal department.

Recognizing that this first recommendation is extremely ambitious and asks for a complete redesign of the entire funding model from the federal level on down, a less ambitious recommendation is to **bring building rents up to fair market rate**. Government agencies would need to create a "reset" opportunity to break from the current models of increasing rents. This has already been done on a case-by-case basis for the viability of individual buildings, including for many of the Trust's buildings after they transferred to new operators who found the subsidies far below the necessary operating expenses. **Across the sector, buildings that are currently locked into low rents need an exit strategy from their current grants and contracts into new rent agreements that capture the reality of appropriately staffed buildings, insurance costs, security costs, and similar.**

To prevent the cycle from repeating itself in the future, the regulations governing subsidies need to eliminate rent increase rules that limit increases to the "lesser of" multiple factors in a bid to keep increases low. In addition, **different subsidies that serve the same type of population in the same type of housing need to align on a common rental payment standard that adequately reflects the cost of operating buildings**. This would probably take an act of Congress, and more study is required to determine a path forward. But the model is broken enough that it deserves a reimagining.

Develop a Shared Mental Model for Thriving PSH Buildings over Their Full Lifecycle

The sector needs proactive planning and defined options for PSH between the years the building is placed in operation and the 55-year affordability covenant expiration. These plans should include options for non-viable or non-desirable building types to be replaced or demolished, repurposed as temporary housing or shelters, or even sold on the open market so new capital can be secured to build new PSH elsewhere. These plans would require significant regulatory and policy changes, and would require involvement of agencies like HUD, HCD, HACLA, and

LAHD, which do not seem to have developed their own plans or answers yet. Planning of this nature should of course include developers, lenders, sector advocates, service providers, and residents.

LIHTC launched in 1986, meaning that no properties have reached their 55-year affordability covenant yet, but the stock of buildings over 30 years old is quickly growing. What will happen to these buildings over the next decade? How should maintenance and building improvements be funded as buildings age? When is a building worthy of continued public investment? Is there a point when buildings should be demolished? If so, what options are we building to house displaced residents? Can we envision a future where the local homelessness crisis has ended and the production of additional units is not required? How, then, are organizations reliant on developer fees funded to continue operating existing buildings that are still needed? These questions and more need to be answered to avoid crisis closures of other PSH buildings.

Meet Compliance Issues With Support, Not Punishment

For the Trust, compliance issues became intertwined with financial issues, exacerbating already limited resources. The issue of rent abatements, for example, likely contributed to its downward financial spiral.

Abatements can create a domino effect on vacancy losses. For example, a unit requires repair but funding is not available to make those repairs. Rent cannot be collected on that unit, decreasing revenue. A second unit is abated because it needs repairs. Funding wasn't available to repair the first unit, and it is certainly not available to repair the second unit. Now rent cannot be collected on two units, further decreasing revenue. The situation only gets worse without intervention. Of course we do not want a financial incentive to allow units to go without needed repair, but **the current abatement process can exacerbate the very issue it intends to solve. An alternate approach would be to place rent subsidies from an abated unit in an escrow account**, which the operator could draw down to pay for required repairs on the unit or building that led to the abatement. This would still create a financial incentive to make repairs, while also providing operators with access to funding needed to make the repairs.

Many government agencies, investors, and lenders were aware that the Trust was experiencing challenges, but no one stepped forward to offer solutions to protect residents from declining conditions. An example intervention could have been to identify poor-performing buildings and find strategies to stabilize them such as increasing rent subsidies or transferring them to a different owner-operator with better staff capacity to manage them. In hindsight, it is easy to see that this type of intervention would have been less costly and disruptive than allowing the Trust to fail. But instead, compliance issues were only met with punishment – blocking the continuation of redevelopment efforts and removing the Trust's developer status, thereby preventing it from earning essential developer fees.

Now that we have the Trust as an example of what can happen when a PSH owner-operator fails, government agencies should develop a menu of ways that they can help support buildings that are facing financial challenges, or where they have lost confidence in the abilities of the owner-operator to provide safe, dignified housing. **Our sector needs a way to acknowledge when the economics or the operations no longer work and provide a supportive strategy to resolve the issues – even if that is an exit strategy for a building or organization.**

Allow for a Portfolio Approach

To address immediate needs within the PSH sector, we need a method that allows buildings under the same owner-operator to share resources with each other.[38, 39] This would create a shorter-term way of allowing more cash to flow to distressed buildings for repairs, resolve abatement issues, or even help individual buildings absorb shocks like sudden increases to insurance. One example of this approach was recently implemented by the Mayor's Office of Housing and Community Development, City and County of San Francisco, where their Post-COVID Portfolio Stabilization Policy included waivers allowing operating reserves to be borrowed from one project to support a deficit project.[40]

A true portfolio approach will only work over the long-term if the above recommendations on rent increases and covering depreciation are followed. Otherwise, currently healthy buildings may find themselves without adequate resources in the future when they, too, need significant fixed asset repair and replacement.

Improve Presentation of Audited Financial Statements

The Generally Accepted Accounting Principals (GAAP) set by the Financial Accounting Standards Board (FASB) govern how audited financial statements are presented. For an organization like the Trust, which has dozens of related entities, the statements are presented on a consolidated basis. This means that the balance sheet, operating performance, and surplus or deficits for every building are combined into one set of statements, occasionally with additional disclosures by building as required by certain government lenders or funding sources. This consolidated presentation obscures the view into how the Trust is performing, as the surpluses at one building are *not* available to offset the deficits at another, and the cash at one building is *not* liquidity that is available to be used elsewhere. In addition, the common presence of forgivable loans (loans that will be satisfied through the provision of services rather than through cash payments) make it difficult to understand the true liability picture. Often, this debt is not delineated on the face of the statements, and in many cases the full value of the forgivable debt plus the forgivable interest it accrues each year persists on the balance sheet until the end of the contract term. While we have alluded to the Trust's struggles being common knowledge for those in the sector that were close to the organization, for others it came as a complete surprise, and analysis of their audited financial statements does not provide a clear picture of the organization's financial condition or the extent of its challenges. **We recommend the sector engage with FASB to revise its guidance on the presentation of audited financial statements for affordable housing developers** and similar organizations so that users of the statements – government agencies, lenders, philanthropic funders, and others – have a clear picture of the amount of deficit activity the organization is financing from its own resources and the true picture of debt the organization must be prepared to service or repay.

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38 Interviewees reported that the Trust attempted to gain permission to operate in this way without success.

39 Consideration needs to be given to tax-credit investor status and whether resources can be shared between buildings prior to their exit.

40 "Mayor's Office of Housing and Community Development Multifamily Affordable Housing Post-COVID Portfolio Stabilization Policy - DRAFT," Mayor's Office of Housing and Community Development, City and County of San Francisco, Effective Date: April 19, 2024, https://www.sf.gov/sites/default/files/2024-05/Post%20COVID%20Stabilization%20Policy%20Approved%20LC%204-19-2024.pdf.

Conclusion

Our financial analysis revealed that the economic factors behind the Trust's closure were not anomalous or unique. Rather, they are a convergence of structural issues that challenge the long-term sustainability of PSH broadly. Rental subsidies are disconnected from the full cost of operating and maintaining PSH, with inconsistent and opaque rate-setting mechanisms that fail to keep pace with rising expenses. The capital available to rehabilitate aging PSH buildings is far too limited. Financial structures place general partners in an untenable position – responsible for deficits without access to surpluses generated elsewhere in their portfolios. Meanwhile, consolidated financial statements obscure the true financial picture of the owner-operator, making it difficult for external stakeholders to assess organizational health or intervene early.

What is urgently needed is a coordinated, systems-level response. Policymakers, public agencies, and other stakeholders must work together to realign rental subsidy structures with actual operating costs, reform financial reporting standards to ensure greater transparency, and expand access to capital for rehabilitation and long-term maintenance. Without a shared mental model for what it takes to sustain PSH buildings over decades – not just to build them – the sector will remain reactive rather than resilient. A sustainable PSH system must be supported by clear policies, adequate and equitable funding mechanisms, and long-term planning that matches the promises made by affordability covenants. The time to design that future is now.

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Tom De Simone, President & CEO, Genesis LA

And the many others who requested to remain anonymous.

Appendix A: Potential Causes of Vacancies

This research did not have sufficient data to prove the cause(s) of the Trust's declining occupancy rates. Many qualified and knowledgeable individuals were interviewed to try to determine the factors that caused occupancy rates to decline. What emerged was a range of perspectives, and disagreements, about the causes. Little to no data was available to confirm or refute many of the perspectives presented below, but we find each to be plausible explanations to declines in occupancy.

Below are the explanations as they were presented to us, and the level of data available in our attempts to vet the explanation:

- **Abatements and HACLA Inspections** – Unit abatements increased in frequency, and mounted when they could not be resolved quickly. At December 31, 2022, abatements accounted for about half of the vacant units in the Trust's portfolio, but we were unable to access past records to determine how frequently abatements occurred in prior years.
- **No Funding for Turnover** – Funding to perform unit turnover activities, such as repairs and furnishing, became unavailable to on-site managers. Some cited the cause as underlying building economics, where funds at the building level were insufficient to pay vendors for needed materials and supplies. Others cited the cause as internal staffing dynamics, such as new leadership failing to release funds timely or inexperienced on-site staff failing to request the needed funds from leadership. Regardless, the inability to perform turnover functions caused units to sit vacant. Financial records show that outstanding payables to vendors spike when vacancy rates spike, supporting this explanation.
- **CES Slows Matching** – The region-wide launch of the Coordinated Entry System in 2015 created a new process for filling units, and this process was slower than the old one. In an area like Skid Row where there is a high concentration of people who are unsheltered, the Trust was traditionally able to quickly occupy units by simply maintaining a waiting list of geographically proximate individuals. CES created multiple additional steps to filling units, but whether CES meaningfully contributed to the Trust's increase in vacancies is not known. Our interviewees had a wide-ranging set of perspectives about this explanation.

  A 2017 study by Enterprise Community Partners found that CES had extended the average lease-up time, or time until a vacant unit was re-occupied, from 60 days to over 120 days.[41] Their 2019 follow-up on 310 units operated by five sponsors in LA County had extended that average to 174 days.[42] Some interviewees explained that CES was a driving, long-term factor in the Trust's increase in vacancies because of how much the matching process was slowed.

  Other interviewees had the opposite perspective: that CES worked very well and did not contribute to rising vacancies at the Trust. Still others indicated that CES may have played a small role or a short-term role. For example, some indicated that the 2013 CES pilot in Skid Row worked very well, but scaling to the full region in 2015 resulted in slowdowns for a few years that were eventually resolved. This could explain the trend present in our data, which

41 "Assessing PSH Provider Experiences Using CES," Enterprise Community Partners, April 2017.

42 From a deck presented to Q2 ICMS Provider Meeting: "CES Vacancy to Move-In Tracking Pilot: Key Findings & Next Steps," Enterprise Community Partners, June 2019.

shows vacancies increased in 2015-2017 and began to level out or recover before COVID. Others pointed to specific process improvements CES made to shorten the time between a unit becoming vacant and being leased-up, such as identifying multiple matches for a unit at the front-end of the process so if a match didn't work out, another person was ready.

- **Prioritization Slows Matching, Increases Turn-Over** – HUD's mandate that limited housing be prioritized for those with highest acuity meant that more time was needed to assess each person and place them in a prioritized order. A unit meant for one individual, who may not be easily locatable, requires extra effort to locate that person and offer them the unit. Prioritization increased the concentration of high acuity individuals in a particular building, but did not increase the resources to support those individuals. As a result, matches were less likely to succeed long-term and units turned over at a higher rate. While the prioritization process was managed through CES, interviewees distinguished the HUD-mandated prioritization from CES in their explanation.

- **Participant Choice** – People experiencing homelessness refuse SROs and housing on Skid Row if other choices could be available. Once CES launched, unhoused people were able to access units across the county and they began declining units available at Trust buildings, preferring to wait for the system to match them to housing that would better meet their needs. As new buildings came online, or even began construction, participant declines for the Trust's older buildings increased. Versions of this explanation were widespread across our interviews. Despite our best efforts, we were unable to locate a data set that tracked historic participant declines through CES, and do not believe such a data set currently exists to test this explanation.

- **Staffing Levels** – Staffing levels were insufficient to effectively manage the buildings and promptly fill unit vacancies. Insufficient staffing may have been the result of reorganizations at the Trust.

  There is supporting data for the negative impact inadequate staffing has on buildings. Our research compared the changes in vacancy rates and the changes in staff spending for individual buildings over time, and found that these are generally correlated (that is, reductions in staff spending coincide with reductions in occupancy rates, whereas increases in staff spending are often followed by improved occupancy rates over the next year or two). This explanation is corroborated by a 2023 report from Terner Center for Housing Innovation at UC Berkeley, which found that under-resourced buildings had higher vacancies and higher turnover of tenants, and that a lack of consistent staffing undermined tenant trust and overall quality of life in the building.[43]

  However, the 2015 spike in vacancies does not correlate with reductions in staffing levels at the Trust. One interviewee cited implementation of the Moving On strategy, designed to move stabilized individuals into tenant-based voucher programs and leave PSH, as a related factor. Moving On increased vacancies in the short term, which could not be resolved in the years that followed as a result of later staffing cuts.

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43 Carolina Reid, "Permanent Supportive Housing as a Solution to Homelessness: The Critical Role of Long-Term Operating Subsidies," Terner Center for Housing Innovation, UC Berkeley, June 2023, https://ternercenter.berkeley.edu/wp-content/uploads/2023/06/PSH-Paper-June-2023-Final.pdf.

- **Unqualified Staff** – The on-site staff did not have adequate knowledge, skills, and abilities to manage their building(s), help tenants stay in their units, and fill vacancies quickly. Conflicting perspectives about the nature of staff qualifications were present in our interviews. In one narrative, on-site staff were primarily people with lived experience who did not receive training and support from leadership to navigate CES, and the lack of staff skills extended the time that units sat vacant. In another narrative, leadership terminated people with lived experience in favor of more “professional and polished” on-site staff, and these new staff were less successful than the people with lived experience that they replaced.

Even though this research could not produce conclusive evidence as to the driving causes of vacancies at the Trust, the information gathered from our interviews speaks to the many factors that needs to be functioning in order to ensure PSH resources are being fully utilized: Retaining enough staff with the right knowledge, skills, abilities, on-going training, and support from leadership to manage the building, tenants, and fill vacancies; an efficient, responsive coordinated entry system that matches the right tenants to the right units; enough funding to manage turnover costs, address abatements quickly, and ensure vendors are always paid on time so they will continue to work for PSH properties; and investments in building and maintaining the types of housing that participants will choose over remaining on the streets.

Appendix B: Data Table of Buildings and How They Were Classified for Analysis

Building Name	Year Placed in Service	Unit Count	Unit Type	Subsidy Type	Use in Operating Analysis	Notes
649 Lofts	2021	55	Studio	Excluded from analysis	No, too new	Above Joshua House Health Center
Abbey	2008	115	Studio	CoC	Yes	
Boyd	1996	61	SRO	CoC	Yes	
Carver	2009	97	Studio	PBV	Yes	
Central 1	1996	114	SRO	PBV	Yes	
Cobb	2009	76	Studio	CoC	Yes	
Crescent	1992	56	SRO	CoC	Yes	
Crest	2017	64	Studio	Excluded from analysis	Yes	Combined buildings Weldon and Rossmore
Dewey	2001	43	Studio	Mod Rehab	Yes	
Edward	1995	47	SRO	Excluded from analysis	No, vacant	
Flor 401 Lofts	2020	99	Studio	Excluded from analysis	No, too new	Lobby and services shared with St. Marks, one commercial space
Hart	1992	41	SRO	Mod Rehab	Yes	
Lincoln	2001	41	Studio	Mod Rehab	Yes	
New Genesis	2012	106	Studio + 1 bed*	PBV	Yes	
New Pershing	2015	68	Studio + 1 bed*	PBV	Yes	
Produce	1994	110	SRO + lofts*	Mod Rehab	Yes	Vacant, RAD conversion planned
Rainbow	2006	89	Studio	CoC	Yes	
Sanborn	1992	46	SRO	CoC	Yes	
Senator	1994	98	SRO + studio*	Excluded from analysis	No, not stabilized	RAD conversion planned
Simone	1992, renovated 2018	114	SRO	Excluded from analysis	Yes	Special needs housing
Six	2016	52	Studio + 1 bed*	PBV	Yes	
Skid Row South East 1	1992-1993, remodel in 2019	106	SRO	Excluded from analysis	No, not stabilized	
SP7	1999, new construction and rehab in 2021	100	Studio	Excluded from analysis	No, not stabilized	
Star	2013	102	Studio	PBV	Yes	
St. George	2004	87	SRO + studio*	CoC	Yes	Plus 3 commercial spaces
St. Mark's	1992	91	SRO	Mod Rehab	Yes	Special needs housing

* indicates unit type excluded from analysis.

Appendix C: Glossary of Term and Acronyms

Acuity: The severity and complexity of a person's medical or behavioral health needs, which informs the level of care and resources required.

Abatement: A suspension of rent payments when a unit or building does not meet Housing Quality Standards and has failed to make repairs. Building operators can begin receiving rent again once the abatement is lifted, though they cannot recover rent lost during the abatement period. For the Trust, HACLA was responsible for issuing abatements.

Affordable Housing: Housing units made available at reduced rents for low-income individuals or families, with rental costs typically capped at 30% of the tenant's income and subsidized through federal programs such as Section 8, HOME, or project-based rental assistance.

Capital Structure: The mix of a building's assets, liabilities, and net assets, an analysis of which reveals an organization's financial safety net and liquidity.

CDLAC – California Debt Limit Allocation Committee: Created to set and allocate California's annual debt ceiling and administer the State's tax-exempt bond program to allocate the debt authority. This includes financing affordable housing developments for low-income Californians.

CES – Coordinated Entry System: A standardized process used by communities to assess, prioritize, and match people experiencing homelessness with available housing and services based on their level of need, aiming to ensure fair and efficient access to resources.

CoC – Continuum of Care: Multiple definitions. In this research, CoC refers to a rental subsidy type, distributed as grants and requiring a match and service provision. CoC also refers to the regional or local planning body responsible for coordinating housing and services funding for homeless families and individuals, recognized by HUD. It can also refer to the community-wide system designed to help people experiencing homelessness find permanent housing and access services.

Depreciation: A reduction in the value of an asset with the passage of time, due in particular to wear and tear. All fixed assets are depreciated, with the exception of land.

Developer Fees: Developer fees incentivize the development of affordable housing properties. The developer fee is built into the project budget and, with LIHTC projects, the fee is a percentage of the project development costs (10-15%) or a capped dollar figure ($12,000-15,000 per unit). Developer fees can be difficult for developers to fully realize in cash because developer fees are reduced by cost overruns on construction or similar.

Fixed Assets: Assets which are purchased for long-term use and are not likely to be converted quickly into cash, such as land, buildings, and equipment.

General Partner: The entity responsible for managing the operations and financial risks of a building or housing project.

HACLA – Housing Authority of the City of Los Angeles: The local public housing authority that provides affordable housing and assistance programs. HACLA administers programs like Section 8 housing vouchers.

HCD – California Department of Housing and Community Development: A state agency that develops housing policy and administers housing finance, economic development, and community development programs.

HUD – United States Department of Housing and Urban Development: A federal agency that administers housing and urban development programs, including rental subsidy grants.

LAHD – Los Angeles Housing Department: The city department responsible for developing and implementing housing policies and enforcing housing regulations within Los Angeles. LAHD also provides loans to produce affordable and supportive housing.

LIHTC – Low Income Housing Tax Credits: A federal program enacted by Congress in 1986 to incentivize the development and preservation of affordable rental housing by offering tax credits to investors who contribute equity to such projects. Tax credits are allocated to states, who then award them to sponsors of qualified affordable housing projects, who then use the tax credits awarded to raise equity from private investors.

Liquidity: A measure of an entity's ability to meet short-term obligations with cash and assets that can quickly be converted into cash.

Mod Rehab – Section 8 Moderate Rehabilitation, including McKinney Mod Rehab Single Room Occupancy: A federal housing program that provides project-based rental assistance for low-income families, often in properties that have undergone moderate rehabilitation. A specific program within Mod Rehab provided rental assistance for homeless individuals in rehabilitated SRO housing, which was utilized by the Trust. This subsidy is no longer available for new projects, but existing projects can continue to receive funding.

Occupancy Rate: The percentage of total units that are occupied and are generating rent revenue.

PBV – Project-Based Vouchers: Rental subsidies that are tied to a building or unit, as opposed to a tenant. For the purposes of this report, they are long-term rental subsidy contracts that support the development of housing for homeless individuals and families.

PSH – Permanent Supportive Housing: A housing model that combines permanent, affordable housing with supportive services to help individuals and families achieve and maintain housing stability. Supportive services can include case management, mental health care, substance abuse treatment, job training, and other services that help individuals build independent living skills. PSH is often used for people who are chronically homeless or have disabilities that make it difficult to maintain stable housing.

PUPM – Per unit per month: Used to understand financial figures in the context of a building's number of units. For example, a building that contains 50 units and has annual operating expenses of $750,000 would have PUPM operating expenses of $1,250 ($750,000 ÷ 50 units ÷ 12 months = $1,250).

Reserves: Funds set aside to support an organization over the long-term. Reserves can be for specific purposes, such as fixed asset replacement, or to respond to unexpected events.

SRO – Single Room Occupancy: Housing units where tenants have private bedrooms but share most other amenities with other tenants, including kitchen and bathroom facilities.

Subsidy Rent: Financial assistance provided by the government to help cover the cost of housing for low-income individuals – often the difference between the approved rent and the portion of the rent for which the tenant is responsible.

Tenant Rent: The portion of rent paid by residents, typically capped at 30% of their income.

Trust – Skid Row Housing Trust: A nonprofit organization and its related entities, including its property management company, that developed and operated permanent supportive housing in Los Angeles from 1989 to 2023.

Vacancy Rate: The percentage of total units that are unoccupied and/or not generating rent revenue.

Redesigned Required

Lessons for Permanent Supportive Housing
from Skid Row Housing Trust Buildings