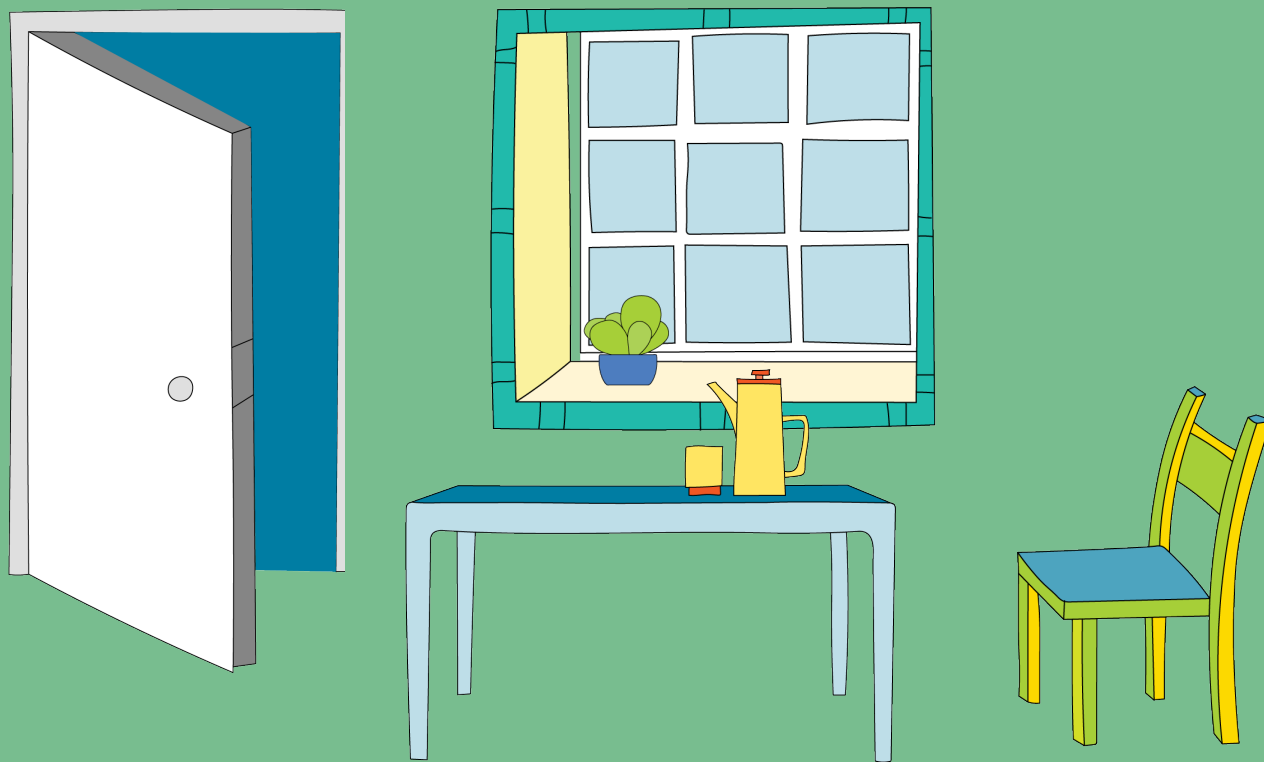


Scaling Housing to End the Foster Care to Homelessness Pipeline

Prepared by

Genesis LA Economic
Growth Corporation





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Executive Summary

In the summer of 2022, a group of Los Angeles-based charitable foundations and partners within L.A. County government began a planning effort to mitigate the extreme housing precarity experienced by youth in and exiting foster care, with the hope of ending homelessness for this segment of the population.

A key motivation of the convening partners was to identify ways in which foundations could explore investing their endowment dollars – going beyond their traditional role of grantmaking – as capital investments into youth housing projects. By expanding the role of these foundations, the group hoped to attract new financial resources to the development of affordable housing for youth while still earning a competitive return on their investments so that they can continue their grantmaking from endowment earnings. To begin evaluating the feasibility of investing their endowment dollars in such a way, the foundations commissioned Genesis LA, a local Community Development Financial Institution (CDFI), to prepare a financial model that evaluates possible housing arrangements and financial structures for foundation investments. This report presents the findings from this research and financial modeling.

Photo Credit: (TOP) Los Angeles County Department of Children and Family Services (BOTTOM) U.S. Department of Housing and Urban Development

There is no official tally of foster youth who experience homelessness, however, this report attempts to quantify this population as a baseline for projecting housing needs and the scope of potential philanthropic investments (Section 4). Approximately 1,140 youth between age 18-21 exit foster care each year in L.A. County. Various surveys have identified that between 20% and 40% of these youth experience homelessness and/or housing insecurity in the immediate years after exiting foster care. Existing public programs to serve this population generally provide housing subsidies and social services for up to three years. Based on available data, we estimate that approximately 2,000 youth are already being served by these subsidy sources, however, this has proven to be insufficient to meet the need. Thus, this report establishes a baseline need to expand capacity for approximately 1,368 youth in an effort to end homelessness among foster youth in LA County.¹

This report recognizes that the current ecosystem of social services and safety net programs that provide housing subsidies and vouchers for youth is essential to underwriting investments in the development of new housing projects for youth. However, this report also recognizes that these services and programs are insufficient to meet the current needs and they must be augmented. Thus, we attempt

1,140
youth exit foster care
annually in L.A. County

¹ 1,140 exits per year, multiplied by 40% who experience homelessness, multiplied by 3 years of services and housing subsidies for former foster youth, results in the need for capacity to grow by 1,368 placements.

to outline the existing funding ecosystem and identify potential areas for expanding rental subsidies to support growth in the stock of youth housing (Section 5).

The primary opportunities include:

1. Leveraging recent increases in funding through the Transitional Housing Program (THP),
2. Expanding the capacity of local Public Housing Authorities (PHAs) to access housing vouchers through the Department of Housing and Urban Development's Foster Youth Independence Initiative (FYI) and Family Unification Program (FUP), and
3. Ensuring that the State of California increases funding for Supervised Independent Living Placement (SILP) to better account for the high cost of housing in California, which cannot be covered by current monthly SILP payments.

Next, this report outlines three potential housing models that could be further explored to both increase the supply of youth housing and to attract philanthropic investments to finance such housing (Section 6). These models include:

1. Construction of new housing developments consisting of 2-bedroom units that can house youth in units with a roommate but with their own private bedrooms,
2. Acquisition and rehabilitation of existing buildings (such as motels and hotels) into studio apartments, similar to recent Project Homekey investments, and

3. Acquisition and light rehabilitation of single-family homes and small buildings of 1-4 units that can serve as shared housing for youth who are ready to live more independently.

Our analysis indicates that the first and third housing models hold the most promise and appear to be the most financially viable (under certain conditions).

Finally, this report outlines several areas where public policies and practices could be improved to support the objectives of this report's analysis (Section 8). This report operates within the limits of most existing programs, yet outlines a number of suggestions to improve the flow of housing subsidies to youth, including:

1. Increasing public resources and directing them to paying rent for low-income people as opposed to directing limited public funds toward costly development projects. Instead, the government should rely on the private sector to develop housing and then commit to covering rent in those units to house individuals through rental subsidies and longer-term lease arrangements.
2. Reform the current, disjointed process for awarding youth vouchers (FUP/FYI) by making a single county agency responsible for the placement process (likely DCFS).
3. Raise public and philanthropic funds to backfill rents when voucher rates are too low to compete in the market or sustain new housing financed with private capital. A supplemental rent payment could allow youth to better compete in the market

and ensure that voucher holders can sign leases and sustain rent payments.

4. Grow the capacity of affordable housing developers to focus on new housing models for youth, including privately financed models and alternative typologies such as shared housing and scattered site homes.
5. Involve youth in the design of nontraditional housing models to serve them, including physical design considerations, programming and operating considerations to improve housing stability and service supports for youth.
6. Identify ways to sustain youth housing after three years, the typical length of time that youth are able to access existing time-limited housing subsidies. In reality, foster youth, like most youth, need financial support throughout their 20s to sustain safe and healthy housing.

1 Background

In the summer of 2022, a group of Los Angeles-based charitable foundations and partners within L.A. County government committed to mitigating the extreme housing precarity among youth exiting foster care. This group's goal was to use both public and philanthropic financial instruments to identify opportunities for leveraging some of the more than \$100 billion held in LA County foundation endowments² to produce a sufficient number of new housing units to effectively end homelessness among foster youth. Potential investment vehicles could include grants, Program Related Investments (PRI), loan guarantees, and direct investments from foundation endowments.

As L.A. County Supervisor Hilda Solis said in a June 2022 press release: "When we [government and philanthropy] collaborate, our work can be transformative. I look forward to standing with our philanthropic partners to take on the most challenging issues, starting with eradicating the foster care to homelessness pipeline."

Every year, approximately 1,140 foster youth exit the system without permanent connections to family or other adults,³ resulting in a predictable pattern of housing instability and too often homelessness.

In the fall of 2022, a core group of funders (The Ralph M. Parsons Foundation, Weingart Foundation, the Reissa Foundation, the Conrad

N. Hilton Foundation, the WHH Foundation, Cedars-Sinai Community Benefit Giving Office and The Specialty Family Foundation) commissioned Genesis LA, a Community Development Financial Institution, to develop a financial model to test various privately funded housing typologies, applicable for youth ages 18-25, currently in or exiting the County's vast child welfare system.

The goal of Genesis LA's work was to test the feasibility of creating an investment vehicle that could draw significant investment from charitable foundation endowments and other streams of private capital. This work was undertaken with the acknowledgement that drawing such investment would require an acceptable risk-return profile, requiring the synchronization and alignment of the full range of financial instruments available to charitable foundations and the public sector.

This report provides baseline information and assumptions that inform multiple financial analyses of potential housing models. The report presents these housing models with standard Sources and Uses Budgets and Operating Proformas and then introduces multiple private sector financing arrangements, including conventional loans, Program Related Investment (PRI) loans, grants, and investments from foundation endowments – sometimes referred to as Mission Related Investments (MRI). Depending on the implementation of these variables at scale, these housing models could result in multiple public-private financial arrangements to increase affordable housing supply for youth.

² 2019 data from the Foundation Center: <https://california.foundationcenter.org/dashboard/region/los-angeles/year/2019/>

³ 2022, California Child Welfare Indicators Project: <https://ccwip.berkeley.edu/childwelfare/reports/Exits/MTSG/r/ab636/s>

2

Methods to Develop this Report

Between August 2022 and March 2023, Genesis LA conducted interviews with the following subject matter experts:

Contact	Title	Organization	Field
Angela LoBue	Senior Program Officer, Foster Youth	Conrad N. Hilton Foundation	Philanthropy
Carol Wilkins	Consultant		
Chris Hubbard	Officer, Program Related Investments	Conrad N. Hilton Foundation	Philanthropy
Debbie Chen	Director of Real Estate	Little Tokyo Service Center	Developer
Deborah La Franchi	Founder & CEO	SDS Capital Group	Finance
Ely Sepulveda Garcia	Manager, Youth CES	Los Angeles Homeless Services Authority	Government
Emma Heffernan	Program Officer, Homelessness	Conrad N. Hilton Foundation	Philanthropy
Janey Rountree	Executive Director	California Policy Lab at UCLA	Research
Kevin Solarte	Owner-Worker	Housing Justice Collective	Housing Policy, Youth Organizing
Lauri Burns	CEO	The Teen Project	Housing & Services Provider
Mott Smith	Principal	Civic Enterprise	Developer; Parking Policy
Paul Cho	CFO	LifeArk	Developer
Ruth White	Co-Founder and Executive Director	National Center for Housing & Child Welfare	Policy and Advocacy
Ryan Olsen	CEO & Founder	Quantum Assembly	Prefab Manufacturer
Sarah Hunder	Owner-Worker	Housing Justice Collective	Housing Policy, Youth Organizing
Simone Tureck Lee	Director of Housing and Health	John Burton Advocates for Youth	Policy and Advocacy
Ken Summers	General Manager of Los Angeles	Suffolk Construction Company	Contractor, Modular Construction
Thomas Lee	CEO	First Place for Youth	Housing & Services Provider
Todd Sosna, Ph.D.	CEO	Optimist Youth Homes & Family Services	Housing & Services Provider
V. Gail Winston	Division Chief Supportive Housing Bureau	L.A. County Department of Children and Family Services	Government

Genesis LA also consulted various research documents to understand the youth housing landscape and reviewed real estate data and projects to obtain, compare, or validate certain assumptions in the housing models presented in this report, including:

- TAY Housing Funders Briefing prepared by LA Center for Strategic Partnerships
- Housing for TAY: Challenges & Recommended Solutions prepared by TAY Housing Advocates Group
- Funding Sources for Transitional Housing for Former Foster Youth prepared by John Burton Advocates for Youth
- Student Housing Feasibility Assessment prepared by Foundation for California Community Colleges for the James Irvine Foundation
- Overview of FYI and FUP Housing Choice Vouchers, A Fact Sheet prepared by Youth Law Center
- Stable Homes, Brighter Futures: Permanent Supportive Housing for Transition Age Youth prepared by Harder+Company Community Research for the Corporation for Supportive Housing
- Stable Homes, Brighter Futures: Permanent Supportive Housing for Transition Age Youth Evaluation Report prepared by Harder+Company Community Research for the Corporation for Supportive Housing

Finally, Genesis LA reviewed and analyzed various real estate projects, Low Income Housing Tax Credit budgets and proformas, and market data to inform the development of housing financial models as referenced throughout this report.

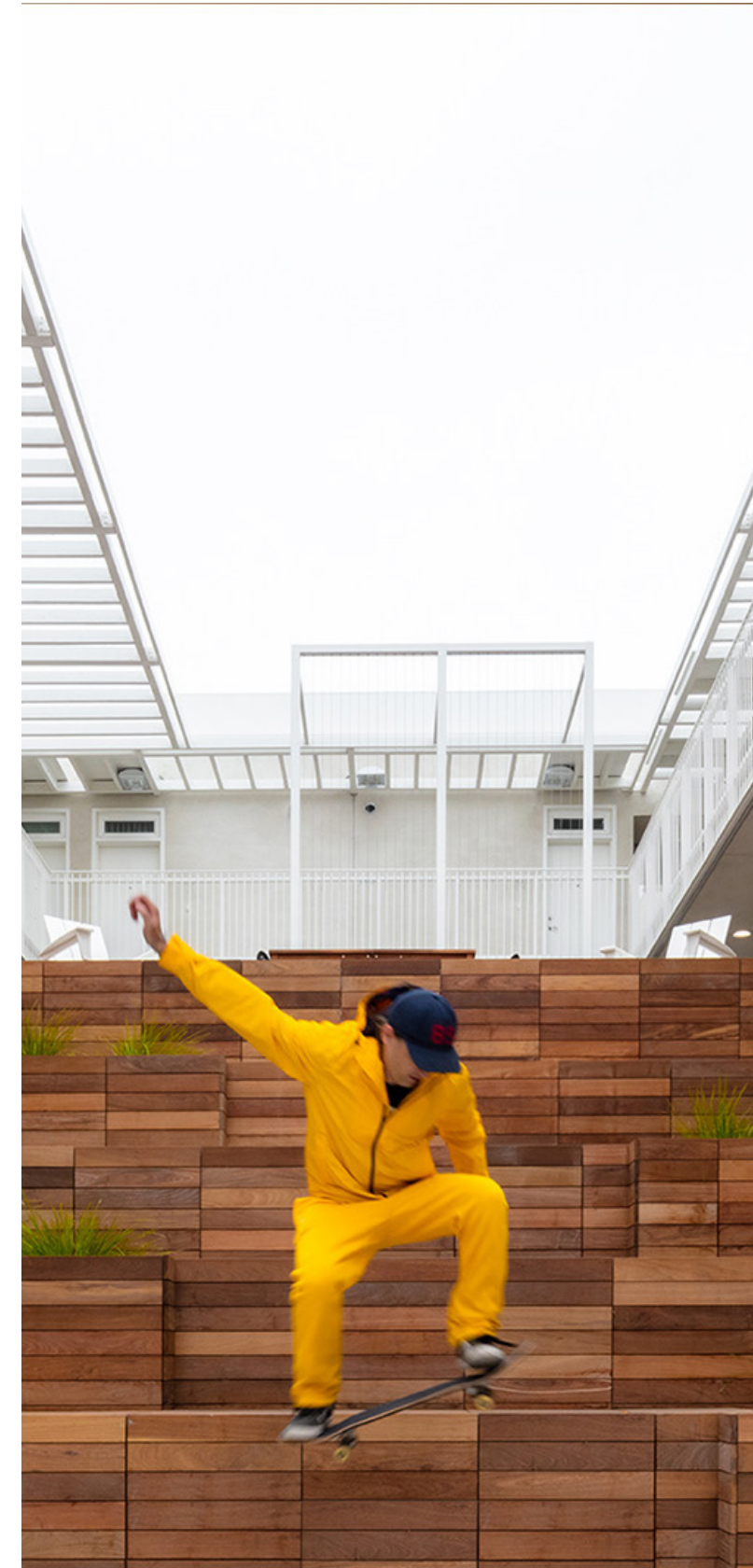


Photo Credit: Brooks + Scarpa Rose Apartments, Photo by Jeff Durkin

3 Considerations

During our time working on this report, we encountered recurring themes from policy experts, advocates, service providers, housing developers and operators, and young people with lived experience. We believe that the information and perspectives gained through these conversations are important to outline for ongoing consideration by stakeholders engaged in the work outlined in this report.

1. Los Angeles County must maximize the use of all available vouchers and rental subsidies to house youth.

Los Angeles County agencies and local Public Housing Authorities (PHAs) are not accessing the non-competitive and competitive vouchers

and rental subsidies that they are eligible to receive annually. Minimal progress can occur without more rental subsidies. However, even if these subsidies are accessed to the fullest extent possible, it will take years to close the gap in funding to house homeless foster youth, and these subsidies alone are unlikely to be sufficient to end foster youth homelessness.

2. Youth should be included in discussions around the design and implementation of new housing models.

Youth are the end users of the housing that government and philanthropy seek to finance and produce. These youth have unique lived experiences that can be of great value in informing the housing models, living arrangements, operations, services, and other dynamics related to the potential expansion of housing options as explored in this report. Philanthropy, government, developers, and service providers should seek youth input as they proceed in expanding housing supply for this population.

3. Congregate living or shared housing may be feasible for some young people, with the right conditions.

Shared housing can be successful housing settings, however, a key requirement is that youth need to have agency in selecting roommates and when vacancies occur, youth need to be able to remain housed in place without being required to cover the occupancy cost for the vacant room. Youth also need to have a reasonable say in the selection of the replacement roommate to ensure harmony among the residents. These operating needs are very difficult to achieve in the private market with private landlords and is most likely to succeed in nonprofit-owned and supported buildings or in master-lease settings.

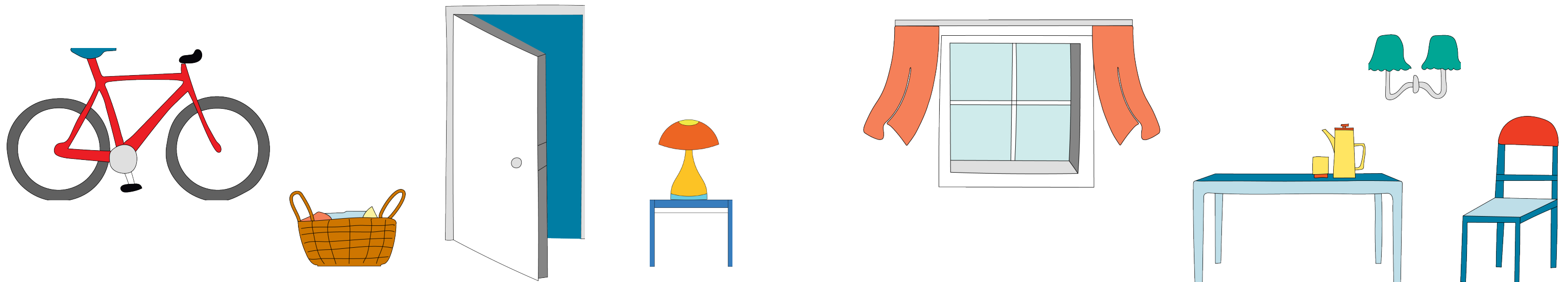
When youth live in shared housing, they often perform best when there is a sense of community, support from staff like Resident Advisors (similar to dorm settings), and social activities. The most effective settings balance a level of independence for youth while providing appropriate structure and support to ensure a healthy living environment for all residents and

minimizing disruptive behaviors.

Some service providers maintain that youth who have experienced trauma find the best chance of future success when they reside in private housing units such as studios or one-bedroom units, as opposed to shared housing environments.

4. The current support system for foster youth creates a “cliff event” after which many fall back into homelessness or housing insecurity.

Existing rental subsidies and social service supports for youth are generally time limited to three to five years. This results in a “cliff event” after which all supports for youth expire. This means many youth fall back into homelessness or housing insecurity. We spoke with multiple frontline service providers and youth advocates who reasoned that youth need an “offramp” that provides modest support for up to 10 years as youth improve their financial condition and can remain financial sufficient.



5. Youth are not well served by the dominant Coordinated Entry System

Multiple experts noted that the Coordinated Entry System (CES) does not work for youth. CES provides services to those who are already homeless, thus youth exiting foster care are not well served by the system since they are not yet homeless. Further, CES prioritizes individuals with the most acute needs, and youth often do not rise to this level of need and thus are not prioritized for services or housing through CES.

6. Prefabricated and modular construction have limited impact on lowering construction costs

Most prefabricated and modular construction methods have yet to prove they can substantially lower construction costs. Some may result in minimal cost savings on publicly-funded projects because the scope of work performed off-site can be exempt from prevailing wage requirements. However, when projects are privately financed and exempt from prevailing wages altogether, prefabricated construction generally produces little to no cost savings according to most developers and contractors. This perspective has been reinforced by large general contractors who are in active construction on LIHTC projects with reputable developers in Los Angeles. Additionally, Genesis LA financed a 25-unit modular project in 2020, consisting of 320 s.f. studio apartments and hard costs of \$303,000 per unit. To compare these costs to today's equivalent hard costs, we referenced the State

of California Department of General Services' Construction Cost Index, which reported 13.4% inflation in 2021 and 9.3% in 2022. This would result in a hard costs per unit of approximately \$375,000 for the same modular unit today. We then compared this to the average 9% LIHTC unit awarded tax credits in 2022, which had total hard costs of \$405,000 per unit. However, these LIHTC units averaged 1.5 bedrooms and 680 s.f. and included 0.60 parking spaces per unit compared to the modular project, which consisted of studio apartments averaging 320 s.f. and included no structured parking spaces. Given the cost differential of \$30,000 per unit and the significantly larger size and scope of the typical LIHTC units, there appears to be little to no cost savings from the modular construction model.

7. Scattered site housing creates operational challenges for service delivery but mixed-population settings can be beneficial.

Scattered site housing is a challenge for most service providers to oversee and maintain continued contact with clients. It also adds to service and administrative costs and takes longer to place youth into housing. Bringing more housing inventory under the direct control of providers through partnerships with developers, master leasing, or direct ownership, can improve operations.

Many youth are best served in mixed-population buildings as opposed to strictly TAY populations.



Photo Credit: Unity Care Housing

4

Homelessness Among Foster Youth Population in Los Angeles County & Closing the Housing Gap

Prior to the start of the pandemic (March 2020), approximately 1,140 youth between age 18-21 exited foster care in L.A. County annually, because they either “aged out” when they turned 21, they opted to exit before turning 21, or they were discharged by the county for failure to meet minimum participation conditions legally required for non-minors in foster care.⁴ There is no official tally of what percentage of these 1,140 emancipated youth experience homelessness, however, various studies have attempted to calculate the rate of homelessness among former foster youth between the ages of 18-21. First, Chapin Hall’s (University of Chicago) California Youth Transitions to Adulthood Study (CalYOUTH) indicates that approximately 19.1% of former foster youth experienced homelessness (typically for between 2 – 30 days).⁵ Separately, 22.6% had reported having to “couch surf” (also for periods between 2 – 30 days). Second, another report produced by John Burton Advocates for Youth (JBAY) indicates that 40% of youth who accessed housing and services through THP-Plus reported experiencing homelessness between the period of time that they exited foster care and enrolled in the THP-Plus program.⁶ Third, as of 2020, the Center

for Strategic Partnerships (a philanthropically supported cross-sector collaborative) reported that 31% of California foster youth experienced homelessness between ages 17-21. The Center also noted that as of February 2022, 1,261 L.A. County youth between 18-24 years of age were homeless, however, this population consists of both former foster youth and non-child welfare involved youth. Based on these reports, it appears that between approximately 20% and 40% of former foster youth experience homelessness or housing insecurity in the years after which they exit foster care.

Determining the Housing Gap to Serve Foster Youth

Given that most affordable housing funding sources serving youth are time limited to 36 months, and because the rental subsidies provided by these programs are essential to sustaining more housing units dedicated to this population, this report seeks to estimate the number of foster youth who experience homelessness or housing insecurity during a three year period. We then attempt to identify

ways to increase housing subsidies to close the gap in available housing placements.

There are approximately 1,140 youth who exit foster care annually in L.A. County. Based on estimates that 20% to 40% of former foster youth experience homelessness or housing insecurity, we can approximate that somewhere between 228 to 456 youth experience homelessness in the following years. Over a three-year period, this is equal to about 684 to 1,368 youth.

At least some youth who experience homelessness are likely served by the existing funding resources after a period of homelessness. Further, some youth who are not currently receiving housing assistance may not require such assistance, or may be able to access it in the future. Therefore, these are only approximations of the need, and are an attempt to calculate a baseline for the number of additional housing placements that are required to address the current gap. Thus, this report presents strategies by which L.A. County stakeholders could close this housing gap of approximately 1,368 placements, as outlined in detail at the end of Section 5.

Existing Housing Programs are Essential but Still Insufficient

While this report focuses on creating capacity for approximately 1,368 additional placements, we recognize that this numeric goal is tied to supplying more of the existing time limited funding sources that already exist (generally three years per subsidy source). We believe this is a sound baseline to begin this work, however,

Approximately 20% to 40% foster youth experienced homelessness between ages 18-21

it is not a sufficient end. Government and philanthropy must explore ways to transition youth into replacement rental subsidy after the first three years of rental support end. Multiple service providers and advocates interviewed for this report have identified that the time limited nature of housing programs for former foster youth push many youths back into homelessness or housing insecurity after these housing supports expire. They argue that housing programs should provide a transition into independence over a longer period (up to approximately 10 years), during which time housing subsidies may be gradually reduced as youth hopefully grow into more stable and higher paying employment. This is not dissimilar to the support that youth in the general population, who do not experience time in foster care, may receive from family well into their twenties. During this time, many youth receive family financial support or live at home while they complete schooling and enter the workforce. This report was not designed to address the problems presented by the time-limited nature of most rental subsidies, however, we believe it is a critical obstacle to youth achieving long-term independence and that it should be included in the broader set of discussions around the steps that government and philanthropy should take to improve the overall system.

⁴ California Child Welfare Indicators Project, UC Berkeley, data accessed Feb. 14, 2023. Exits from Foster Care Report - California Child Welfare Indicators Project (CCWIP) (berkeley.edu). Following the start of the pandemic, temporary COVID policies resulted in exits from foster care dropping well below historical averages and then exceeding averages starting in 2021, creating anomalies in the data. JBAY advises using pre-pandemic data for historical reference.

⁵ https://www.chapinhall.org/wp-content/uploads/CY_YT_RE0517.pdf page 30.

⁶ https://jbay.org/wp-content/uploads/2021/12/2021AR_Census.pdf

5

Existing Housing and Service Subsidy Programs for Youth and Opportunities to Increase Funding Resources

Genesis LA is not an expert on subsidy programs that currently fund housing and services for youth, nor was the scope of this report intended to go into depth on these programs. However, Genesis LA was asked to conduct financial analysis of potential housing models and fundamental to such an analysis is the need to identify where rent payments will derive to sustain the operating costs associated with these housing models. Therefore, in this section, we attempt to highlight the most common subsidies to support foster youth housing. Further, based on feedback that we received in preparing this report, we attempt to identify areas where these subsidies may be increased to house more foster youth in L.A. County.

Currently, multiple public funding programs provide subsidies to support housing and services for youth exiting the foster care system. However, the funding ecosystem is fractured and is insufficient in meeting the need. In some cases, subsidies need to be augmented to provide more monthly funding per youth, while for other subsidy programs, more funding is needed to reach more youth.

The four major subsidy streams examined in this report are:

- ▶ **Transitional Housing Placement for Nonminor Dependents (THP-NMD). Foster care funding**, which funds a range of foster care placement types, most commonly for nonminors (18-21) which provides housing and services through a service provider
- ▶ **Supervised Independent Living Placement (SILP). Foster care funding**, which funds a range of foster care placement types, most commonly for nonminors (18-21) which provides a monthly payment to youth who are responsible for securing their own housing
- ▶ **Transitional Housing Program-Plus (THP-Plus)**, which provides housing and services through a service provider for youth, aged 18-25, who have exited the system
- ▶ **Family Unification Program (FUP) and Foster Youth Independence (FYI) Initiative**, which provides housing vouchers for youth who have exited the system

Summary of Existing Housing and Service Subsidy Program for Youth in L.A. County

Program	Approx. # Youth Served	Housing Subsidy	Services Subsidy	Monthly \$ Amount
THP-NMD	420	Yes	Yes	\$4,104
SILP	1,322	Yes	No	\$1,129*
THP-Plus	160	Yes	Yes	\$2,200
FUP / FYI	144	Yes	No	HUD FMR**

*Proposal to increase to \$1,901, **Pays HUD Fair Market Rent though a housing voucher

It should be noted that most housing subsidies for youth are generally tied to the tenant, as opposed to the project. This presents challenges when financing affordable housing projects for youth, because developers and investors cannot count on an uninterrupted flow of rental income, as is similar with Project Based Vouchers (PBV)

typically used on most supportive housing projects. This report notes these challenges and presents potential interventions from public and private sector partners to help smooth any potential disruptions to the flow of rent in youth projects and thus bolster the financial feasibility of housing models (see Sections 7 and 8).



Photo Credit: Brooks + Scarpa Rose Apartments, Photo by Jeff Durkin

Transitional Housing Placement for Non-Minor Dependent (THP-NMD)

Overview

The THP-NMD placement was established in 2010 through passage of California Assembly Bill 12 and was first implemented in 2012. THP-NMD was one of the two new types of foster care placements developed for young adults under AB 12 (along with SILP, see below). The placement is modeled after THP-Plus and provides housing and supportive service to Non-Minor Dependents (NMD) between the ages of 18 and 21. THP-NMD is a foster care placement licensed by the California Department of Social Services (DSS) as compared to THP-Plus, which is a program administered by counties.

Current Resources

At the local level, the placement is administered by DCFS, which contracts with a host of nonprofit foster youth service providers, who receive a monthly foster care rate, which in FY 2022-23 totals \$4,104 for serving a youth who is not parenting, and \$4,686 to serve a youth who is a custodial parent. These figures are composed of the statewide THP-NMD foster care rate, which is \$3,923 in FY 2022-23, and the “THP-NMD Housing Supplement,” which in L.A. County in FY 2022-23 is \$181 for non-parenting youth, and \$763 for youth who are custodial parents. Service providers are licensed by the California Department of Social Services’ Community Care Licensing Division and certified by counties. Funding supports service provision, housing navigation and most often rental of units in scattered sites, usually consisting of individual units within the general rental market across the county. There are roughly 420 foster youth ages 18-21 in the THPP-NMD program.⁷

Opportunities to Increase THP-NMD Funding

THP-NMD is resourced through federal foster care funding, meaning that L.A. County can access federal funds to support foster youth who are eligible for the housing and support services made available under THP-NMD. It’s also important to note that the THP-NMD Housing Supplement—which augments the statewide THP-NMD foster care rate—is fully covered by state and federal funding; no county funding is utilized for that portion. However, research has indicated that L.A. County has lower rates of THP-NMD utilization compared to other urban areas.⁸ Policy experts informed Genesis LA of two main barriers to higher utilization of THP-NMD: 1) A reluctance on the part of service providers to enter into THP-NMD contracts with L.A. County due to rigid requirements derived from group home regulations as opposed to THP-NMD regulations or tailored contracts for housing that is appropriate for THP-NMD clients; and 2) Challenges related to securing remote site housing through private landlords in a competitive housing market. L.A. County should explore how such contracting provisions might be revised so that more service providers agree to contract with the county and thus L.A. County can access significantly more federal subsidy to serve more youth, funding that it is currently foregoing due to underutilization. At a youth level, it is important to note that those who are custodial parents also receive what is called an “infant supplement,” an additional \$900 per month. Youth who are pregnant receive an Expectant Parent Payment, also \$900 per month, three months prior to their expected due date.

Further, given the costs associated with housing navigation and retention in the open market, DCFS could explore a master leasing model, wherein its current contracts with providers are split. The funds dedicated for housing could be administered by DCFS to lease up (likely through a nonprofit intermediary) a stock of appropriate units, and the service needs could be contracted with service providers.

⁷ Webster, D., Lee, S., Dawson, W., Magruder, J., Exel, M., Cuccaro-Alamin, S., Putnam-Hornstein, E., Wiegmann, W., Saika, G., Courtney, M., Eastman, A.L., Hammond, I., Gomez, A., Prakash, A., Sunaryo, E., Guo, S., Berwick, H., Hoerl, C., Yee, H., Flamson, T., Gonzalez, A., Ensele, P., Nevin, J., & Guinan, B. (2022). CCWIP reports. Retrieved Feb 24, 2023, from University of California at Berkeley California Child Welfare Indicators Project website. URL: <https://ccwip.berkeley.edu>.

⁸ https://www.chapinhall.org/wp-content/uploads/PDF/CY_YC_IB0520.pdf

Supervised Independent Living Placement (SILP)

Overview

The SILP emerged in 2012 after California established extended foster care with the passage of AB 12 in 2010. The SILP was one of the two new types of foster care placements developed for young adults under AB 12 (along with THP-NMD). SILP provides young adults in foster care with the opportunity to live highly independently. Youth placed in SILPs can receive their monthly foster care payment directly. The amount received is equal to California’s Basic Rate and is often referred to as a monthly “SILP payment.” Youth receive this monthly cash payment directly and have discretion on how to spend the funds. Funds are intended to cover the cost of food, clothing, school supplies, personal incidentals, and housing. SILP Payments are adjusted annually for inflation using the California Necessities Index, but they have failed to keep up with the cost of rent in California, which has risen faster than the SILP Payment and is currently \$1,129 per month. Youth who are custodial parents also receive what is called an “infant supplement,” an additional \$900 per month. Youth who are pregnant receive an Expectant Parent Payment, also \$900 per month, three months prior to their expected due date.

Current Resources

SILP is the most common placement for foster youth aged 18-21. As of October 2022, there were 1,322 foster youth placed in a SILP in Los Angeles County, accounting for 49% of the total 2,963 non-minor dependents who are supervised by L.A. County’s Department of Children and Family Services (DCFS) or juvenile probation department.⁹ Given the current housing market, finding an apartment or even a shared room is extremely difficult for these young people with the subsidy they receive. As a result, youth often use SILP Payments to cover basic living expenses and are forced to live in unstable housing environments, such as in overcrowded housing, automobiles, or by couch surfing. To make SILP a viable funding source to cover housing costs, SILP Payments must be increased to reflect the true cost of housing in California.

Opportunities to Increase SILP Funding

Understanding the needs of this population, Assembly member Phil Ting (D-SF), introduced AB 525 (Housing Affordability for Foster Youth in SILPs) in February 2022, sponsored by JBAY, to increase these subsidies statewide. This bill is accompanied by a \$16.5 million state budget proposal (which would draw \$10.8 million in federal funds). If passed into law, the monthly allotment for L.A. County foster youth would increase. Specifically, as an example, if it were in place in the current fiscal year, the payment would jump to \$1,901 per month, an increase of \$772. Such an increase would create many more housing opportunities for these young people.

In February 2022, the County Board of Supervisors passed a motion (authored by Supervisors Hilda Solis and Lindsay Horvath) to support AB 525.

Under this proposal, California would increase the Basic Rate to include a “Housing Supplement” (modeled after the THP-NMD Housing Supplement) tied to Fair Market Rents (FMR) as determined by the U.S. Department of Housing and Urban Development (HUD), which is currently used to set Section 8 voucher rates. Thirty percent of the Basic Rate would be used to pay the youth’s portion of rent (commensurate with the HUD standard that housing is affordable when it comprises no more than 30% of a household’s income). Then, the Housing Supplement would be the difference between 30% of the Basic Rate and the L.A. County FMR. The county FMR would be based on half of a 2-bedroom unit, because shared living is deemed to be developmentally appropriate for young adults. Under the proposal, the following Basic Rate and Housing Supplement would apply in L.A. County after automation occurs in the benefits payment system, likely in 2024 or 2025:

AB 525 / JBAY Proposed Housing Supplement (Los Angeles County rates)

2023 2-Bed FMR	Half of FMR	2022-23 SILP Basic Rate	30% of SILP Basic Rate	Monthly Housing Supplement	Total SILP
\$2,222	\$1,111	\$1,129	\$338.70	\$772.30	\$1,901.30

⁹ webster, D., Lee, S., Dawson, W., Magruder, J., Exel, M., Cuccaro-Alamin, S., Putnam-Hornstein, E., Wiegmann, W., Saika, G., Courtney, M., Eastman, A.L., Hammond, I., Gomez, A., Prakash, A., Sunaryo, E., Guo, S., Berwick, H., Hoerl, C., Yee, H., Flamson, T., Gonzalez, A., Ensele, P., Nevin, J., & Guinan, B. (2022). CCWIP reports. Retrieved Feb 24, 2023, from University of California at Berkeley California Child Welfare Indicators Project website. URL: <https://ccwip.berkeley.edu>.

Transitional Housing Program-Plus (THP-Plus)

Overview

The THP-Plus program was established in 2001 and provides funding to service providers who then deliver up to 36 months of affordable housing and support services to former foster youth and probation youth. Youth are eligible for THP-Plus if they turn 18 years old while in “out-of-home placement” and have not yet reached 25 years of age. In 2011, the state realigned funding directly to the counties. L.A. County receives an annual funding allocation, which funds DCFS contracts to nonprofits who then secure housing placements for youth and deliver support services.

Current Resources

The state provides L.A. County with a \$2.165 million block grant to fund the THP-Plus program annually. As of July 1, 2022, there were approximately 160 youth placed into care through the THP-Plus program in L.A. County. These 160 housing slots are partially covered by the realigned THP-Plus distribution of \$2.165 million, and partially by a new state funding source, the Transitional Housing Program, described further below. The monthly rate paid by DCFS per youth is approximately \$2,200 and must cover services and rent, although plans are currently underway to increase this monthly rate. Because of these lower rates, coupled with high housing costs, providers are reluctant to take on THP-Plus contracts. When they do, they often rely on philanthropic support to backfill rent and other operating support costs. Additionally, due to competition in the housing market, significant resources are expended for housing navigation, rental application fees and other costs associated with finding and securing housing for youth, which cut into the funds that providers have available for services and rent subsidies.

In 2021, the THP-Plus Housing Supplement Program was created (the Housing Supplement). The Housing Supplement provides additional funding to counties with the highest housing costs (including L.A. County), augmenting the existing THP-Plus funding. The augmented funding ensures that at least \$2,882 is provided monthly per youth client served under THP-Plus. The Housing Supplement program provides L.A. County with an additional \$2.659 million in annual funding. Combined with the existing \$2.165 million in THP-Plus funding, L.A. County can serve up to 140 youth annually with monthly funding of \$2,882 per youth (note that actual rates set by L.A. County may exceed \$2,882 per month, and may include a higher rate for parenting youth, thus the actual increase in youth served by the Housing Supplement is likely well below 140).

Opportunities to Increase THP-Plus Funding

The Transitional Housing Program (THP) was established in 2019 to assist more youth to secure housing. Youth are eligible if they are at least 18 years of age and have not yet reached 25 years of age. Priority is given to former foster youth and probation youth. Funding is provided by the state to DCFS as a resource to expand THP-Plus programs. This funding has much more flexible eligibility criteria than THP-Plus, allowing counties to expand access to more youth. L.A. County was provided with \$2.669 million to fund this program when it was launched, however, funding was increased by \$7.576 million in 2022 for a total of \$10.275 million in funding under this THP expansion program. At a minimum of \$2,882 in funding per youth per month, this additional funding could provide housing and services to approximately 200 more youth than were previously served by the program.

As with THP-NMD, housing navigation, rental application fees and other costs associated with finding and securing housing for youth in THP-Plus cut into the funds providers have available for services and rentals. DCFS could explore master leasing as described above.

Foster Youth Independence Initiative (FYI) and Family Unification Program (FUP)

Overview

The FUP and FYI programs make time-limited Section 8 Housing Choice Vouchers (HCV) available to Public Housing Agencies (PHAs) to administer to eligible youth in partnership with a Public Child Welfare Agency. These vouchers are “tenant based” and are not tied to specific projects, however, PHAs can project-base up to 20% of their youth vouchers. Further, the PHA must work with the local child welfare agency (DCFS in L.A. County), which makes referrals, verifies eligibility, and provides or secures services for youth receiving FUP/FYI vouchers.

FUP vouchers can be used to serve two eligible populations: 1) families involved with the child welfare system, and 2) youth leaving care or who have left care. FYI vouchers can only be used by youth who are in or have left foster care.

Youth are eligible for FUP/FYI vouchers if they are between 18-24, have exited foster care or will leave foster care in 90 days, and are homeless or at risk of homelessness. The vouchers can be used for up to 36 months and can extend beyond the voucher holders’ 25th birthday as long as they received the voucher before turning 25 years of age. There is an opportunity to extend these vouchers for an additional two years by either opting into the Family Self-Sufficiency Program if the housing authority offers it, or by engaging in certain participation conditions related to work or school.

Current Resources

All PHAs are eligible to apply for FYI and FUP vouchers. There are 19 PHAs within L.A. County, however, only three are known to participate in the FYI and FUP programs. These include the two largest PHAs – the Housing Authority of the City of Los Angeles (HACLA) and the Los Angeles County Development Authority (LACDA) – as well as the Housing Authority of the City of Pomona. An exact inventory of available FYI and FUP vouchers within L.A. County appears illusive. However, as of late 2022, DCFS reports 144 such vouchers in L.A. County (78 FYI and 66 FUP) and the Center for Strategic Partnerships reports 139 such vouchers (73 FYI and 66 FUP). These vouchers pay Fair Market Rents (FMR) like all other HCVs, which is equal to about \$1,522 for a studio apartment, \$1,764 for a 1-bedroom unit, and \$2,248 for a 2-bedroom unit.¹⁰

Opportunities to Increase FYI Funding

Like communities across the nation, L.A. County has routinely underutilized these vouchers. HUD makes a portion of FYI vouchers available annually with each PHA eligible to receive up to 50 FYI vouchers on a “non-competitive” basis. A PHA can request 25 vouchers at a time and must achieve 90% utilization for all of their FUP and FYI vouchers before requesting another 25 on-demand FYI vouchers (for 50 per year). Additionally, HUD makes vouchers available on a competitive basis. Policy experts informed Genesis LA that L.A. County’s voucher allocation system creates structural barriers to utilizing FUP/FYI vouchers and thus local PHAs cannot regularly access more vouchers. Initially, HUD awards vouchers to a PHA, which receives referrals for those vouchers, verifies youth eligibility through DCFS, and then issues the voucher to the youth, who in turn identifies housing with support from contracted housing navigation providers.

Referrals for L.A. County’s vouchers are handled differently, depending on whether the youth is a current foster youth (exiting care within 90 days), or a former foster youth. DCFS handles referrals for current foster youth and the Los Angeles Homeless Services Authority (LAHSA) handles referrals for former foster youth.

During the drafting of this report, Genesis LA conducted multiple interviews with LAHSA, DCFS, foster youth service providers, and policy experts. We received conflicting information from these parties as to the specific process for the awarding of FUP/FYI vouchers. Youth are categorically qualified to receive FUP/FYI vouchers, however, most interviewees indicated that LAHSA’s use of the Coordinated Entry System (CES) to prioritize voucher awards typically means that youth do not score among those with the highest needs and thus do not receive FUP/FYI vouchers when LAHSA deploys vouchers. Meanwhile, LAHSA maintains that there has never been an acuity score attached to eligibility, referral, or any other parts of the process for accessing FUP/FYI. However, LAHSA also notes that acuity scores are used to match all youth (including foster youth) to all Permanent Supportive Housing resources, but acuity scores have not been used to prioritize Transitional Housing and Independent Living Program resources since July 1, 2022.

Ultimately, this conflicting information received from different L.A. County agencies and from outside parties who most closely work with foster system resources, points to the challenges with the current system for awarding FUP/FYI vouchers, which involves multiple agencies and prioritization metrics that are not aligned with foster youth needs. Therefore, L.A. County should put DCFS at the center of deploying and redeploying FUP/FYI vouchers to eligible youth, removing LAHSA from the process altogether.

To forecast the potential increase in FUP/FYI vouchers in L.A. County, Genesis LA projected a model under which both HACLA and LACDA each access 50 non-competitive FUP/FYI vouchers every two years and achieve 90% utilization. It is our understanding that once these vouchers are awarded,

¹⁰ 2022 LACDA Voucher Payment Standards. There is flexibility for higher payments among PHAs within a single county or metro area. For example, HACLA reports higher payment standards for 2023, including \$1,840 for a studio apartment, \$2,096 for a 1-bedroom unit and \$2,666 for a 2-bedroom unit.

they are retained by the local jurisdictions and can accumulate into a growing supply of vouchers, as long as upon turnover, another eligible youth is identified and issued the voucher. Using these assumptions above, HACLA and LACDA could deploy a total of 450 new FUP/FYI vouchers over the next decade. Additionally, if the remaining 17 PHAs in L.A. County could access another 100 vouchers in the aggregate every two years and deploy them at a 90% utilization rate, this would result in another 450 FUP/FYI vouchers for L.A. County over the next decade (with an average of only 5 to 6 new vouchers per PHA every two years). Finally, if all PHAs could access 50 competitive vouchers in the aggregate every two years (only 2 to 3 new vouchers per PHA every two years) and deploy them at a 90% utilization rate, this could result in another 225 FUP/FYI vouchers for L.A. County. In total, such a coordinated strategy could bring as many as 1,125 new FUP/FYI vouchers over the next decade.

Beyond what is available if the subsidy was maximally drawn down, philanthropy alongside County and City Government should come up with a policy agenda to reduce the barriers to access these benefits. This policy agenda should contemplate both administrative and legislative fixes to these programs.

Closing L.A. County’s Housing Subsidy Gap for Foster Youth Experiencing Homelessness

The primary subsidy sources available to expand housing access currently include FUP/FYI vouchers and the expanded THP programs. Additionally, Assembly Member Ting’s proposed increase in SILP rates will likely reduce housing

insecurity and prevent some youth from falling into homelessness. Based on estimates that between 684 to 1,368 emancipated foster youth experience homelessness over a 3-year period, LA County could potentially eliminate homelessness for this population by consistently accessing FUP/FYI vouchers each year and by deploying its increased THP funding, which was made available in late 2022 to support more youth housing placements.

Housing Gap based on 20% - 40% homelessness rate	Increased FUP / FYI Vouchers (over 10 years)	Housing Supplement (current funding)	Increased THP funding (current funding)
684 - 1,368	1,125	Up to 140	200



Photo Credit: A Home for Everyone, Transition Projects

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Potential Housing Models

In preparing this report, we conducted financial analysis on three different housing models that could be further explored as methods by which to increase housing supply for former foster youth who now face homelessness and housing insecurity. The three models explored include:



New Construction

New Construction consisting of a prototypical 50 unit building with 2-bedroom units where each youth has their own private bedroom.

Photo Credit: Jovenes Inc. Progress Place Apartments Photo by Veronica Alaniz



Acquisition Rehab

Acquisition Rehab consisting of the purchase of existing buildings within the market and the light renovation of such buildings to reposition them for use as multifamily housing.

Photo Credit: Jovenes Inc. MY HOME-MI CASA



Scattered Site Single Family

Scattered Site Single Family consisting of the acquisition of existing single-family homes (or properties of 1-4 units) within the market and the light renovation of such homes to be used as shared housing.

Photo Credit: Jovenes Inc. MY HOME-MI CASA

A key objective of this report, and the funders who commissioned it, is to lower the cost of housing development, attract more private capital to the financing of affordable housing, and thus produce more housing to address L.A. County’s housing and homeless crises. Thus, this report attempts to identify those cost drivers that make traditional affordable housing development more costly and strategies that can be employed to lower cost.

Financial Model Components

A financial model for a real estate project generally consists of two key documents. First, the Budget consists of the Sources and Uses of a project. Uses refer to all of the costs associated with development, including: **Acquisition Costs, Hard Costs, Soft Costs, and Developer Fee.**

Model	Acquisition Cost*	Hard Cost*	Soft Cost*	Developer Fee*
New Construction	\$3,250,000 (land)	\$15,093,750	\$2,339,531	\$1,419,316
Acquisition Rehab	\$9,500,000 (building)	\$8,550,000	\$2,100,000	\$1,100,000
Scattered Site Single Family	\$600,000 (property)	\$80,000	\$12,000	\$25,000

Sources refer to the financing (loans, equity, grants, etc.) used to pay for all of the Uses.

Second, the Proforma is a multiyear forecast of the project’s operations, including: **Revenue, Expenses, Net Operating Income, and Financing Costs.**

Model	Revenue*	Expenses*	Net Operating Income*	Financing Costs
New Construction	\$1764,750	\$425,000	\$1,254,363	Varies per Scenario
Acquisition Rehab	\$1,399,440	\$425,000	\$904,468	
Scattered Site Single Family	\$60,000	\$22,000	\$33,500	

*All numbers provided from Year 1 of operation



New Construction Financial Model

Traditional affordable housing constructed with public subsidies and Low Income Housing Tax Credits (LIHTC) is consistently produced at higher per unit development costs as compared to other housing development in the private market.

The New Construction Financial Model detailed in this report is based on a 50-unit building consisting of 2-bedroom units measuring approximately 750 s.f. each. One unit is reserved for a manager. This building typology is similar to most traditional affordable housing projects. However, the hypothetical project modeled in this report takes steps to increase building design and operational efficiencies in the hope of creating more housing that can be economically

feasible and attract private financing.

Creating a Budget and Proforma (the Financial Model) requires numerous inputs obtained from a variety of sources. To obtain the inputs used in our New Construction Financial Model, we analyzed data sources that included extensive review of traditional LIHTC projects (see Appendix 1), construction costs, financial data, and market trends. This information was used to inform a detailed set of development, operations, and financial assumptions that underlie the New Construction Financial Model. These assumptions are outlined in Table 1, which consists of the assumptions used to create the Budget and Table 2, which includes assumptions pertaining to the Proforma.

Our New Construction Financial Model indicates that a 50-unit building consisting entirely of 2-bedroom units could achieve a total development cost of approximately \$540,000 per unit, or \$270,000 per bedroom (with 1 youth resident housed per bedroom). By comparison, a similar affordable housing project financed with public subsidies and LIHTCs would be expected to have total development costs of approximately \$760,000 per unit.

We verified this comparative pricing by reviewing the five 9% LIHTC projects awarded tax credits in 2022 and had an average of 1.7 bedrooms per unit or more and included structured parking similar to the New Construction Financial Model assumptions.¹¹ The average total per unit development costs of these five projects was \$686,056 with an average of 1.8 bedrooms per unit. Since these projects' units only averaged 1.8 bedrooms, or 90% of a 2-bedroom unit,

¹¹ There were not 100% 2-bedroom projects financed with 9% LIHTCs in 2022, thus our model had to compare those units with the largest average bedroom size and then adjust pricing to account for the difference between average unit sizes of 1.8 bedrooms among the LIHTC comparables and our 2-bedroom unit used in the Financial Model.



Photo Credit: Brooks + Scarpa Rose Apartments, Photo by Jeff Durkin

Table 1 - Budget Assumptions (Building & Construction)

Unit Size (bedrooms)	2	Two bedroom, two bathroom units with one youth per bedroom
Unit Size (square feet)	750 s.f.	Controlling unit size is critical to reducing cost and capitalizing on state and local density incentives. Our model assumes 2-bedroom units at 750 s.f. each. This is on the lower side of unit sizes, but is feasible and comfortable when properly designed. As a point of comparison, there were five LIHTC projects financed in LA County in 2022 that consisted entirely of studios and 1-bedroom units and the average unit size was 492 s.f. This means that our model provides an additional 258 s.f. of space to include a second bedroom space, which is more than sufficient given that a comfortably sized bedroom is about 10 x 12, or 120 s.f. It should be noted that the average 2-bedroom unit in a LIHTC project is closer to 900 s.f., which is also a variable in the higher costs of LIHTC projects.
Common Areas	15%	Common areas consist of spaces outside of the four walls of the residential units and include circulation, lobbies, laundry, trash areas, service office, etc. Common areas in LIHTC projects add an average of 30% more building space on top of the s.f. within residential units. However, many LIHTC projects that serve homeless and special needs populations can achieve highly efficient building designs with common areas adding between 10% and 20%. Common areas within market rate developments generally add about 15% more building space on top of the s.f. within units.
Parking Ratio (spaces)	0.25 / unit	Reducing parking is critical to reducing development costs. Recently, the state of California passed AB 2097, which effectively eliminates parking requirements within projects that are located near a Major Transit Stop. Nevertheless, in 2022, the typical LIHTC project in LA County included 0.62 parking spaces per housing unit. Our model assumes 0.25 spaces per unit. This ratio should be sufficient given that many youth lack automobiles, and multiple recent LIHTC projects located in urbanized, central Los Angeles, have been developed with parking ratios between 0.0 and 0.12 spaces per unit.
Parking (square feet)	350 s.f.	A typical parking spot located within a parking structure requires approximately 350 s.f. of space. This accounts for the s.f. needed to park the vehicle, as well as the circulation space / driving lanes needed to access parking spaces.
Land Cost (per unit)	\$65,000	Land costs vary based on location, zoning, and existing property conditions. We surveyed the land cost of all 9% LIHTC projects awarded funding in 2022, which had a land acquisition cost associated with them. Land costs per unit ranged from \$25,000 to \$88,000, with an average land cost per unit of \$55,000. We also commissioned an appraisal firm to survey recent land sales in LA County. We eliminated certain high cost markets from the analysis and applied density bonus incentives to median prices, arriving at \$67,000 median land price per buildable unit (see Appendix).
Soft Costs (alone)	15%	Soft costs consist of architecture, engineering, permitting, reports and studies, and other design and development costs. These costs are typically around 15% of hard costs. Sometimes, these costs are grouped with holding costs, financing costs, and developer fee (see below). We reviewed these costs on a combined basis across all 9% LIHTC projects awarded funding in 2022 in LA County and soft costs averaged 39.5% of hard costs for such projects. In our model, the combination of soft costs, holding costs, financing costs and developer fee total 37% of hard costs. Given that LIHTC projects typically have longer development timelines, involve multiple sources of financing, and involve complex legal and accounting requirements that should not apply in a primarily privately financed model, we believe that the 2.5% reduction in soft costs in our model, as compared to the 9% LIHTC projects, is a reasonable assumption.
Soft Costs (combined basis)	37%	

Table 1 - Budget Assumptions (Building & Construction)

Hard Costs - Residential (per square foot)	\$350	Construction hard costs vary based on construction type, site conditions, and design. We spoke with local LIHTC developers and referenced a financial model they are developing for potential developments resulting from the recently passed ULA ballot initiative. These developers use \$350 / s.f. for new residential construction and \$115 / s.f. for structured parking. These cost assumptions are for podium-style buildings with parking on grade or in a structure and with mostly wood frame construction above. These costs assume no prevailing wages. To obtain additional data on construction hard costs, we surveyed the hard costs of all 9% LIHTC projects awarded funding in 2022 in LA County. Only two projects broke out prevailing wage costs in their budgets. For all others, we use 80% of the budgeted hard costs, which reflects the predominant rule of thumb that prevailing wages add a 25% premium to hard costs. Applying these non-prevailing wage hard costs across all building s.f. resulted in an average hard cost of \$304 per s.f. We then broke down costs further by applying \$350 / s.f. across these 9% LIHTC developments for all residential s.f. and \$115 / s.f. for all parking structure s.f. and this resulted in an average cost of \$303 per s.f., which validated the assumptions provided by developers (discussed above). Our model results in \$328 / s.f. because we assume reduced parking (which has a lower price per s.f.) resulting in a higher percentage of the project's total s.f. consisting of residential s.f. at \$350 / s.f. as compared to the sample 9% LIHTC projects referenced.
Hard Costs - Parking (per square foot)	\$115	
Hard Costs - Total (per square foot)	\$328	
Hard Cost Contingency	15%	Most new construction projects include a hard cost contingency between 7.0% and 10.0%. Given that our model is theoretical and is not based on actual construction drawings, and given recent inflation in construction costs combined with likely increased construction costs before such projects would break ground, we include a 15% contingency.
Development Timeline	3 years	The time that it takes to develop a project is influenced by multiple factors. First, design and permitting times can vary with by-right developments taking less than 1 year and complex entitlement processes taking well over 1 year. Our model assumes 1 year to design and permit a by-right project. Second, assembling financing for market rate projects typically occurs simultaneously to the permitting process. For LIHTC and other publicly financed projects, financing typically takes 2 - 3 years to assemble and close. Since our model assumes primarily a private financing model, we assume this process will occur simultaneous to the permitting process. Third, the construction of a large multifamily building typically takes about 2 years. We assume this timeline, for a total of 3 year development timeline.
Holding Costs	1%	Holding costs typically refer to property taxes incurred while holding a development site prior to and during construction. We apply a standard 1.25% tax rate to the acquisition price for a period of 3 years (1 year for predevelopment, 2 years for construction). In our model, this results in costs that are approximately 1% of hard costs.
Financing Costs	12%	Financing costs typically refer to fees and interest associated with financing the project. Our model assumes debt financing at 5.00% interest, with the expectation that low cost PRI financing would be blended with other debt that may be priced above 5.00%. Interest is calculated for 3 years on the cost of acquisition. Interest is calculated for 2 years on all remaining hard and soft costs with a 60% draw basis, which reflects that loan funds are drawn over time to pay costs during the course of predevelopment and construction. A 1.00% loan fee is assumed on all debt.
Developer Fee	9%	Affordable housing developers are typically paid a fee for their services. LIHTC projects typically cap fees at \$2.2 million per project. Our model assumes a developer fee equal to 7.00% of all hard and soft costs. This is equal to 9% of all hard costs (for purposes of calculating soft costs on a combined basis).

Table 2 - Proforma Assumptions (Operations)

Rent	\$1,500	Our model for 2-bedroom, new construction projects, assumes a \$1,500 rent per bedroom (i.e. \$3,000 per 2-bedroom unit). According to Costar, the typical rent for a 2-bedroom apartment in LA County is approximately \$2,500. However, supportive housing for special needs populations has higher operating costs that require higher income to ensure sustainable operations. As a point of comparison, the typical Project Homekey project with approximately 50 units (similar to our model) has operations based on rents around \$1,459. Further, TAY service providers who receive THP funding to rent scattered-site housing units report that they often need to pay between \$1,300 and \$1,500 in rent per youth to secure housing in the open market in scattered sites. Further they note having to spend about another 10-15% of these rent costs on the administrative and housing navigation costs associated with securing these housing placements.
Revenue Escalations	2.50%	The typical affordable housing project forecasts rent increases of 2.50% per year. Most importantly, expenses are always projected to rise by 1.00% more than rents (see below).
Vacancy Allowance	5.00%	The vacancy rate for multifamily housing in LA County has historically trended around 4.00%, which is also the current vacancy rate in the market (per Costar). According to DCFS, overall vacancy rate for THP-Plus is 4% of contracted slots. Multiple THP providers note very low vacancy due to high demand and they say vacant units are generally turned over for new occupancy within 10 days. JBAY manages an online database where THP-Plus providers enter certain program data, including average length of stay. According to this reporting, the average youth stay in LA County is 18 months. It is clear that vacancy should be very low given the high need for quality affordable housing in LA County. However, it should be noted that the typical LIHTC project in LA County is underwritten to a 10% vacancy rate. This higher rate mostly appears to be due to bureaucratic delays in filling vacant units, approving leases, inspecting units, and identifying CES clients on waitlists. Our model assumes a 5.00% vacancy rate, based on actual trends in TAY housing.
Operating Expenses (per unit)	\$8,000	Our model uses an annual operating expense of \$8,000 per unit. Operating expenses per unit can vary widely depending on property size, number of units, and the degree to which social services are paid for by the building operations or a separate contract (our model assumes services are provided by another service contract, consistent with other TAY housing projects and service contracts). We reviewed all 9% LIHTC project awarded tax credits in 2022, and the average Operating Expense per unit was \$8,146 (excluding social service costs). The average unit size was 1.50 bedrooms and all projects served homeless or special needs populations, with between 25% and 97% of units reserved for these populations. Of those projects with average unit sizes of 1.7 bedrooms or greater (closer to our 2-bedroom model) the average operating expense per bedroom was \$4,500. Finally, the average Operating Expense per unit for the 5 Homekey projects reviewed was \$11,432, however, these projects often included abnormally high security costs and usually assumed that the landlord pays all utility costs (perhaps due to existing metering of buildings that were previously visitor hotels), as opposed to apartments where tenants pay most utility costs per unit. This drives costs higher for Homekey projects. Note: We believe that more operational efficiencies can be achieved in privately-financed projects. Currently, publicly-financed projects are not incentivized to create efficiencies and in fact benefit from achieving break-even operations so that they are not required to pay debt service payments on soft debts loaned by government agencies.

Table 2 - Proforma Assumptions (Operations)

Expense Escalations	3.50%	The typical affordable housing project forecasts expense increases of 3.50% per year. Most importantly, expenses are always projected to rise by 1.00% more than rents.
Asset Management Fee	\$25,000	The typical affordable housing project pays an annual asset management fee to the partner(s) who own and oversee the project. The asset management functions generally refer to the partner(s) responsibilities associated with overseeing the project's financial performance, physical condition, and compliance with applicable regulations. LIHTC projects generally pay approximately \$25,000 in annual asset management fees starting in year 1, with a 3.00% annual escalation in fees.
Conventional Loan - Interest Rate	5.50%	Conventional loan terms change based on market conditions and perceptions of risk. Recent market conditions have caused interest rates to rise well above rates seen in the past several years. As of January 2023, Wells Fargo's multifamily rate sheet reports that Government Sponsored Enterprise (GSE) loans over \$6 million have rates around 5.5% with 30 year amortization and a DSCR around 1.50. These terms have been used to back into a senior conventional loan amount for our new construction model.
Conventional Loan - Amortization Period	30	
Conventional Loan - Debt Service Coverage Ratio (DSCR)	1.50	
PRI Loan - Interest Rate	3.00%	Program Related Investments (PRI) are loans made by foundations at lower interest rates and with more flexible terms. PRIs have historically been between 1.00% and 2.00%. Our model uses a 3.00% interest rate, to account for an interest spread for intermediary lenders, such as Community Development Financial Institutions (CDFI) or other entities, which are often involved in the deployment of PRI loans on behalf of foundations.
Cap Rate at Exit	5.75%	For the past decade, the average multifamily cap rate in LA County has been below 5.5%, aided by historically low interest rates and constrained housing supply. The current cap rate is around 4.00% but trending upward due to rising interest rates and economic uncertainty. It should be noted that Cap Rates change based on market conditions and an assumption today could be significantly different in future years. Further, cap rates can vary significantly by submarket. Our model conservatively assumes a 5.75% exit cap rate at year 10.

we adjusted total unit costs to achieve the equivalent price for a 2-bedroom unit financed with LIHTCs, which was \$762,285, exactly in line with our estimates used to compare typical LIHTC projects with our Financial Model project (see Appendix 1).

Our Financial Model demonstrates how an efficiently designed, new construction building has the potential to reduce costs by approximately \$220,000 per unit or about 30%

as compared to a typical LIHTC project. Table 3 details how these savings could be achieved and outlines the share of savings that result from the following design, development, and financing considerations.

Land Costs = (5%) Increased Costs: Our New Construction Financial Model defers to a higher land cost per unit of \$65,000, based on a market analysis (see Appendix 2). We maintain the average \$55,000 land cost per unit in the typical



Photo Credit: Jovenes Inc

Table 3								
Comparison of 2-Bedroom New Construction Financial Model and Typical LIHTC Project								
Budget Item	FINANCIAL MODEL			TYPICAL LIHTC			Difference	% Share of TDC Diff.
	S.F.		Cost	S.F.		Cost		
Land		\$65,000 / unit	\$3,250,000		\$55,000 / unit	\$2,750,000	(\$500,000)	-5%
Hard Costs (building)	43,125	\$350	\$15,093,750	48,750	\$438	\$21,328,125	\$6,234,375	56%
Hard Costs (parking)	4,375	\$115	\$503,125	10,850	\$144	\$1,559,688	\$1,056,563	10%
Contingency		15.00%	\$2,339,531		15.00%	\$3,433,172	\$1,093,641	10%
Soft Costs		37.37%	\$5,828,569		39.50%	\$9,040,686	\$3,212,117	29%
Total			\$27,014,975			\$38,111,670	\$11,096,695	
Total Development Cost / Unit			\$540,300			\$762,233	\$221,934	

Table 4				
BUDGET - New Construction Financial Model				Total
Land				\$3,250,000
				\$65,000 per unit
Hard Costs (building area)		\$350 per s.f.	\$15,093,750	\$301,875 per unit
Hard Costs (parking)		\$115 per s.f.	\$503,125	\$41,927 per space
Contingency		15% of hard costs	\$2,339,531	\$46,791 per unit
Soft Costs		15% of hard costs	\$2,339,531	\$46,791 per unit
Holding Costs			\$121,875	\$2,438
Financing Cost		5% interest rate	\$1,947,847	\$38,957
Developer Fee		7% of hard + soft	\$1,419,316	\$28,386
Total Development Cost			\$27,014,975	
Total Cost per Unit			\$540,300	
Total Cost per Bedroom			\$270,150	
Total Hard Cost per SF			\$328	

LIHTC project, based on our analysis of 2022 9% LIHTC projects (see Appendix 1). The higher land costs in our New Construction Financial Model reduces the overall cost savings between the two project types by 5%.

Reduced Common Areas and No Prevailing Wages = 56% of Total Savings: Our New Construction Financial Model assumes 750 s.f. 2-bedroom units with 15% additional s.f. for common areas. This unit size is smaller than the typical 2-bedroom unit financed with LIHTCs, however, we use this unit size as a baseline but add about 30% additional s.f. for common areas, which is the average common area measurement among LIHTC projects. Further, the use of public capital to finance affordable housing triggers requirements to pay prevailing wages. Most developers and contractors report that prevailing wages generally increase hard costs by approximately 20-30%. This adds costs for labor and compliance and can limit the pool of contractors willing to bid on the project, which reduces the chances of securing the best pricing. In combination, constructing buildings with less common areas and using private financing that does not trigger prevailing wage rates can lower project hard costs by approximately \$6.2 million or about 56% of total savings in our Financial Model as compared to a comparable LIHTC project.

Reduced Parking and No Prevailing Wages = 10% of Total Savings: Our New Construction Financial Model assumes 0.25 parking spaces per unit. This is compared to approximately 0.62 parking spaces per unit in the typical 9% LIHTC project funded in 2022. Reducing parking is an essential strategy to lowering construction costs. In recent years, state and local governments have adopted policies that essentially eliminate

parking requirements for housing developments, yet most LIHTC projects do not maximize the use of these policies. In combination, reducing parking and using private capital that does not trigger prevailing wage rates can lower project hard costs by approximately \$1 million, or about 10% of total savings in our New Construction Financial Model as compared to a comparable LIHTC project.

Reduced Contingency = 10% of Total Savings: Every new construction project should carry a contingency to account for change in construction prices. This is particularly true for projects that are not fully designed and permitted, since they lack construction drawings from which to bid construction pricing. Most affordable housing projects begin construction with a 5-10% hard cost contingency. The average contingency budgeted by the 13 new construction projects awarded 9% LIHTCs in 2022 was approximately 6.6%. Our New Construction Financial Model and the comparative typical LIHTC model both budget a 15% contingency since they are still hypothetical projects for modeling purposes and lack specific sites, designs, and construction drawings. Given that our New Construction Financial Model achieves savings from less common areas, less parking, and exemption from prevailing wages, the 15% contingency is calculated on lower overall hard costs, and thus results in over \$1 million in lower contingency costs, about 10% of total savings in our New Construction Financial Model as compared to a comparable LIHTC project.

Reduced Soft Costs = 29% of Total Savings: Traditional affordable housing projects financed with public subsidies and LIHTCs have unusually high soft costs. A City Controller audit of HHH projects noted the high share of project costs

attributed to soft costs.¹² Soft costs generally refer to design, engineering, fees and permits, carrying costs (interest, taxes, insurance), financing costs, legal, and consultants. To simplify project development line items, we combine these costs and the developer fee into a single soft costs line item. Traditional affordable housing projects incur high soft costs for a variety of reasons, but particularly as a result of longer predevelopment periods (typically 2-4 years to start construction); the need to hire consultants to apply for multiple public and private financing sources (often 5-7 sources or more) and then to pay financing, legal, and accounting fees associated with these sources; and to comply with strict design and amenity requirements imposed by public funding sources (this is part of the reason for larger unit sizes and more common areas in LIHTC projects). The 13 new construction projects awarded 9% LIHTCs in 2022 had average soft costs that are approximately equal to 25% of total development costs (and 39.4% of hard costs). Three of these projects that are closest in size to our hypothetical typical LIHTC project had between 44 and 57 units and soft costs between \$9.6 million and \$11.7 million, in line with the \$9 million in soft costs we modeled in the typical LIHTC project in Table 3 for comparison purposes. Soft costs in our New Construction Financial Model are equal to 22% of total development costs (and 37.3% of hard costs). Soft costs in both models are a similar percentage of hard costs, but that calculation is made on different overall hard cost amounts per project (per the discussion above). Our New Construction Financial Model achieves lower soft cost based on the objective of using fewer capital sources, avoiding public subsidy sources, expediting development timelines, and charging lower developer fees on the lower

overall project budgets. This lowers soft costs by approximately \$3.2 million, about 29% of total savings in our New Construction Financial Model as compared to a comparable LIHTC project.

Project Budget

As detailed in Table 1, we conducted extensive analysis of LIHTC projects awarded tax credits in 2022, consulted experienced affordable housing developers, and referenced multiple sources of market data to arrive at the assumptions included within the project budget. The budget (Table 4) assumes development with all private capital, thus the project is exempt from certain requirements imposed by public funding sources, such as design standards, minimum unit sizes, and prevailing wages. Total development costs are estimated at approximately \$540,000 per 2-bedroom unit, or \$270,000 per bedroom.

Project Proforma

Once we determined approximate development costs, we then forecasted anticipated operations for the completed project by developing a project proforma. As detailed in Table 2, we conducted extensive analysis of LIHTC projects awarded tax credits in 2022, consulted experienced affordable housing developers, and referenced multiple sources of market data to arrive at the assumptions included within the project proforma.

The proforma (Table 5) assumes each 2-bedroom unit is rented to two youth (one per bedroom) at a monthly rental rate of \$1,500 per youth (\$3,000 per unit). This rate is above market rent for the median 2-bedroom apartment in L.A. County (approximately \$2,500 per Costar) and above the current Fair Market Rent (FMR) paid by Section

8 vouchers (\$2,666 per HACLA). Nevertheless, a rent of \$1,500 per bedroom is comparable to rents paid per individual housed in much smaller studio units produced through Project Homekey (approximately \$1,450 per person, see Table 10) and close to rents paid by service providers who receive funding through THP programs to pay for rents in scattered site apartments (typically between \$1,350 and \$1,500 per interviews with providers). Further, such rent is necessary to pay for new construction and the proper maintenance and operations of completed projects when using private financing capital. This rent is reduced by 5.00% for vacancy, \$8,000 in annual operating expenses per unit, and \$25,000 in annual asset management fees, to arrive at a Net Operating Income (NOI) of \$1.25 million in year 1. This NOI forms the basis for then calculating feasible financing sources to finance the project.

Financing Options & Returns

Our analysis includes three financing scenarios (Table 6) for the New Construction Financing Model, which include combinations of conventional loans (debt), Program Related Investment (PRI) loans from foundations, grants, and Mission Related Investments (MRI) in the form of equity invested by foundations. This financing is forecasted to remain in place for a period of 10 years.

Scenario 1 shows the financial returns based on 100% of the required \$27 million in project financing capital made in the form of an MRI (equity). This financing structure generates an Internal Rate of Return (IRR) of approximately 5.6% over the 10-year period.

Scenario 2 introduces a senior conventional loan underwritten to a 1.50 Debt Service Coverage Ratio (DSCR) a 30-year amortization period and 5.5% interest rate (see Table 2 for details on these loan term assumptions). Based on these terms, the loan can provide just under half of the total financing needed for the project. While a 1.50 DSCR is conservative, we believe it is prudent to underwrite on this basis, because traditional lenders may base their underwriting on market rents that are closer to \$2,500 per unit (as opposed to our model which uses \$3,000 per unit). Based on those lower rents, the same size loan could be provided with a DSCR between 1.15 and 1.20. This scenario also includes a PRI loan for approximately 15% of the total project financing and the balance of capital is provided by an MRI (equity). This financing structure generates an IRR of approximately 5.7% over the 10-year period.

Scenario 3 assumes the same senior conventional loan terms but introduces a grant, as opposed to a PRI loan. This grant, equal to about 10% of total financing, helps to subsidize the project, making the returns on MRI capital more attractive. The grant is sized to result in an 8% IRR on the MRI, a return that foundations have indicated would be a competitive return as compared to other investment options.

An alternative version of this Scenario 3 might include sizing the grant amount such that the proforma rent is reduced to align with FMR Section 8 voucher rates and the MRI still yields an 8.00% IRR. After adjusting the rent to \$2,666 (HACLA FMR for 2-bedroom units), or \$1,333 per bedroom, the project can only support a conventional loan equal to 38% of total financing and a MRI equal to 38% of total financing, thus

requiring 24% of capital to come from grant sources (an increase from 10% grant funding if rents are at \$3,000 per 2-bedroom unit). See Policy Recommendation 1D for additional discussion on balancing rent levels, operating expenses, and return on investment capital.

It is worth noting two significant variables in the generation of the forecasted IRR. First, the Capitalization Rate (Cap Rate) is used to forecast the future building value at year 10. Today, Cap Rates average about 4.00% across the L.A. County market, however, they vary by submarket and are influenced by other rates of return on other investments as well as other market conditions. Cap rates have been rising slightly during 2022 as a result of market conditions.

Thus, it is impossible to accurately forecast what the cap rate will be at year 10. Second, the forecasted value at year 10 is based on the projected \$3,000 rents used in our model, with 2.5% annual inflation. If ongoing rents cannot be secured at these levels in year 10, then lower rents will reduce the valuation of the building and impact the IRR on the MRI capital. However, we inflated current median 2-bedroom rents by 4.00%, which is more in keeping with historical market conditions in L.A. County. This results in total rent in year 10 that is 95% of that forecasted using the starting rent of \$3,000 inflated by 2.5% annually, and would reduce the IRR on the MRI to approximately 7.20%

Table 5				
OPERATING PROFORMA - New Construction Financial Model				
				Year 1
REVENUE	<u>per Unit / mo.</u>			
Rent	\$3,000	2.50%	escalator	\$1,764,000
Parking Revenues	\$25	2.50%	escalator	\$3,750
Misc. Income	N/A	2.50%	escalator	\$0
Potential Gross Income				\$1,767,750
(less Vacancy, Colection Loss)				5.00% factor (\$88,388)
Effective Gross Income				\$1,679,363
EXPENSES	<u>Per Unit / Yr.</u>			
Operating Expense per Unit		3.50%	escalator	\$8,000 (\$400,000)
Asset Management Fees		3.00%	escalator	(\$25,000)
Net Operating Income				\$1,254,363

Table 6**OPERATING PROFORMA - New Construction Financial Model**

				<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Year 9</u>	<u>Year 10</u>	
REVENUE	<u>per Unit / mo.</u>													
Rent	\$3,000	2.50%	escalator	\$1,764,000	\$1,808,100	\$1,853,303	\$1,899,635	\$1,947,126	\$1,995,804	\$2,045,699	\$2,096,842	\$2,149,263	\$2,202,994	
Parking Revenues	\$25	2.50%	escalator	\$3,750	\$3,844	\$3,940	\$4,038	\$4,139	\$4,243	\$4,349	\$4,458	\$4,569	\$4,683	
Misc. Income	N/A	2.50%	escalator	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Potential Gross Income				\$1,767,750	\$1,811,944	\$1,857,242	\$1,903,673	\$1,951,265	\$2,000,047	\$2,050,048	\$2,101,299	\$2,153,832	\$2,207,678	
(less Vacancy, Collections Loss)		5.00%	factor	(\$88,388)	(\$90,597)	(\$92,862)	(\$95,184)	(\$97,563)	(\$100,002)	(\$102,502)	(\$105,065)	(\$107,692)	(\$110,384)	
Effective Gross Income				\$1,679,363	\$1,721,347	\$1,764,380	\$1,808,490	\$1,853,702	\$1,900,045	\$1,947,546	\$1,996,234	\$2,046,140	\$2,097,294	
EXPENSES				<u>Per Unit / Yr.</u>										
Operating Expense per Unit		3.50%	escalator	\$8,000	(\$400,000)	(\$414,000)	(\$428,490)	(\$443,487)	(\$459,009)	(\$475,075)	(\$491,702)	(\$508,912)	(\$526,724)	(\$545,159)
Asset Management Fees		3.00%	escalator		(\$25,000)	(\$25,750)	(\$26,523)	(\$27,318)	(\$28,138)	(\$28,982)	(\$29,851)	(\$30,747)	(\$31,669)	(\$32,619)
Net Operating Income				\$1,254,363	\$1,281,597	\$1,309,368	\$1,337,684	\$1,366,555	\$1,395,988	\$1,425,992	\$1,456,576	\$1,487,747	\$1,519,515	
SCENARIO 1: All Equity				<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Year 9</u>	<u>Year 10</u>	
Cash Outflow				(\$27,014,975)										
Cash Inflow				\$1,254,363	\$1,281,597	\$1,309,368	\$1,337,684	\$1,366,555	\$1,395,988	\$1,425,992	\$1,456,576	\$1,487,747	\$1,519,515	
Refinance / Sale	Cap Rate:	5.75%											\$26,426,354	
Total Net Cashflow	IRR:	5.61%		(\$25,760,613)	\$1,281,597	\$1,309,368	\$1,337,684	\$1,366,555	\$1,395,988	\$1,425,992	\$1,456,576	\$1,487,747	\$27,945,870	

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Table 6

SCENARIO 2: Conventional Loan + PRI + Equity			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Conventional Senior Loan												
Loan-to-Cost	45%											
Beginning Balance	\$12,153,723		\$12,153,723	\$11,985,936	\$11,808,921	\$11,622,170	\$11,425,148	\$11,217,289	\$10,997,999	\$10,766,647	\$10,522,571	\$10,265,071
Loan Payment	6.81%	Loan constant	\$836,242	\$836,242	\$836,242	\$836,242	\$836,242	\$836,242	\$836,242	\$836,242	\$836,242	\$836,242
DSCR	1.50		1.50	1.53	1.57	1.60	1.63	1.67	1.71	1.74	1.78	1.82
Interest	5.50%		\$668,455	\$659,227	\$649,491	\$639,219	\$628,383	\$616,951	\$604,890	\$592,166	\$578,741	\$564,579
Principal	30		\$167,787	\$177,015	\$186,751	\$197,022	\$207,859	\$219,291	\$231,352	\$244,076	\$257,500	\$271,663
Ending Balance			\$11,985,936	\$11,808,921	\$11,622,170	\$11,425,148	\$11,217,289	\$10,997,999	\$10,766,647	\$10,522,571	\$10,265,071	\$9,993,408
PRI Loan												
Loan-to-Cost	15%											
Beginning Balance	\$4,052,246		\$4,052,246									
Loan Payment			\$121,567	\$121,567	\$121,567	\$121,567	\$121,567	\$121,567	\$121,567	\$121,567	\$121,567	\$121,567
DSCR	1.31		1.31	1.34	1.37	1.40	1.43	1.46	1.49	1.52	1.55	1.59
Interest	3.00%	Interest Only	\$121,567	\$121,567	\$121,567	\$121,567	\$121,567	\$121,567	\$121,567	\$121,567	\$121,567	\$121,567
Ending Balance												\$4,052,246
Equity												
Loan-to-Cost	100%											
Cash Outflow / Beginning Balance	\$10,809,005		(\$10,809,005)									
Cash Inflow			\$296,553	\$323,788	\$351,559	\$379,875	\$408,746	\$438,179	\$468,183	\$498,767	\$529,938	\$561,706
Refinance / Sale	Cap Rate:	5.75%										\$26,426,354
Pay off Ending Conventional Loan Balance												(\$9,993,408)
Pay off Ending PRI Loan Balance												(\$4,052,246)
Total Net Cashflow	IRR:	5.65%	(\$10,512,452)	\$323,788	\$351,559	\$379,875	\$408,746	\$438,179	\$468,183	\$498,767	\$529,938	\$12,942,407

Table continued on next page

Table 6

SCENARIO 3: Conventional Loan + Grants + Equity to Achieve 8% IRR			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Conventional Senior Loan												
Loan-to-Cost	45%											
Beginning Balance	\$12,153,723		\$12,153,723	\$11,985,936	\$11,808,921	\$11,622,170	\$11,425,148	\$11,217,289	\$10,997,999	\$10,766,647	\$10,522,571	\$10,265,071
Loan Payment	6.81%	Loan constant	\$836,242	\$836,242	\$836,242	\$836,242	\$836,242	\$836,242	\$836,242	\$836,242	\$836,242	\$836,242
DSCR	1.50		1.50	1.53	1.57	1.60	1.63	1.67	1.71	1.74	1.78	1.82
Interest	5.50%		\$668,455	\$659,227	\$649,491	\$639,219	\$628,383	\$616,951	\$604,890	\$592,166	\$578,741	\$564,579
Principal	30		\$167,787	\$177,015	\$186,751	\$197,022	\$207,859	\$219,291	\$231,352	\$244,076	\$257,500	\$271,663
Ending Balance			\$11,985,936	\$11,808,921	\$11,622,170	\$11,425,148	\$11,217,289	\$10,997,999	\$10,766,647	\$10,522,571	\$10,265,071	\$9,993,408
Grants												
% of Total Cost	10%											
Grant Contributions	\$2,805,000											
Equity												
Loan-to-Cost	90%											
Cash Outflow / Beginning Balance	\$12,056,252		(\$12,056,252)									
Cash Inflow			\$418,121	\$445,355	\$473,126	\$501,443	\$530,313	\$559,746	\$589,751	\$620,334	\$651,506	\$683,274
Refinance / Sale	Cap Rate:	5.75%										\$26,426,354
Pay off Ending Conventional Loan Balance												(\$9,993,408)
Total Net Cashflow	IRR:	8.00%	(\$11,638,131)	\$445,355	\$473,126	\$501,443	\$530,313	\$559,746	\$589,751	\$620,334	\$651,506	\$17,116,220



Acquisition Rehab Financial Model

A second potential housing development model consists of the acquisition and rehabilitation of existing buildings that may already be operated for residential use or could easily be converted into residential use. The state of California’s recent experience converting motels and acquiring recently constructed multifamily buildings provides a precedent for such a model.

The Acquisition Rehab Financial Model detailed in this report is based on a hypothetical 50-unit building consisting of studio apartments. One unit is reserved for a manager. This building typology is similar to several recently acquired projects to be rehabilitated under Project Homekey.

To obtain the inputs used in our Acquisition Rehab Financial Model, we analyzed data sources associated with 13 Project Homekey sites in L.A. County (Table 7). Project Homekey is a program that leverages state funding to acquire hotels, motels, and existing apartment buildings, perform rehabilitation where needed, and lease units to people experiencing homelessness. The 13 Homekey sites that we reviewed were all former hotels or motels and all required rehabilitation. We analyzed acquisition costs for all 13 sites and detailed development budgets associated with five of the sites (Table 8), as well as financial data and market trends. This information was used to inform a detailed set of development, operations, and financial assumptions that underlie the Acquisition Rehab Financial Model.

Based on our analysis of 13 Homekey acquisitions (data provided by L.A. County), the average cost per unit was approximately \$190,866. Given that most Homekey sites in Round 1 (HK1) were purchased in 4Q 2020 and most sites in Round 2 (HK2) were purchase in 4Q 2022, we attempted to adjust to current pricing. To do so, we reference the change in acquisition cost per unit for multifamily properties between these time periods and 1Q 2023 based on data provided by Costar. Since 4Q 2020, prices rose 16.40% and by 4.70% since 4Q 2021. It should be noted that average acquisition cost per unit for properties surveyed in HK2 were 65% higher than in HK1. The sample size of HK2 sites was much smaller, however, the consistently higher prices indicate change in the market. This may have been due to a larger supply of distressed properties being available in 2020 as compared to 2021 or the uncertainty that the motel industry faced in late 2020 when the COVID-19 pandemic was still at its

Project	Units	Acquisition Cost	Acquisition Cost / Unit	Inflation* Adjustment	Adjusted Acquisition Cost / Unit
Homekey Round 1 Sites (HK1)					
Norwalk Homekey	52	\$5,792,327	\$111,391	16.40%	\$129,659
Harbor City HK	50	\$7,361,528	\$147,231	16.40%	\$171,376
Whitter	98	\$10,393,050	\$106,052	16.40%	\$123,444
Hacienda Heights	149	\$12,516,932	\$84,006	16.40%	\$97,783
M6 Long Beach	40	\$5,646,668	\$141,167	16.40%	\$164,318
Baldwin Park	40	\$7,134,720	\$178,368	16.40%	\$207,620
Travel Plaza/Compton	40	\$6,584,835	\$164,621	16.40%	\$191,619
Studio 6/Commerce	81	\$14,955,105	\$184,631	16.40%	\$214,910
Holiday Inn LB	133	\$20,506,759	\$154,186	16.40%	\$179,473
Willow Tree (CIIP)	104	\$16,006,170	\$153,905	16.40%	\$179,146
Average HK1			\$142,556		\$165,935
Homekey Round 2 Sites (HK2)					
Aviation Blvd	48	\$11,759,200	\$244,983	4.70%	\$256,498
Avenida	76	\$25,921,500	\$341,072	4.70%	\$357,103
Weingart Willows	53	\$10,545,000	\$198,962	4.70%	\$208,313
Average HK2			\$261,673		\$273,971
Average (all)					\$190,866

Project	Units	Avg. SF / Unit	Unit Type	Hard Costs	Year of Hard Cost Pricing	Inflation Adjust.	Adjusted Hard Costs	Adjusted Hard Costs / Unit	Adjusted Hard Costs w/o Prevailing Wages	Adjusted Hard Costs / Unit w/o Prevailing Wages	All Soft Costs / Unit	Dev. Fee / Unit
Avenida	76	300	Studio	\$2,783,008	Oct. 21	9.30%	\$3,041,828	\$40,024	\$2,433,462	\$32,019	\$14,152	\$16,618
Weingart Willows	53	235	Studio	\$7,365,932	Oct. 21	9.30%	\$8,050,964	\$151,905	\$6,440,771	\$121,524	\$65,495	\$23,755
Aviation Blvd	48	300	Studio	\$9,950,146	Dec. 22	0.00%	\$9,950,146	\$207,295	\$7,960,117	\$165,836	\$46,218	\$20,219
Norwalk Homekey	52	230	Studio	\$10,375,107	Sept. 22	0.00%	\$10,375,107	\$199,521	\$8,300,086	\$159,617	\$55,798	\$23,943
Harbor City HK	50	277	Studio	\$12,930,197	Sept. 22	0.00%	\$12,930,197	\$258,604	\$10,344,158	\$206,883	\$27,103	\$27,435
Average								\$171,470		\$137,176	\$41,753	\$22,394

height, resulting in lower pricing. Pricing in 2021 may have also been higher due to the recovery in the hospitality industry as the economy opened in 2021 (following vaccine rollout), resulting in less need or incentive for motel and hotel properties to sell to alternative uses. We use the average acquisition cost of \$190,000 across these Homekey rounds (with some inflation adjustments) to create our Acquisition Rehab Financial Model, however, this pricing estimate could very well be below current market pricing due to the rising trend line between HK1 and HK2.

We also analyzed rehab costs, soft costs, and developer fees for five Homekey projects for which we obtained detailed development budgets (Table 8). For two projects with hard cost budgets dating back to 2021, we made adjustments based on the State of California Department of General Services' Construction Cost Index, which reports 9.3% inflation in 2022. For the other three projects reviewed, we relied on the developer's construction numbers from late 2022.

Project Budget

Based on this analysis, we derived assumptions for an Acquisition Rehab Financial Model for a 50-unit studio apartment building (Table 9). This model includes acquisition costs of \$190,000 per unit; adjusted (for inflation) hard costs with prevailing wages of \$171,000 per unit and without prevailing wages (80% of prevailing wage pricing) of \$137,000 per unit; combined soft costs of \$42,000 per unit; and developer fees of \$22,000 per unit. This resulted in total development costs per unit of \$425,000 per unit (with prevailing wages) and \$391,000 (without

prevailing wages).

The total development costs per unit based on this Acquisition Rehab Financial Model are well below typical unit prices for new construction projects financed with public subsidies and LIHTCs (which averaged \$592,000 per unit based on the five 9% LIHTC projects awarded funding in 2022 and which consisted entirely of studios or 1-bedroom units). However, compared to our New Construction Financial Model, these Acquisition Rehab projects appear to be more costly per individual housed. By comparison, the New Construction Financial Model indicates a total development cost per 2-bedroom unit of \$540,000, or \$270,000 per individual housed. Thus, the Acquisition Rehab Financial Model is approximately 45% more costly to house each individual as compared to the New Construction Financial Model. There are certainly benefits to the studio housing model used as the basis for the Acquisition Rehab Financial Model, including more privacy and the ability to reduce conflict between tenants. However, many service providers and policy experts have indicated that a 2-bedroom shared housing model (used in our New Construction Financial Model) is an age appropriate form of housing for youth, and this model appears to be operationally feasible and result in about 50% more housing units for a similar investment cost.

Project Proforma

Once we determined approximate development costs, we then forecasted anticipated operations for the completed project by developing a project proforma. As discussed, we referenced recent Project Homekey models to inform this analysis, with details provided in Table 10.

Table 9

BUDGET - Acquisition + Rehab Model		
	With Prevailing Wages	Without Prevailing Wages
Units (Studios)	50	50
Building Acquisition	\$9,500,000	\$9,500,000
Hard Costs / Rehab (incl. Contingency)	\$8,550,000	\$6,850,000
All Soft Costs	\$2,100,000	\$2,100,000
Developer Fee	\$1,100,000	\$1,100,000
Total Development Cost	\$21,250,000	\$19,550,000
Total Cost per Unit (Studios)	\$425,000	\$391,000

Table 10

Project Homekey Operations										
Project	Units	Avg. SF / Unit	Unit Type	Revenue (stabilized) **	Monthly Rent per Unit (excl. Manager Unit)	Operating Expenses (excl. RE Taxes, Services)	Vacancy	Replacement Reserves	Total Expenses	OpEx per Unit / year
Aviation Blvd	48	300	Studio	\$920,565	\$1,632	\$545,532	10%	\$24,000	\$569,532	\$11,865
Avenida	76	300	Studio	\$903,533	\$1,004	\$610,534	5%	\$48,708	\$659,242	\$8,674
Weingart Willows	53	235	Studio	\$989,136	\$1,585	\$845,880	10%	\$26,500	\$872,380	\$16,460
Norwalk Homekey	52	230	Studio	\$869,256	\$1,420	\$537,692	10%	\$18,200	\$555,892	\$10,690
Harbor City HK	50	277	Studio	\$704,956	\$1,199	\$454,500	10%	\$19,000	\$473,500	\$9,470
Average					\$1,368					\$11,432
Average (Units between 48 - 53)					\$1,459					\$12,121

Rental revenues per unit vary across the five Homekey sites analyzed, however, we focused on the four projects that ranged between 48 and 53 units, which are very close to our hypothetical 50-unit Acquisition Rehab Financial Model. Additionally, Homekey projects are modeled with capitalized operating subsidies in the first few years, followed by voucher payments around year 4. Therefore, we derived rent rates based on the "stabilized year" (usually year 4) and then reduced the rent by the proforma's

2.5% rent escalation, to obtain an approximate rent per unit for year 1, which is \$1,459 for these four sample Homekey projects.

Our analysis also reviewed operating expenses among these five Homekey projects, which averaged over \$11,000 per unit. These expenses are higher than those seen in our analysis of 9% LIHTC projects, however, this is a result of unique factors related to the Homekey sites. First, these Homekey project include significant

costs related to security due to the way these properties operate. Second, the landlord pays more of the utilities (as opposed to tenants) in these Homekey projects, likely due to the way the buildings area already metered (as a motel).

To arrive at a proforma for the Acquisition Rehab Financial Model that involves only private financing, rents must be higher than \$1,459 per unit. Our model sets rates at \$2,380 per unit to make such financing feasible. This rental rate is likely not viable (even when subsidized) for studio apartments. It should be noted that the median studio rent in L.A. County is \$1,635 and the median 1-bedroom rent is \$1,980 (per Costar). Fair Market Rents (FMR) for Section 8 vouchers are \$1,840 for a studio and \$2,096 for a 1-bedroom (per HACLA). We apply the same 5.00% vacancy rate and \$8,000 annual operating expense per unit¹³ as seen in the New Construction Financial Model. This results in a Net Operating Income (NOI) of \$904,468 (see Table 11). Given the rent level included in the proforma, we do not believe the Acquisition Rehab Financial Model is a feasible strategy to meet the objectives of leveraging more private capital. These units do appear to have lower total development costs than new construction projects financed with public subsidies and LIHTCs, however, the total cost is still too high to be financially feasible for private financing and thus likely needs substantial public subsidy to be viable. Nevertheless, we forecast financial returns for hypothetical purposes.

Financing Options & Returns

Our analysis includes two financing scenarios for the Acquisition Rehab Financial Model, which include combinations of conventional loans (debt), grants, and Mission Related Investments (MRI) in the form of equity invested by foundations (see Table 12). This financing is forecasted to remain in place for a period of 10 years. Again, these scenarios depend on studio rents of \$2,380, which we do not believe is feasible. Any lower rent levels would require lower returns from the investment capital, or less investment capital with more grants or subsidies being used to backfill the financing gap.

Scenario 1 shows the financial returns based on 100% of the required \$19.5 million in project financing capital made in the form of an MRI (equity). This financing structure generates an Internal Rate of Return (IRR) of approximately 5.4% over the 10-year period.

Scenario 2 introduces a senior conventional loan underwritten to a 1.50 Debt Service Coverage Ratio (DSCR) a 30-year amortization period and 5.5% interest rate similar to terms used in the New Construction Financial Model (see Table 2 for details on these loan term assumptions). Based on these terms, the loan can provide about 45% of the total financing needed for the project. This scenario also includes a grant, equal to about 12% of total financing, which helps to subsidize the project, making the returns on MRI capital more attractive. The grant is sized to result in an 8% IRR on the MRI, a return that foundations have indicated would be a competitive return as compared to other investment options.

Table 11

OPERATING PROFORMA - Acquisition + Rehab Model				
				Year 1
REVENUE	<u>per Unit / mo.</u>			
Rent	\$2,380	2.50%	escalator	\$1,399,440
Parking Revenues	N/A	2.50%	escalator	\$0
Misc. Income	N/A	2.50%	escalator	\$0
Potential Gross Income				\$60,000
(less Vacancy, Colection Loss)				5.00% factor (\$69,972)
Effective Gross Income				\$1,329,468
EXPENSES				<u>Per Unit / Yr.</u>
Operating Expense per Unit		3.50%	escalator	\$8,000 (\$400,000)
Asset Management Fees		3.00%	escalator	(\$25,000)
Net Operating Income				\$904,468

¹³The New Construction Financial Model is based on 2-bedroom units and uses \$8,000 in annual operating expenses per unit, based on the approximate average expenses per unit across 9% LIHTC projects that had average unit sizes of 1.5 bedrooms. Several 9% LIHTC projects with studio units have operating expenses between \$6,000 and \$7,000 per unit. Further, the majority of operating expenses are generally fixed regardless of unit sizes, including onsite management, administration, grounds maintenance, elevator maintenance, certain repair costs, and others. Thus, we think \$8,000 per unit is reasonable for 2-bedroom units and likely high for studio apartments. Nevertheless, we use the same \$8,000 per unit for the Acquisition Rehab Financial Model given the comparables referenced in the Homekey project analysis.

Table 12

OPERATING PROFORMA

				<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Year 9</u>	<u>Year 10</u>	
REVENUE	<u>per Unit / mo.</u>													
Rent	\$2,380	2.50%	escalator	\$1,399,440	\$1,434,426	\$1,470,287	\$1,507,044	\$1,544,720	\$1,583,338	\$1,622,921	\$1,663,494	\$1,705,082	\$1,747,709	
Parking Revenues	N/A	2.50%	escalator	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Misc. Income	N/A	2.50%	escalator	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Potential Gross Income				\$1,399,440	\$1,434,426	\$1,470,287	\$1,507,044	\$1,544,720	\$1,583,338	\$1,622,921	\$1,663,494	\$1,705,082	\$1,747,709	
(less Vacancy, Collections Loss)		5.00%	factor	(\$69,972)	(\$71,721)	(\$73,514)	(\$75,352)	(\$77,236)	(\$79,167)	(\$81,146)	(\$83,175)	(\$85,254)	(\$87,385)	
Effective Gross Income				\$1,329,468	\$1,362,705	\$1,396,772	\$1,431,692	\$1,467,484	\$1,504,171	\$1,541,775	\$1,580,320	\$1,619,828	\$1,660,323	
EXPENSES														
			<u>Per Unit / Yr.</u>											
Operating Expense per Unit		3.50%	escalator	\$8,000	(\$400,000)	(\$414,000)	(\$428,490)	(\$443,487)	(\$459,009)	(\$475,075)	(\$491,702)	(\$508,912)	(\$526,724)	(\$545,159)
Asset Management Fees		3.00%	escalator		(\$25,000)	(\$25,750)	(\$26,523)	(\$27,318)	(\$28,138)	(\$28,982)	(\$29,851)	(\$30,747)	(\$31,669)	(\$32,619)
Net Operating Income				\$904,468	\$922,955	\$941,760	\$960,886	\$980,337	\$1,000,115	\$1,020,222	\$1,040,661	\$1,061,435	\$1,082,545	

SCENARIO 1: All Equity

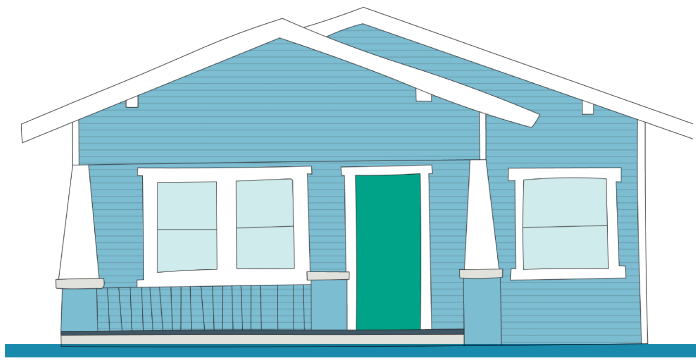
Cash Outflow				(\$19,550,000)									
Cash Inflow				\$904,468	\$922,955	\$941,760	\$960,886	\$980,337	\$1,000,115	\$1,020,222	\$1,040,661	\$1,061,435	\$1,082,545
Refinance / Sale	Cap Rate:	5.75%											\$18,826,871
Total Net Cashflow	IRR:	5.42%		(\$18,645,532)	\$922,955	\$941,760	\$960,886	\$980,337	\$1,000,115	\$1,020,222	\$1,040,661	\$1,061,435	\$19,909,416

Table continued on next page

Table 12

SCENARIO 2: Conventional Loan + Grants + Equity to Achieve 8% IRR

Conventional Senior Loan												
Loan-to-Cost	45%											
Beginning Balance	\$8,763,538		\$8,763,538	\$8,642,554	\$8,514,916	\$8,380,258	\$8,238,193	\$8,088,315	\$7,930,194	\$7,763,376	\$7,587,383	\$7,401,710
Loan Payment	6.81%	Loan constant	\$602,979	\$602,979	\$602,979	\$602,979	\$602,979	\$602,979	\$602,979	\$602,979	\$602,979	\$602,979
DSCR	1.50		1.50	1.53	1.56	1.59	1.63	1.66	1.69	1.73	1.76	1.80
Interest	5.50%		\$481,995	\$475,340	\$468,320	\$460,914	\$453,101	\$444,857	\$436,161	\$426,986	\$417,306	\$407,094
Principal	30		\$120,984	\$127,638	\$134,658	\$142,064	\$149,878	\$158,121	\$166,818	\$175,993	\$185,673	\$195,885
Ending Balance			\$8,642,554	\$8,514,916	\$8,380,258	\$8,238,193	\$8,088,315	\$7,930,194	\$7,763,376	\$7,587,383	\$7,401,710	\$7,205,826
Grants												
% of Total Cost	12%											
Grant Contributions	\$2,250,000											
Equity												
Loan-to-Cost	88%											
Cash Outflow / Beginning Balance	\$8,536,462		(\$8,536,462)									
Cash Inflow			\$301,489	\$319,976	\$338,781	\$357,908	\$377,358	\$397,136	\$417,243	\$437,682	\$458,456	\$479,566
Refinance / Sale	Cap Rate:	5.75%										\$18,826,871
Pay off Ending Conventional Loan Balance												(\$7,205,826)
Total Net Cashflow	IRR:	8.00%	(\$8,234,972)	\$319,976	\$338,781	\$357,908	\$377,358	\$397,136	\$417,243	\$437,682	\$458,456	\$12,100,612



Single Family / Scattered Site Model

A third potential housing development model consists of the acquisition and light rehabilitation of existing single-family homes, or small buildings of 1-4 units, in a scattered site housing models. This type of housing program is most commonly operated by social service providers. Genesis LA has experience financing the acquisition, rehabilitation, and new construction of such properties for partners that include Jovenes Inc., Special Services for Growth, South Central Los Angeles Regional Center, HOPE Homes, Brilliant Corners, and others.

The Scattered Site Financial Model detailed in this report is based on a hypothetical 4-bedroom house providing one bedroom per youth resident. Based on our conversations with providers, such a housing environment is likely best suited for youth who have higher levels of readiness to live independently.

To obtain the inputs used in our Scattered Site Financial Model, we analyzed data sources that

included typical home values in L.A. County and in several sample neighborhoods as provided by Zillow (Table 13), rehab budgets associated with similar types of projects in L.A. County (Table 14), as well as financial data and market trends. This information was used to inform a detailed set of development, operations, and financial assumptions that underlie the Scattered Site Financial Model.

We analyzed the median home valuation for 4-bedroom homes in L.A. County and a number of neighborhoods that generally represent middle income communities within their respective regions within the county. Valuations are based on the average value over the past 6 months (August 2022 – January 2023) and values have been declining modestly throughout the county over this period. Values ranged from \$507,000 in Palmdale to \$1,051,000 in Northridge.

Our financial analysis included backing into a price point at which acquiring single-family homes would be financially viable as a scattered site housing model financed with private capital. The model is based on a standard \$1,250 in rent per bedroom (i.e. per youth) and thus does not differentiate between varying rent levels by neighborhood, however, it determines that when homes can be acquired for \$600,000 or less, they begin to become feasible housing models for youth. Table 13 depicts the price decline needed by neighborhood to reach \$600,000 acquisition costs.

Project Budget

Based on this analysis, we derived assumptions for a Scattered Site Financial Model comprised of 4-bedroom homes. This model uses the \$600,000 home purchase price as a starting point, which appears to be an acquisition cost

at which feasibility can be achieved in certain neighborhoods. We also analyzed various scattered site projects that could provide indications for approximate rehabilitation costs for such properties (Table 14). First, we evaluated hard costs for the rehabilitation of 4 properties (15 units) serving youth clients of Jovenes, under a program called My Home, Mi Casa (financed by Genesis LA). The projects were acquired mostly through foreclosure and were relatively distressed compared to typical properties on the market. They were rehabilitated in 2013 and thus we adjusted hard

costs for inflation by referencing the Department of General Services' California Construction Cost Index, which suggests construction costs have increased by 53% since 2013. Second, we referenced a recent duplex acquisition that was acquired by Jovenes in 2022 and required minimal rehabilitation for conversion to housing for homeless youth attending community college. Third, we referenced a 5-unit property acquired by Community Land Trusts (CLT) under the L.A. County CLT Pilot Program in 2022, and which is undergoing rehabilitation. Based on the average rehab costs per bedroom for these

Table 13

Median Home Value - 4 Bedroom Homes (Aug 2022 - Jan 2023)

Area	Median Value	Feasible Price	% Decline Needed
Los Angeles County	\$949,536	\$600,000	37%
Boyle Heights	\$679,804	\$600,000	12%
Southeast Los Angeles	\$602,273	\$600,000	0%
Northridge	\$1,051,642	\$600,000	43%
San Pedro	\$986,316	\$600,000	39%
Gardena	\$787,042	\$600,000	24%
South Los Angeles	\$706,330	\$600,000	15%
Compton	\$604,189	\$600,000	1%
Pomona	\$661,132	\$600,000	9%
El Monte	\$744,090	\$600,000	19%
Whittier	\$802,632	\$600,000	25%
Palmdale	\$507,160	\$600,000	-18%
Van Nuys	\$871,489	\$600,000	31%

Table 14

Single Family and Small Building Rehab Costs

Project	Bedrooms in Sample	Year	Inflation Adjustment	Average Rehab per Bedroom
My Home Mi Casa	15	2013	53%	\$20,242
Jovenes College Success	4	2022		\$15,000
LA County CLT Pilot Lemp	22	2023		\$28,979
Average				\$21,407

projects, we settled on a \$20,000 per bedroom hard cost for rehab on scattered site acquisition projects.

We then applied similar assumptions as applied for the New Construction Financial Model, with a six-month holding period to complete rehab and a fixed \$25,000 developer fee to oversee the project management for the property rehabilitation. These assumptions resulted in a total development cost of approximately \$747,000 for acquisition and rehab, or \$187,000 per bedroom/youth housed, by far the most cost-effective model of the three that we analyzed in terms of total development cost per individual youth housed (Table 15). Of course, not all youth are ready for an independent living arrangement in a shared housing setting, and this this housing model should not be assumed to be appropriate for all (or even most) youth simply because it is the least expensive to produce.

Project Proforma

Once we determined approximate development costs, we then forecast anticipated operations for the completed project by developing a project proforma (Table 16). We set rents at \$1,250 per bedroom. This rate is below the rate used on the New Construction Financial Model for 2-bedroom units and the Acquisition Rehab studio units. It is also below the \$1,380 Fair Market Rent (FMR) paid on a Section 8 voucher for an SRO unit. Next, we referenced operating expenses from the same projects used to determine rehab costs (in Table 14), which ranged from \$3,500 to \$4,700 per bedroom per year. We determined that annual operating expenses of \$4,000 per bedroom were appropriate to forecast an operating proforma. This operating cost is also equal to the cost per bedroom in our 2-bedroom New Construction Financial Model,

which forecasts \$8,000 per 2-bedroom unit. We assumed a slightly higher vacancy rate of 7.5%, because of the small number of bedrooms within the property and the recognition that in a 4-bedroom shared housing environment, turnover and vacancy may be higher to give time for the correct roommate matches to be made. It should be noted that while \$4,000 per bedroom generally appears to cover annual operating expenses for a 4-bedroom house (total of \$16,000), it is likely not enough to cover administrative costs for the owner / operator. At only four bedrooms, the project does not achieve the scale that a multifamily building can achieve to generate the efficiencies that support centralized administrative costs. Thus, this scattered site model is likely best operated as a grouping of homes in a defined geography, which is the case with some owner / operators, such as Jovenes Inc.

Financing Options & Returns

Our analysis includes two financing scenarios for the Scattered Site Financial Model, which include combinations of conventional loans (debt), grants, and Mission Related Investments (MRI) in the form of equity invested by foundations. This financing is forecast to remain in place for a period of 10 years. Again, these scenarios depend on per bedroom rents of \$1,250, which could be supported with a rental subsidy, voucher, or increased SILP payment.

Scenario 1 shows the financial returns based on 100% of the required \$747,750 in project financing capital made in the form of an MRI (equity). This financing structure generates an Internal Rate of Return (IRR) of approximately 4.82% over the 10-year period.

Scenario 2 introduces a senior conventional

loan underwritten to a 1.50 Debt Service Coverage Ratio (DSCR) a 30-year amortization period and 5.5% interest rate similar to terms used in the New Construction and Acquisition Rehab Financial Models. Based on these terms, the loan can provide 44% of the total financing needed for the project. This scenario

also includes a grant, equal to about 13% of total financing, which helps to subsidize the project, making the returns on MRI capital more attractive. The grant is sized to result in an 8% IRR on the MRI, a return that foundations have indicated would be a competitive return as compared to other investment options.

Table 15

BUDGET - Single Family Scattered Site Financial Model				Total
Property Acquisition				\$600,000
Hard Costs (building area)	\$20,000	per bedroom		\$80,000
Contingency	15%	of hard costs		\$12,000
Soft Costs	15%	of hard costs		\$12,000
Holding Costs	6	months		\$3,750
Financing Cost	5%	interest rate		\$15,000
Developer Fee		fixed amount		\$25,000
Total Development Cost				\$747,750
Total Cost per Bedroom				\$186,938

Table 16

OPERATING PROFORMA - Scattered Site Financial Model				
				Year 1
REVENUE	per Unit / mo.			
Rent	\$1,250	2.50%	escalator	\$60,000
Parking Revenues	N/A	2.50%	escalator	\$0
Misc. Income	N/A	2.50%	escalator	\$0
Potential Gross Income				\$60,000
(less Vacancy, Colection Loss)		7.50%	factor	(\$4,500)
Effective Gross Income				\$55,500
EXPENSES			Per Unit / Yr.	
Operating Expense per Unit		3.50%	escalator	\$4,000 (\$16,000)
Asset Management Fees		3.00%	escalator	(\$6,000)
Net Operating Income				\$33,500

Table 17

OPERATING PROFORMA - Scattered Site Financial Model

				Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
REVENUE	<u>per Unit / mo.</u>													
Rent	\$1,250	2.50%	escalator	\$60,000	\$61,500	\$63,037	\$64,613	\$66,229	\$67,884	\$69,582	\$71,321	\$73,104	\$74,932	
Parking Revenues	N/A	2.50%	escalator	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Misc. Income	N/A	2.50%	escalator	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Potential Gross Income				\$60,000	\$61,500	\$63,037	\$64,613	\$66,229	\$67,884	\$69,582	\$71,321	\$73,104	\$74,932	
(less Vacancy, Collections Loss)		7.50%	factor	(\$4,500)	(\$4,613)	(\$4,728)	(\$4,846)	(\$4,967)	(\$5,091)	(\$5,219)	(\$5,349)	(\$5,483)	(\$5,620)	
Effective Gross Income				\$55,500	\$56,888	\$58,310	\$59,767	\$61,262	\$62,793	\$64,363	\$65,972	\$67,621	\$69,312	
EXPENSES				<u>Per Unit / Yr.</u>										
Operating Expense per Unit		3.50%	escalator	\$4,000	(\$16,000)	(\$16,560)	(\$17,140)	(\$17,739)	(\$18,360)	(\$19,003)	(\$19,668)	(\$20,356)	(\$21,069)	(\$21,806)
Asset Management Fees		3.00%	escalator		(\$6,000)	(\$6,180)	(\$6,365)	(\$6,556)	(\$6,753)	(\$6,956)	(\$7,164)	(\$7,379)	(\$7,601)	(\$7,829)
Net Operating Income				\$33,500	\$34,148	\$34,805	\$35,472	\$36,148	\$36,835	\$37,531	\$38,236	\$38,952	\$39,677	

SCENARIO 1: All Equity				Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Cash Outflow				(\$747,750)									
Cash Inflow				\$33,500	\$34,148	\$34,805	\$35,472	\$36,148	\$36,835	\$37,531	\$38,236	\$38,952	\$39,677
Refinance / Sale	Cap Rate:	5.75%											\$690,033
Total Net Cashflow	IRR:	4.82%		(\$714,250)	\$34,148	\$34,805	\$35,472	\$36,148	\$36,835	\$37,531	\$38,236	\$38,952	\$729,710

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Table 17

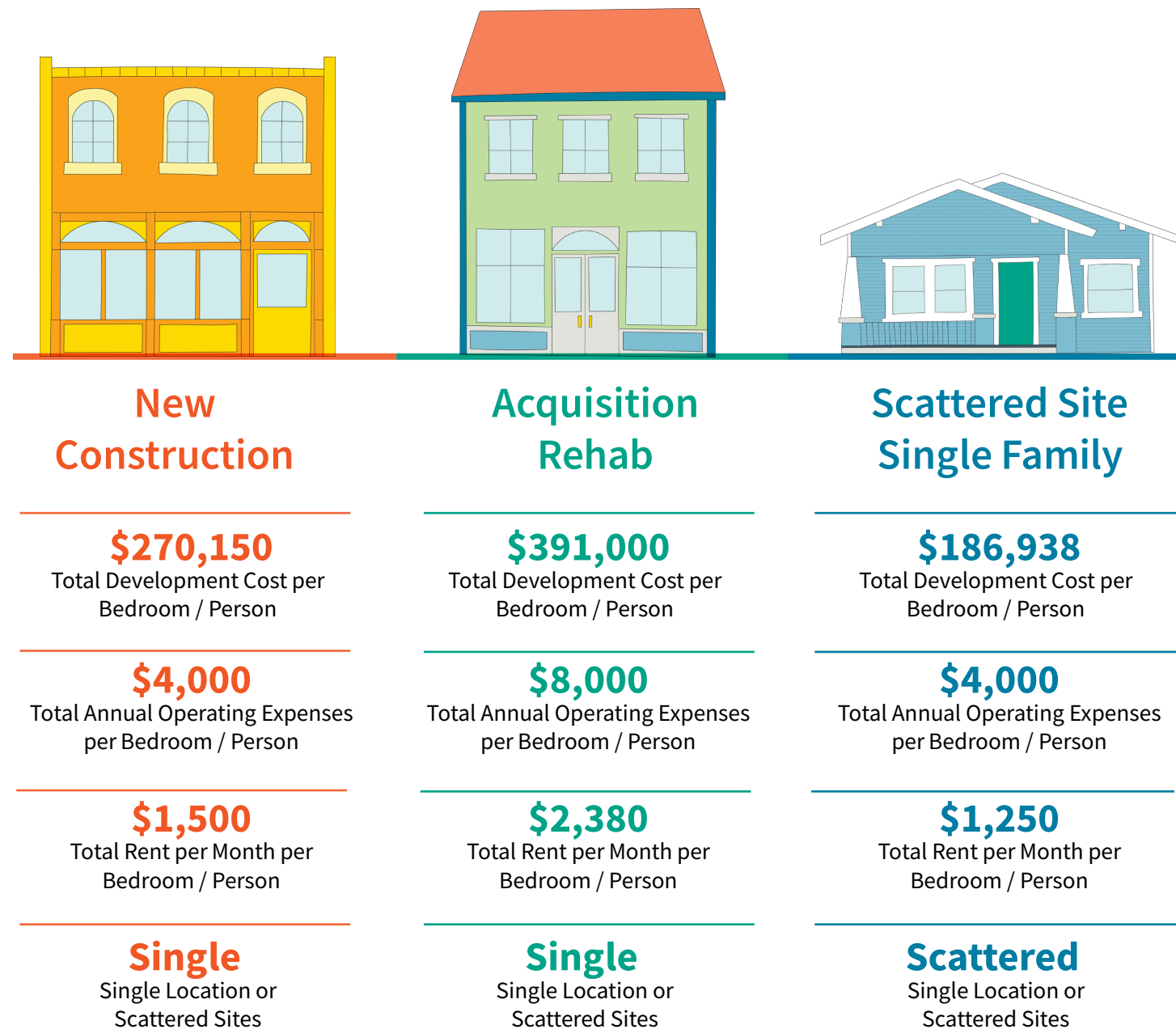
SCENARIO 2: Conventional Loan + Grants + Equity to Achieve 8% IRR

Conventional Senior Loan												
Loan-to-Cost	44%											
Beginning Balance	\$330,861		\$330,861	\$326,293	\$321,474	\$316,390	\$311,027	\$305,368	\$299,398	\$293,100	\$286,456	\$279,446
Loan Payment	6.81%	Loan constant	\$22,765	\$22,765	\$22,765	\$22,765	\$22,765	\$22,765	\$22,765	\$22,765	\$22,765	\$22,765
DSCR	1.50		1.50	1.53	1.56	1.59	1.62	1.65	1.68	1.71	1.74	1.78
Interest	5.50%		\$18,197	\$17,946	\$17,681	\$17,401	\$17,106	\$16,795	\$16,467	\$16,121	\$15,755	\$15,370
Principal	30		\$4,568	\$4,819	\$5,084	\$5,364	\$5,659	\$5,970	\$6,298	\$6,644	\$7,010	\$7,395
Ending Balance			\$326,293	\$321,474	\$316,390	\$311,027	\$305,368	\$299,398	\$293,100	\$286,456	\$279,446	\$272,050
Grants												
% of Total Cost	13%											
Grant Contributions	\$100,000											
Equity												
Loan-to-Cost	87%											
Cash Outflow / Beginning Balance	\$316,889		(\$316,889)									
Cash Inflow			\$11,383	\$12,040	\$12,707	\$13,383	\$14,070	\$14,766	\$15,471	\$16,187	\$16,912	\$17,647
Refinance / Sale	Cap Rate: 5.75%											\$702,811
Pay off Ending Conventional Loan Balance												(\$272,050)
Total Net Cashflow	IRR: 8.01%		(\$305,507)	\$12,040	\$12,707	\$13,383	\$14,070	\$14,766	\$15,471	\$16,187	\$16,912	\$448,407

Comparing Housing Models

The three housing models presented in this report are intended to provide approximate development costs, operating costs, and necessary rent levels to be considered within the range of financial viability. Until actual projects

are identified with sites, building plans, and construction budgets, these models can only be considered to be approximations of feasibility. The table below provides a high-level overview of key variables by housing model.



7

Investment and Philanthropic Opportunities

This report evaluated three housing models and forecast financial model scenarios for each. The third scenario for the New Construction Financial Model and the second scenario for the Acquisition Rehab and Scattered Site Financial Models were designed to yield an 8% IRR on MRI capital, a return that foundations have indicated would be attractive as an investment and be able to cover fund administration fees. Thus, we close this financial analysis with a projection of the total amount of investment capital needed to fully fund each of these models and create enough units to end homelessness and housing insecurity for the approximately 1,368 youth who experience it within three years of exiting

the foster care system. Based on this analysis, we estimate that between \$255 million and \$408 million is needed depending on the mix of housing models adopted. This includes between \$34 million and \$47 million in grants (or \$25,000 to \$34,000 per housing unit / bedroom created) and between \$108 million and \$178 million in MRIs (or \$79,000 to \$130,000 per housing unit / bedroom created). Table 18 outlines these capitalization scenarios.

As outlined elsewhere in this report, there are a variety of way in which public agencies and private foundations can contribute to the goals outlined in this report. These opportunities include:

Total Investment Capital Required						
	New Construction Financial Model		Acquisition Rehab Construction Model		Scattered Site Financial Model	
Cost per Youth Housed		\$270,150		\$298,561		\$186,938
Placements		1,368		1,368		1,368
Scenario		3		2		2
Total Conventional Senior Loan	45%	\$166,262,935	45%	\$183,084,636	44%	\$113,154,362
Total Grants	10%	\$38,372,400	12%	\$47,006,177	13%	\$34,200,000
Total MRI	45%	\$164,929,523	44%	\$178,340,635	42%	\$108,376,138
	100%	\$369,564,858	100%	\$408,431,448	100%	\$255,730,500
Grants per Individual Housed		\$28,050		\$34,361		\$25,000
MRI per Individual Housed		\$120,563		\$130,366		\$79,222

Capital Grants

Philanthropy can provide capital grants to close the financing gaps within the various housing models presented in this report. These grants would range between \$34 million and \$47 million. Over a 10-year period in which new housing models were introduced and developed, this would result in only \$3.4 - \$4.7 million in annual grant making to support the creation of 1,368 new housing units for youth.

Endowment Allocations

Foundations can provide allocations from their endowments as MRIs, or more simply, fixed income or real estate allocations to support the financing of various housing models presented in this report. These MRIs would range between \$108 million to \$178 million in investment capital with a projected 10-year investment horizon. This is equal to \$79,000 to \$130,000 in investment per youth housed and this investment could yield a return as high as 8.00%.

Rent Backstop / Guaranty

Realizing the projected rent in each of the proformas associated with the three housing models presented is essential to ensuring the financial feasibility and forecasted returns for each model. Given that youth housing programs are associated with the individual as opposed to the property, rental subsidies generally travel with the tenant and thus the consistent flow of rental income in any one of these models can be interrupted based on tenant turnover and vacancy. If vacancies are kept to those levels projected (5.00% - 7.50%), rent guaranties would not be needed. However, if vacancies are higher, rent guaranties could be critical to ensuring financial sustainability within the projects. Per the table below, if vacancies doubled from those projected (i.e. another 5.00% to 7.50% above baseline vacancies), philanthropic resources in the amount of \$1.2 million to \$1.9 million could backfill these vacancies (depending on the housing model adopted) and ensure that rents flow consistently.

Rent Gap Subsidy

Given that some housing models rely on more rent than would normally be paid under FMR (per HUD), the housing models presented in this report may require additional subsidies to increase rents. These subsidies could be provided by L.A. County, state or local governments, or philanthropic sources. To backfill gaps in rent payments, subsidy amounts could range from \$2.7 million to \$8.8 million per year in additional rental subsidies above baseline FMR voucher rates, depending on the housing model purposed.

Program Related Investments

Foundations can support youth housing projects in a variety of ways with PRIs. This report generally finds that for endowment allocations to receive the required return hurdles, grants are more critical within project capital stacks, as opposed to PRIs. However, PRIs could be very valuable capital in a revolving pool to help in financing site acquisition, predevelopment, and construction, as the cost of PRIs is well below market-rate debt products and funding these phases of project work with PRIs could save on holding costs, interest, and reduce overall development costs. In this case, PRIs would be repaid by other permanent financing to projects, allowing PRI capital to revolve.



Photo Credit: Jovenes Inc.

Rent Guaranty

	New Construction Financial Model	Acquisition Rehab Construction Model	Scattered Site Financial Model
Placements	1,368		
Total Rent / Year	\$24,624,000	\$39,070,080	\$20,520,000
Forecasted Vacancy	5.00%	5.00%	7.50%
Vacancy Backfill	\$1,231,200	\$1,953,504	\$1,539,000
Subsidy / Youth / Yr.	\$900	\$1,428	\$1,125

Rent Gap Subsidy (Gap between HACLA FMR and Financial Model Proforma Rents)

	New Construction Financial Model	Acquisition Rehab Construction Model	Scattered Site Financial Model
Placements	1,368		
FMR Rents	\$1,333	\$1,840	\$1,380
FMR Basis	Half of 2-bedroom	Studio	SRO
Proforma Rent	\$1,500	\$2,380	\$1,250
Rent Gap	\$167	\$540	(\$130)
Rent Gap / Year	\$2,741,472	\$8,864,640	N/A

Homekey 3

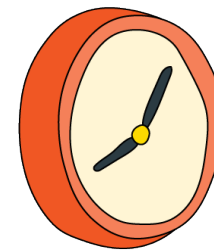
Philanthropic investors could explore opportunities to pilot any of the ideas presented in this report, as part of a campaign to support projects pursued under Project Homekey phase 3. Many Homekey projects are not fully funded by state or local governments and could be feasible if supported by financial resources provided in the form of capital subsidies, reserves, rental subsidies, etc. Potential first steps could include:

- **FUP/FYI Vouchers:** Identify available FUP/FYI vouchers to award to youth who would be potential tenants of Homekey projects. This will allow L.A. County to place unused vouchers or apply for more, with Homekey units serving as available placements for the youth who receive a voucher.
- **Rent Backstop / Guaranty:** Developers and investors in any Homekey project will need some level of certainty that rents will continue to be collected even when tenant-based vouchers from sources like FUP/FYI turnover. This presents an opportunity for L.A. County and/or philanthropy to pilot a rent backstop or guaranty program, similar to the Flexible Housing Subsidy Program (FHSP), by ensuring stable revenue during vacancy periods such that buildings can remain financially sustainable.
- **Engage Youth in Program Design:** L.A. County could use this next round of Homekey projects for youth to explore ways to engage youth in the design and or operation of buildings to best balance the need for structure and for agency among youth tenants in ways that lead to youth gaining greater independence.
- **Create an Offramp out of Homekey Housing:** As discussed elsewhere, most youth housing subsidies, including those detailed in this report, are time limited and generally last no longer than 36 months. L.A. County could utilize these Homekey projects as demonstrations for creating a defined offramp for youth to transition out of the Homekey projects and into affordable and stable housing opportunities. Such strategies might include providing youth with traditional Section 8 Housing Choice Vouchers or providing other income support to ensure they can afford rent.

8

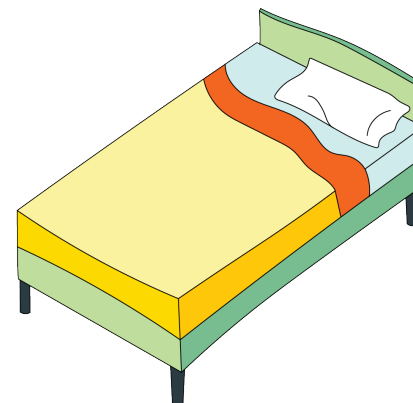
Public Sector & Philanthropy Agenda

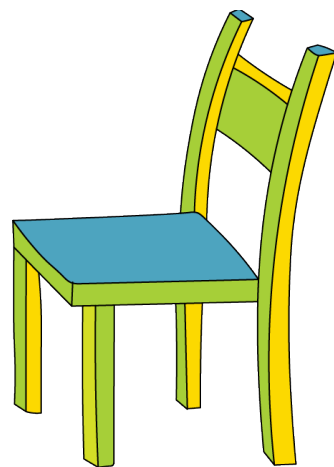
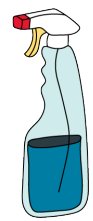
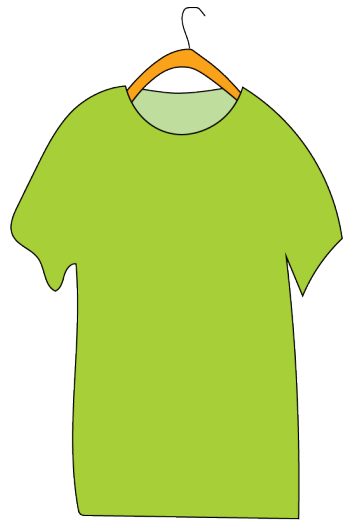
Our examination of the various housing subsidy programs for youth and our evaluation of multiple housing models and financial feasibility analysis reveals the need for changes to various policies, procedures, practices and funding in order to enhance L.A. County's housing ecosystem serving youth. The following areas warrant further investigation to improve the delivery of housing and services to foster youth. Local, state and federal governments intersect with specific aspects of the items outlined below. Philanthropic foundations can also be key partners in implementing needed improvements. Finally, responsible parties should contemplate both administrative and legislative fixes to the areas of interest outlined below.



1 Recommendation 1 Revenue / Rent Payment Supports

Practice Change – Broadly, this report and the foundations that funded it, seek to explore alternative roles for the public and private sectors in the financing of housing. Rather than seek government capital to finance projects, this report proposes strategies for the private sector to provide this financing, while the public sector provides rental subsidies to ensure youth can access housing units and landlords can collect the rent needed to pay for operating expenses and the cost of financing used to construct the buildings. The use of public subsidies to pay for rent requires much smaller investments to place youth into housing in the short run and it mirrors the approach used by HUD to provide tenant-based Section 8 vouchers to people who need support to pay rent. Additionally, by removing the public sector from the development process, housing developers can reduce costs, delays, and red tape associated with existing public finance programs for affordable housing.





✓ **Recommendation 1A: SILP Funding**

- Policy Change – L.A. County government agencies and philanthropies should advocate for passage of AB 525 and its companion \$16.5 million budget allocation. If passed, this will increase SILPs by \$772 per month, bringing the monthly payment to \$1,901 and making it much more feasible for youth to pay for monthly housing costs in a 2-bedroom unit (as intended in the legislation), but the amount is likely short of what is needed for a studio or 1-bedroom unit. L.A. County has supported the bill.
- Funding Change – Philanthropy should look for opportunities to support those nonprofits advocating for passage of AB 525, and those that will be critical in its implementation if passed. Philanthropy could also deepen support to nonprofits working to secure housing for foster youth with SILPs by funding staff who support youth to identify housing, and by providing additional subsidies (similar to the proposed Housing Supplement) to further augment rents when needed in certain markets. Examples include the Children’s Law Center of California’s Housing Program, which helps non-minor dependents find and secure housing, and the Rightway Foundation’ Operation Housing First, which has secured 30 units of housing for this population.

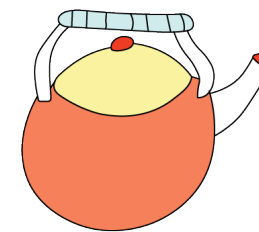
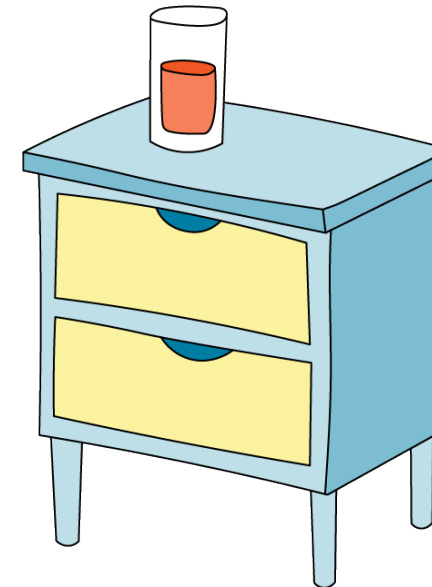
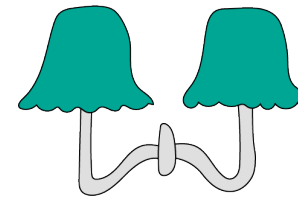
✓ **Recommendation 1B: THP-NMD**

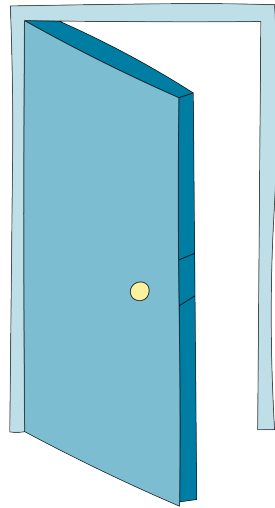
- Procedure Change – L.A. County leaders should create a working group consisting of DCFS, County Counsel, existing and potential THP-NMD providers, and policy experts such as JBAY. This working group should identify potential revisions to the contracts used to engage THP-NMD providers, such that more providers are qualified and willing to provide services and housing under this program. THP-NMD provides federal funding to serve foster youth, and L.A. County’s underutilization of THP-NMD prevents valuable federal funds from serving youth in our region.
- Practice Change – L.A. County should explore opportunities to master lease properties in partnership with THP-NMD providers, creating further efficiencies in provider contracting of housing placement and delivery of services.

✓ **Recommendation 1C: Fix Bottlenecks in Redeploying FUP/FYI Vouchers & Accessing More Vouchers**

It is clear that L.A. County has failed to maximize utilization and FUP/FYI vouchers and thus has failed to access more vouchers each year for which it is eligible. L.A. County leaders should:

- Procedure Change – Revise LAHSA’s Role in Redeployment of FUP/FYI Vouchers: Initially, HUD awards vouchers to DCFS, however, once a voucher is returned (after up to 36 months of use) it is held by LAHSA. Youth are categorically qualified to receive FUP/FYI vouchers, yet LAHSA’s use of CES to prioritize voucher awards typically means that youth do not score among those with the highest needs under CES and thus they do not receive FUP/FYI vouchers that are available for redeployment in a timely or efficient manner. Genesis LA received conflicting information on LAHSA’s use of CES for foster youth from other county departments, policy experts, and service providers. Ultimately, this confusion points to the challenges with the current system for awarding FUP/FYI vouchers, which involves multiple agencies and placement tools that are not aligned with foster youth needs. Therefore, L.A. County should put DCFS at the center of redeploying FUP/FYI vouchers to eligible youth, removing LAHSA from the process altogether. It must be noted that beyond the barriers to deploying vouchers, youth also compete in a competitive housing market and struggle to locate housing. This contributes to the underutilization rate for FUP/FYI vouchers. However, the ideas in this report call for developing more housing that is dedicated to foster youth and current programs like Project Homekey are adding units for youth now. As more housing for youth comes on line, this could help to increase voucher utilization rates and allow PHAs to apply for more FUP/FYI vouchers.
- Procedure Change – HACLA and LACDA Must Apply for More Vouchers Annually: Once L.A. County fixes the utilization challenge with redeployed vouchers, HACLA and LACDA will be eligible to apply for 50 non-competitive vouchers annually and even more on a competitive basis. L.A. County leaders and DCFS should institute systems that ensure these PHAs can be eligible to apply annually and maximize the number of vouchers coming to LA County.



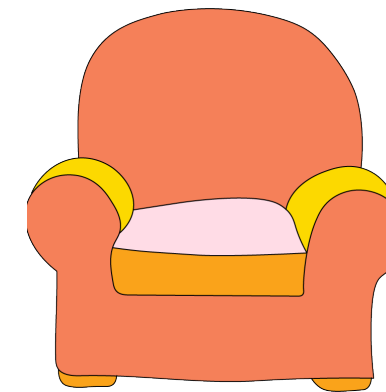
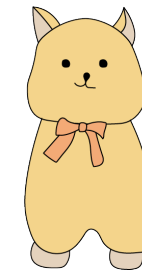
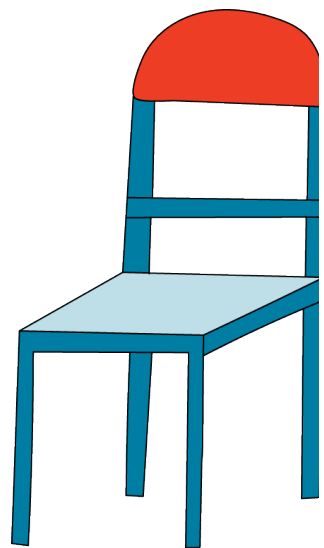


- Practice & Funding Change – LA County Should Assist Other PHAs to Access Vouchers: Only three of 19 PHAs in LA County participate in the FUP/FYI program. LA County should provide staff or hire a contractor to assist DCFS and the other 16 PHAs to attract more FUP/FYI vouchers to LA County.
- Funding Change – Philanthropy Should Support the Development of a Policy Agenda: This agenda should aim to overcome administrative hurdles to maximizing the use of HUD vouchers and could contemplate Congressional action to increase the total supply of vouchers.

✓ **Recommendation 1D:** Backfill Rent Subsidy Gaps

- Funding Change – Depending on the housing model pursued, required rents may exceed voucher rates, creating a gap in monthly rent payments. Currently, most THP providers and Homekey projects appear to require between \$1,350 and \$1,500 in rent per youth per month. Our New Construction Model for a 2-Bedroom Unit assumes a \$1,500 monthly rent per bedroom. Based on HACLA FMR voucher standards, this could result in a monthly rent gap of approximately \$167 per bedroom in a 2-bedroom shared housing unit, and up to \$540 for studio units. L.A. County and philanthropy should explore ways to backfill these gaps as follows:

First, a supplemental rent payment of \$167 per bedroom per month (on 2-bedroom units) could be provided to ensure youth can access housing units and that new housing production (as modeled in this report) could be financially viable. While government and philanthropy might question this supplemental payment, it is important to note that the average cost to develop a new affordable housing unit for one person is approximately \$600,000 today¹⁴ and this cost is borne almost entirely by public funding sources. By contrast, this \$600,000 in public subsidy is equal to the present value of a supplemental rent payment of \$167 per bedroom per month for 70 years (with a 3.5% annual inflation). Ultimately, with limited public resources, supplementing rents can house many more youth now, as opposed to investing in a single unit of housing. In fact, \$600,000 can cover the \$167 per bedroom supplemental rent payment for 300 individuals for one year.



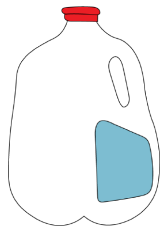
Second, L.A. County and philanthropy could pay for certain operating costs, such as repairs, maintenance, or vacancy loss. Lowering the property owner’s monthly operating cost per unit by \$167 per bedroom in a 2-bedroom shared housing unit would result in the same net effect as directly supplementing the rent payments. Offsetting these operating costs is justified given the higher cost to operate this type of housing and the fact that government subsidies already pay for these higher costs in subsidized affordable housing projects. Genesis LA consulted an LA-based appraiser to estimate the difference in operating expenses for permanent supportive housing projects as compared to market rate housing projects. Based on feedback from the appraiser, it is estimated that operating expenses in supportive housing are about \$140 higher per bedroom per month as compared to market rate housing, an amount that generally aligns with the need for \$167 in supplemental rent to cover such expenses.¹⁵

✓ **Recommendation 1E:** Rent Backstop / Guaranty

- Practice & Funding Change – The financial feasibility of any housing development depends on the consistent payment of projected rents per unit / bedroom. Given that most housing resources for youth are tenant-based and time-limited, developers and investors face risk from more frequent turnover and gaps in revenue between the time when youth depart and new tenants are identified. This is in contrast to Section 8 Project Based Vouchers (PBV), which consistently fund rent for a unit, even as tenants turnover. A rent backstop or guaranty could function much like the L.A. County Flexible Housing Subsidy Program (FHSP) by ensuring stable revenue during vacancy periods such that buildings can remain financially sustainable and investment capital can flow to new buildings for youth. Both L.A. County government and philanthropy should develop a guaranty pool to pay rents when vouchers cannot (due to vacancies, turnover, etc.) and to mitigate financial risk associated with private investments into new youth housing projects. A solution of this type is likely essential to the viability of attracting private financing for these housing models.

¹⁵ The appraiser noted that affordable housing projects must add real estate taxes to their operating expenses to normalize expenses to market rate housing (since affordable projects are exempt from property taxes). Doing so brings our 2-Bedroom New Construction Model operating expenses to \$725,000 per year, or equal to about 43% of effective gross income. The appraiser noted that operating expenses generally equal 33-35% of effective gross income in new construction market rate housing, but are about 7% to 10% higher for supportive housing (about 40-45% of effective gross income). This aligns with the assumptions in our model (43%) and is equal to about \$140 in higher operating expenses per bedroom per month in our model as compared to a market rate unit.

¹⁴ <https://controller.lacity.gov/audits/problems-and-progress-of-prop-hhh>



2 Recommendation 2 Design, Development & Operations

Practice Change – This report recognizes that shared housing, when well designed and appropriately operated, can be an effective strategy for bringing more housing online faster and at lower development and operating cost. However, this type of housing is not widely constructed today, and the existing housing system should be better resourced to support expansion of this housing typology. Therefore, L.A. County and philanthropy should support the growth of this housing infrastructure in the following ways:

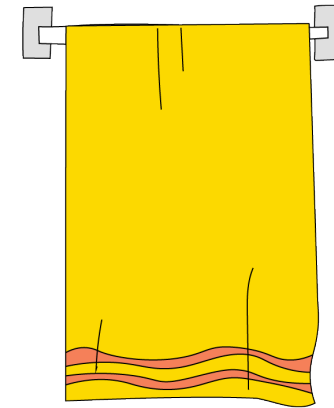
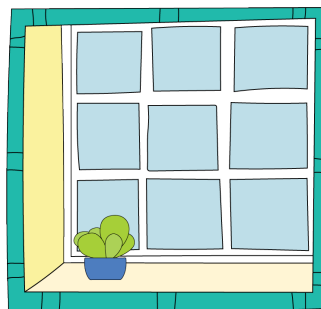


✓ Recommendation 2A: Further Explore Shared Housing Approaches

- **Practice Change** – Other stakeholders, including the Foundation for California Community Colleges, James Irvine Foundation, and David Ambroz (Amazon External Affairs and Community Engagement) have championed the development of dormitories and affordable housing models for community college students experiencing homelessness.¹⁶ Philanthropy could support additional exploration of these and similar innovative housing models to build upon the findings revealed in this report.

✓ Recommendation 2B: Subsidies to Cover Vacancies

- **Funding Change** – Youth struggle to retain housing in the open market, because when roommates leave, the remaining tenants must cover the portion of rent paid by the departed roommate. Much like recommendation 1E (above), public and philanthropic rent guaranties must be extended to cover rent during these vacancy periods so that remaining tenants do not experience a disruption in their housing stability.

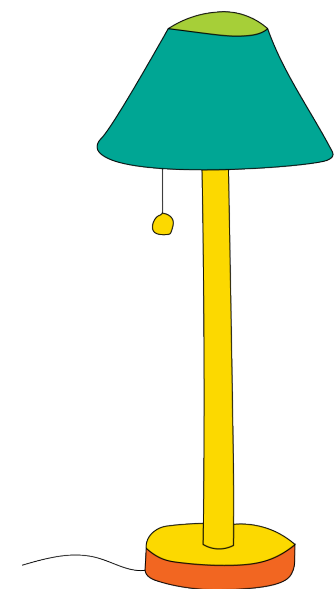


✓ Recommendation 2C: Youth Agency over Housing Choices

- **Procedure Change** – Upon initial occupancy, or when vacancies are filled, youth should have a voice in the selection of roommates. This ensures that households achieve and maintain stability, turnover is minimized, and youth avoid disruptions in their housing stability. If roommates are a poor match, youth should be provided with options to relocate within reasonable terms and conditions. These efforts could be aided by appropriate housing navigation and choices could be maximized if housing inventory increases as envisioned in this report.

✓ Recommendation 2D: Provide Appropriate Support Services

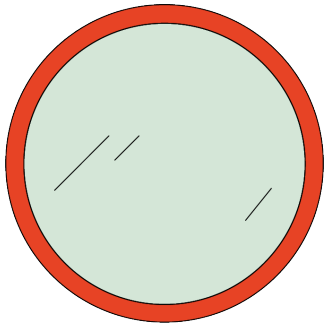
- **Practice & Funding Change** – Shared housing can require additional services and tenant supports. Philanthropy can support service providers and housing operators to build internal capacities around these needs and to deliver these services, however, sustainable public funding to deliver these services is essential. For example, providers mentioned the need for more frequent tenant engagement, social events and a Resident Advisor to ensure success among residents. DCFS noted the need for services that include pre-interviewing and matching youth roommates based on compatibility, intensive case management, life skills teaching, conflict resolution, and employment services and resources. L.A. County agencies and philanthropy should explore funding such resources as part of an expansion of shared housing placements.



3 Recommendation 3 Support Developer Capacity and Grow Pipelines

Practice Change – If L.A. County seeks to develop more quality housing projects for youth, successful affordable housing developers must expand their capacity to take on more projects. These developers have unique expertise in the design, programming, and operations of housing that serves populations with special needs. To prepare these developers to produce more housing for youth, the following is required:

¹⁶ Foundation for California Community Colleges, “Student Housing Feasibility Assessment” prepared for The James Irvine Foundation, 2021.



✓ **Recommendation 3A:** Provide Grants to Grow Capacity

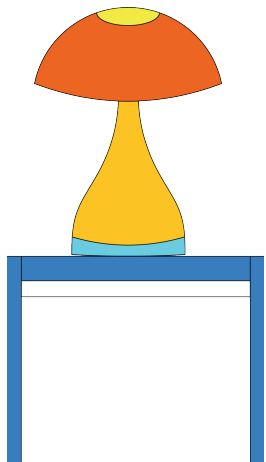
- Funding Change – These developers require upfront investments to hire staff who can undertake more projects and carry out predevelopment. Developers are typically paid during and after completion of construction. Thus, many lack the financial resources to pay for staff prior to these milestones. Philanthropy should consider providing grants to grow these internal capacities for 2-4 years as developers increase their development pipelines, which can then sustain these staffing levels. Such funding would likely need to cover a full time Project Manager position plus benefits and could cost approximately \$250,000 to \$500,000 for 2-4 years.

✓ **Recommendation 3B:** Guaranties to Grow Pipelines

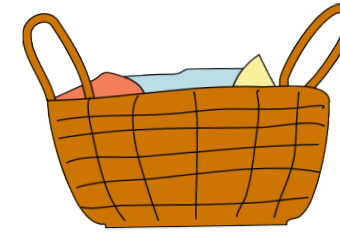
- Funding Change – Affordable housing developers often face limitations on how many projects they can undertake at one time. Part of this is driven by staffing capacity (see above), however, another limitation is the developer’s financial capacity to take on the debts and financial obligations associated with construction and permanent loans. Thus, philanthropy should explore the feasibility of providing these developers with guaranties so that they can expand their development pipelines and still meet their guaranty capacity with lenders and investors.

✓ **Recommendation 3C:** Public Guarantees

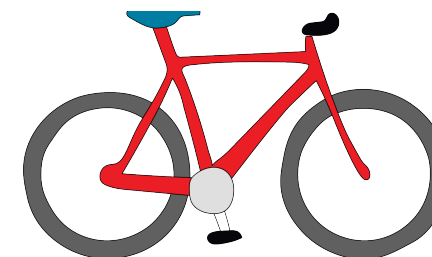
- Policy & Funding Change – In California, Assembly Member Pilar Schiavo (D-Chatsworth) and Sen. Dave Cortese (D-Santa Clara) introduced AB 963 (The End the Foster Care to Homelessness Pipeline Act) in February 2022. The bill would create a \$250 million loan guarantee pool for the development and acquisition of housing for transition-aged current and former foster youth. Also in February, the County Board of Supervisors passed a motion (authored by Supervisors Kathryn Barger and Hilda Solis) to support the bill. The philanthropic sector should support organizations working toward its passage, and those that will be critical in its implementation.

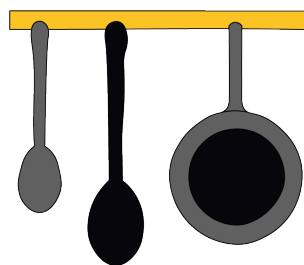


4 Recommendation 4
Youth Need Longer Runway to Housing Stability



Policy & Funding Change – Existing housing programs for youth are generally time-limited to 36 months or less. This is an insufficient time period for youth, who lack family financial support, to achieve complete financial independence and sustain themselves in the housing market. Public agencies and philanthropy should explore ways to transition youth into other housing programs or vouchers to maintain housing stability when youth-specific housing subsidies expire, while also better assisting young people as they transition from one exiting subsidy to the next. This is also critical, because many youth are housed in units that are technically leased by service providers through DCFS contracts, thus youth must relocate when time runs out on their housing subsidy. Further, they often cannot afford to pay the amount of rent that was supported by the DCFS contract and thus need ongoing support to remain housing stability or transition to another appropriate unit. The table below details the proforma rents used in the housing models presented in this report and compares them to the monthly income of a young person earning the minimum wage in Los Angeles. If youth needed to cover their own rent payment, it could account for between 45% to 85% of their monthly income. This challenge is common for youth as they age out of youth-restricted housing and can then fall back into homelessness. Public agencies should identify ways to transition youth into other housing options, identify other rental subsidies, or provide other forms of income support to assist with rent payments. For example, there are ways to extend the three-year life of FUP/FYI vouchers for an additional two years under a Family Self-Sufficiency Program or by meeting certain conditions related to work or school attendance. This extension option should be fully explored within L.A. County PHAs.

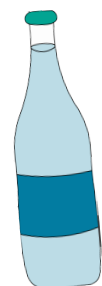




Rent Burden after Housing Subsidies Expire			
FMR Rents	\$1,333	\$1,840	\$1,380
FMR Basis	Half of 2-bedroom	Studio	SRO
Proforma Rent	\$1,500	\$2,380	\$1,250
Rent Gap	\$167	\$540	(\$130)
Monthly Income at Minimum Wage	\$2,797	\$2,797	\$2,797
% of Income Spent on Proforma Rent	54%	85%	45%

5 Recommendation 5 Pooled/Aligned Grant Making

Practice Change – While there is significant coordination and alignment in grant making across L.A.’s philanthropic community, there is also an opportunity to better target support towards housing stability for young people as alluded to throughout this support. This could come in the form of a grant pool dedicated to vetted nonprofits, in conjunction with aligned grant making opportunities aimed at foundations, Donor Advised Funds and individual donors.



6 Recommendation 6 Create a Coordinated Plan for Philanthropy to Operationalize Recommendations from this Report

Practice Change – Finally, if philanthropy and L.A. County leaders wish to further advance any of the recommendations developed in this report, partners must be identified to carry this work forward. Philanthropy should develop a coordinated strategy outlining actionable next steps, responsible parties, desired outcomes, and funding needs to advance those priorities that emerge from this report.

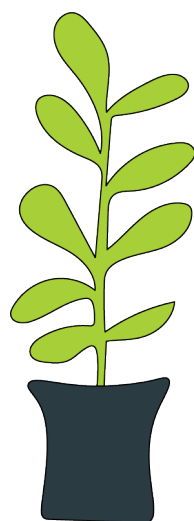


Photo Credit: Jovenes Inc.

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Appendices

Appendix 1														
Development Cost Analysis (2022 9% TCAC projects; LA County; New Construction)														
Project Name	Residential Unit SF	Avg. Unit Size (Bed Count)	Avg. SF per Unit	Common Area / Other SF*	Commercial Space	Parking SF	Total SF	Load Factor (Common Area / Residential Area)	Parking as % of all other SF	Soft Costs (all, including financing, holding, soft conting., developer fee)	Soft Costs as % of Hard Costs	Soft Costs as % of TDC	Other / Relocation	Total Hard Costs
First Street North B	56,785	1.82	848	23,224	14,949	0	80,009	40.90%	0.00%	\$12,442,757	35.94%	24.63%		\$34,624,451
Walnut Park Apartments	49,116	1.69	767	9,000	0	23,373	81,489	18.32%	40.22%	\$9,915,848	35.02%	22.37%	\$1,000,000	\$28,314,745
Third Thyme	38,071	1.00	366	22,633	0	0	60,704	59.45%	0.00%	\$11,686,790	36.31%	23.06%		\$32,184,210
11730 Ramona Blvd.	24,124	1.03	619	5,199	0	4,680	34,003	21.55%	15.96%	\$7,898,854	40.07%	26.68%		\$19,713,972
Huntington Square	23,571	1.02	491	12,000	0	15,275	50,846	50.91%	42.94%	\$10,391,017	55.55%	32.05%		\$18,705,131
Chapel Ave Apts.	40,593	1.73	923	4,841	1,025	0	45,434	11.93%	0.00%	\$9,674,009	42.99%	27.31%		\$22,505,088
Baldwin Park Affordable	40,398	1.86	709	24,526	0	35,146	100,070	60.71%	54.13%	\$11,738,860	49.69%	28.94%		\$23,622,043
6th Street Grand	50,906	1.89	808	2,957	0	23,509	77,372	5.81%	43.65%	\$11,739,490	43.97%	26.93%		\$26,700,077
Miramar Gold	72,942	1.81	776	13,550	0	0	86,492	18.58%	0.00%	\$10,574,402	37.37%	22.97%		\$28,294,996
Alvorado Kent	41,198	1.00	509	22,143	0	21,497	84,838	53.75%	33.94%	\$7,848,605	29.15%	18.17%	\$310,000	\$26,924,145
Lincoln Ave Seniors	33,940	1.01	478	19,039	0	12,609	65,588	56.10%	23.80%	\$8,826,094	39.18%	24.48%		\$22,524,759
Norwalk Vets	49,387	1.92	823	15,719	0	31,540	96,646	31.83%	48.44%	\$8,967,475	32.80%	20.93%		\$27,336,903
Red Tail Crossing	74,776	1.75	733	11,380	0	26,950	113,841	15.22%	31.28%	\$13,310,881	34.14%	21.04%		\$38,989,980
		1.5	681					34%	26%		39.4%	24.6%		
Average SF	45,831			14,324		14,968	75,123						Average Hard Costs	\$26,956,962
% of Total SF	61.0%			19.1%		19.9%							Average Hard Cost per SF	\$359

Appendix 1

Development Cost Analysis (2022 9% TCAC projects; LA County; New Construction)

Project Name	Hard Costs (\$\$ / Unit with Prevailing Wages)	Hard Cost Contingency	Hard Cost Contingency as % of Hard Costs	LIHTC Budgeted Total Development Cost	LIHTC TDC / Unit	Total Budget w/o Prevailing Wages (25% prevailing wage premium)	Hard Costs (\$\$ / SF w/o Prevailing Wages)	Hard Costs (\$\$ / Unit w/o Prevailing Wages)	Hard Costs (\$\$ / Bedroom w/o Prevailing Wages)	Land SF	Land Cost + Demo	Land \$\$/SF	Land \$\$/ Unit	Land \$\$/Bed	Area	Parking Spaces	Parking within Structure?
First Street North B	\$516,783	\$3,453,815	9.98%	\$50,521,023		\$27,699,561	\$346	\$413,426	\$227,046	41,382	Ground Lease	N/A			Little Tokyo	0	
Walnut Park Apartments	\$442,418	\$1,416,922	5.00%	\$44,327,200	\$692,613	\$22,651,796	\$278	\$353,934	\$209,739	30,492	\$3,679,685	\$121	\$57,495	\$34,071	Huntington Park	49	Yes (49)
Third Thyme	\$309,464	\$2,869,579	8.92%	\$50,680,579	\$487,313	\$25,747,368	\$424	\$247,571	\$247,571	14,940	\$3,940,000	\$264	\$37,885	\$37,885	Westlake (LA)	7	No
11730 Ramona Blvd.	\$505,486	\$988,881	5.02%	\$29,601,707	\$759,018	\$15,771,178	\$464	\$404,389	\$394,279	28,750	\$1,000,000	\$35	\$25,641	\$25,000	El Monte	20	Yes (20)
Huntington Square	\$389,690	\$1,874,796	10.02%	\$32,424,958	\$675,520	\$14,964,105	\$294	\$311,752	\$305,390	21,301	\$1,454,014	\$68	\$30,292	\$29,674	Huntington Park	49	Yes (49)
Chapel Ave Apts.	\$511,479	\$1,122,713	4.99%	\$35,420,975	\$805,022	\$16,603,411	\$365	\$377,350	\$218,466	16,306	\$2,119,165	\$130	\$48,163	\$27,884	Alhambra	30	Yes (4)
Baldwin Park Affordable	\$414,422	\$1,179,937	5.00%	\$40,560,840	\$711,594	\$18,897,634	\$189	\$331,537	\$178,280	43,124	\$4,020,000	\$93	\$70,526	\$37,925	Baldwin Park	71	Yes (71)
6th Street Grand	\$423,811	\$1,335,004	5.00%	\$43,589,571	\$691,898	\$21,360,062	\$276	\$339,049	\$179,496	35,719	\$3,815,000	\$107	\$60,556	\$32,059	Montebello	66	Yes (66)
Miramar Gold	\$301,011	\$1,399,750	4.95%	\$46,029,148	\$489,672	\$22,635,997	\$262	\$240,808	\$133,153	21,780	\$5,760,000	\$264	\$61,277	\$33,882	Westlake (LA)	11	No
Alvorado Kent	\$332,397	\$1,363,000	5.06%	\$43,198,000	\$533,309	\$25,024,145	\$295	\$308,940	\$308,940	27,573	\$6,752,250	\$245	\$83,361	\$83,361	Echo Park	32	Yes (32)
Lincoln Ave Seniors	\$317,250	\$1,591,818	7.07%	\$36,058,171	\$507,862	\$18,019,807	\$275	\$253,800	\$250,275	26,572	\$3,115,500	\$117	\$43,880	\$43,271	Altadena	32	Yes (28)
Norwalk Vets	\$455,615	\$2,708,270	9.91%	\$42,844,448	\$714,074	\$21,869,522	\$226	\$364,492	\$190,170	70,567	\$3,831,800	\$54	\$63,863	\$33,320	Norwalk	113	Yes (77)
Red Tail Crossing	\$382,255	\$1,949,499	5.00%	\$63,250,360	\$620,102	\$31,191,984	\$274	\$305,804	\$174,257	85,813	\$9,000,000	\$105	\$88,235	\$50,279	Westchester	78	Yes (71)
	\$407,852			Avg. Unit (All)	\$640,666		\$305	\$327,143	\$232,082			\$134	\$55,931	\$39,051			
Average SF					\$686,056										Avg. No. Spaces	43	
% of Total SF					\$762,284										Avg. Spaces per unit	0.62	

Appendix 1										
Operating Cost Analysis (2022 9% TCAC projects; LA County; New Construction)										
Project	Units	Bed-rooms	Operating Expenses	Replace-ment Reserves	Total Expenses	OpEx / Unit	OpEx / Bed	Homeless / Special Needs Units	% Units Homeless or Special Needs	
First Street North B	67	122	\$512,700	\$33,500	\$546,200	\$8,152	\$4,477	17	25%	
Walnut Park Apartments	64	108	\$482,010	\$32,000	\$514,010	\$8,031	\$4,759	31	48%	
Third Thyme	104	104	\$665,537	\$26,000	\$691,537	\$6,649	\$6,649	45	43%	
11730 Ramona Blvd.	39	40	\$307,581	\$13,650	\$321,231	\$8,237	\$8,031	38	97%	
Huntington Square	48	49	\$391,911	\$24,000	\$415,911	\$8,665	\$8,488	35	73%	
Chapel Ave Apts.	44	76	\$421,584	\$13,200	\$434,784	\$9,881	\$5,721	22	50%	
Baldwin Park Affordable	57	106	\$427,960	\$17,100	\$445,060	\$7,808	\$4,199	0	0%	
6th Street Grand	63	119	\$441,372	\$31,500	\$472,872	\$7,506	\$3,974	31	49%	
Miramar Gold	94	170	\$601,188	\$47,000	\$648,188	\$6,896	\$3,813	47	50%	
Alvorado Kent	81	81	\$506,700	\$28,350	\$535,050	\$6,606	\$6,606	60	74%	
Lincoln Ave Seniors	71	72	\$665,108	\$28,400	\$693,508	\$9,768	\$9,632	35	49%	
Norwalk Vets	60	115	\$559,336	\$30,000	\$589,336	\$9,822	\$5,125	20	33%	
Red Tail Crossing	102	179	\$752,892	\$51,000	\$803,892	\$7,881	\$4,491	40	39%	
Average	69	1.50				\$8,146	\$5,843			
		Avg. OpEx per bed - units w/ 1.7 beds or more					\$4,543			

Appendix 2 - Land Price per Unit Analysis				
	Region	Median Land Price / Unit (w/o Density Bonus)	Potential Minimum Density Bonus*	Median Land Price / Unit (w/ Density Bonus)
	Los Angeles County	\$137,156	35%	\$101,597
1	North San Fernando Valley	\$59,341	50%	\$39,561
2	Downtown - Koreatown	\$82,923	50%	\$55,282
3	Long Beach - San Pedro	\$85,595	50%	\$57,063
4	East LA - Southeast Cities	\$89,167	35%	\$66,050
5	South San Fernando Valley	\$116,667	50%	\$77,778
6	Culver City - South LA	\$134,000	50%	\$89,333
7	Hollywood - Silverlake	\$135,625	50%	\$90,417
8	San Gabriel Valley	\$134,000	35%	\$99,259
9	South Bay	\$200,000	35%	\$148,148
10	Westside	\$274,242	50%	\$182,828
11	Burbank Glendale Pasadena	\$270,000	35%	\$200,000
12	Beach Cities	\$655,108	35%	\$485,265
	Average (Areas 1 - 7)			\$67,926



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