



INVESTIGATING HOUSING MODELS FOR ACCELERATING PSH PRODUCTION

Year 1 Report



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About This Report

In collaborative with the United Way's Home For Good Funders Collaborative, the University of Southern California's Homeless Policy Research Institute contracted with Abt Associates and VIVA Consulting to conduct an evaluation analyzing the Los Angeles community's efforts for funding new, innovative approaches for creating permanent supportive housing. This report documents the evaluation team's findings from data collection and analysis efforts from the first year of the evaluation.

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1. Introduction

Over the past several years, community organizations, governmental agencies, and philanthropic partners from across Los Angeles have collaborated to find ways to accelerate the development of and increase the amount of permanent supportive housing (PSH) available to people experiencing homelessness. New funding from the City of Los Angeles, Los Angeles County, and the state of California has been made available to support the development of more PSH, and several city and state ordinances passed to help accelerate the development process. Community stakeholders have also explored supporting new, innovative strategies for creating PSH in hopes of building housing faster and in a more cost-effective manner.

In 2019, the City of Los Angeles' Mayor's Office (Mayor's Office), in partnership with City's Housing and Community Investment Department (HCID) and the City's Administrative Officer, set aside \$120 million of Proposition HHH^a funding to support a pilot for innovative strategies for PSH development. This effort is called the Mayor's Housing Challenge. Additionally, during 2019, the Mayor's Office created the Housing Solutions Team (HST), with philanthropic support from the California Community Foundation, Conrad N. Hilton Foundation, Weingart Foundation and other key funders of United Way's Home For Good Funders Collaborative. This team is responsible for (1) streamlining processes and removing barriers that stand in the way of housing development, (2) using innovative strategies for housing development, and (3) creating policies that support the City's goals of creating more housing for people experiencing homelessness.

To provide additional support to housing developers, the United Way of Greater Los Angeles' Home For Good Funders Collaborative, a partnership of public, private, and philanthropic funders from across Los Angeles, provided supplemental grants to housing developers that proposed innovative strategies for PSH.

The Mayor's Office, HCID, and the Home For Good Funders Collaborative invited developers to submit funding proposals for projects that demonstrate innovative approaches to PSH development. The strategies proposed are intended to accelerate development, increase the scale of production, or achieve lower production costs. Proposals included a range of strategies for achieving efficiency, including, for example, construction techniques (such as modular or factory-built housing), approaches to zoning (such as focusing on infill housing with by-right zoning), and simplified financing (such as private investment).

In collaborative with the United Way's Home For Good Funders Collaborative, the University of Southern California's Homeless Policy Research Institute contracted with Abt Associates and VIVA Consulting to conduct an evaluation of the efforts – funding new, innovative approaches for creating PSH and the effectiveness of the HST in enhancing and streamlining the development process across the city. The Abt evaluation team designed a mixed-methods study examining the development costs of awardees of the Mayor's Housing Challenge and the Funders Collaborative Accelerating PSH Grants and examining the activities of the HST and city departments responsible for accelerating PSH development.

^a In November 2016, Los Angeles voters approved Proposition HHH, a \$1.2 billion Homelessness Reduction and Prevention, Housing, and Facilities Bond that will support the development of up to 7,000 new units of PSH in the City of Los Angeles.

Over the past year, the Abt evaluation team interviewed members of the HST, staff at city departments, and housing developers; reviewed funding application materials; and collected project cost data. This report documents the evaluation team's findings from data collection and analysis efforts from the first year of the evaluation. Following this introductory chapter, the second chapter discusses the city's efforts to invest in capacity along with the challenges and successes from the past year. The third chapter discusses efforts to invest in innovation and describes the projects that were funded. The fourth chapter shows cost comparisons across projects and developers. The final chapter reports the year 1 top-level findings and outlines the data collection and analysis activities planned for the year 2 report.

2. Investing in Capacity

The process of developing permanent supportive housing (PSH) in Los Angeles is complex and involves many entities—housing developers; local, state, and federal agencies; supportive service providers; and funders. Each step in the development process comes with uncertainty and risk. The unpredictability of the development process includes searching for and securing a suitable development site, receiving approvals and clearances from a multitude of governmental departments and agencies, and assembling funding sources.¹ The development landscape in Los Angeles has changed over the past several years with new investments to support expanded development and new efforts to streamline the development process. This chapter describes some of the new investments and efforts along with some of the challenges and successes over the past year.

2.1 *The Development Landscape in Los Angeles*

Over the past five years, community organizations, governmental agencies, and philanthropic partners from across Los Angeles have collaborated to find ways to accelerate the development of PSH. New, dedicated sources of funding have been created with the intention of increasing the amount of PSH developed each year. In addition to securing approval for new funding sources, public officials and community stakeholders have worked to improve processes and procedures and reduce zoning requirements that are intended to decrease overall development timelines and costs. The community has also advocated for various pieces of state and local legislation with the goal of expediting and funding affordable housing development. These include:

- In October 2015, the Mayor of Los Angeles issued **Executive Directive 13** (ED 13) that authorized the Department of City Planning (Planning), Department of Building and Safety (DBS), and the Housing and Community Investment Department (HCID) to introduce city-wide reforms to reduce affordable housing application processing times by 25 percent.²
- In November 2016, Los Angeles voters approved **Proposition HHH**, a \$1.2 billion Homelessness Reduction and Prevention, Housing, and Facilities Bond that will support the development of up to 7,000 new units of PSH in the City of Los Angeles.³
- In September 2017, the Los Angeles City Department of Planning launched **the Transit Oriented Communities (TOC) Affordable Housing Incentive Program**. This program, created from the passage of **Measure JJJ** in 2016, supports the development of supportive housing near transit by providing incentives and allowing for additional density and reduced parking requirements.⁴
- In December 2017, the City of Los Angeles approved three pieces of legislation intended to fund or streamline PSH development:
 1. “The **Affordable Housing Linkage Fee** established a fee of up to \$15 per square foot of market-rate residential development, and up to \$5 per square foot of commercial development, paid by developers to fund a Housing Impact Trust Fund administered by HCID that supports production and preservation of affordable housing citywide.⁵
 2. The **PSH Ordinance** (1) waives maximum unit density restrictions for almost all PSH development and loosens a number of additional zoning requirements such as on-site parking; (2) raises the minimum unit threshold for an accelerated clearance process; and (3) establishes a “by-right” process to develop PSH on most land zoned for public use.⁶

3. The **Motel Conversion Ordinance** allows developers, in partnership with qualified homelessness service providers, to make interior renovations to underutilized hotels and motels intended for conversion to transitional or supportive housing.^{7, 8}
- In January 2018, **California Senate Bill 35** (SB 35) went into effect. SB 35 mandates that localities that have not met the state-mandated Regional Housing Need Allocation targets must use a streamlined, ministerial review process for eligible housing projects.⁹
- In September 2018, **California Assembly Bill 829** (AB 829), which prohibited the award of State funds to projects in communities requiring a “Letter of Acknowledgement” from a local elected official as a part of the development approval process, became active.¹⁰
- In November 2018, California voters approved **Proposition 2: Use Millionaire’s Tax Revenue for Homelessness Prevention Housing Bonds Measure (No Place Like Home)**. This bill supports the development of PSH for individuals with mental health needs across the state.¹¹
- In January 2019, **California Assembly Bill 2162** (AB 2162) went into effect. This bill intends to increase production of supportive housing statewide by providing many of the same benefits as LA’s PSH Ordinance including streamlining approval, priority processing, and reduced parking.¹²
- In September 2019, **California Assembly Bill 1197** (AB 1197) became law exempting emergency homeless shelters and certain supportive housing projects in Los Angeles from the California Environmental Quality Act (CEQA) environmental review process. Opponents to development often use CEQA lawsuits to block and delay new housing projects from starting construction.¹³
- In January 2020, **California Senate Bill 330** (SB 330) and **Assembly Bill 1763** (AB 1763) took effect. SB 330 has the goal of expediting development and processing timelines and limiting fee increases for developers. AB 1763 allows 100 percent affordable housing buildings to be taller and denser and eliminates some parking requirements.¹⁴

In accordance with these directives and pieces of legislation, city officials and departments are working to streamline PSH development making dedicated public funding available and decreasing the time for each component of the development process.

2.2 *Creation of the Housing Solutions Team*

In November 2018, two years after the approval of Proposition HHH, the Proposition HHH Citizens Oversight Committee released recommendations to increase the development of PSH and halve the typical time required to develop a project. The Committee found that the city’s “decentralized approach,” where many departments are responsible for reviewing and approving pieces of the development process, was cumbersome for housing developers. The Citizens Oversight Committee recommended the creation of a group responsible for expediting the approval and construction of affordable housing developments.¹⁵

In response to these recommendations, in 2019, the Mayor’s Office, with the financial support of the United Way of Greater Los Angeles, created the **Housing Solutions Team** (HST). The team is responsible for pushing forward three objectives: (1) streamlining processes and removing barriers that hinder housing development, (2) promoting innovative strategies for housing development, and (3) implementing policies that supports the city’s goals of creating more housing for people experiencing homelessness.

As of summer 2020, the Mayor's Chief Housing Officer oversaw four staff members who comprised the HST. These staff members are responsible for implementing a variety of tasks including:

- Identifying and implementing opportunities to streamline and innovate policies, regulations, and procedures;
- Coordinating and overseeing workgroups with city department staff (i.e., Affordable Housing Workgroup, Housing Innovation Workgroup);
- Working with and supporting developers who were awarded Proposition HHH Housing Challenge funding throughout the development process; and
- Overseeing loan transactions and Memorandum of Understandings (MOUs) with the Proposition HHH Housing Challenge developers.

HST staff members have a variety of backgrounds outside of the City of Los Angeles government including working for a non-profit housing developer and a community lender. These diverse backgrounds of HST staff were intended to bring different perspectives and ideas to the city's development process. However, HST staff noted that learning city processes created a steep learning curve for them especially when trying to create efficiencies or changes in the way development processes previously occurred.

Executive Directive (ED) 13 cited specific objectives to reduce development processing times by 25 percent for qualifying projects (i.e., projects where 20 percent or more of rental units are considered affordable). The HST continues working to achieve this objective and would like to see processing time reductions across all departments involved in housing development. During its first year, the HST created a work plan to operationalize these goals which includes collecting data to evaluate efforts and track progress.

2.3 Challenges, Achievements, and Future Opportunities in Accelerating PSH Development

Despite numerous predictable challenges, and one unpredictable global pandemic, the HST and city departments who work on housing development made some notable progress in accelerating and removing barriers to PSH development over the past year. The following section highlights some of the challenges and achievements that the HST has experienced during its first year and opportunities staff see for the upcoming year.

2.3.1 Responding to COVID-19

The COVID-19 pandemic has exacerbated the already challenging environment that developers face when building affordable housing in Los Angeles. In spring 2020, COVID-19 diverted HST staff from their primary responsibilities of accelerating and streamlining affordable housing development to securing and creating new temporary emergency shelters across Los Angeles. While this assistance to the city's pandemic response was critical, it stalled some of the HST efforts for several months.

Additionally, because of the city's "Stay at Home" order, city departments were forced to implement protocols that slowed the development process. Office closures or limited office hours necessitated increased cross-departmental coordination in order to obtain approval signatures, notarizations, and

reviews required. For example, development plans dropped off in person that needed approval had to be quarantined for a certain period of time, reviewed, and then returned to the developer.

Over the past year, city departments have worked to move as much of their review, approval, and payment processes online as possible. For example, Planning and DBS have introduced new procedures for developers to submit plans and payments. Planning moved its Preliminary Zoning Assessment (PZA) online which allows applicants to submit an electronic application without requiring an in-person appointment. This system has shortened the PZA turnaround time. Planning also accepts online payments for specific appeals and pre-application fees. DBS began conducting plan reviews online and accepting online payments for all permit application fees.

2.3.2 Working to Streamline the Complexity of the Development Process

The HST has worked to identify the pain points and administrative bottlenecks in the development process. One goal of the HST is to reduce the average pre-development timeline of supportive housing by half (from 3 years to 1.5 years) and reduce the construction timeline of supportive housing by a third (from 1.5 years to 1 year.) Over the past year, HST and city staff identified three areas of concern when trying to push development forward: (1) implementing new legislation to streamline and fund affordable housing development, (2) needing various layers of approvals, and (3) navigating complex development processes. Each is discussed below.

- 1. Implementing new legislation to streamline and fund affordable housing development:** As mentioned earlier in this chapter, over the past five years new ordinances and funding became available to help streamline and fund PSH development across the City of Los Angeles, Los Angeles County, and the state of California. Many of these new ordinances provide developers the opportunity to by-pass certain reviews and approvals traditionally needed. However, since these ordinances are new, developers, and sometimes city staff, are uncertain how and when to use them. One staff member noted that California's SB 330 was designed to promote the creation of affordable housing but it has also created hurdles for some developers. These hurdles have resulted in developers hiring consultants to navigate the use of SB 330 which can add costs.

Additionally, the City of Los Angeles' PSH Ordinance and California's AB 1197 allows developers to by-pass the California Environmental Quality Act (CEQA) when developing PSH or emergency shelter. However, city staff and developers noted that they needed clarification from city leaders about how and when to use these options during the development process.

- 2. Needing various layers of approval:** Currently, the Los Angeles City Council needs to approve the spending of city dollars on development and the siting (i.e., location) of the development. For Proposition HHH projects, including the Mayor's Housing Challenge projects, approval is needed from the City Council's Housing and Poverty Committee and the full City Council. While the City Administrative Officer's Proposition HHH Citizen's Oversight and Administrative Oversight Committees do not have to provide approval they need to review all Proposition HHH projects and expenditures. These committees meet various times each month. Securing approvals and reviews from these groups adds approximately one to two months to each project's development timeline, if all members approve the project upon initial review.

Over the past year, the HST has worked to find the most efficient way to bring the Mayor's Housing Challenge projects to the Council on rolling basis. For Housing Challenge projects, the initial idea was that the HST could provide initial approval for projects sites to expedite the financing. However,

members of the City Council were not comfortable with this approach and instructed the HST to bring each project's site to each committee for approval.

Historically, City Council members are very involved in the development process to oversee what is built in their districts. This involvement tends to dramatically slow down the already complicated development process in Los Angeles. In September 2018, after the passage of California AB 829, which prohibited the need for a “letter of acknowledgment” of a local elected official when state funding is being used for affordable housing development, the LA City Council decided to waive its own requirement to for such letters.¹⁶ However, some community stakeholders feel that even though a “letter of acknowledgement” is not needed, City Council members still have the power to support or not support development in their districts. HST staff expressed a need for more discretion and authority when trying to remove administrative bottlenecks and accelerate the development process, especially when there is an urgent need for housing for Los Angeles’ most vulnerable residents. One city staff member noted, *“Council wants to move it faster unless it affects their districts. Part of the problem is balance of power. [I] understand why you want to keep control of what’s built, [but] the need is so tremendous that you have to let go.”*

One achievement in this area is that the HST, in collaboration with HCID and the Housing Authority of the City of Los Angeles (HACLA), halved the number of times a City-owned parcel being developed as affordable housing needs City Council approval. This was previously an unclear process that involved several developer visits to City Council.

3. **Navigating complex development processes:** Los Angeles is a large city with many city departments managing various components of the development process. The HST is working within the current City development infrastructure to accelerate and streamline each step of the process. However, development in a city this large is complicated and every project is different. The length of time through the development process depends on a variety of components from the early steps of securing a building site, receiving initial approvals, and financing to the final steps of building inspections and lease-ups. One HST staff member stated,

“I wish it was big themes, but it’s really death by a thousand cuts. We can’t just tackle one thing and [development] will flow smoothly. A week delay here and there, multiplied by 12, and then we have big delays. That’s where we need a cultural shift more than a process shift... [There will be] no epiphany of easy answers, no easy flip of the switch.”

2.3.3 Strengthening Interdepartmental Coordination

Over the past several years, city departments have worked closely to coordinate and align the development process while looking for ways to simplify and streamline. HST and city staff have reported that they are not only coordinating well as a team, but really developing deep partnerships across departments. Staff noted that they feel that they are on the “*same page*” at both a strategic high-level, as well as with each individual project.

Two groups responsible for coordination have been the Affordable Housing Cabinet and the Housing Innovation Workgroup. The Affordable Housing Cabinet was created as a result of ED 13 where representatives and senior leadership from DBS, Planning, HCID, the Department of Water and Power (DWP), the Fire Department, the Department of Transportation, and the Bureau of Engineering meet biweekly. These meetings bring together key staff to discuss affordable housing project updates and troubleshoot issues along the development process.

The Housing Innovation Workgroup brings together staff from Planning, HCID, DBS, and DWP as well as staff from the City Administrative Office, City Attorney's Office, and Council Districts. This workgroup meets monthly to discuss how policies and regulations can support innovative housing development. In the past, this workgroup has invited developers to discuss their projects and troubleshoot any obstacles to the development process.

Over the past year, the HST has led an effort to create a tool to be used across city departments to track the development process. The Affordable Housing Project Tracker records key milestones and the time between each milestone. The tracker also shows the average time between milestones for all projects in the development pipeline. City staff are currently building the technical infrastructure needed to transfer data into the tracker from city departmental databases. Once the tracker is finalized it will provide real-time project-level and aggregate data on projects in the affordable housing pipeline and allow for increased communication and coordination between city departments. With this information, city staff will be able to identify steps in the development process that need attention to reduce time delays and decrease costs.

One example of increased collaboration across city departments is a memo that was released in August 2020 outlining the funding procedures for affordable housing.¹⁷ This interdepartmental memo was a collaboration between Planning, DBS, and HCID. The memo outlined the review process and funding form responsibilities detailing who developers should submit forms to and when it should be done. City staff explained that while this memo was created for developers who are navigating the complicated development process, the memo is also useful for city staff tasked coordinating, reviewing, and approving project plans and forms.

Additionally, over the summer and fall of 2020, city departments and the HST came together to create a Memorandum of Understanding (MOU) for improving the process for using factory-built or modular housing in Los Angeles. The HST and developers worked with leadership at HCID, Planning, DBS, and Fire to outline each departments' roles and responsibilities along with review and approval timelines for projects using factory-build housing. One member of the HST stated that this process was a good example of how developers could work with the city to identify and resolve issues. The MOU was fully executed in October 2020 and work to implement the procedures outlined is currently underway.

2.3.4 Increasing Capacity for Developers and City Departments

The HST and city departments have taken action to bolster overall capacity and bandwidth to accelerate affordable housing development. Over the past year, the HST worked closely with developers who were awarded Housing Challenge funding by helping them navigate the city's development process and troubleshoot concerns. Many developers noted that this assistance has been one of the principal successes of the HST. Typically, developers do not have a dedicated team from city departments to provide one-on-one support during the development process because city departments often do not have the capacity to provide this support. Overall, the HST received positive feedback from developers. Some developers viewed the HST as *"problem solvers."* One developer explained, *"They [the HST team] are extremely rational people, who want to break down the silos and make things work."* Another developer noted, *"The Mayor's office is really trying to put forth solutions and get everybody in the room to work things out."*

City staff noted that one of the biggest delays for developers is when incomplete applications are submitted at various points throughout the development process. City staff thought it was important for developers to have internal or contracted expertise to get through the city's complicated requirements.

The HST can help address this gap by supporting developers without costing developers more for added expertise.

Planning established a Housing Services Unit (HSU) several years ago to expedite the processing of affordable housing projects. The HSU is the first stop for any affordable housing project that wants to use the programs designed for accelerating development such as the Transit Oriented Communities (TOC) Incentive Program, the PSH Ordinance, or any of the recently enacted state legislation. At the time of data collection in summer 2020, the HSU had three staff members participating in the Mayor's ED 13 Affordable Housing Cabinet meetings to help troubleshoot project questions and concerns and discuss the status of projects in development. The HSU also analyzes the state's housing legislation, conducts project analyses, and provides quarterly status reports to Mayor's Office.

DBS recently created a unit dedicated to processing affordable housing projects. DBS' Affordable Housing Unit is staffed with six experienced engineers who work exclusively with affordable housing projects. Prior to creating this unit, any DBS engineer could be assigned to affordable housing projects. Now, DBS' dedicated staff can ensure affordable housing projects are prioritized and monitored throughout the development process. The unit provides case management as needed to clarify the sometimes tricky approval process. Similarly to Planning's HSU, DBS's Affordable Housing Unit tracks projects internally and provides status updates during Affordable Housing Cabinet meetings.

Over the past several years, city departments have created ways to prioritize affordable housing across the city. However, staff expressed a concern over capacity and bandwidth, especially during the pandemic. Some staff are worried about the number of staff needed to move affordable housing projects along the development process when there have been discussions of city furloughs, budget cuts, and recent retirement incentives offered. Despite this, staff reported being impressed by the amount of work their colleagues have been able to accomplish despite the challenging times of working from home, office closures, and new processes and procedures.

3. Investing in Innovation

In 2019, the City of Los Angeles' Mayor's Office (Mayor's Office), the City's Housing and Community Investment Department (HCID), and the United Way of Greater Los Angeles' Home For Good Funders Collaborative (Funders Collaborative) invited housing developers to submit funding proposals for projects that demonstrate innovative approaches to PSH development. The goal was to identify alternative or new housing models that reduce typical costs and the development timeline while creating a model that could be scaled and replicated across the community. This chapter describes the projects that were awarded funds and their innovative strategies.

3.1 PSH Project Descriptions & Innovation Strategies

In May 2019, the Mayor's Office in partnership with HCID issued the Proposition HHH Housing Challenge RFP with the goal of "identifying alternative housing typologies and/or innovative financial models to produce 1,000 new supportive housing units."¹⁸ Developers could submit proposals requesting up to \$40 million in financial support for their proposed projects. Six developers were selected to receive a total of \$120 million to test their innovative strategies for creating PSH in Los Angeles.

Additionally, in 2019, the Funders Collaborative selected 16 developers for its Accelerating PSH grant. Developers could request up to \$500,000 to support innovative project concepts that focused on (1) building design, (2) land use/entitlements, (3) construction materials, and (4) alternative financing. This grant had two components. First, developers could apply for up to \$250,000 in pre-development grants to support such items as project staffing and consultants, capital needs assessments, site acquisition modeling, permitting fees, or other operational costs. Second, developers could apply for up to \$250,000 in a recoverable grant that a developer would pay back when other financing was secured. Developers could use this funding for deposits on land/sites, manufacturing supplies, and modular materials and for small project loans.

In winter and spring 2020, the Abt evaluation team interviewed housing developers who were awarded the Mayor's Housing Challenge funding and the Funders Collaborative Accelerating PSH grant funding. There are 18 developers across both sources of funding with four developers receiving funding from both sources. The evaluation team collected information on each developer's innovative approach and concept, project design, anticipated timeline and cost, and early successes and challenges. Exhibit 1 provides a brief description of each developer's project(s) including the total number of sites and units by developer.^b During interviews most developers were in the initial stages of securing a development site, assembling financing, and seeking approvals and permits from city departments. Over the next year, the Abt evaluation team will interview developers twice more to document any changes in their project(s) design, progress made, timeline achievements, costs incurred, and successes and challenges in the process.

^b As noted, this information was collected in winter and spring 2020. As the development process moves forward, developers may modify their project(s), site locations, and number of units.

Exhibit 1. PSH Developer Project Descriptions

Developer	Number of Locations	Number of Units ³	Project Description
Abode Communities, Mercy Housing California, and LA Family Housing (Streamlining Solutions Collaborative) ¹	2	153	These developers plan to use replicable financing and design innovations that reduce construction costs and time by using state legislation with strategic site identification criteria. They also plan to use modular construction.
BRIDGE Housing ¹	2	152	BRIDGE Housing and its partners plan to use innovative building technology that decreases construction time and reduces overall development cost. This developer plans to create replicable and scalable housing designs and service prototypes.
Brilliant Corners ^{1,2}	1	53	This project includes an innovative adaptive reuse strategy that involves the conversion of an existing building into PSH. The goal of this project is to use a large footprint of an existing structure that will allow for large amount of units with little to no modification of the building.
Clifford Beers ²	1	19	Clifford Beers plans to utilize the efficiency of sharing the same fabricated unit design across multiple sites. This project mixes PSH units with affordable housing units.
Coalition for Responsible Community Development (CRCD) ²	3	159	CRCD is using a modular building design at multiple sites to develop PSH.
Community Corporation of Santa Monica (CCSM) ²	1	13	CCSM is creating PSH for transition-aged youth and homeless students using a modular, kit-of-parts design.
Daylight Community Development (Neighborhood Works)/Decro Corporation ^{1,2}	4	163	These partners are developing multi-site PSH units using a modular design with shipping containers and simplified financing.
Flyaway Homes ^{1,2}	3	131	Flyaway Homes is using a modular design with private equity funding. They are building multiple shared housing sites with 2-bedrooms and 2-bathrooms.
Genesis LA Economic Growth Corporation & Restore Neighborhoods LA ^{1,2}	4	112	These partners' PSH model relies on smaller housing sites that are not viable for larger developments or low-income housing tax credits. Genesis is the funder providing predevelopment, construction, and permanent financing which simplifies the project financing.
LA Más ²	50	50	The Backyard Homes Project aims to incentivize average homeowners in LA County to become providers of PSH through building Accessory Dwelling Units (ADUs) on their property. The project offers homeowners support to design, permit, build, finance, and lease an ADU in exchange for providing PSH.
LifeArk Development Consortium ²	1	18	LifeArk has created a design composite polymer mold to produce and assemble a ready-made, kit-of-parts to build housing.
PATH Ventures ²	1	60	PATH Ventures is using modular design to create a large (50+) unit PSH development.
Roth Group ²	3	63	Roth Group is collaborating with several partners to design and construct PSH using private equity.
RxLA, LLC ("RxLA") ²	1	55	RxLA is using a financial model that combines conventional (non-government) loans with philanthropic and private dollars, including equity from social impact investors.
Skid Row Housing Trust (SRHT) ²	2	152	SRHT is using modular design to create PSH across multiple sites.
Venice Community Housing Corporation (VCHC) ²	2	47	VCHC is developing two sites using modular designs and acquired land for zero or low cost.

Developer	Number of Locations	Number of Units ³	Project Description
Volunteers of America of Los Angeles (VOALA)²	1	66	VOALA's concept blends manufactured and pre-fabricated housing elements on underutilized land parcels for no acquisition cost.
Weingart Center Association²	2	101	Weingart's projects utilize a pre-fabricated modular unit construction approach at two sites. One site is city-owned.

¹-Developer received Proposition HHH Mayor's Housing Challenge funding

²-Developer received Home For Good Funders Collaborative Accelerating PSH funding

³-Number of units does not include any managers units

Sources: Developer telephone interviews and developer funding application materials from Home For Good and the Mayor's Proposition HHH Housing Challenge

The goal of both the Mayor's Housing Challenge and the Funders Collaborative grant funding was to explore ways to create PSH faster for less money. Many of the developers noted that they were trying various innovative approaches to meet this goal. The section below describes four categories of innovations that developers are using in their development process. They are: (1) construction type, (2) simplified financing, (3) reduced cost/subsidized land, and (4) local/state legislation. Exhibit 2 shows the types of innovation each developer is using. This information was collected from developers in winter and spring 2020. As the development process unfolds, developers may decide to use or not use certain innovation strategies based on the needs and requirements of their projects and available funding.

1. **Construction Type:** The most common innovative strategy mentioned by developers was the type of construction material or method used. More than three-quarters of the developers are testing new materials, designs, and processes to build PSH. Many developers are testing modular^c construction, where sections or part of the housing is built off-site and then brought to the construction site for assembly. Of these developers almost all described the potential cost and time savings of using modular construction. For these developers, most of the potential cost

Comments from Developers on Modular Construction

"How do you develop housing faster and cheaper? Modular construction, replicable processes, replicable designs, make it scalable, cheaply, make it as much of a it [sic] manufacturing as you can."

"The major innovation in those two projects is to build them using pre-fab modules, where the interior and in some cases the hallway are built off-site and trucked to the construction site and installed there, which both shortens the production time and reduces the stress on the community from construction-related things. That's our major concept. The other thing about this: the replicability of it! Over time, you'll spend less on architecture, because the modules themselves will stay the same. You'll make some changes based on the site itself – replicable, but not cookie-cutter, since you add a base and a skin which can be different in every case."

"What we want to do is to look at all ways to use modular. What we want to come out of this is not just two buildings that are built faster and cheaper. We want to know how to cookie cutter this over and over again but not make them look like repeated buildings that are just like Lego plots next to each other.With the Factory OS System, we have 7 types of building we can build. We just need to figure out where to buy the land and other puzzle pieces. We want to ensure the low cost of modular, but we also want each of our buildings to fit in the larger community. We want the housing to blend into the general community and want the larger community to embrace it. We are going to build something that matches the surrounding community, makes less impact and allows embracement of the homeless housing in the macro community."

^c Also referred to "pre-fabricated" or "kit-of-parts".

and time savings will occur during the construction phase. This is due to portions of the units being constructed off site and assembled once they reach the site. This is different than traditional housing development where all materials (i.e., lumber, nails, dry wall) are transported to the construction site where teams construct buildings from scratch. One developer described modular construction as a “*significant time savings*” comparing his project to a colleague’s non-modular project. The estimated timeframe for the non-modular construction was 24 months, whereas the modular construction was estimated to be 18 months.

Several developers mentioned that the innovation behind modular construction is the replicability and scale in which modular construction could be used. Developers explained how building layouts and units would be developed and then that design could be used repeatedly, saving money and time with future projects. Additionally, if these modular designs are approved by city departments during the permitting and planning process, theoretically another project using the same design would take less time. Developers noted that the goal of using a modular construction method would be to increasingly become faster and better at using it over time.

Developers who are using modular construction methods noted they were intentionally thinking about how the building could be customized to best fit within the community. These developers were very mindful of negative connotations associated with modular housing and wanted to ensure community members that these buildings would be visually appealing and fit into neighborhoods.

2. ***Simplified Financing:*** Approximately half of the developers in the sample will try to use a simplified financing structure for their projects. The Abt evaluation team defines “simplified financing” as funding sources that do not create burdensome requirements (i.e., cumbersome paperwork, securing other sources in a specific order) for developers. Typically, governmental funding sources, especially Low-Income Housing Tax Credits (LIHTC) issued by the California Tax Credit Allocation Committee (TCAC) come with complicated requirements and are only offered at certain times during the calendar year.

Since the program’s creation in 1986, LIHTC has been the predominant source of funding for new affordable housing creation in the United States. The program offers investors federal tax benefits in exchange for equity capital to build affordable housing. There are two kinds of tax credits:

- **9 percent credits** are allocated to states annually on the basis of population. These tax credits are awarded by the states to developers of affordable housing through a highly competitive process. The 9 percent credits are particularly valuable and the equity provided by investors can cover a significant portion of development costs.
- **4 percent credits** are available when developers finance their projects with a certain category of bonds called “tax-exempt private activity bonds,” which can be issued by certain public agencies in each state. The 4 percent credits are less valuable than the 9 percent credits, with equity investors providing a smaller share of the development budget. However, they are also traditionally less competitive to secure.

Some developers have tried to access private or philanthropic funding to avoid using complicated governmental funding sources with the goal of accelerating the development process. One developer explained that having simplified financing helped create an easier development process. He said, “*Not having a Low-Income Housing Tax Credit investor, not having to go through TCAC, etc. – this smooths the process, reduces soft costs. It has been a helpful process.*”

One developer explained that for California to meet its housing needs, the community needs to try different project financing approaches and not solely rely on the state's LIHTC program.

"It wasn't tax credits in particular [that I think are the problem with the traditional PSH approach]. [The tax credit program is] responsible for 90 percent of affordable housing in the country, it's a well-oiled machine, and people use it, and they need to use the maximum capacity. But ok it's amazing and it works well, but there's a limited number of credits available each year, so the amount of credit equity we can bring in is capped, and even if we use it and the other public loan programs are at maximum capacity, [it's] never [going to be] enough to make a dent and to scale. That piece sat with me – we had a shortage of affordable housing of over 515,000 units. And massively growing homelessness numbers. These programs work, but we can't stretch them enough by a long shot. These are such complex issues – changing one piece of financing isn't the answer, but we need a wide range of answers and a wide range of things done differently. I zoomed in on the financing and how I could try to bring in another model that would be more scalable. I saw private money and impact investing in part as a way to do that."

3. **Reduced Cost/Subsidized Land:** One way in which developers have tried to decrease development costs is to look for sites (i.e., locations) that have zero or low acquisition cost. Developers search for these types of sites in many ways, including:

- Partnering with an entity who owns land that is currently not being used or is underutilized;
- Having land donated or sold for a low cost;
- Responding to a city or county Request For Proposals where government-own land would be used for development;
- Looking for an existing structure that is not being used and modifying that structure into housing; or,
- Searching for smaller sites that may not be appealing to other developers.

About half of the developers described trying to find sites that fit into this innovative category. One developer described utilizing unused land that its agency already owns and one developer described partnering with a homeless service provider to acquire a site for low cost. Two additional developers explained how their concepts were to find underutilized properties that other developers might not want, whether those sites have existing underutilized structures currently or small lot sizes where large-scale development would be undesirable. One developer explained their team's approach to low cost housing acquisition by stating, *"Initially working with public agencies and churches to try to find zero-cost land, so [we] could drive down total development price.... The sites [we] chose were too small for any LIHTC investors to work with, so by working on these sites [we] could expand the universe of sites that could play a role in the housing solution."*

4. **Local/State Legislation:** As described in Chapter 2, over the past several years various local and statewide legislation has been enacted that can be used to accelerate the development of PSH. More than half of developers noted that they were trying to use one or more pieces of legislation or incentives as they move forward in the development process. Of these developers discussed trying to use the Transit Oriented Community (TOC) Incentive Program. Administered by the city's Planning Department, the TOC Incentive Program "encourages the construction of affordable housing near bus

3. INVESTING IN INNOVATION

and train stations.”¹⁹ A few developers mentioned trying to use the city’s PSH Ordinance and “by-right” incentive where certain affordable housing projects could by-pass discretionary review.²⁰

One developer described how useful California Assembly Bill (AB) 1763, which allows for taller and denser building that are 100 percent affordable housing, is by stating, “AB 1763 is actually a game changer.... It gives blanket authority – super density bonus for 100 percent affordable housing. Can eliminate parking, add a floor, [and] eliminate the commercial requirement on a boulevard. We didn’t realize how amazing that bill was going to be. We just had a project in the pipeline for 55 units – now are able to do 72 just because of AB 1763. Added a bunch of units without changing anything else. It’s also allowing us the additional height. One project – we were struggling with height, so were going to have to sink the project below grade. Now we can have the building at grade, even add a floor. Very useful bill.”

During follow-up interviews with developers, the Abt evaluation team will explore which local and state legislation and incentives developers were able to use and the challenges and successes with their experiences.

Exhibit 2. Innovation Strategies by Developer

Developer	Innovation Type			
	Construction Type	Simplified Financing	Reduced Cost/ Subsidized Land	Local/State Legislation
Abode Communities, Mercy Housing California, and LA Family Housing	✓			✓
BRIDGE Housing	✓			
Brilliant Corners	✓		✓	
Clifford Beers	✓	✓	✓	✓
Community Corporation of Santa Monica	✓	✓		✓
Coalition for Responsible Community Development	✓			✓
Daylight	✓	✓		✓
FlyAway Homes	✓	✓	✓	✓
Genesis LA Economic Growth Corporation & Restore Neighborhoods LA		✓	✓	✓
LifeArk Development Consortium	✓	✓		
LA Más			✓	
PATH Ventures	✓			
Roth Group		✓	✓	✓
RxLA		✓	✓	✓
Skid Row Housing Trust	✓			✓
Venice Community Housing Corporation	✓	✓		
Volunteers of America Los Angeles	✓		✓	
Weingart Center Association	✓		✓	

Sources: Developer telephone interviews and developer funding application materials from Home For Good and the Mayor’s Proposition HHH Housing Challenge

3.2 Challenges in Year One

During the interviews, developers explained some of the challenges their projects encountered over the past year. While these projects are testing innovative strategies, many of the challenges do not differ from

what developers experience using more traditional building techniques. As one developer stated, “*Our main issues are not much different than traditional issues.*” Many of the challenges identified are similar to the challenges discussed by the Mayor’s Housing Solutions Team (HST) and other city department staff in Chapter 2.

3.2.1 Pandemic Slowdowns

A third of developers expressed concern regarding the impact that current pandemic had on the timeline and cost assumptions of their projects. For example, one developer noted that “*now everything was up in the air*” because of the pandemic. Another developer explained that the pandemic resulted in delays because the city shut down in March 2020 before staff were able to submit entitlements in-person. While city departments developed an alternative approach for submitting documentation, it took time to implement. Additionally, one developer hoped that its state funding would not be held back due to the pandemic.

While the pandemic was front-of-mind during interviews, almost half of developers noted other reasons for delays. These developers cited delays in assembling project financing, garnering community support for PSH projects, weather issues that slowed construction timelines, uncertainty from key decision makers, or delays at city departments. For example, one developer explained that they were hoping to secure financing from the city and county, but this would depend on when the funding sources were released.

3.2.2 Assembling Financing

A majority of developers reported that their primary challenge was assembling the financing needed to push their projects through the development process. Developers cited challenges with increased competition for local and state funding sources and operating subsidies, delays in receiving awards, and predevelopment costs. Because of the uncertainty of some of the local and state funding sources, some developers had to apply for LIHTCs, even if their original plans were to use a simplified financing approach. One city staff member noted,

“No Place Like Home schedule, that was a primary financing source that developers were expecting, they wrote it into the proposals, was supposed to come out spring 2020 but it was indefinitely delayed, kept getting different timelines from LACDA. That threw a wrench into timelines. Some of development teams had to go after tax credits when original models didn’t go for that. So that was a shame because we didn’t get to test out non-tax credit models.”

Additionally, accessing the 4 percent LIHTCs from California’s TCAC has become competitive over the past two years because of increased demand. PSH developers may need to apply multiple times for this funding, further lengthening the development process timeline. Funding uncertainty has also been exacerbated by the pandemic. While tax credits have become competitive, private lenders have become more conservative. A senior city staff member recounted a conversation with a lender that would have traditionally been, “*as close to a bread and butter PSH deal as you are going to get.*” And the lender, who had agreed to similar deals in the past, passed on the deal.

Two developers noted that the increased competition for operating subsidies (i.e., rental vouchers for tenants) posed additional burdens and costs. Operating subsidies are supplemental rent payments provided by the state or federal government. In Los Angeles, PSH developers often apply for rental subsidies from the local housing authorities or the County’s Department of Health Services. As of November 2020, about 60 percent of the projects in the sample had secured operating subsidies. A lack of committed operating subsidies for a development poses extreme challenges for developers (as described in the text box) because without them developers cannot be assured they will be able to afford to operate the housing they are constructing. Even if developers were willing to take the risk of building housing that may not be operable, the financial stakeholders – construction and permanent lenders and equity investors – will not proceed without such assurance. Therefore, their projects are delayed until operating subsidies can be committed.

Why are Operating Subsidies so Important to PSH Developers?

Operating subsidies are a critical part of the overall financial structure of PSH projects because by definition, these buildings serve people who need ongoing rental assistance and supportive services to maintain housing stability. These households generally have extremely low incomes and the rents they can afford are too low to cover the operating expenses and mortgage of the building. The lenders and investors who provide capital to build PSH will only do so if developers have all financial components in place to successfully lease-up and operate a building. Lenders and investors know that without rent subsidies there will be insufficient revenue to pay operating expenses and mortgage payments. Therefore, they will not provide construction loans before rental subsidies, essential for the building’s long-term success, are secure.

One developer expressed frustration that the city had not set aside rental vouchers for projects in the PSH pipeline that were funded from Proposition HHH. The developer emphasized, *“They didn’t think through the voucher piece”*. This developer further described how funding sources were not competitive at the beginning but now developers were all competing against each other for operating subsidies, bond allocations, and Low-Income Housing Tax Credits, which was frustrating.

The upfront predevelopment costs presented another financial challenge for a few developers. One developer reported using personal funds to pay attorney fees until a loan came through. This developer, as well as others, reported how critical the Home For Good Funders Collaborative grant funding was because it provided flexible funding to developers. Developers praised the Funders Collaborative funding as *“terrific”* and *“instrumental”* as they were able to access funding while waiting for loans and use the funding for predevelopment costs.

3.2.3 Securing Entitlements and Tackling City Requirements

Obtaining the necessary approvals and meeting city requirements were reported as burdens or slowdowns for over half of developers. Developers had varied experiences across city departments. Several developers described some city departments working to change their culture in order to help streamline the approval process while other departments, *“haven’t gotten the memo that they city wants these projects”* to move forward. One developer explained how they needed to be a *“squeaky wheel”* to move the process forward and a second developer described how they needed to raise all issues to leadership of the department. This developer noted, *“The city departments – and the mayor’s office – they’ve been helpful in speeding up things. But we get help from the staffing at the top. If you’re having an issue, they’ll get it done for you. But the people at the counter don’t understand, or there’s not enough capacity for them to help you. Things are getting solved on a case-by-case basis rather than holistically.”*

Relatedly, one developer described how with the new state and local legislation, city staff members are uncertain how to implement them. This was previously described in Chapter 2 as a topic that city staff recognize and are working to change. The developer explained,

“In LA historically, the developer relationship with the city has had some animosity. It’s been developer vs. city. Needs to be developer and city working together. It’s clear that’s what Mayor’s goal is. But there’s so many changes happening so quickly, the city is running too fast. The city needs to step back and train staff on how to interpret the ordinances, everyone has different interpretation. The city is just rolling out policies without training. People need to get on the same page!”

3.2.4 Garnering Community Support.

Developers shared varying experiences on building community support for their PSH projects. Two developers detailed their efforts working with neighborhood councils and community groups to gain project approval in hopes of reducing community opposition. For example, one developer attributed their successes in gaining community approval to reaching out to community groups and neighborhood and city council offices early in the development process. The developer noted that they spent a significant amount of time garnering support before even submitting any project funding applications.

A few developers cited difficulties acquiring community support. One developer explained the tremendous level of effort community outreach requires, including going door-to-door in the neighborhood and attending community meetings. Another developer shared their experience with community opposition from a preservation group regarding a house built in 1920s. They acknowledged that garnering community support was challenging but not impossible when you work with the community and listen to their concerns.

4. Project Costs

Over the past year, the Abt team has worked with housing developers, the HST, and the Home For Good Funders Collaborative to collect information on project costs. At the start of the evaluation (January 2020), the evaluation team collected application information for the Accelerating PSH grantees and the Mayor's Housing Challenge awardees. This application information provided us estimated cost information for each of the projects. In September 2020, developers sent updated cost projections to the evaluation team. This cost information featured both estimated and actual (if available) costs for 31 projects and included details such as predevelopment costs, acquisition fees, number of units, square footage, construction costs, operating costs, cash flow, and operating subsidies. The Abt team used this information to analyze various components of the projects' costs.

This analysis provides a snapshot of one point-in-time and none of these projects are completed yet.

Therefore, the analysis presented below may look different in the future when projects are closer to being finalized. It is important to remember that most of the data provided by developers are estimates and not finalized costs. Also, over the past year, Covid-19 has caused delays in the development process (as described in the previous section). Funding sources have been delayed, as have the commitment of operating subsidies for projects. Any sort of delay in the process is inherently going to add costs to a project (e.g., interest on loans). Finally, some of these projects are extremely different from each other, therefore, as expected, costs are extremely different.

This analysis is preliminary, and we expect numbers to change significantly over time as estimates become actuals. That said, this analysis highlights a number of things about the projects being developed by the Accelerating PSH grantees and the Mayor's Housing Challenge awardees. Among others:

- ***Estimated costs of developing PSH vary dramatically between developers and between projects.*** Not all of the reasons for this are currently apparent, but several factors stand out.
 - Contrary to the findings of other studies of the drivers of affordable housing costs, smaller projects in this group are less expensive than larger projects.
 - As expected, costs are substantially lower for projects with simplified financing, which means financing other than the Low-Income Housing Tax Credit.
 - Also as expected, very small units have relatively high costs on a per square foot basis. A number of projects are made up primarily of studio apartments.
- ***Estimated costs of operating the PSH projects, once developed, also vary widely between projects.***
- ***Estimated costs for all projects increased between the application and the most recent updates.***

The remainder of this chapter describes project development costs, the projected costs of operating the projects, some initial differences between higher-cost units and lower-cost units.

4.1 Development Costs

Costs vary dramatically across the 31^d projects for which we have data. Current estimates of total development costs (TDCs) per unit range from about \$202,000 for LifeArk's El Monte project, a project with 19 micro units, to about \$736,000 for Corporation for Responsible Community Development's (CRCD) Ruth Teague project, a 52-unit project with two- and three-bedroom apartments for families (see Exhibits 3 and 4). These projects are both outliers, however; the median TDC per unit is about \$420,000.

Exhibit 3. Total Development Cost Per Unit

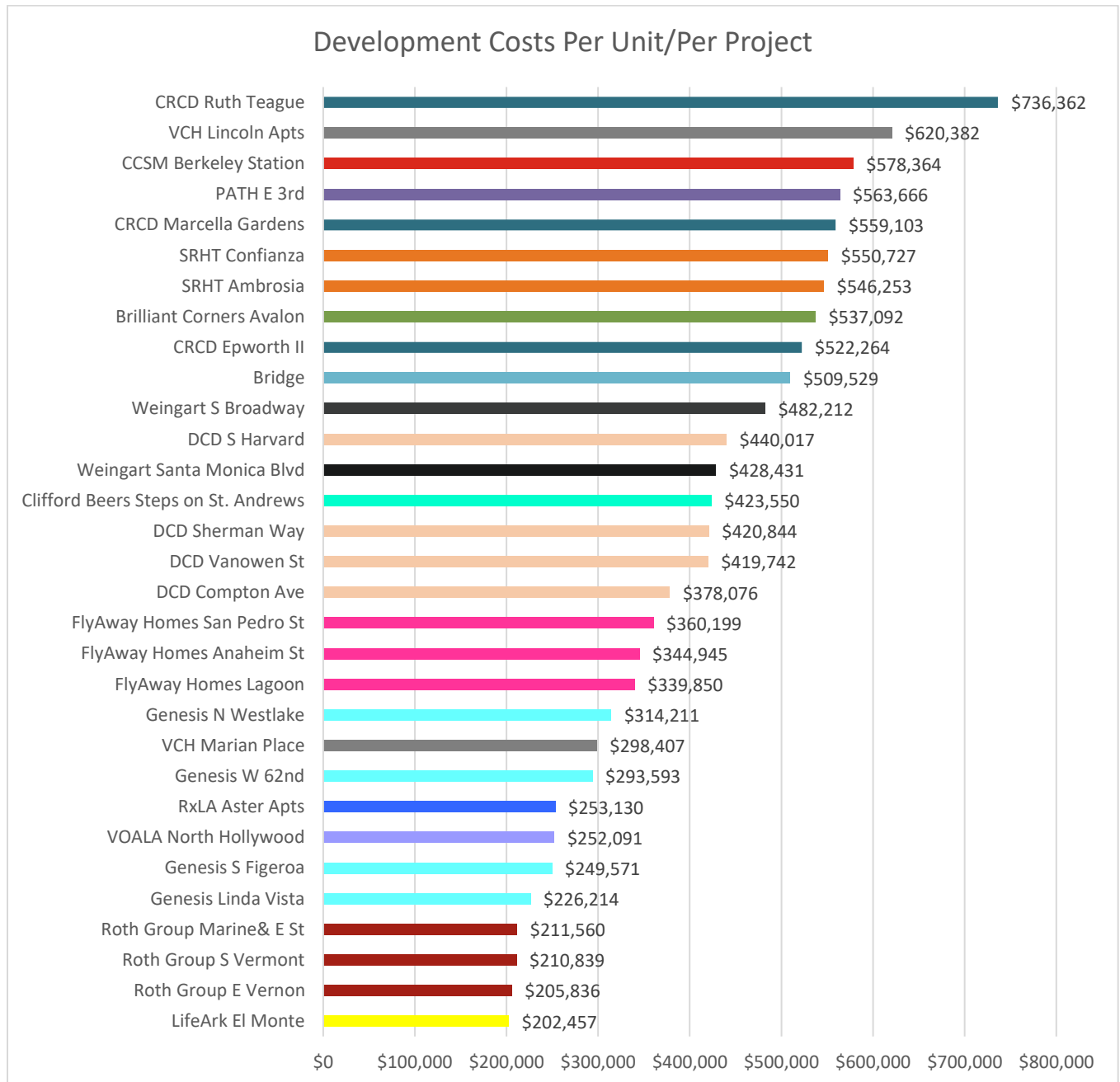
Cost Type	Average	Median	Low	High
Total Development Cost Per Unit	\$402,565	\$419,742	\$202,457	\$736,362

N=31

A handful of developers have three or more projects. Looking at costs across a single developer's projects suggests that developers are using similar construction, design, and financing strategies across their portfolio. Exhibit 4 shows each developer's projects and estimated per unit cost (projects are color coded for each developer). In general, costs show relatively small variation across a single developer's projects. For example, CRCD's projects (Ruth Teague, Marcella Gardens, and Epworth II), have higher estimated per unit cost than some other developers. Likewise, Daylight Community Development's projects (Harvard Blvd., Sherman Way, Vanowen Street, and Compton Ave.) are similar in an estimated per unit cost ranging between about \$378,000 to \$440,000 per unit. Roth Group is developing three of the four estimated lowest cost projects. However, Venice Community Housing's two projects are outliers in this regard. One of their projects (Marian Place) has a per unit cost of \$298,407 and the other project (Lincoln Apartments) has a per unit cost of \$620,382.

^d This analysis excludes LA Más because the housing model and financing type for creating Accessory Dwelling Units are extremely different than creating multifamily properties.

Exhibit 4. Development Costs Per Unit Per Project



Note: Projects are color coded per developer
N=31

4.2 Hard and Soft Costs

Hard costs and soft costs are development industry terms used to describe categories of costs that developers incur. Hard costs refer to direct construction expenses, both materials and labor. Soft costs are all the other expenses related to development: the architects and engineers who work on designing a building, environmental testing, legal and accounting fees, and title and permitting costs. Sometimes financing fees and interest on construction loans are also included in this category. We can only really compare these costs across projects if we can interpret them relative to the scale of each

development. Soft costs can be compared across projects on a costs-per-unit basis; hard costs can be compared both as construction costs per unit and as construction costs per square foot.

Exhibit 5 shows the hard costs, soft costs, as well as site acquisition fees. Estimated hard costs vary widely across projects. The highest hard cost per unit is reported to be \$458,572 by CRCD while the lowest is reported to be \$120,120 by Roth Group. Per square foot, hard costs range from \$150 to a surprising \$944. The evaluation team examined each project along with the developer's estimated hard costs and the site's square footage. Other than unit size, there currently do not seem to be any patterns that are driving hard costs.

Exhibit 5. Hard and Soft Costs

Cost Type	Average	Median	Low	High
Hard Costs, Per Unit ¹	\$250,846	\$269,299	\$120,120	\$458,572
Hard Costs, Per Square Foot ¹	\$432	\$399	\$150	\$944
Soft Costs, Per Unit ²	\$75,844	\$74,424	\$30,391	\$147,729
Acquisition Costs of Land, Per Unit ²	\$40,893	\$46,387	\$0	\$79,595

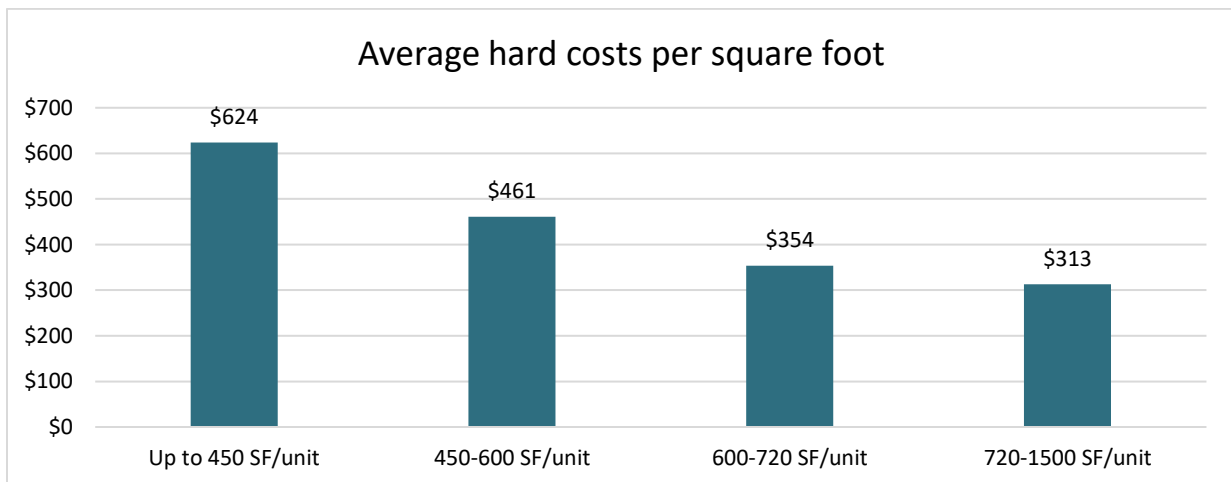
¹ N=31 Projects

² N=27 Projects

Exhibit 6 shows that smaller units have higher average hard costs per square foot than larger units. The smallest units, with up to 450 square feet, average \$624 per square foot; the largest unit group averages less than half that amount at \$313 per square foot. This pattern is consistent with residential construction generally: larger units have more bedrooms than smaller units, but extra bedrooms add relatively little to the cost of constructing a unit.

As projects continue along the development process and start to incur construction and labor costs, cost numbers may change in either direction dramatically and other patterns driving hard costs may emerge.

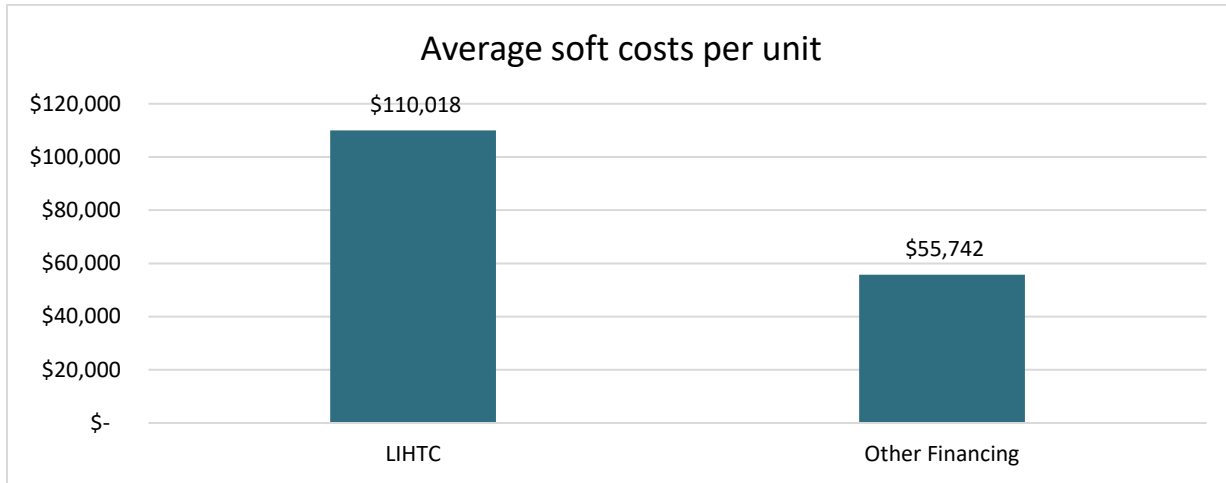
Exhibit 6. Hard Costs Per Square Foot are Related to Unit Size



Currently, the highest estimated soft cost per unit is \$147,729 by CRCD and the lowest is \$30,391 by FlyAway Homes. One important driver of soft costs appears to be the use of Low-Income Housing Tax Credits (LIHTC). A number of developers proposed to use simpler, less administratively intensive forms of financing than LIHTCs, with the idea that private equity, bank loans, and other types of financing

would reduce costs. Exhibit 7 shows that current estimates of soft costs per unit double, on average, with the use of LIHTC, from about \$55,000 per unit to \$110,000 per unit.

Exhibit 7. Soft Costs Per Unit are Related to Use of LIHTC



N=27

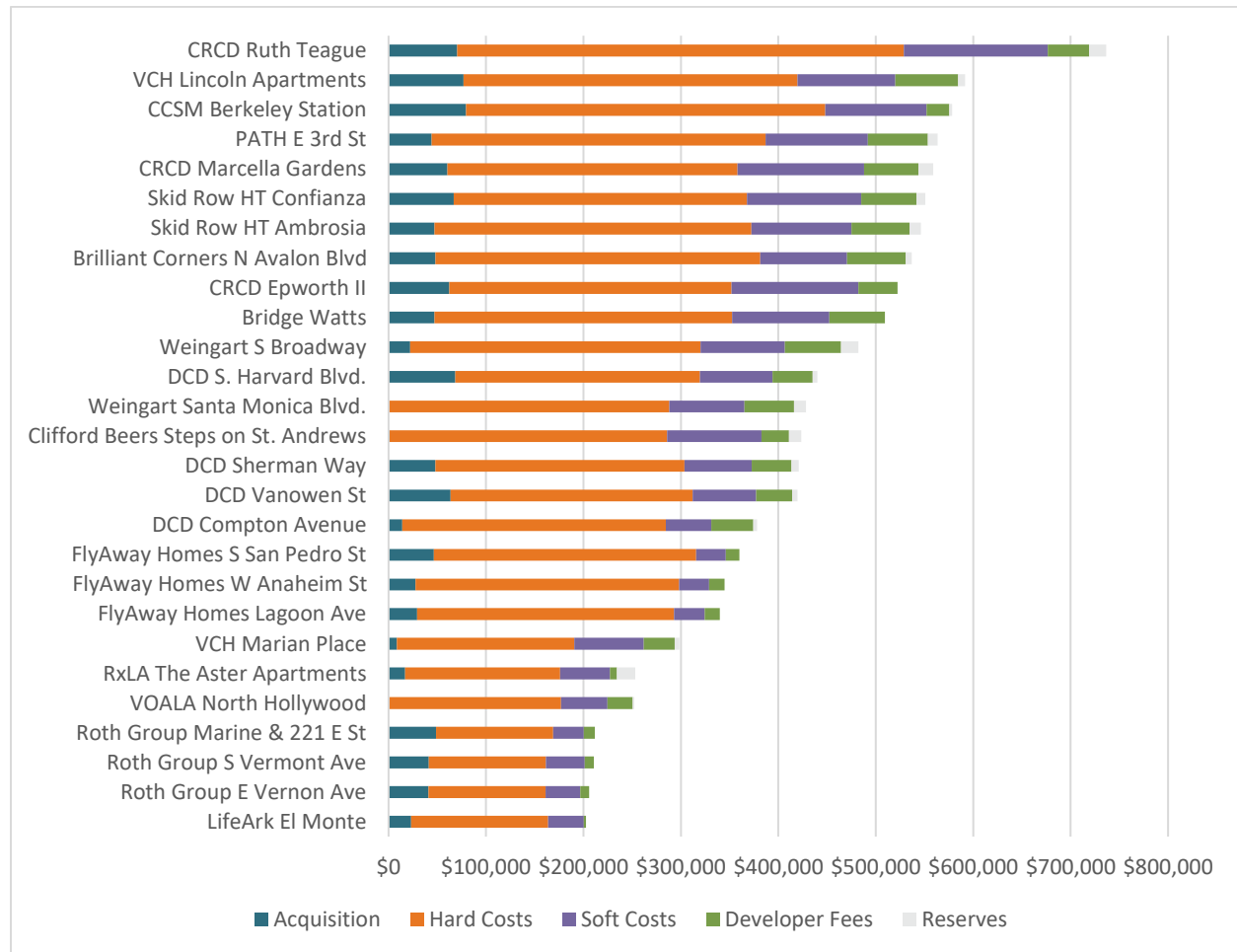
Site acquisition costs refers to the amount of money that a developer pays for the project site. Not all developers reported acquisition costs separate from TDCs. Exhibit 5 shows that these estimated costs vary widely, ranging from \$0 (for donated or already-owned land) to about \$80,000 per unit. The median project had acquisition costs of about \$46,000 per unit.

4.3 Summary of Development Costs

Exhibit 8 summarizes all five total development cost (TDCs) categories: land acquisition costs, hard costs, soft costs, developer fees, and reserves. Looking across all five categories, a number of conclusions become apparent. First, although some projects have much larger reserves than others, this category of costs is quite small, and does not explain the large differences in per-unit TDCs. Likewise, although differences in developer fees across projects contribute to differences in per-unit TDCs (for example, the three lowest-cost per unit projects have below-average developer fees), this category of costs also does not make up a significant share of total TDCs.

Surprisingly, even large differences in land acquisition costs are not a major driver of differences in per-unit TDCs. In fact, there is no obvious relationship between land acquisition costs and per-unit TDCs. For example, the two projects with no land acquisition costs, VOALA's North Hollywood project and Weingart's Santa Monica Boulevard project, come in about the middle in terms of per-unit TDCs, as does Clifford Beers' Steps on St. Andrews project, which has very small land acquisition costs.

Exhibit 8. Development Costs Per Unit Per Project, by Cost Category



Soft costs, which make up about 18 percent of TDCs across all projects, have a clearer relationship with per-unit TDCs than acquisition costs, developer fees, and reserves. By far the most significant driver of the variation in per-unit TDCs across projects, however, is hard costs. This category of costs makes up about 62 percent of total TDCs. This suggests that development features such as unit size, the amount of community space, and the number of parking lots are all important factors in per-unit TDCs.

4.4 Operating Costs

Once construction is finished, the building is fully leased, and tenants move in, developers have to pay monthly operating costs (i.e., costs that are incurred to operate the building). Operating costs include administrative and maintenance costs, building utilities, real estate taxes and property insurance. Sometimes developers include the cost for providing supportive services to tenants in their operating cost assumptions.

There is a substantial range of projected operating costs across the project sample. Median expected costs hover around \$7,000 per unit, per year, with all but two projects ranging between \$5,700 and \$8,700 (see Exhibits 8 and 9). Of the eight projects with expected per unit costs of \$8,000 or more, six have substantial numbers of two-bedroom units. Three Flyaway Homes' properties in this group include

4. PROJECT COSTS

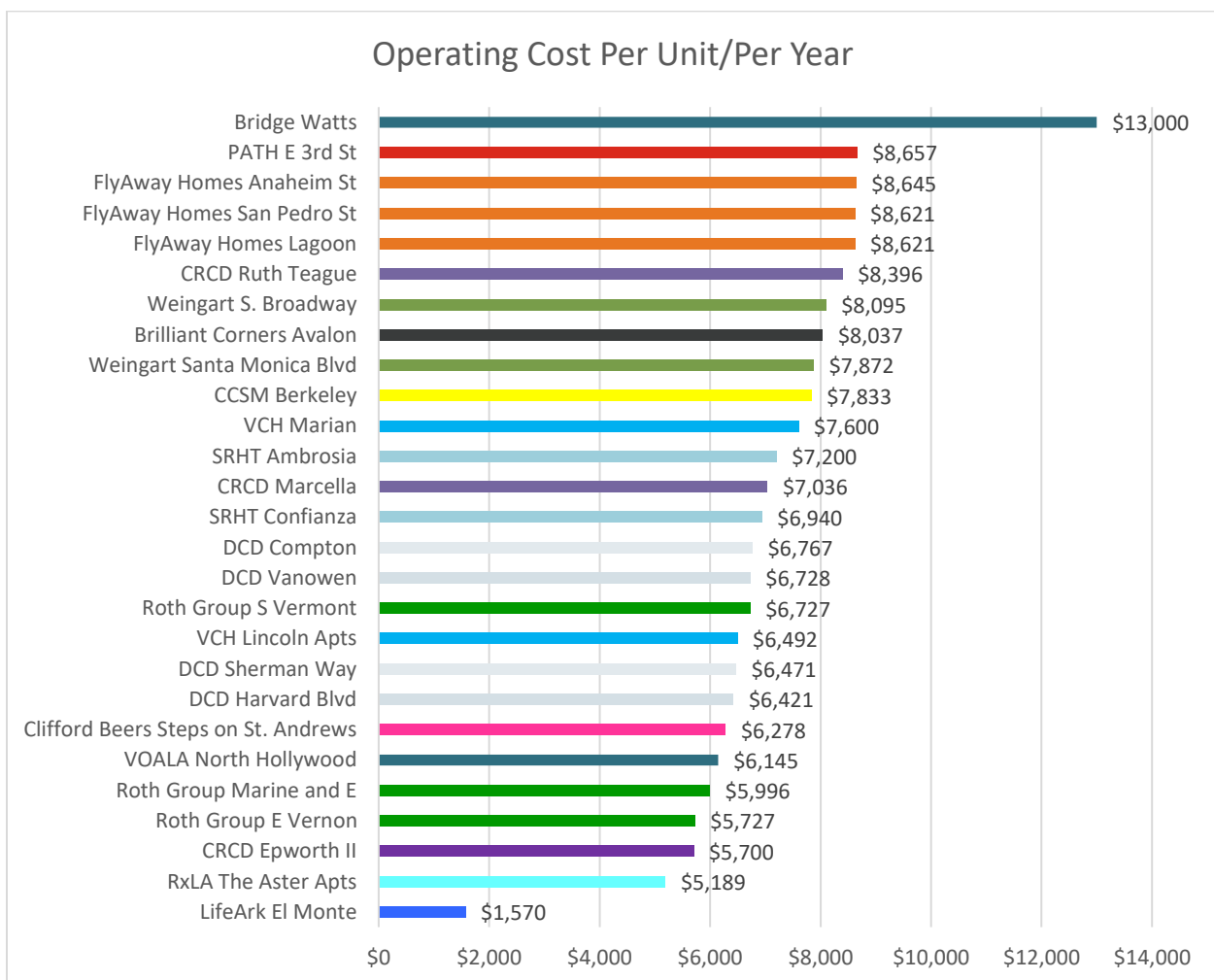
exclusively two-bedroom units. Many of the other developments, by contrast, will include primarily efficiency apartments, or a combination of efficiencies and one-bedroom units. Some developers included the cost of providing supportive services to tenants in their financial modeling, while other developers did not. Additionally, in some of the financial data provided by developers it was unclear whether supportive service costs were included. This is a topic that will be explored by the evaluation team over next year's data collection effort.

Exhibit 8. Operating Costs Per Unit/Per Year

	Average	Median	Low	High
Operating Costs Per Unit/Per Year	\$7,139	\$6,940	\$1,570	\$13,000

N=27

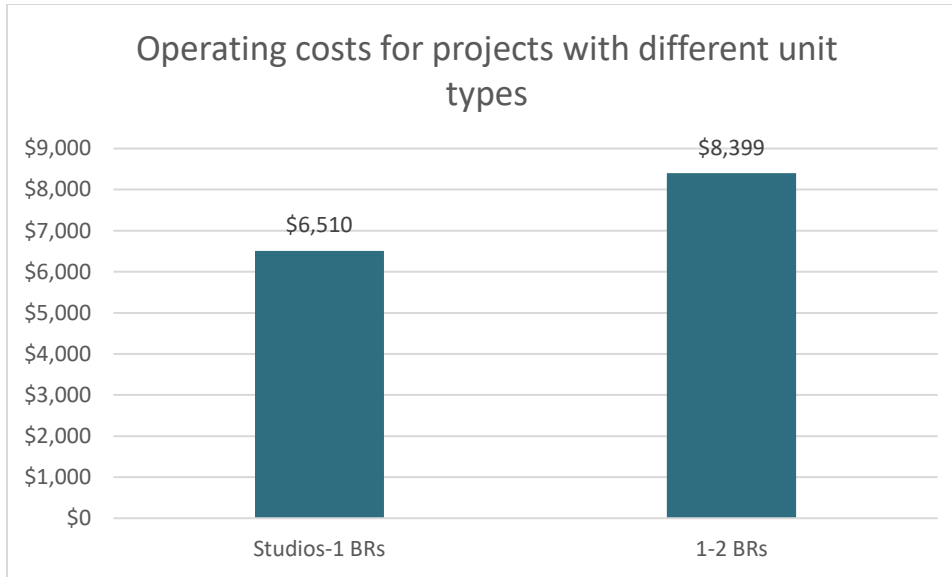
Exhibit 9. Operating Cost Per Unit/Per Year for Each Project



Note: Projects are color coded by developer
N=27

Exhibit 10 shows the relationship between the unit sizes in a project (calculated as a weighted average) and operating costs. Projects with a weighted average number of bedrooms per unit of less than one have estimated operating costs of about \$6,500; those with one or more bedrooms per unit have estimated operating costs of about \$8,400 per unit.

Exhibit 10. Operating Costs Per Unit are Related to Number of Bedrooms



Assumptions about operating expense levels are critical to project financing. Developers pay operating costs from monthly rental payments. As discussed in the previous chapter, tenants living in PSH often need a sustainable rental subsidy to pay the full cost of rent. In Los Angeles County, sustainable rental subsidies are provided by local housing authorities and the County’s Department of Health Services. These entities largely follow the U.S. Department of Housing and Urban Development’s (HUD) Fair Market Rent standards for how much they can pay in a rental subsidy per unit size. In 2020, the Los Angeles County Fair Market Rents were \$1,279 for an efficiency unit, \$1,517 for a one-bedroom unit, and \$1,956 for a two-bedroom unit.²¹

With revenues for these subsidized units largely determined by Fair Market Rent standards, it is the operating expenses that will determine how much Net Operating Income (NOI) the projects generate, and thus how large a mortgage each project can support. NOI is the rent revenue collected minus the operating expenses paid. NOI can be used to pay debt service: the more NOI a project generates, the larger the debt a project can sustain. Further, NOI, after debt service payments, leads to cash flow, which is critical to providing a return to private equity investors. Equity investors in LIHTC projects rely on tax benefits for their returns; but private equity investors look to cash flow and resale to provide a financial return. Relatively low operating expenses, therefore, are most important for projects that will be financed primarily with mortgage debt and/or private equity, as opposed to public sources that do not expect cash repayment. Eleven projects anticipate NOI per unit of more than \$10,000; seven of these are financed in part with private equity (see Exhibit 11).

Exhibit 11. NOI Per Unit//Per Year

	Average	Median	Low	High
NOI Per Unit/Per Year	\$9,534	\$8,309	\$3,228	\$16,019

N=27

4.5 Change in Development Costs from Application

Not all developers included details of estimated project costs in their funding applications. Ten developers did, however, providing development cost estimates for 16 projects. We compared estimates at the time of application with the developers' most recent – and better informed – estimates to understand how developers' project costs have changed.

On average, the anticipated size of projects increased slightly (going from 43 at application to 46 more recently). This is a result of increases in estimated size for about a third of projects, decreases for about a third, and no change for the remaining third. (Exhibit 12). The largest change was in CCSM's Berkeley Station, which was originally planned for 16 units and is now expected to be 13 units. An additional five projects are the same size as originally planned. The remaining seven projects are now expected to be larger than originally planned; some substantially so. For example, Daylight's Vanowen Street project was originally planned for 30 units and has since increased to 49. Similarly, Roth Group's Marine and E Street development has increased from 17 units to 27 units.

Exhibit 12. Total Development Costs Per Unit and Number of Units

Developer	Project	Total Development Costs Per Unit			Number of Units		
		Application	Updated Pro Forma	% Change	Application	Updated Pro Forma	% Change
Brilliant Corners	1355 N Avalon Blvd	\$368,422	\$537,092	46%	60	54	-10%
CCSM	Berkeley Station	\$562,277	\$578,364	3%	16	13	-19%
DCD	S. Harvard Blvd.	\$308,333	\$440,017	43%	30	47	57%
DCD	9502 Compton Ave	\$308,333	\$378,076	23%	25	25	0%
DCD	Vanowen St	\$308,333	\$419,742	36%	30	49	63%
DCD	16015 Sherman Way	\$308,333	\$420,844	36%	30	46	53%
PATH	5010 E 3rd St	\$498,120	\$563,666	13%	51	61	20%
Roth Group	505 Marine & 221 E St	\$202,941	\$211,560	4%	17	27	59%
Roth Group	933 E Vernon Ave	\$121,660	\$205,836	69%	21	21	0%
Roth Group	6211 S Vermont Ave	\$146,667	\$210,839	44%	15	15	0%
RxLA	The Aster Apartments	\$227,776	\$253,130	11%	56	56	0%
Skid Row Hsg Trust	Ambrosia	\$266,328	\$546,253	105%	101	90	-11%
Skid Row Hsg Trust	Confianza	\$429,062	\$550,727	28%	71	64	-10%
VOALA	North Hollywood	\$218,000	\$252,091	16%	55	66	20%
Weingart	7024 S Broadway	\$386,275	\$482,212	25%	51	52	2%
Weingart	Santa Monica Blvd.	\$395,098	\$428,431	8%	51	51	0%
Average		\$315,997	\$404,930	32%	43	45	8%

N=16

Although on average anticipated project size remained relatively stable, estimated project development costs have increased by almost a third. On average, projects that decreased in size had the largest per-unit development cost increases, at 46 percent. Projects that have not changed in size had cost increases of 31

percent. Projects that increased in size had the smallest projected cost increases, although costs still increased by 25 percent.

A number of factors have affected project plans, not least of them the worldwide pandemic. Government-ordered shutdowns and public caution delayed projects while real estate transactions and construction work initially ground to a halt and then proceeded with caution. The changes also highlight the uncertainty of housing development in general. Many developers did not have “site control” of properties at the time they submitted applications, meaning they did not own specific parcels land on which they were proposing to build. Some types of properties intended for purchase were ultimately more difficult to find or more expensive than originally expected. Likewise, innovative construction techniques may save money over the long run, as the strategies are scaled over more projects, but initially involve a learning curve. Last, it may be that some developers, while experienced in real estate development in general, were new to permanent supportive housing development and underestimated the costs of tailoring a development to a specific population with high needs.

4.6 Total Development Cost Drivers

Developers are pursuing a range of strategies to reduce costs or accelerate timelines for PSH development. Yet even with the shared goal of reducing costs, there is a wide range of per-unit expenditures expected. Exhibit 13 compares projects expected to have lower costs (of less than \$500,000 per unit) with those expected to be at the higher end (above \$500,000 per unit), and shows a quarter-million dollar difference, per unit, between these two cohorts.

Generally, housing development includes significant economies of scale: while larger developments are more expensive overall, the per-unit costs are generally lower. In this sample, however, the reverse seems to be true: projects in the higher-cost group have an average of 54 units, versus projects in the lower-cost group (which have an average of 36). This may be due, in part, to the fact that a number of developers are pursuing small-project strategies that may involve less expensive land, simpler financing, simpler permitting/entitlement processes, and less community opposition, all of which could support cost savings.

Exhibit 13. Differences in Key Characteristics (Average) Between Lower- and Higher-Cost Projects

	Lower-cost Projects (TDCs per unit)	Higher-cost Projects (TDCs per unit)	Percent Difference
TDCs			
Total Development Costs	\$12,050,555	\$30,865,180	256%
Cost/Unit	\$321,704	\$572,374	178%
Acquisition Cost/Unit	\$23,851	\$60,323	253%
Soft Costs/Unit	\$43,898	\$112,594	256%
Project Size			
Number of Units	36	54	152%
SF/Unit	596	736	123%
Amenities			
Community Space SF	2,214	3,996	180%
Parking Spaces	4	13	364%
Construction Approach			
Project Uses Modular Construction	52%	70%	134%
Financing Approach			

	Lower-cost Projects (TDCs per unit)	Higher-cost Projects (TDCs per unit)	Percent Difference
Project Uses Private Equity Financing	29%	0%	N/A

A number of other results in this table are less surprising:

- Projects embracing a strategy of free or inexpensive land tend to have lower overall costs, and specifically lower acquisition costs (\$23,851 compared to the \$60,323 for the higher-cost group).
- Higher-cost projects have larger-sized units, in terms of square feet (which would lead to higher construction costs).
- Higher-cost projects have more community space (which should also be related to higher construction costs).
- Lower-cost projects have fewer parking spaces – another cost-lowering feature. The relatively modest amount of parking spaces for the lower-cost group is one important element of their reliance on state/local legislation, which allows for a reduction or elimination of parking requirements for PSH.

Perhaps more surprising is that projects using modular construction comprise 70 percent of the higher-cost group. Modular construction has been embraced by many of the developers as an approach that will lower costs and increase replicability over time. However, a number of developers indicated in their interviews that these initial innovative projects will involve a disproportionate share of costs (e.g., designs that will later be replicated; working through permitting and financing for the first time; establishing new manufacturing partners). These developers expect that even though the first round of projects may have higher-than-average costs, subsequent projects will enjoy both savings and speed.

It is also worth noting that all of the projects using private equity are projecting lower development costs. This finding may have two explanations. First, private equity, to the extent that it replaces public funds that have extensive application timelines and compliance requirements, may lead to savings in the time and labor involved in securing and closing on public funding sources. Depending on other funding sources, projects using private equity may not be subject to the public wage requirements that can lead to significantly higher construction expenses. Second, the developers who are using private equity might simply be optimistically projecting lower costs.

4.7 Future Analysis

Much remains to be explored about costs as these developers proceed with their projects. With insights from the first year of interviews and cost estimates, the evaluation team will pursue answers to many of the questions raised here:

- All of the developers have revised their cost estimates upward since their initial applications. How will construction costs continue to evolve as budgets are refined and finalized?
- To what extent are developers using these initial round of innovations to pave the way for standardization and savings in time and money on future projects?
- How can we understand the interaction of cost and funding structure with project quality and sustainability?

- Some projects seek cost savings by building smaller units, limiting or eliminating community space and amenities, and reducing or eliminating parking. While it may not be possible to fully assess the impact of these choices in the two-year evaluation timeframe, it is worth considering whether these choices will impact the value and functionality of these units over time.
- Some projects are using alternative sources of financing that may require sale of the properties after a period of time. What are the trade-offs between up-front public investment and the length of time for which the units will continue to serve as PSH?
- How will properties provide supportive services to residents, and are these costs fully accounted for in cost estimates? Will there be space on the smaller properties to have offices for supportive service providers?
- How will operating costs evolve as the projects move towards closing, and the financial projections undergo the scrutiny of lenders, investors, and professional property management partners?

While it will remain challenging to compare such a diverse range of projects, the Abt team will work with developers as the projects proceed to get the clearest possible information about the costs of building units, operating them over time, and providing supportive services that will enable residents to succeed.

5. Looking Forward

Despite a global pandemic, progress continues to be made to create more permanent supportive housing (PSH) in Los Angeles. Governmental officials, city staff, community organizations, and philanthropic partners have created new funding sources to support the creation of PSH and new tools to support the acceleration of the development process. After the first year of the evaluation, there are some initial findings, considerations, and recommendations that the Abt evaluation team wants to highlight as city staff, funders, developers, and community stakeholders continue to develop critical housing for the community's most vulnerable residents.

- The Mayor's Office Housing Solution's Team is making a difference in both the developers' experiences in navigating the development process and creating solutions and streamlining those processes.
- There are new, forged relationships between both city departments and developers and among staff within city departments. Parties are coming together to work on solutions and streamlining mechanisms to make development easier and faster. There has also been an investment in making the process transparent by tracking key milestones and each step in the development process.
- While the Covid-19 pandemic has created challenges in the way the development process happens in the City, it also spurred the creation of electronic approval and payment systems for developers and city staff to use. This system change presents the opportunity for city departmental leaders and the HST to strategically think about how to expand this capacity and invest in electronic solutions going forward.
- The Home For Good Accelerating PSH grants have been helpful for developers in securing sites, entering escrow on properties, paying predevelopment costs, and putting down deposits for modular construction.
- There are common pain points felt by both housing developers and city staff. All parties are experiencing challenges related to pandemic slowdowns, financial uncertainty, and implementation of recent local and state legislation.
- Estimated costs of developing PSH vary dramatically between developers and between projects.
- Estimated costs for all projects increased between the application and the most recent updates.
- Operating subsidies are critical for the development process and developers cannot move forward with development financing without subsidy commitments.
- There needs to be a focus on how to translate recent legislation created to streamline development into user-friendly implementation procedures for both city staff and developers. One solution might be to create recorded webinar trainings on the legislation and the step-by-step process on how and when to use it.

As the Abt evaluation team looks to the next year, there are several data collection and analysis activities planned. These are described below.

- **Telephone Interviews with Developers:** The evaluation team will conduct two more rounds of telephone interviews with developers who received the Mayor's Housing Challenge funding and the Home For Good Funders Collaborative Accelerating PSH grants. These interviews will be conducted in January and August 2021. Themes explored will include: (1) financing, (2) experience with innovation types, (3) operating subsidies, (4) experience with using state and local legislation, (5) actualized costs, (6) timelines, and (7) overall successes and challenges.
- **Telephone Interviews with Staff of the HST and City Departments:** The evaluation team will conduct one more interview with members of the HST team and city departments. These interviews will be conducted in May 2021. Themes explored will include: (1) recent efforts to streamline the development process, (2) implementation of recent local and state legislation, (3) efforts planned for the future, and (4) successes and challenges.
- **Cost Data Collection from Developers:** The evaluation team will ask developers to submit updated proformas for their projects towards the end of the second year. Collecting this updated cost information will allow the evaluation team to examine the incurred predevelopment and development costs and anticipated operating and supportive service costs. The evaluation team will report on this information and compare the data to the proformas collected and analyzed for this report. This upcoming analysis will document any changes from the forecasted costs to the actualized costs.
- **Cost Comparisons from Other PSH Developments:** The evaluation team will work to assemble and analyze data on proposed schedules and costs for recent PSH projects in Los Angeles. To collect this data, we will reach out to the Mayor's Office, HCID, The Corporation for Supportive Housing, and the California Community Foundation. This data will provide benchmarks for comparison against the Mayor's Housing Challenge and the Funders Collaborative Accelerating PSH grants. At this time, we are unsure how streamlined collecting this data with community partners will be. Therefore, the number of recent PSH projects in which we collect data on is uncertain at this point.

These data collection activities will allow the evaluation team to conduct analysis to present in the Year 2 report. The report will be submitted at the end of 2021.

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