



# INVESTIGATING HOUSING MODELS FOR ACCELERATING PSH PRODUCTION

*Final 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 past two years.

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## 1. Introduction

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Over the past several years, elected officials, governmental agencies, community organizations, non-profit housing developers, 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, the state of California, and the federal government 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 Department (LAHD)<sup>a</sup> and the City's Administrative Officer, set aside \$120 million of Proposition HHH<sup>b</sup> 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 (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. Additionally, in April 2021, Los Angeles Mayor Eric Garcetti signed Executive Directive 30 (ED 30) to further expedite and expand affordable housing in the City of Los Angeles. ED 30 directs all city departments that are part of the housing development process to work together, streamline processes, and report progress quarterly.<sup>1</sup>

To provide additional support to housing developers, the 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, LAHD, and the 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 collaboration with the 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

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<sup>a</sup> Formerly known as the City's Housing and Community Investment Department

<sup>b</sup> 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.

and the Funders Collaborative Accelerating PSH Grants and examining the activities of the HST and city departments responsible for accelerating PSH development.

From 2020 through early 2022, the Abt evaluation team interviewed members of the HST, staff in city departments, and housing developers; reviewed funding application materials; and collected project cost data at different points in time. This report documents the evaluation team's findings from data collection and analysis activities. Following this introductory chapter, the second chapter discusses the city's efforts to invest in capacity along with the challenges and successes. The third chapter discusses efforts to invest in innovation and describes the projects that were funded. The fourth chapter shows cost analysis across projects and developers. The final chapter reports the evaluation's top-level findings and considerations for the community as they continue to work to accelerate the development of PSH.

## 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.<sup>2</sup> These risks have been heightened during the Covid-19 pandemic as staffing shortages, diverted resources, and rising costs of building materials have impacted the development landscape. This chapter describes some of the new investments and efforts along with some of the challenges and successes over the past several years.

### 2.1 The Development Landscape in Los Angeles

Over the past five years, elected officials, community organizations, governmental agencies, housing developers, 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. City departments have also worked to improve processes and procedures to decrease overall development timelines and costs.

Community organizations, housing developers, and governmental agencies have also supported various pieces of state and local legislation with the goal of creating more affordable housing and making the development process faster and easier. Exhibit 1 includes some of the local and state legislation that has been enacted over the past several years. While these ordinances and bills have been signed into law, and they have the potential to expedite development timelines, the implementation for how to use them locally can often take some time. Government agencies need to create eligibility guidelines and regulations, project applications, and workflow processes before housing developers can apply them to projects.

#### Exhibit 1. Recent State and Local Legislation

Name	Description
<b>Los Angeles Mayor's Executive Directive 13 (ED 13)</b>	The Mayor of Los Angeles issued ED 13 that authorized the Department of City Planning, Department of Building and Safety, and the Housing Department to introduce city-wide reforms to reduce affordable housing application processing times by 25 percent. <sup>3</sup>
<b>Proposition HHH</b>	Los Angeles voters approved Proposition HHH, a \$1.2 billion Homelessness Reduction and Prevention, Housing, and Facilities Bond that will support the development of permanent supportive housing in the City of Los Angeles. <sup>4</sup>
<b>The Transit Oriented Communities Affordable Housing Incentive Program</b>	The Los Angeles City Department of Planning launched the Transit Oriented Communities Affordable Housing Incentive Program. This program supports the development of supportive housing near transit by providing incentives and allowing for additional density and reduced parking requirements. <sup>5</sup>
<b>Affordable Housing Linkage Fee</b>	The city 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

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	administered by HCID that supports production and preservation of affordable housing citywide. <sup>6</sup>
<b>The Permanent Supportive Housing (PSH) Ordinance</b>	The city enacted the PSH Ordinance which (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. <sup>7</sup>
<b>The Motel Conversion Ordinance</b>	The city enacted the Motel Conversion Ordinance which 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. <sup>8</sup>
<b>California Senate Bill 35 (SB 35)</b>	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. <sup>9</sup>
<b>California Assembly Bill 829 (AB 829)</b>	AB 829 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. <sup>10</sup>
<b>Proposition 2: Use Millionaire’s Tax Revenue for Homelessness Prevention Housing Bonds Measure (No Place Like Home)</b>	No Place Like Home supports the development of PSH for individuals with mental health needs across the state. <sup>11</sup>
<b>California Assembly Bill 2162 (AB 2162)</b>	AB 2162 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. <sup>12</sup>
<b>California Assembly Bill 1197 (AB 1197)</b>	AB 1197 exempts emergency homeless shelters and certain supportive housing projects in Los Angeles from the California Environmental Quality Act environmental review process. <sup>13</sup>
<b>California Senate Bill 330 (SB 330)</b>	SB 330 expedites development and processing timelines and limiting fee increases for developers. <sup>14</sup>
<b>California Assembly Bill 1763 (AB 1763)</b>	AB 1763 allows 100 percent affordable housing buildings to be taller and denser and eliminates some parking requirements. <sup>15</sup>
<b>California Senate Bill 8 (SB 8)</b>	SB 8 extends the Housing Crisis Act of 2019 by streamlining the creation of more housing across California. <sup>16</sup>
<b>California Senate Bill 10 (SB 10)</b>	SB 10 allows local governments across California to pass ordinances to zone for projects of up to 10 residential units near transit-rich areas and urban infill. <sup>17</sup>
<b>California Assembly Bill 83 (AB 83) and Assembly Bill 140 (AB 140)</b>	AB 83 and AB 140, among other things, allows for local permitting and CEQA exemptions for projects (e.g., HomeKey) targeting specific populations including people experiencing homelessness. <sup>18, 19</sup>

<p><b>Los Angeles Mayor Executive Directive 30 (ED 30)</b></p>	<p>The Mayor of Los Angeles issued ED 30 to further expedite and expand affordable housing in the City of Los Angeles by directing all city departments that are part of the housing development process to work together, streamline processes, and report progress quarterly.<sup>20</sup></p>
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Over the past several years, most PSH across the City of Los Angeles has been partially funded by Proposition HHH, a \$1.2 billion bond that was passed by voters in November 2016. As of January 2022, Proposition HHH has supported the development of 125 projects and close to 8,000 units.<sup>21</sup> Developers also received other funding sources such as the state’s Proposition 2: No Place Like Home funding which is administered by Los Angeles County and the state’s Low Income Housing Tax Credits.

The Mayor’s Executive Directive (ED) 13, signed in October 2015, 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). ED 13 also created the Affordable Housing Cabinet and called on the Department of Planning (Planning), the Department of Building and Safety (DBS), and the Housing Department (LAHD) to work together to streamline processes and accelerate the development of affordable housing.<sup>22</sup>

In April 2021, Los Angeles Mayor Eric Garcetti signed Executive Directive 30 (ED 30) to further expedite and expand affordable housing in the City of Los Angeles. ED 30 directs all city departments that are part of the housing development process to work together, streamline processes, and report progress quarterly.<sup>23</sup> In addition to the three departments identified in ED 13, ED 30 directs the Departments of Water and Power, Fire, Transportation, and the Board of Public Works Bureaus of Engineering, Street Lighting, Street Services, Sanitation and Environment, and Contract Administration to coordinate on streamlining and expansion efforts to develop affordable housing in Los Angeles. ED 30 also identifies specific benchmarks for each department and directs managers to submit processing times for projects that will be made available on the Mayor’s website.<sup>24</sup>

**2.2 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.<sup>25</sup>

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.

Since the HST’s creation, the team has been 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 Cabinet, 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 Memoranda of Understanding (MOUs) with the Proposition HHH Housing Challenge developers.

Overall, the developers interviewed as part of this evaluation had positive experiences with HST staff and used words to describe them such as “a fixer”, “they’re great”, and “need these folks.” Many developers explained how they sought help from the HST when projects got stuck in the review process with various city departments. One developer thought of the HST team as the city’s affordable housing project managers and thought that every affordable housing project should have a project manager that guided the project through the development process with each city department.

However, since HST’s inception, there has been staff turnover which some developers noted was challenging. Some developers also questioned HST’s authority to direct departments to move faster or streamline processes. One developer said, “They’re [a] sympathizer and understand what developers are going through; [HST staff] will freely admit that they have no power to change the City’s behavior.”

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

Despite notable achievements and progress towards removing barriers for affordable housing development, city staff and housing developers explained that challenges persist especially regarding Covid-19, staffing capacity, implementation of local and state legislation, and interdepartmental coordination. This section discusses these challenges and how the HST and city departments have responded.

#### 2.3.1 Covid-19

In early 2022, the Covid-19 pandemic, now entering its third year, continues to challenge the development landscape in Los Angeles. We heard early in the evaluation, city staff had been diverted from their primary responsibilities of accelerating and streamlining affordable housing development to securing and creating new temporary emergency shelters across Los Angeles. Also, because of the city’s “Stay at Home” order, in 2020, city departments were forced to implement protocols that slowed the development process. Office closures or limited office hours necessitated increased cross-departmental coordination 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. Developers and city staff continue to report slowdowns across departments. This is the result of not only the Covid-19 pandemic itself (i.e., staff being sick and having to quarantine) but also the burnout that staff feel from living in a pandemic for two years. Developers and city staff reported their organizations and agencies feeling “stretched thin” from loss of staff and modifying the way of doing business during a pandemic. The challenges noted above are not unique to Los Angeles.

#### Developer explaining Covid-19 challenges

*“There are all kinds of changes due to the pandemic. It definitely slowed down the process as we are not able to walk to the counter and getting changes approved. However, we are getting better at adapting and the city is getting better.”*

However, one bright spot over the past two years has been that city departments involved in the development process have moved as much of their application, review, approval, and payment processes online as possible. For example, all city departments involved in the predevelopment process now accept online payments. City departments have also worked towards accepting online signatures on forms. *While the digitalization of the development process began as a response to Covid-19, if continued and improved upon, it has the ability to expedite and streamline the development process for city departments and housing developers.*

One long-term goal for the city is to create **BuildLA**, an online platform that would bring all city departments involved in development and the components they oversee (i.e., applications, fees, reviews, correspondence) into one web-based system. While building this type of online system is costly and can take time to develop, train users, and implement across the city, it could expedite and streamline the process side of development. This type of system could also monitor the time it takes between steps in the development process for individual projects, groups of projects, or the entire affordable housing portfolio. Developers would be able to watch their projects as they move through the development process and city staff and developers could answer questions and respond to comments as they are submitted.

### 2.3.2 Staffing Capacity

Housing developers and city staff explained that staffing and hiring were among the toughest challenges that they currently face. City staff explained that they are experiencing two types of staffing and workload challenges. First, the development pipeline for permanent supportive and affordable housing is extremely robust at this moment in Los Angeles, this inherently increases the workload across all departments that are involved in the development process. Second, there are staffing shortages across the city that are a result of the Covid-19 pandemic (again, this challenge is not unique to Los Angeles.) Many people have left the workplace for various reasons, and it is difficult to fill positions. As a result, in city departments involved in the development process, there are increased workloads but fewer staff to perform the work. This creates slowdowns and system bottlenecks, especially in an industry which relies on a sequential order of steps in the development process. One staff member described the workload as double or triple for employees because of staff vacancies. One department described having over 100 vacancies despite making offers to more than 80 percent of the vacant positions. Developers described similar situations where workloads have increased significantly over the past several years and it being difficult to fill vacant staff positions. Developers also described these capacity issues impacting general contractors, subcontractors, and manufacturing partners. One developer explained,

*“They were supposed to open the buildings in July of last year, but that got delayed because of manufacturing and labor issues because of Covid-19. [The manufacturer] couldn’t run full shifts. After Covid-19 started cooling down, the manufacturer couldn’t find additional workers - they were competing with the local In-N-Out. In-N-Out was paying higher wages than the manufacturer was, so it was hard to find workers.”*

### 2.3.3 Implementing new legislation

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.

Developers discussed using local and state ordinances to more efficiently advance their projects. Developers mostly cited Los Angeles' PSH Ordinance which establishes a "by-right" process for PSH development and the city's Transit Oriented Community Affordable Housing Program which provides incentives and waives parking requirements if the project is in a transit-rich area. Developers also mentioned using AB 2162 (by-right PSH statewide), AB 1763 (density for affordable housing projects), and AB 1197 (CEQA exemption).

Over the past two years developers have reported a variety of experiences using local and state legislation. 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. A few developers also expressed uncertainty about density bonus rules and how new criteria has been added and layered in over the existing rules.

Some developers have found various ordinances extremely helpful.

*"AB 1763 is actually a game changer – you should look into that much more so than PSH by right. It gives blanket authority – super density bonus for 100 percent for affordable housing. Can eliminate parking, add a floor, eliminate the commercial requirement on a boulevard. We didn't realize how amazing that bill was going to be."*

Other developers expressed uncertainty and frustration about how and when to use the new legislation. One developer explained, *"It didn't help speed things up and may slow things down. Using the legislation takes[a] long time to get these projects approved."*

### 2.3.4 Coordination and Alignment

Los Angeles is a large city with many city departments managing various components of the development process. 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."*

### Developer's experience with Senate Bill 35

*"That [SB 35] passed two to three years ago; [it] takes a while to figure out how it will work. If you meet these parameters (x amount of affordable housing, qualifying location), then the city must approve your application within 90 days. State mandate on the timing for the city. Ninety days from the date when the city deems your application complete – the planning dept was all over this – 90-day processing! Plus, if the project qualifies under SB 35, you get a statutory exemption from CEQA. [We] used SB 35 for both properties – got 90-day processing and statutory CEQA exemption. You still need a planning commission hearing, even though they technically have to approve it. By state law, the approval is not discretionary! But the way the city is implementing it, they still make you do the planning commission hearing! You still have to send out notices to neighbors, etc., go through that whole process. If they could eliminate the hearing, that would make it easier. That hearing adds months, you have to schedule it, notice periods for hearing and for appeals, even though appeals are not possible!"*

This section discusses three sub-topics that the evaluation team heard about during data collection: (1) prioritizing affordable housing, (2) interagency coordination, and (3) alignment of financing sources.

**Prioritizing Affordable Housing.** Many developers and community stakeholders expressed concern that city department staff who are involved in the development process do not understand the urgency with which developers are trying to build housing for the city’s most vulnerable residents who are experiencing homelessness. They explained that while city departmental leadership note that their departments are on-board with prioritizing affordable housing, the departmental staff who are doing the work are so far removed from the overall goal of building housing for people experiencing homelessness that the work is not prioritized. One developer said,

*“There’s no connection between moving the needle forward on housing people. There’s no incentive for people to move a project from beginning to end. We need to get to a place where people are proud to move a project forward because they’re proud to house folks.”*

However, city staff reported over the past two years that all affordable housing projects, especially projects for people experiencing homelessness, rise to the top of the review pile. ED 13 and ED 30 direct departments to cut development timelines across departments to prioritize the development of affordable housing. Recently, Building & Safety, Planning, Water and Power, and Fire all reported reductions in timing. Additionally, as noted in a response to an audit of Proposition HHH projects, those projects saw a reduction of approximately 150 days for ready-to-issue permits.<sup>26</sup> One important consideration is understanding the robust portfolio of permanent supportive housing and interim housing projects currently under development within the city of Los Angeles. This creates a situation of, ***if everything is urgent than nothing is urgent***. Additionally, as previously discussed, staffing capacity within city agencies is a real challenge considering the current workload.

To address both developer and city staff sentiments, it might be helpful for timelines on projects, achieved streamlining, and data on reductions to be made public in a user-friendly, accessible dashboard. ED 30 calls for data from city departments to be made public on the Mayor’s website. This would provide transparency on the amount of time the development process takes for projects. It would also allow community stakeholders to understand the development process more entirely and see where projects stall.

**Interdepartmental Coordination.** Over the past several years, because of ED 13 and ED 30, city departments have worked closely to coordinate, expedite, and align the development process while looking for ways to simplify and streamline. This is one way in which the city has invested in prioritizing the development of affordable housing – convening staff to troubleshoot issues and looking for opportunities to further improve the process.

Two efforts to increase coordination have been through 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, LAHD, the Department of Water and Power (DWP), the Fire Department, the Department of Transportation, and the Bureau of Engineering meet biweekly. ED 30 expanded this group to include all city departments that are part of the development process. 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.

City departments have issued several memos clarifying expectations and processes for projects. One example of increased collaboration across city departments is a memo that was released in August 2020 outlining the funding procedures for affordable housing.<sup>27</sup> This interdepartmental memo was a collaboration between Planning, DBS, and HCID. The memo outlined the review process and funding form responsibilities detailing when and to whom developers should submit forms. 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.

***Coordinating funding sources.*** Another pain point discussed by developers is the myriad of local, state, and federal funding applications and different application deadlines needed to assemble all the necessary financial resources for a housing project. Since the housing development process is sequential, if a developer does not receive one source of funding they often have to apply again, thus creating delays in the overall timeline (this topic will be discussed more in the next chapter.) This has been something that has plagued the development of affordable housing in Los Angeles for the last decade. Affordable housing developers often seek several sources of funding including Low Income Housing Tax Credits and state and municipal subsidies or “soft loan” funds, as well as operating subsidies (generally Project-based Housing Choice Vouchers).

Public funders understand how frustrating applying for different sources of funding can be, so public agencies in Los Angeles and the state of California are working to align processes and funding applications. The LAHD, the Housing Authority of the City of Los Angeles (HACLA), and the Los Angeles County Development Authority (LACDA) have started to use the same online application for funding sources. The long-term goal is to create a consolidated application for developers.

In September 2020, California’s Governor Gavin Newsom signed Assembly Bill 434 (AB 434) “Streamlined Multifamily Housing Application Implementation” into law. AB 434 requires the state’s Department of Housing and Community Development (HCD) to “consolidate and streamline its funding process for six different multifamily programs: (1) Multifamily Housing Program, (2) Housing for Healthy California, (3) Infill Incentive Grant Program, (4) Joe Serna Jr. Farmworker Grant Program, (5) Transit Oriented Development Program, and (6) Veterans Housing and Homelessness Prevention Program.”<sup>28</sup> The goal of AB 434 is to align these programs’ eligibility criteria, scoring, and release of funding.<sup>29</sup> The state refers to this consolidated approach as the “Super NOFA.” HCD is also working to align the Super NOFA with the California Tax Credit Allocation Committee, the state entity that allocates tax credits to housing development projects, and the California Debt Limit Allocation Committee, the state entity that oversees the allocation of tax-exempt bonds (which give projects access to 4 percent LIHTC). In late 2021 and early 2022, HCD created guidelines for AB 434 implementation and going forward will offer webinars to discuss the guidelines and any changes, answer questions, and receive stakeholder feedback.

### 3. Investing in Innovation

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In 2019, the City of Los Angeles' Mayor's Office (Mayor's Office), the City's Housing Department (LAHD) (formerly known as the Housing and Community Investment Department), 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 LAHD 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."<sup>30</sup> 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 close to \$100 million to test their innovative strategies for creating PSH in Los Angeles.<sup>31</sup>

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.

Between 2020 and 2022, the Abt evaluation team interviewed housing developers who were awarded the Mayor's Housing Challenge funding and the Funders Collaborative Accelerating PSH grant funding at three points in time. 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, timeline and cost, and successes and challenges. Exhibit 2 provides a brief description of each developer's project(s) including the total number of sites and units by developer.<sup>c</sup> Over the past two years, developers worked through the process of securing development sites, assembling financing, seeking approvals and permits from city departments, started construction, and some became ready for lease up.

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<sup>c</sup> As the development process moves forward, developers may modify their project(s), site locations, and number of units.

Exhibit 2. PSH Developer Project Descriptions

Developer	Number of Locations	Number of Units <sup>3</sup>	Project Description
Abode Communities, Mercy Housing California, and LA Family Housing (Streamlining Solutions Collaborative) <sup>1</sup>	5	397	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 <sup>1</sup>	1	95	BRIDGE Housing’s project uses adaptive reuse of a historical property in LA and will apply local and state legislation to the development.
Brilliant Corners <sup>1,2</sup>	1	54	This project includes an adaptive reuse strategy that involves the conversion of an existing building into PSH.
Clifford Beers <sup>2</sup>	1	20	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) <sup>2</sup>	3	162	CRCD is using traditional development at multiple sites to develop PSH.
Community Corporation of Santa Monica (CCSM) <sup>2</sup>	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 (DCD) <sup>1,2</sup>	4	167	These partners are developing multi-site PSH units using modular construction and simplified financing (soft funds awarded for multiple projects at once).
Flyaway Homes <sup>1,2</sup>	2	90	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 <sup>1,2</sup>	3	88	These partners’ PSH model relies on simplified financing, avoiding LIHTC and minimizing soft funding sources, as well as standardized project design (with stick-built construction). Genesis is the lender providing predevelopment, construction, and permanent financing which simplifies the project financing.
LA Más <sup>2</sup>	5	5	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 <sup>2</sup>	1	19	LifeArk has created a design composite polymer mold to produce and assemble a ready-made, kit-of-parts to build housing.
PATH Ventures <sup>2</sup>	1	60	PATH Ventures is using modular design to create a large (50+) unit PSH development.
Roth Group <sup>2</sup>	3	63	Roth Group is collaborating with several partners to design and construct PSH using private equity and subsidized land.
RxLA, LLC (“RxLA”) <sup>2</sup>	1	56	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) <sup>2</sup>	2	154	SRHT will be selling these projects to two developers. Those developers will finish the projects.
Venice Community Housing Corporation (VCHC) <sup>2</sup>	2	49	VCHC is developing two sites using acquired land for zero or low cost and rehabbing existing units.

Developer	Number of Locations	Number of Units <sup>3</sup>	Project Description
Volunteers of America of Los Angeles (VOALA) <sup>2</sup>	1	66	VOALA’s concept blends manufactured and pre-fabricated housing elements on underutilized land (on a large multifamily site already owned by the organization) for no acquisition cost.
Weingart Center Association <sup>2</sup>	2	103	Weingart’s projects utilize a pre-fabricated modular unit construction approach at two sites. One site is city-owned; this site benefited from a streamlined developer designation, permitting and resource-allocation process.

<sup>1</sup>-Developer received Proposition HHH Mayor’s Housing Challenge funding  
<sup>2</sup>-Developer received Home For Good Funders Collaborative Accelerating PSH funding  
<sup>3</sup>-Number of units includes managers units  
Sources: Developer telephone interviews and project pro formas

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 3 shows the types of innovation each developer is using. 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 or are planning to test new materials, designs, and processes to build PSH.

Roughly half of the projects in the evaluation started with the intention of using modular construction<sup>d</sup> as a central innovation. While plans for some projects eventually changed,

**Comments from Developers on Modular Construction**

*“At the end of the day, even though we’ve pushed deals forward, they are dealing with a nascent construction product – designing a new modular box! Learning as we go, redesign, missteps; always a challenge but everyone’s committed to problem-solving. [We] have had some delays in the modular product and increases in construction costs; but nothing we can’t handle. For example, City is focused on accessibility; since you’re building in a factory and not on-site, you have to catch things early! Lots of photos on online portal about things like where toilet paper holders are, etc. [It’s] harder to adjust for errors than in on-site construction.”*

*“There is another project in [location]: it was a modular project...It just stacks units on each other. It looks great from the outside, but from the inside condition is bad. It bothers me because people have to live there for about 80 years. We need to focus on the inside of the units and make them livable.*

*“It’s been a lot of catching up to how different the planning process is and how much it requires bringing on consultants very early on. Once the units go into production, we can’t make changes. Everything has to happen up front. A lot more has to happen now.”*

<sup>d</sup> Also referred to “pre-fabricated” or “kit-of-parts”.

all of the developers who tried this approach gained significant insights about modular construction, its benefits, and drawbacks.

Modular development involves factory construction of buildings; the completed units (or parts of units) are delivered to the site, where installation becomes a relatively short process. Developers look to modular construction to provide several advantages:

- **Shorter construction time:** A shorter construction period could potentially lead to cost savings for a project, for example, by reducing the amount of time construction loans incur interest. The shorter time spent working on-site could also mean less neighborhood disruption and most importantly housing for the city’s most vulnerable residents is built more quickly.
- **Cost management:** By moving the majority of construction to a factory setting, developers hope to gain more control and predictability in construction costs. In particular, developers look to modular construction as a counterbalance to prevailing wage requirements.<sup>e</sup> Modular units are considered construction materials, and thus the portion of construction completed at the factory is not subject to prevailing wage requirements. Reducing the amount of work done on-site thus reduces developers’ exposure to the cost premium involved in paying state or federal prevailing wage rates (see text box).

#### Understanding Prevailing Wages

“Prevailing wage” refers to federal and state requirements that establish specific wage levels for publicly funded projects. These wage rates are specific to each location and trade (for example, framing and finish carpenters will have a different specified wage than residential drywall installers). Affordable housing projects in states like California might be impacted by both federal and state requirements that set a floor for construction wage and benefits payments. Most developers agree that these requirements both increase the cost of construction and limit the pool of contractors willing to work on these projects.

Federal prevailing wage requirements that impact affordable housing stem largely from the Davis Bacon Act of 1931. For projects subject to Davis Bacon, compensation and benefit levels (varying by trade and geography) are determined by the U.S. Department of Labor, based on wage surveys and local collective bargaining agreements. Davis Bacon wages are triggered for housing projects that accept certain funding sources beyond a minimum number of units. California also has state-level prevailing wage laws that apply to many affordable housing developments, including projects accepting Proposition HHH funds as well as residential construction projects that are greater than four stories high. In California, the Department of Industrial Relations determines local rates for each trade, updating the rates twice annually.

While the intention of prevailing wage is to ensure trade professionals are paid a living wage, their requirements pose several challenges to PSH projects. First, prevailing wages increase construction costs. Developers generally describe prevailing wages as being significantly higher than unrestricted market wages for the same services. Opinions on the amount of this cost premium range from 10 percent to 50 percent. Second, complying with prevailing wage requirements requires significant paperwork for general contractors. Many contractors are unwilling to manage these extra administrative burdens, particularly in a strong construction market. This self-selection limits the number of contractors available for projects with prevailing wage requirements, putting even greater pressure on costs and timing.

<sup>e</sup> As explained by the California Department of Industrial Relations, “All workers employed on public works projects must be paid the prevailing wage determined by the Director of the Department of Industrial Relations, according to the type of work and location of the project. The prevailing wage rates are usually based on rates specified in collective bargaining agreements.” <https://www.dir.ca.gov/public-works/prevailing-wage.html>

- **Replicability:** Developers pursuing modular construction expressed the intention of creating standardized designs and processes with manufacturers with the goal of using these designs and processes on future projects.

Almost all developers who are testing or plan to test modular construction described the potential cost and time savings of using it. For these developers, most of the potential cost 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.

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.

However, some developers felt like they were oversold on the promise of modular construction by manufacturers. During interviews, developers noted several challenges surrounding modular construction.

- **Design needs to be completed in advance:** With traditional construction, project designs can be adjusted throughout the construction process. If general contractors or subcontractors encounter unexpected obstacles, including, for example, supply chain disruptions, materials can be substituted, or work can proceed on some other element of construction while waiting for the delayed materials. Real-time adjustment to building construction is far less an option for modular development because the project's design, to exacting specifications, must be determined in advance. If a specified material is delayed or unavailable, work in a factory setting may be stopped entirely, thus delaying the entire project.
- **Challenges in an urban setting:** Modular units are very large and therefore coordination of their delivery, staging, and installation can be difficult on small lots, on busy streets, and in places of urban infill. One developer discussed wanting to use modular construction on a project but because the project was not on a street corner and there were utility lines in the way they had to abandon the idea.
- **Requirements for large, up-front deposits:** Modular factories require large advance deposits to purchase materials and create a reservation in their production line. According to one developer, 50 percent of the total cost is required. This requirement runs counter to the traditional process of construction requisitions, where payment is made monthly for work already completed and inspected. Because of this new and seemingly more risky payment schedule, a smaller pool of construction lenders is willing to participate in modular projects. Developers also reported that public funders have been unwilling to advance their funds to cover these large deposits – despite

**Developer's perspective on modular construction**

*“Modular is about scale. For any one building is not necessarily going to get you any economies [of scale].”*

developers explaining that covering these costs would be most helpful in moving modular projects forward.

- **Close coordination among multiple teams:** Traditional, or “stick-built,” construction, typically involves one architect and one general contractor and all construction occurs on-site. Modular construction occurs in two locations – first in the factory where the units are built, then the project’s site where the units are installed. As a result, all entities need to coordinate closely around project design, construction, transport, staging, and assembly.
- **Newness of modular construction:** Developers reported challenges related to the relative newness of modular construction. A modular factory requires significant capital investment and large real estate footprint. Most of these manufacturers are relatively new to the market, and thus relatively vulnerable businesses. Additionally, there are only a few modular manufacturers on the west coast. With few suppliers and an increasing demand of modular units, they have the ability to set the price as high as desired. However, they require a steady stream of work in their production lines. We heard about delays in production lines during the Covid-19 pandemic when manufacturers had to decrease the number of employees on each shift to meet social distancing protocols. Since these factories operate with projects having reservations in the pipeline, a delay in one project has the potential to delay all other projects. Additionally, these relatively new manufacturers are particularly vulnerable to supply chain hiccups like the country has seen over the past year.

Despite the challenges, many developers remain hopeful that over time, modular construction will deliver the promised advantages in time, cost and replicability. The described challenges can be managed successfully as developers learn more about the process, manufacturers adapt to hiccups in the supply chain and production pipeline, additional funding can be provided upfront to assist developers manage the deposit required, and a transparent and predictable processes are created for having the units approved and inspected. As one interviewee described, modular construction is “*in early adolescence, not adulthood*”, as the industry matures, the risks will abate, and the benefits will emerge.

2. **Simplified Financing:** The number of developers who were able to use simplified financing for their projects decreased over the past year. 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, developers of deeply affordable housing rely on multiple layers of publicly awarded funding sources. These sources might include Low-Income Housing Tax Credits (LIHTC) issued by the California Tax Credit Allocation Committee (TCAC), as well as other development subsidies that may be provided by multiple sources.

The need to layer multiple funding sources, each with its own funder, application, and rules, adds considerable time and cost to projects. Developers, who were awarded the Mayor’s Housing Challenge funding and the Funders Collaborative grants, sought to simplify their financing by:

- seeking one-stop funding awards that would cover multiple projects;
- avoiding LIHTC;
- working with one lender who could provide all debt financing, from predevelopment through permanent financing; and,

### 3. INVESTING IN INNOVATION

- working solely with private financing sources and avoiding public sources completely.

At the beginning of the evaluation in 2020, more than half of the developers reported wanting to use simplified financing. However, by the end of the evaluation, a few of those developers sought funding sources beyond those originally anticipated (for example, applying for LIHTCs when they had not anticipated the need to do so).

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.

While LIHTC is the major source of new financing for affordable housing development nationally, it is a funding source that involves a certain amount of complexity, both in the initial transaction and for long-term compliance. 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.

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 one-third of the developers described securing or 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

#### Developer describing levers that can accelerate development

*[Project name] is a great example of the power of local government coming into the RFP with the land and a significant commitment of capital funding. That set up the chain, with land plus capital commitment, we were perfectly poised to compete really well to get vouchers immediately, and then line up the rest. Once you get one, the others start falling into place: it all fell into place very quickly. That’s evidenced by how quickly we got from an RFP award to construction start.*

### 3. INVESTING IN INNOVATION

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.

**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. Developers discussed applying for local and state ordinances for their projects. Developers mostly cited Los Angeles’s PSH Ordinance which establishes a “by-right” process for PSH development and the city’s Transit Oriented Community Affordable Housing Program which provides incentives and waives parking requirements if the project is in a transit-rich area. Developers also mentioned using AB 2162 (by-right PSH statewide), AB 1763 (density for affordable housing projects), and AB 1197 (CEQA exemption). Overall, developers are navigating the new local and state legislation successfully even though processes might not be completely clear. One developer described their experience by stating,

*“They said we can use AB 1197, which is a CEQA exemption for permanent supportive housing. We can also demolish the building if we wanted to but because we are applying for vouchers for this site, that will trigger NEPA (National Environmental Policy Act) at some point so we concluded that we could get around it from a CEQA and entitlement perspective, but we wouldn’t be able to get around it from a NEPA perspective. We cannot request NEPA review until we are awarded with voucher or federal funding. It becomes the process of figuring out how to do things that they will require us to do in the future. We hired consultants who have worked with the city before and revisited the design in the past few months.”*

**Exhibit 3. 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/Decro	✓	✓		✓
FlyAway Homes	✓	✓		✓
Genesis LA Economic Growth Corporation & Restore Neighborhoods LA		✓		✓
LifeArk Development Consortium	✓	✓		
LA Más		✓	✓	
PATH Ventures	✓			
Roth Group		✓	✓	✓
RxLA		✓		✓
Skid Row Housing Trust	✓			✓

Developer	Innovation Type			
	Construction Type	Simplified Financing	Reduced Cost/ Subsidized Land	Local/State Legislation
Venice Community Housing Corporation	✓	✓	✓	✓
Volunteers of America Los Angeles	✓	✓	✓	
Weingart Center Association	✓		✓	✓

Sources: Developer telephone interviews and developer pro formas

### 3.2 Overall Challenges

During interviews, developers explained some of the challenges they faced in advancing their projects during the evaluation period. While these projects are testing innovative strategies, many of the challenges do not differ from what developers experience using more traditional building techniques. These challenges include pandemic slowdowns, escalating costs, and assembling financing.

#### 3.2.1 Pandemic Slowdowns

During the evaluation, most developers expressed concern the impact that Covid-19 had on the timeline and cost assumptions of their projects. During the first year of the pandemic, developers discussed delays with process changes at the city (i.e., paperwork and plans needing to be quarantined before city departments would review them, switching to online submissions and payments) and not being able to visit development sites because of social distancing and stay-at-home guidelines. During the second year of the evaluation, developers acclimated to new city processes and procedures and found work-arounds for on-site work, for example, reviewing site progress through video conferencing and photos. The second year of the pandemic brought new challenges with supply chain interruptions, escalating material costs, and labor shortages.

For example, one developer explained,

*“On permitting, City of LA was already a difficult place to get a building permit; Covid-19 made it more difficult – you drop off the plans, the City quarantines them for five days – this made the permitting process marginally more difficult. On the plus side, you can now make payments online. As far as actual construction work/schedule – Covid-19 has not impacted this. But the supply chain stuff is messing with us quite a bit. Every other week we hear about some specific part we can’t get, for example, a track for a door closet. So far, we’ve been able to switch out products without too much impact on budget or schedule. [There is] lots of scrambling to make sure that [the] proposed substitute products are equal or better.”*

Developers who were working with modular factories also noted the delays that the factories experienced due to Covid-19. As previously discussed, during the height of the pandemic, factories had to spread out shifts because of social distancing guidelines. Also because of labor shortages and employees not working because they or a family member were sick, developers reported factories having trouble staffing shifts. Two developers described their experiences.

*“It delayed our project for four to five months. The manufacturing takes place in central CA where they had Covid-19 issues. They usually ran three shifts to produce the components. With Covid-19 they could barely run one shift for several months. There’s been significant delay in*

*manufacturing. On the assembling side, Covid-19 also limits number of people in the factory space to do assembling works.”*

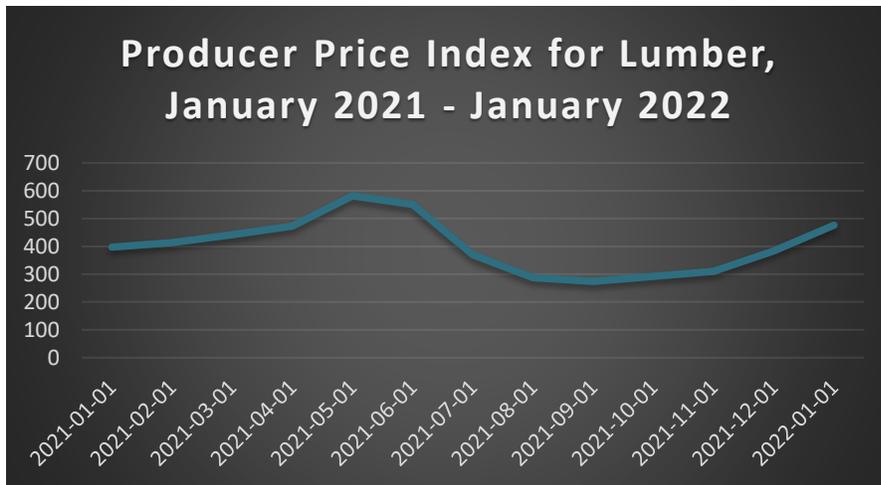
*“We were fearful of how much Covid-19 will stretch the plan out. We thought we would be done even with Covid-19 by end of March [2021], but with the second wave [of Covid-19], it was difficult for manufacturing to manage the shifts.”*

#### 3.2.2 Escalating Costs

Nearly all PSH developers interviewed reported construction price increases between their initial applications and their current cost estimates or incurred costs. The producer price index for construction materials increased more than 47 percent between January 2020 and January 2022.<sup>32</sup>

Disruption in the flow of both raw materials and manufactured goods has been an inevitable side effect of the pandemic. Builders have faced extensive delays in deliveries of materials needed. One PSH developer said that the lead time for ordering steel, for example, had doubled from six weeks to 12 weeks. Further, the market for key construction materials has been characterized as extremely volatile during the pandemic. Consider the changes in the price of lumber between January 2021 and January 2022 in Exhibit 4 below. A development team might have redesigned a project to use less lumber in May of 2021, when lumber was at record-high prices. That same developer might have regretted that decision in August or September 2021, when prices dropped by roughly half, only to rise again a few months later. It is difficult to plan construction for maximum economic efficiency when the maximally efficient choice is impossible to predict.<sup>33</sup>

**Exhibit 4. Producer Price Index for Lumber, January 2021 – January 2022**



Source: ALRED Graph Observations, Archival Federal Reserve Economic Data, Federal Reserve Bank of St. Louis, <https://alfred.stlouisfed.org>

Beyond the fluctuations in commodity prices, developers and builders have had trouble accessing specific manufactured products included in their designs, such as windows, doors, or fixtures. Developers who have projects in construction described scrambling for replacement products of comparable quality when original products were unavailable. Such real-time redesign poses a particular problem for modular construction, where design specifications must be extremely precise and determined in advance. Affordable multifamily construction, such as PSH, is particularly vulnerable to this lack of consistency and predictability among commodity pricing. Contractors are expected to take on much of the materials pricing risk. Since they need to account for future price fluctuations, they necessarily need to build room for increasing prices into their estimates. These risk premiums drive total construction costs higher.

#### Comments from Developers about Escalating Costs

*“Lumber went up a lot. It’s triple what it was a year ago! Concrete [went] up as well quite a bit. Market is as tight as ever. Market for construction is as tight as ever. Sub[contractor]s remain in the driver’s seat – it’s been that way for a long time. People thought there might be a shift in COVID-19 but hasn’t changed—it’s still tight.”*

*“Everything is getting more expensive. A lot of [general contractors] and subcontractors are stretched pretty thin. And the pandemic has taken people out over the last couple of months. Costs generally increase every year. Have seen a disturbing trend – the cost of construction is getting so expensive that some affordable housing are doing prefab modules in China and shipping them from there. I’ve asked them – have you vetted them to see if there are human rights violations [in the factories]? Response is: No, we haven’t vetted them. People are getting desperate.”*

*“Land cost increased. Price of steel also increased. Some components are made of aluminum, and aluminum price has also increased... The cost of woods, so we are lucky that we don’t need to use lumber.”*

#### 3.2.3 Assembling Financing

During the evaluation period, a majority of developers reported that their primary challenge was assembling the financing needed to push their projects through the development process. This challenge manifested by both the increased competition for local and state funding sources and the process in which developers submit funding applications. Historically, funding application deadlines and award notifications have not been aligned or coordinated. As a result, when developers try to assemble project funding, they need to wait for the funding source’s next application round. If funding awards are only made once or twice a year and a developer wants to use several sources of public funding, then that means submitting applications at different times, which can lead to a lengthy predevelopment period. If a developer applies for a funding source and does not receive it, they often have to ‘get back in line’ and wait for the next application round. Unless a project uses a private investor model, most PSH developers apply to the same sources of public funding, resulting in a competitive application process.

One developer described receiving funding commitments early in the development process and how that saved time for the project.

*“Yes, all rent subsidies are committed. LA County Dept Health Services was willing to support our platform. We*

#### Developer’s experience with assembling project financing

*“I don’t know when city funding will be available for [project]. I don’t know when vouchers will be available. Even the county money – last year they only had one round and the second round was postponed until three weeks ago. That’s frustrating because my deals are stalled during that time.”*

*actually had the vouchers committed before we applied for [Proposition] HHH! By having vouchers and then getting HHH – you save so much time in the development pipeline! That’s the most important thing: funding platforms, combining public resources you know you will need for these projects! Why not bundle them together rather than forcing developers to get in line piecemeal? This quagmire of fishing for sources – if you have them batched from the beginning, it saves lots of time.”*

There are both local and state efforts underway to coordinate funding applications. When discussing a streamlined application process one developer said, “*A streamlined application process – that would be a godsend.*”

Most developers interviewed for this evaluation described frustrations and uncertainties of applying for operating subsidies for their projects. 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. 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 are 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 secured.

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 LIHTC, which was frustrating.

#### **Why Operating Subsidies are 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.

## 4. Project Costs

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During 2020 and 2021, the Abt team worked with housing developers, the Housing Solution’s Team (HST), and the Home For Good Funders Collaborative (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 the fall of 2020 and 2021, developers sent updated cost projections to the evaluation team. This cost information included both estimated and actual (if available) costs for projects (fall 2020= 32<sup>f</sup> projects, fall 2021=30<sup>g</sup> 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 most of these projects are not completed yet.*

It is important to remember that most of the data provided by developers are estimates and not finalized costs. Therefore, the analysis presented below may look different in the future when projects are closer to being finalized. Also, over the past two years, Covid-19 has caused delays in the development process (as described in the previous section). Funding sources have been delayed, as have the commitments of operating subsidies for projects. Delays in the process often add costs to a project (e.g., interest on construction loans). Over this period, construction costs including materials and labor have been rising significantly. Finally, some of these projects are quite different from each other, therefore, as expected, costs are very different.

This analysis is preliminary, and we expect numbers to change significantly over time as estimates become actuals. That said, this analysis highlights several 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 possible factors stand out.<sup>h</sup>
  - 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 on a per-unit basis.
  - As expected, per-unit costs are substantially lower for projects with simplified financing, which means financing other than the traditional use of 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.

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<sup>f</sup> Developers submitted information for 32 projects in fall 2020. LA Más was excluded from analyses because the housing model and financing type for creating accessory dwelling units are very different from creating multifamily properties.

<sup>g</sup> Developers submitted information for 30 projects in fall 2021. Two projects are omitted from data analyses. LA Más was again omitted because the housing model and financing type for creating accessory dwelling units are not comparable to those for creating multifamily properties. VOALA was omitted because we received only partial information for the updated project plan and the data received are not comparable to other project data.

<sup>h</sup> Note that the sample of projects is too small to infer causation, but the correlations between project characteristics and development costs suggest these factors as possible cost drivers.

- *Estimated costs of operating the PSH projects, once developed, also vary widely across projects.* On average, projects with larger units (more bedrooms) have higher operating costs than those with primarily studio and one-bedroom units.
- *Estimated per-unit costs for all projects increased between the application and the fall 2021 update, in some cases significantly.* Among other things, developers reported slowdowns related to the pandemic and the increasing cost of labor and construction materials over the last two years as contributing factors.

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

#### 4.1 Development Costs

Costs vary dramatically across the 28 projects for which we have data. Current estimates of total development costs (TDCs) per unit range from around \$189,000 for LifeArk’s El Monte project, a project with 19 micro units, to around \$774,000 for CCSM’s Berkeley Station project, a 13-unit project with relatively large one-bedroom units (see Exhibits 5 and 6). These projects are both outliers, however; the median TDC per unit across all projects is about \$467,000.

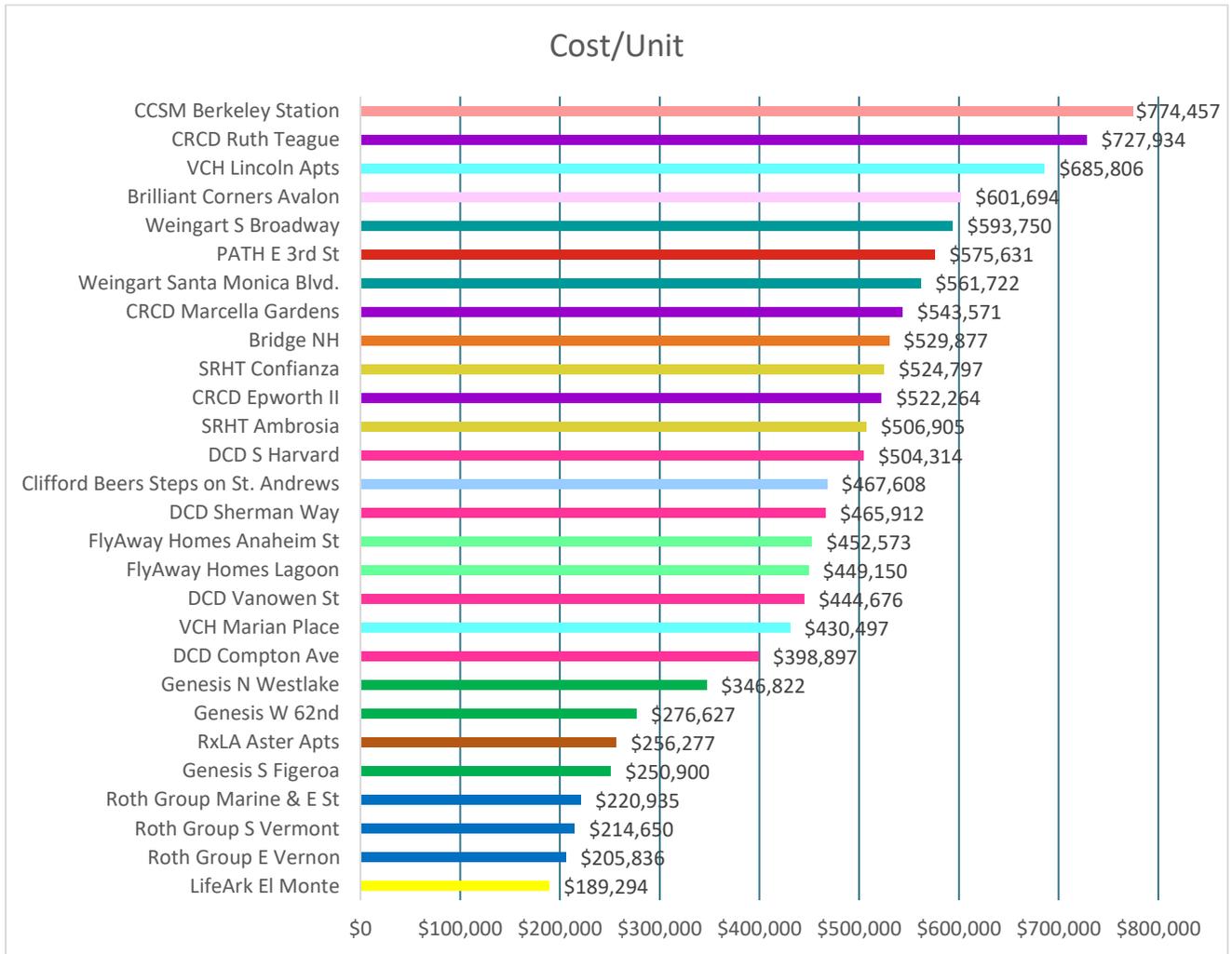
**Exhibit 5. Total Development Cost Per Unit**

Cost Type	Average	Median	Low	High
Total Development Cost Per Unit	\$454,406	\$466,760	\$189,294	\$774,457

N=28

Of the 15 developers represented in these data, almost a third (n=4) have three or more projects and another third (n=4) have two 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 6 shows each developer’s projects and estimated per unit cost (projects are color coded for each developer). In general, per-unit development costs remain similar across a single developer’s projects. For example, Roth Group is developing three of the four estimated lowest-cost projects (E Vernon, S Vermont, and Marine & E St) and all three Genesis projects (S Figeroa, W 62<sup>nd</sup>, and N Westlake) appear in the bottom eight lowest-cost projects. CRCD’s projects (Ruth Teague, Marcella Gardens, and Epworth II) are not as close in cost as some other developers, but all remain towards the higher end of the estimated per unit cost. The only outlier is VCH, whose two projects are separated by a \$256,000 per unit cost difference with Lincoln Apartments at the high end of the range at \$727,934 and Marian Place at the low end of the range at \$430,497.

Exhibit 6. Development Costs Per Unit Per Project



N=28

#### 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 including 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 per-unit basis; hard costs can be compared both per unit and per square foot.

Exhibit 7 shows the hard costs, soft costs, as well as site acquisition fees. Estimated hard costs and soft costs vary widely across projects. The highest hard cost per unit is CCSM’s Berkeley Station at \$545,558 while the lowest is a tie between all three Roth Group projects at \$120,120. Per square foot, hard costs range from \$147 to a surprising \$770.

**Exhibit 7. Hard and Soft Costs**

Cost Type	Average	Median	Low	High
Hard Costs, Per Unit	\$280,250	\$295,996	\$120,120	\$545,558
Hard Costs, Per Square Foot	\$455	\$446	\$147	\$770
Soft Costs, Per Unit	\$85,886	\$82,542	\$20,132	\$158,968
Acquisition Costs of Land, Per Unit	\$43,790	\$46,155	\$0	\$77,975

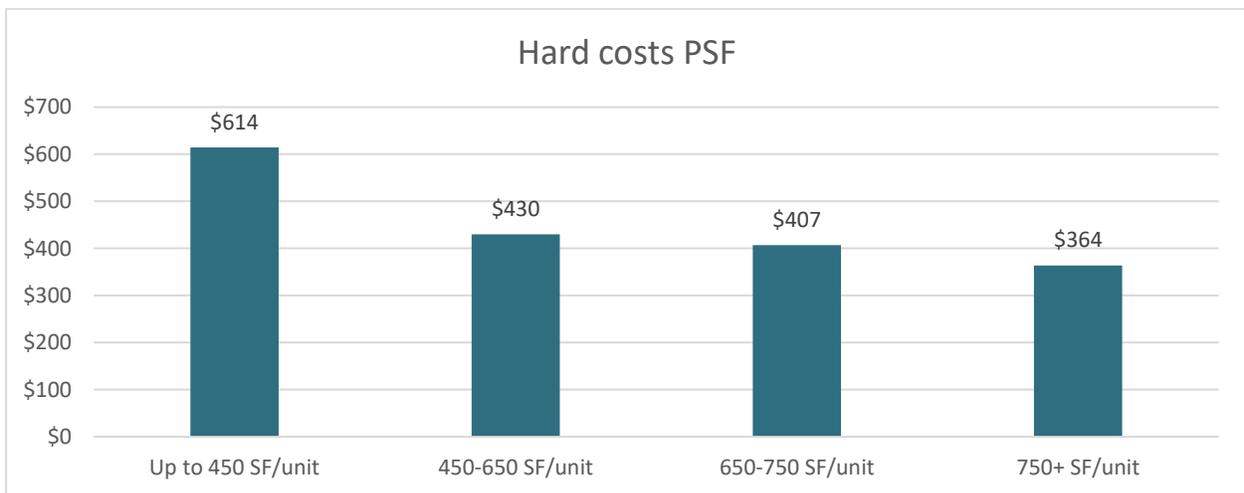
N=28 projects

Site acquisition costs refers to the amount of money that a developer pays for the project site. Exhibit 7 shows that these estimated costs vary widely, ranging from \$0 (for donated or already-owned land) to about \$78,000 per unit. The median project had acquisition costs of about \$46,000 per unit. Acquisition costs remained the most consistent across time compared to other per unit costs.

Exhibit 8 shows that projects with the smallest average unit sizes (up to 450 sq ft) have higher average hard costs per square foot than projects with larger average unit sizes (more than 750 sq ft). The smaller unit sizes average \$614 per square foot; the larger unit sizes average \$364 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.

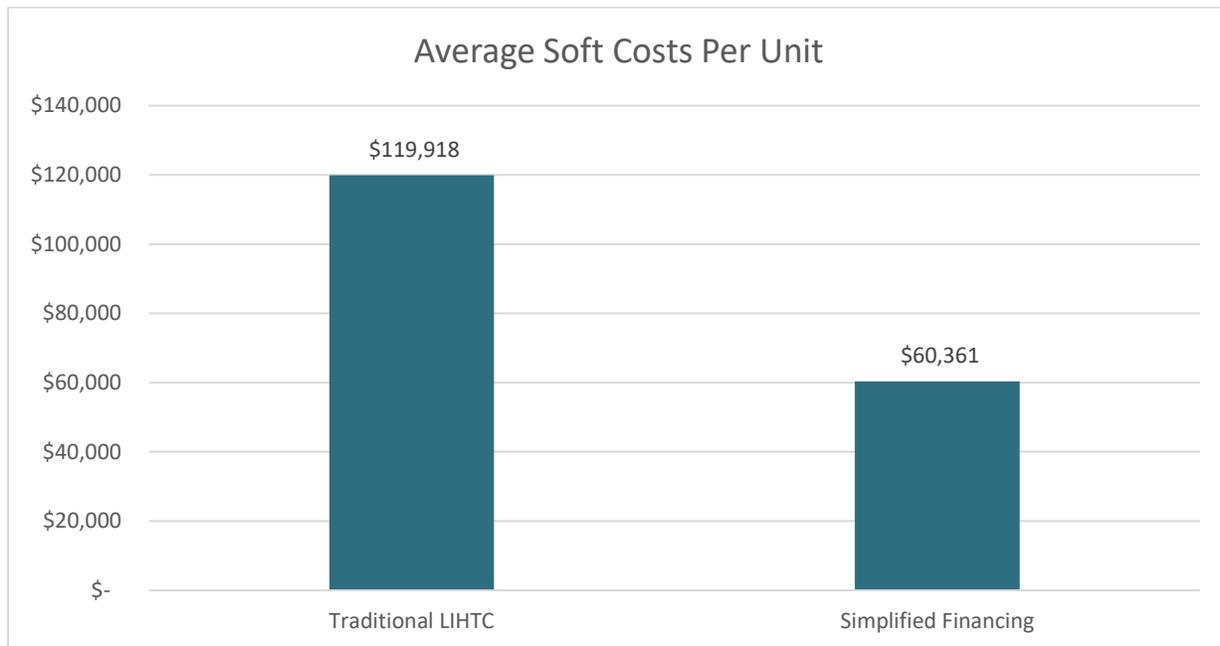
As projects continue along the development process and incur additional construction and labor costs, cost numbers may further increase and other patterns driving hard costs may emerge.

**Exhibit 8. Hard Costs Per Square Foot as Related to Unit Size**



N=28

There was a similar relatively large range in soft costs per unit with the highest being CRCDC’s Ruth Teague at \$158,968 and the lowest being LifeArk at \$20,132. One important driver of soft costs appears to be the traditional use of LIHTC. A number of developers proposed to use simpler, less administratively intensive forms of financing than the traditional LIHTC award process, with the idea that private equity, bank loans, and other types of financing would reduce costs. LIHTC was not always incompatible with simplified financing. One developer, Daylight Decro, used soft funds awarded for multiple projects at once. Some of this funding included LIHTC.

**Exhibit 9. Soft Costs Per Unit are Related to Use of Simplified Financing**

N=28

Exhibit 9 shows that current estimates of soft costs per unit are double, on average, for projects that use the traditional LIHTC award process, from about \$60,000 per unit to \$120,000 per unit.

### 4.3 Summary of Development Costs

Exhibits 10 and 11 display all five total development cost (TDC) categories: land acquisition costs, hard costs, soft costs, developer fees, and reserves (in costs per unit). All categories followed the expected trend that projects with higher TDCs have higher costs per unit in each subcategory, and vice versa. However, there were some nuances within subcategories.

**Reserves and developer fees** represent the smallest total amount and percentage of the TDC. There are some expected findings, including that the four projects with the lowest TDCs per unit also have the lowest per-unit reserves (LifeArk and all three Roth Group projects all report no reserves) and some of the lowest developer fees.<sup>i</sup> However, there are also unexpected findings, including that one project with above-median costs per unit (CRCD's Epworth II) reported no reserves, and the project with the highest costs per unit has the next lowest reserves (CCSM's Berkeley Station at \$2,414 per unit). There are similar anomalies in developer fees. For example, the project with the highest TDCs has the seventh lowest developer fee per unit (CCSM's Berkeley Station at \$23,403). Despite these differences in costs, reserves and developer fees do not explain the large differences in per-unit TDCs.

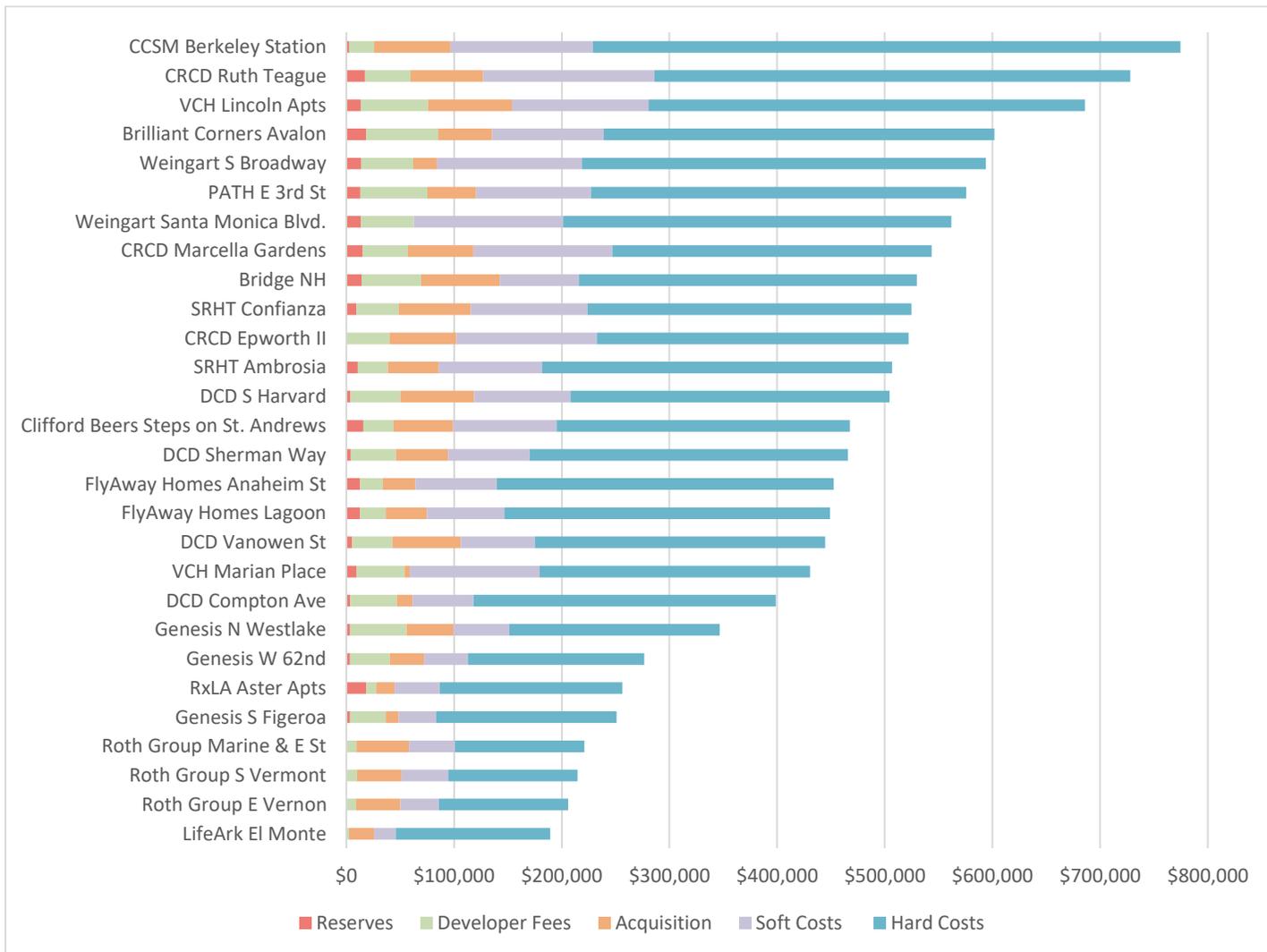
<sup>i</sup> Reserves are funds set aside to pay for emergencies and scheduled property improvements. Developers often set aside funds for several types of reserves, including replacement reserves, operating reserves, and leasing reserves. Projects without funded reserve accounts may be at risk of financial instability, although reserve accounts are not always funded up front. They can also be funded out of operating cash flows.

## 4. PROJECT COSTS

Large differences in **land acquisition costs** are also not a main driver of differences in per-unit TDCs. For example, the only project with no land acquisition cost (i.e., Weingart’s Santa Monica Boulevard project) had above-median per-unit TDCs.

**Soft costs**, which make up about 19 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 spaces are all important factors in per-unit TDCs (see discussion about cost drivers below).

**Exhibit 10. Development Costs Per Unit Per Project, by Cost Category**



N=28

**4.4 Operating Costs**

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

There is a substantial range of projected operating costs across the projects. Median expected costs are around \$7,500 per unit, per year, but the range of operating costs is quite wide, from \$2,129 (LifeArk) to \$9,860 (Bridge’s HHH New Hampshire) (see Exhibits 11 and 12).

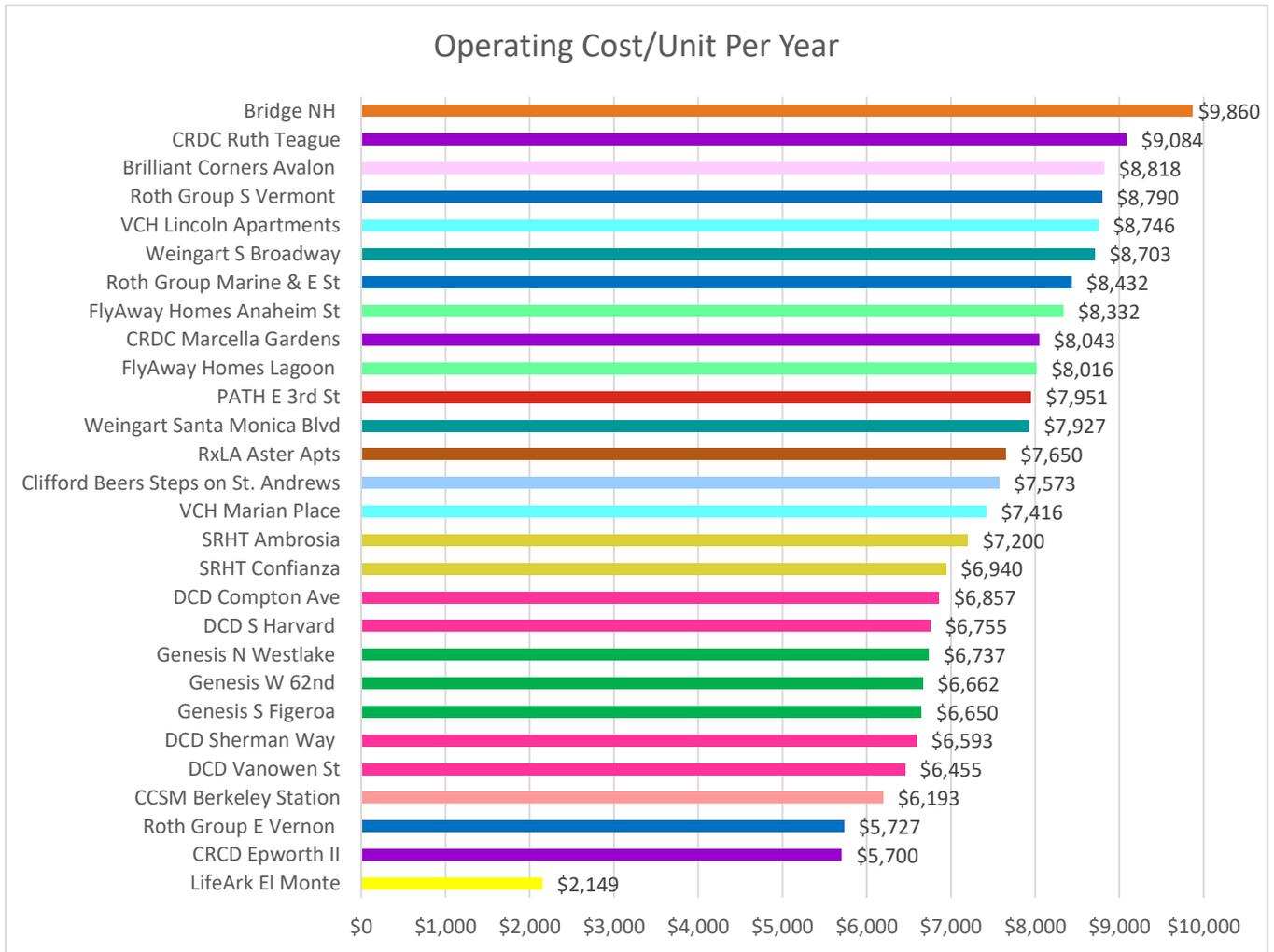
**Exhibit 11. Operating Costs Per Unit/Per Year**

	Average	Median	Low	High
<b>Operating Costs Per Unit/Per Year</b>	\$7,356	\$7,495	\$2,149	\$9,860

N=28

Exhibit 12 shows each developer’s projects and estimated operating cost per unit (projects are color coded for each developer). In general, if projects within a single developer had similar TDCs per unit, they also have similar operating costs per unit. One exception to this is that all three Roth Group projects had low TDCs per unit, but operating costs per unit vary widely, from \$5,727 (E Vernon Ave) to \$8,790 (S Vermont Ave).

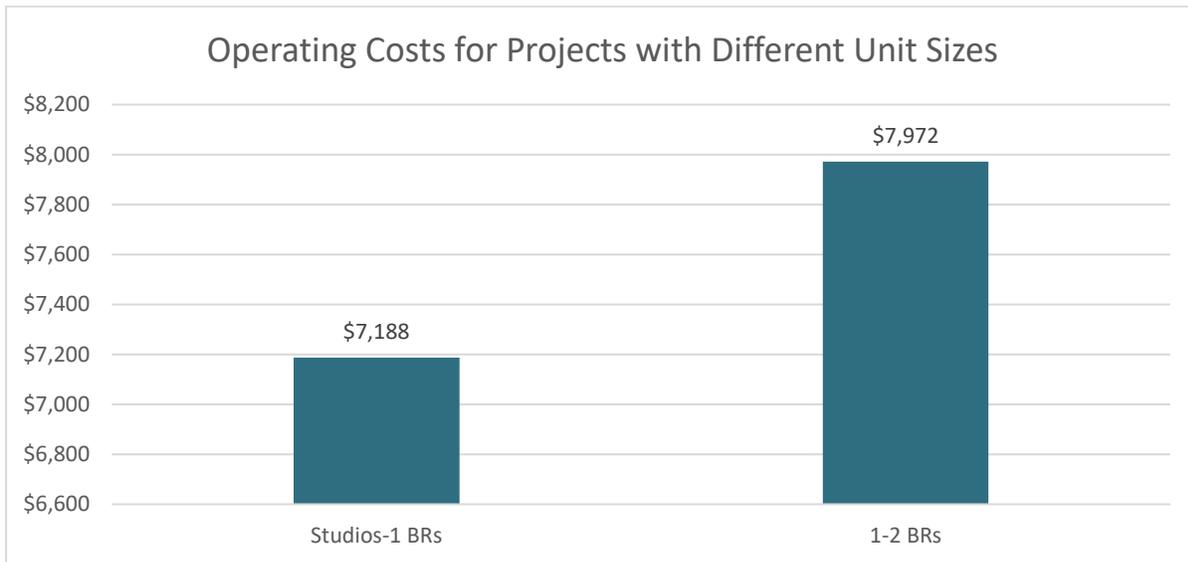
Exhibit 12. Operating Cost Per Unit/Per Year for Each Project



N = 28

Exhibit 13 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 \$7,200; those with one or more bedrooms per unit have estimated operating costs of about \$8,000 per unit.

**Exhibit 13. Operating Costs Per Unit as 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.<sup>34</sup>

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 (see Exhibit 14). NOI ranges from about \$4,750 (Clifford Beers’ Steps on St. Andrews) to a high of about \$15,850 (FlyAway Homes’ Lagoon Ave).

**Exhibit 14. NOI Per Unit/Per Year**

	Average	Median	Low	High
<b>NOI Per Unit/Per Year</b>	\$8,809	\$8,355	\$4,751	\$15,853

N=28

NOI, after debt service payments, produces 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 or refinance 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. All three of the projects financed in part with private equity anticipate NOI per unit of more than \$10,000.

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 15 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 42 at application to 45). This is a result of increases in estimated size for almost half of projects, decreases for about a third, and no change for the remaining third. (Exhibit 15). The largest decrease 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 six 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 15. 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	\$601,694	63%	60	54	-10%
CCSM	Berkeley Station	\$562,277	\$774,457	38%	16	13	-19%
DCD	S. Harvard Blvd.	\$308,333	\$504,314	64%	30	47	57%
DCD	9502 Compton Ave	\$308,333	\$398,897	29%	25	25	0%
DCD	Vanowen St	\$308,333	\$444,676	44%	30	49	63%
DCD	16015 Sherman Way	\$308,333	\$465,912	51%	30	46	53%
PATH	5010 E 3rd St	\$498,120	\$575,631	16%	51	61	18%
Roth Group	505 Marine & 221 E St	\$202,941	\$220,935	9%	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	\$214,650	46%	15	15	0%
RxLA	The Aster Apartments	\$227,776	\$256,277	13%	56	56	0%
Skid Row Hsg Trust	Ambrosia	\$266,328	\$506,905	90%	101	90	-11%
Skid Row Hsg Trust	Confianza	\$429,062	\$524,797	22%	71	64	-10%
Weingart	7024 S Broadway	\$386,275	\$593,750	54%	51	52	2%
Weingart	Santa Monica Blvd.	\$395,098	\$561,722	42%	51	51	0%
<b>Average</b>		<b>\$322,531</b>	<b>\$478,483</b>	<b>48%</b>	<b>42</b>	<b>45</b>	<b>13%</b>

N=15

Although on average anticipated project size remained relatively stable, estimated project development costs have increased by almost 50 percent. On average, projects that decreased in size had the largest per-unit development cost increases, at 53 percent. Projects that have not changed in size had cost increases of 40 percent, as did projects that increased in size.

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 developers reported that they initially involved a long 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. Exhibit 16 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. While this sample is too small to be able to draw firm conclusions about the factors that drive total development costs, the correlations we identify in this section are suggestive and may be worth further exploration.

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 relationship seems to be true: projects in the higher-cost group have an average of 56 units, versus projects in the lower-cost group (which have an average of 31). 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 16. 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
<b>TDCs</b>			
Total Development Costs	\$10,871,118	\$31,837,071	293%
Cost/Unit	\$338,044	\$588,671	174%
Acquisition Cost/Unit	\$34,252	\$54,795	160%
Soft Costs/Unit	\$58,425	\$117,571	201%
Developer Fees/Unit	\$26,875	\$46,507	173%
Reserves/Unit	\$6,143	\$11,193	182%
<b>Project Size</b>			
Number of Units	31	56	181%
SF/Unit	579	753	130%
<b>Amenities</b>			
Community Space SF	1,920	2,368	123%
Parking Spaces	4	10	273%
<b>Construction Approach</b>			
Project Uses Modular Construction	40%	62%	48%
<b>Financing Approach</b>			
Project Uses Private Equity Financing	20%	0%	N/A

Interestingly, although lower- and higher-cost projects were similarly likely to report pursuing a strategy of using free or reduced-cost land (27 percent of lower-cost projects and 23 percent of higher-cost projects), acquisition costs of land per unit were quite different between lower- and higher-cost projects. Higher-cost projects averaged about \$55,000 per unit for acquisition costs compared with \$34,000 per unit for lower-cost projects.

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

- 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 62 percent of the higher-cost group compared with 40 percent of the lower-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 the three projects using private equity are all 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

Although two years of interviews and analysis of project financial pro formas provide useful insights, many unanswered questions remain.

- 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 operating costs evolve as the projects move towards closing, and the financial projections undergo the scrutiny of lenders, investors, and professional property management partners?
- Are there other factors that drive total development costs that we have not yet been able to identify?

Some of these questions will be observable in the next year or two; others will take longer to answer. Regardless, the questions are important not just for encouraging innovation in permanent supportive housing, but for providing affordable housing to all types of populations nationwide.

## 5. Looking Forward

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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. However, there are still frustrations among developers, community stakeholders, and city staff.

***Currently, the City of Los Angeles has a robust pipeline of PSH units in development. However, that development is juxtaposed against tens of thousands of people experiencing homelessness across the city.*** Regardless of how fast developers plan for a project and assembly financing; city employees approve, fund, and inspect units; and construction workers build housing, it will never be fast enough with people living on the street. Certainly, more work can and should be done to streamline processes, develop efficiencies, and consolidate and align funding applications, but stakeholders should not lose sight of the work that has been done and the progress that has been made.

After year two of the evaluation, below are some 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 (HST) is making a difference in both the developers' experiences in navigating the development process and creating solutions and streamlining those processes. While developers who worked with the HST had positive feedback, they also expressed frustration with the limited leverage that the HST has in moving other city departments forward.
- The Mayor's Executive Directive 30 (ED 30) reinforces relationships between all city departments involved in the housing development process. However, this coordination was not apparent to developers and some community stakeholders. ED 30 presents a meaningful opportunity for developers, funders, and community stakeholders to track progress and ask for performance metrics as outlined in the directive.
- 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. Continued digitalization and electronic system sharing across departments could further streamline processes and track progress.
- The state of California and the City of Los Angeles need to work together to simplify and streamline funding applications and awards process for public funding sources (e.g., operating subsidies, LIHTC, soft loans). Developers repeatedly reported that multiple award processes are an enormous obstacle to accelerating housing development.
- There are common pain points felt by both housing developers and city staff. All parties are experiencing challenges related to staffing shortages and implementation of recent local and state legislation.

- Modular construction has significant promise to improve speed and predictability of housing delivery, but that it will take time and continued collaboration between developers, manufacturers, and public funders to realize these benefits.
- Estimated costs of developing PSH vary dramatically between developers and between projects. While unknown at this time, it is possible that the quality and durability of the buildings and units may also vary. Until the buildings are finished, and residents move in and live in the units for some time, the community will not know the life cycle costs of the housing that was funded in the spirit of innovation.
- 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.
- Several developers expressed a desire to have a community or roundtable to share experiences and learnings with each other.

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