

# Strategies for Sustainable Supportive Housing

 **HOUSING  
CREDIT  
CONNECT**

  
**NCSHA**  
50 YEARS

## PANELISTS

### DEBBIE BURKART

Managing Director, Supportive Housing | National Equity Fund, Inc.

### ISMAEL GUERRERO

President and Chief Executive Officer | Mercy Housing Inc.

### DANIEL SMITH

Senior Vice President | U.S. Bank

### KATHRYN TURNER

Senior Community Investment Officer | CSH

## DISCUSSION LEADER

### ALISSA ICE

Director of Housing Development | Kansas Housing Resources Corporation

# PSH: Tax Credit Environment

June 2024- NEF



# Older PSH struggling – “stitch in time”

- Mod rehab of older SRO hotels saved from demolition in 1980s/1990s w/ LIHTC
- CES/Housing First (2011)–required to serve higher acuity populations than in 1990s. Slowed referrals for vacant units
- 10+ years McKinney/S+C stagnant rents, deferred maintenance
- Without investment, Units fall short of Housing Quality Stds; PHAs reduce FMRs, some lose PBVs
- Preservation/resynd deals not competitive for new homeless assistance– Catch 22



# Threats & Take Aways

## Project Level

- Extended Eviction Moratorium increased Bad Debt Collections
- Deferred Maintenance; aging portfolios on edge
- CES (coordinated entry system)–Slow referrals; higher acuity residents
- Property Labor Shortage
- Insurance spikes

## Sponsor Level

- Aging portfolios– Require cash infusions for repairs & operation
- Slowed pipelines– (interest rates spike, construction costs inflation, shrinking public soft \$\$ )
- Higher Deferred Developer fees to fill gaps;
- Capped Dev Fees; Delays in earning Dev Fee

## Take Aways

- State/Local Gov't: set aside % of new **funds for preservation older PSH**
- **Add Flexibility to CES–** “Batch matching”; Add site based/community referrals (75%/25%)– faster leasing
- **Fix the Mix –** acuity levels
- **Flexibility AMI/Targeting–** add float up if project in financial distress & not fault of developer
- **Allow Insurance Reserve capitalized + OR & RR**



For More Information

Debbie Burkart

National Equity Fund

312.543.9584

[dburkart@nefinc.org](mailto:dburkart@nefinc.org)

# PSH Risks / Underwriting Responses

## General Deal requirements

- Sponsor financial strength and deal team experience is critical.
- Higher DSC ratios, replacement and operating reserves

## Slow tenant referrals for specific populations (e.g. VA and coordinated entry)

- Increased vacancy for PSH and longer absorption periods during lease-up
- Preference for reliable funding sources for tenant subsidies

## Need for services to maintain tenant/project stability

- Make sure that service provider is experienced and financially stable
- Understand the population served, the depth of the demand and the service needs and potential challenges
- Close look at services to make sure population needs are covered and budget is sufficient
- Ensure tenant access to required services (e.g. no bus trips across town required)

## Op / Ex increases for security, insurance, maintenance and turnover costs

- Close look at security plans/budgets based on population and location (high crime areas)
- Enhanced underwriting for insurance costs with comps from PSH units
- Turnover and maintenance expenses watched carefully



# LESSONS LEARNED FROM THE FIELD

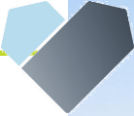
ISMAEL GUERRERO

CEO

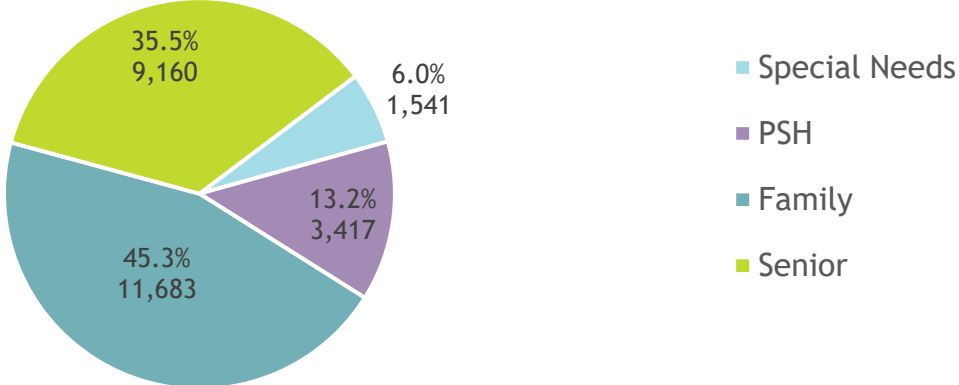
MERCY HOUSING, INC.

[ISMAEL.GUERRERO@MERCYHOUSING.ORG](mailto:ISMAEL.GUERRERO@MERCYHOUSING.ORG)

# RESPONDING TO STATE PRIORITIES



Current Portfolio by Occupancy Type



Development by Unit Type  
2019-2023





# PORTFOLIO CHALLENGES

## OPERATING REVENUE CHALLENGES

- 🕒 10% higher Unit vacancies for PSH Portfolio
- 🕒 87% higher Resident bad debt for the PSH Portfolio
- 🕒 18-20% higher Evictions for the PSH Portfolio

## OPERATING EXPENSE CHALLENGES

- 🕒 27% higher Staffing expenses
- 🕒 30% higher Routine Maintenance/Unit Turnover expenses
- 🕒 391% higher Security expenses
- 🕒 \$1,200/unit higher Insurance Claims

## PORTFOLIO CHALLENGES

- 🕒 Coordinated Entry and Voucher Referrals
- 🕒 Preservation and Recapitalization Challenges



# APPLY LESSONS LEARNED TO FUTURE PSH DEVELOPMENT

## Allow for alternative PSH preferred unit mix and project sizes

- a. Limit the % of PSH at a property, particularly for inexperienced operators
- b. 100% PSH for smaller properties (50-75 units)
- c. 20-30% PSH for larger properties (> 100 units)

## Updated Underwriting Standards Ideas

- 1) Stabilization Reserve for Years 1-3
- 2) Higher Operating PUPA for security, staffing, repairs, claims
- 3) Committed supportive services underwritten for 20 years
- 4) Commitment from HA for 100% PSH Project-Based Vouchers
- 5) Zero-Debt Requirements with more soft sources committed
- 6) Owner Cashflow top of waterfall dedicated to on-site services
- 7) Limit vacant days with Best-Effort clauses on referrals



# **SUSTAINABLE** **SUPPORTIVE HOUSING**

Kathryn Turner

Senior Community Investment Officer

[kathryn.turner@csh.org](mailto:kathryn.turner@csh.org)

# Supportive **Housing** is the Solution



Quality affordable housing

Support services that help people get in and stay in housing

Access to flexible supports like healthcare, mental health or substance use

A proven model to build communities where all people can thrive

# Connecticut Demonstration Program



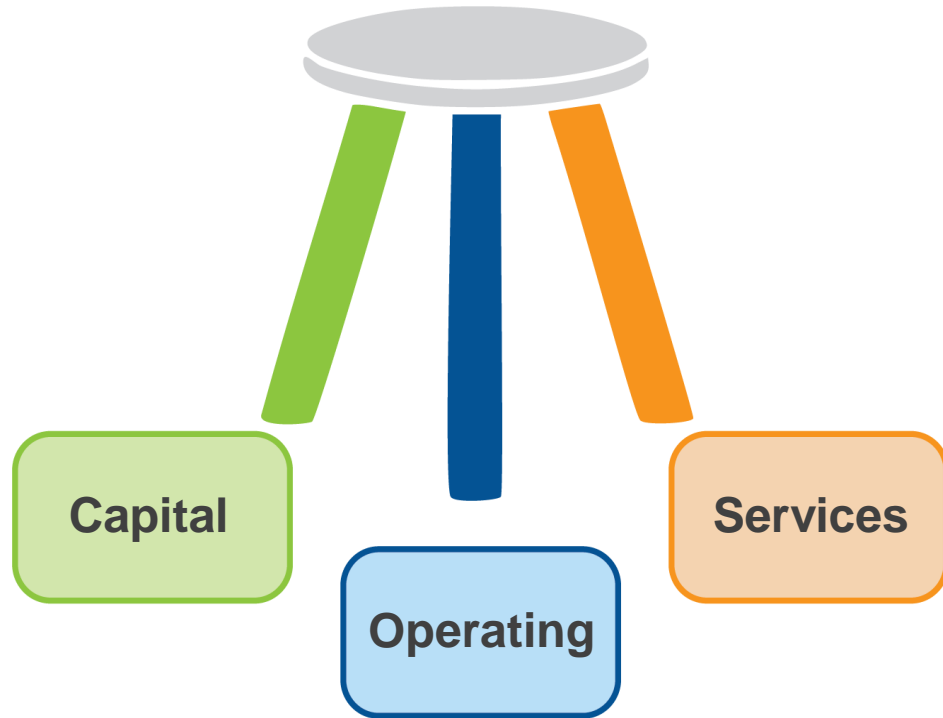
- 1993 Demonstration Program
- 9 properties led to over 4,400 units across CT
- Reserve account held by State partners
- Funds requested and released annually
- Allows oversight and open communication
  - Debt restructuring
  - Recapitalization
  - Layering of vouchers as available

# Strengthen **Existing** Supportive Housing

- Survey existing Supportive Housing providers
  - Deferred maintenance issues
  - Reserve account status
  - Voucher payment standards up to date
- Capacity building to bill Medicaid for services
- Recapitalization options



# Sustainable Supportive Housing Policies



- Hard debt has a huge impact
- Work with sister agencies to dedicate service funding to PSH (long-term) or create a SST Fund
- Work with housing authorities to prioritize PSH to receive PBVs
- Integrated models can be more successful in withstanding markets
- Increase (and/or hold!) allowable capitalized reserve accounts for PSH