Permanent Supportive Housing:

An Operating Cost Analysis

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About Corporation for Supportive Housing (CSH)

For 20 years, CSH has been a catalyst for housing connected with services to prevent and end homelessness. CSH develops innovative program models, provides research-backed tools and training, offers development expertise, makes loans and grants and collaborates on public policy and systems reform to make it easier to create and operate high-quality supportive housing. CSH's goal is to help communities create 150,000 units of supportive housing nationwide by 2012.

About Enterprise

Enterprise is a leading provider of the development capital and expertise it takes to create decent, affordable homes and rebuild communities. For more than 25 years, Enterprise has introduced neighborhood solutions through public-private partnerships with financial institutions, governments, community organizations and others that share our vision. Enterprise has raised and invested more than $11 billion in equity, grants and loans to help build or preserve more than 280,000 affordable rental and for-sale homes to create vital communities.

Visit www.enterprisecommunity.org and www.enterprisecommunity.com to learn more about Enterprise's efforts to build communities and opportunity.

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Is Permanent Supportive Housing a Good Investment?

Supportive housing funded in part by the Low-Income Housing Tax Credit (LIHTC) has a long history of success, delivering benefits for both residents and investors. As the tax-credit market has become more competitive, many investors and syndicators have asked questions about the risk and profitability of permanent supportive housing compared to affordable housing. Is permanent supportive housing stable over time? Does it produce adequate returns?

Enterprise Community Partners, Inc. (Enterprise) and the Corporation for Supportive Housing (CSH) jointly conducted this operating cost study to help address these questions in more detail. While past research has found that on an aggregated basis supportive housing performs well compared to other LIHTC projects, this study takes a closer look at the property level to provide analysis of individual operating costs. The major finding of this report confirms that permanent supportive housing is financially solid.

Methodology

Enterprise provided and CSH analyzed financial data for 10 affordable and 10 permanent supportive housing projects that have operated for at least two years (though most of the projects reviewed have been in operation for four or more years)[1]. All projects were financed with 9 percent Low-Income Housing Tax Credits syndicated by Enterprise Community Investment, Inc. Data from 2007, 2008 and 2009 were reviewed. The names of projects and their sponsors are not included in this report to protect confidentiality and promote unbiased discussion.

CSH and Enterprise defined the terms "permanent supportive housing" and "affordable housing" by 1) target population and 2) services offered.

Attributes of 20 Selected Projects:

- Average size: 51 units
- Smallest project: 24 units
- Largest project: 96 units
- 100% permanent supportive housing units: 8
- 75% permanent supportive housing units: 2
- Projects with no permanent supportive housing units: 10
- Locations: New York; Hartford, Conn.; Minneapolis; Chicago; Portland, Ore.; Seattle; Berkeley, Calif.; and Los Angeles
- Permanent supportive housing restricted to households earning up to 30% AMI
- Affordable projects restricted households earning up to 60% AMI

Permanent supportive housing:

- Targets residents who earn extremely low incomes; have serious, persistent issues that may include substance use, mental illness and HIV/AIDS; and were once homeless or at risk of homelessness.
- Offers services that include intensive case management, mental health and substance use therapy, employment counseling and other supportive services.

Affordable housing:

- Primarily targets tenants who earn very low incomes.
- Varies in the types of services offered but generally include services focusing more on the employment, educational and childcare needs of the tenants.

[1]Once screened by location, project size and target population, the permanent supportive housing selected to participate in this study were chosen at random. Enterprise then matched each permanent supportive housing project with a similar affordable housing project based on location, size, new construction or rehabilitation, and years of operation.

CSH analyzed the annual revenue, expenses and cash flow of each project by line item and the three-year average of revenue, expenses and cash flow for all of the projects. In addition, CSH conducted interviews with representatives from all 10 permanent supportive housing to further examine how the programmatic design and management of these projects impacted the operating results. CSH also asked the interviewees to identify factors that they believe contribute to the long-term success or failure of permanent supportive housing.

In this study, the cost for providing services in permanent supportive housing was examined to the extent that those costs were reflected in the project operating budgets. Funding for the provision of services and security rarely passes through the limited partnership and therefore was not available for analysis. Although limited, the interviews provided additional information on supportive services.

Key findings are described below. More detailed qualitative and statistical information is available in the attached appendices "Line-Item Comparison Report" and "Study of Yearly Average Per Unit Revenue, Expense and Cash Flow."

Key Findings

1) Occupancy was strong for both sets of projects, though revenues are 9 percent lower for permanent supportive housing than for affordable housing.

- The primary difference in revenues is attributable to rental income, including subsidy, which is higher in the affordable properties.

- Vacancy loss is generally comparable between the two sets of properties (4 percent in affordable housing versus 3 percent in permanent supportive housing). With economic occupancies of 96 percent and 97 percent respectively, these properties are stable.

- Time needed to turn over a permanent supportive housing unit averaged 30 days. Based on the interviews, permanent supportive housing projects with turnover time of 30 days or less rely on project-based waiting lists. Those with turnover time of more than 30 days are required to use centralized waiting lists at the local Public Housing Authorities (PHAs) or city, and are subject to PHA inspections. Interviewees attributed the extra time to the need to fit referrals to the screening criteria of the project and for background checks to be run.

- One interviewee whose agency owns a number of permanent supportive housing properties believes that once permanent supportive housing tenants stabilize and regularly utilize supportive services, they maintain their housing. She further stated that, in her experience, this is especially true when the permanent supportive housing units include private kitchens and bathrooms.

- In addition to their official roles, supportive service staff serve as advocates for the tenants, especially when tenant owes back rent. Several interviewees stated that a major reason that Permanent supportive housing tenants fall behind in rental payments is problems receiving their benefits payments. With the early intervention of a service provider to resolve these issues, tenants can more quickly receive their benefits payments and pay back rent.

2) Operating expenses are 11 percent higher for permanent supportive housing than for affordable housing, with security accounting for a large part of that difference.

- Permanent supportive housing incurred expenses of $613 more per unit per year than affordable housing.

- Legal, administration, security payroll/contract and property management expenses were, on average, 53 percent higher in permanent supportive housing as compared with affordable housing.

- At the same time, accounting/bookkeeping, real estate taxes and insurance expenses were, on average, 37 percent lower in permanent supportive housing as compared with affordable housing.

- Security payroll/contract expenses were significantly higher for permanent supportive housing. All but one permanent supportive housing project reported having security. Seven projects had 24-hours, per day, seven day per week security coverage and two projects had security between eight and 12 hours a day. Enterprise's portfolio of affordable housing projects generally do not provide security and those that do, usually do not offer 24-hour coverage.

- One factor that could contribute to higher salary costs in permanent supportive housing is additional staffing around security/front desk coverage. While security is a separate line item in the financial statements, interviewees from some of the permanent supportive housing indicate that they record security staffing costs in the administrative salaries line item. Further research and analysis of expenses is needed to understand exact expenses of security in both permanent supportive housing and affordable housing.

- Regarding higher legal fees for permanent supportive housing, several interview respondents stated that evicting tenants in permanent supportive housing properties takes a significant amount of time, requiring a greater involvement of attorneys to send letters and attend court proceedings.

- Payroll, supplies, contracts and other repair and maintenance costs were 4 percent lower for permanent supportive housing than affordable housing. Some interviewees attributed reduced costs to higher than anticipated tenant retention. One respondent who manages both project types stated that the permanent supportive housing projects in this study had lower repair costs due to the fact the property had efficiency units versus larger units, had single tenants versus families with children, and the on-site service provider helped tenants form a community that promotes positive interactions.

3) Cash flow after debt service and replacement reserve deposit is higher for permanent supportive housing. The Net Operating Income (NOI) is 46 percent lower for permanent supportive housing than for affordable housing. This is offset by the structure of having lower debt service.

- On average, permanent supportive housing projects had net operating income of $1,287 less per unit per year, but had cash flow of $360 more per unit per year than affordable housing. (Note: NOI is likely underrepresented in the permanent supportive housing due to some revenues not being reflected for services and security while expenses often are.)

- This stronger cash flow occurred despite permanent supportive housing receiving lower total revenue and having higher expenses due to lower debt service and replacement reserve deposits.

- Eight permanent supportive housing projects paid little to no hard (meaning debt with regular, required principal and interest payment at rates at or close to market rate) debt service, while all of the affordable housing projects carried hard debt service ranging from 13 to 64 percent of their total budget. (Note: The sample of 10 projects had higher debt service and NOI than Enterprise's portfolio overall.)

Summary Comparison	Permanent Supportive Housing	Affordable Housing
Total Revenue	$7,686	$8,360
Total Expenses	$6,180	$5,567
Net Operating Income	**$1,506**	**$2,793**
Annual Replacement Reserve Deposit	$327	$356
Annual Must Pay Debt Services	$171	$1,790
Cash Flow	**$1,008**	**$647**

- Real estate taxes were about 62 percent lower for permanent supportive housing. All but one permanent supportive housing project had substantial property tax abatements while six affordable housing projects in the sample paid full property taxes.

- Despite a lower NOI, the permanent supportive housing projects performed well overall. Of the years analyzed, more than 85 percent showed positive operations. Of those with negative NOI, there was modestly negative cash flow, usually covered by reserves structured for the properties.

4) Permanent supportive housing projects successfully maintain operating subsidies and offer services over time.

- Funding agencies are invested in the long-term success of their projects. When permanent supportive housing projects experience financing problems—reduced operating subsidies, unexpected expenses, a cut in service funding—these agencies have an interest in working with the project sponsor to find solutions.

- In looking forward to the next five years, seven of the 10 supportive housing respondents said their primary concern was maintaining service funding contracts at least at their current levels. Five respondents said that their service contracts had been cut an average of 8 percent over just the past few years. In order to make up this loss of funding, service providers increased their fundraising from private sources and reduced the number of hours that services are offered. A few fortunate service providers have been able to secure additional funding from other government sources.

- Permanent supportive housing owners and service providers often have the infrastructure in place to secure additional funding from philanthropy. Private fundraising has proven to be an important tool to meet funding shortfalls during tough economic times. A number of interviewees stated that when their services or operating funding levels have been cut, they have increased their current fundraising efforts to make up the loss or sought funding from a different agency. For example, in Seattle when the state cut funding for a services program, the provider was able to coordinate with the county to provide a similar service on site.

Conclusion

This survey provides powerful evidence that permanent supportive housing is a safe investment despite somewhat lower revenues and higher operating expenses compared to affordable housing. The primary reason that these projects have strong cash flow is due to significantly lower debt service obligations, which balances the lower revenues and higher operating expenses. A strong service partnership is crucial to maximizing housing stability, which in turn leads to increased rental income, and reduced repair and maintenance expenses.

As this study only looked at 10 affordable housing and 10 permanent supportive housing projects, we do not suggest that all properties will reflect our findings. Rather, these findings provide a more detailed picture of how specific types of permanent supportive housing properties successfully operate.

"How many permanent supportive housing projects have failed since 1985? Very few. These projects are complicated and layered, but they are worth the investment." *- Bill Hobson, Executive Director, Downtown Emergency Service Center in Seattle*

Operating Cost Analysis: A Line-Item Comparison*

	Permanent Supportive Housing	Affordable Housing	Difference
Net Operating Income & Cash Flow			
Net Operating Income	$1,506	$2,793	$1,287
Replacement Reserves (Deposits)	$327	$356	$29
Debt Service Payments	$171	$1,789	$1,618
Cash Flow Surplus	$1,008	$648	($360)
Revenue			
Total Net Revenue	$7,686	$8,360	$674
Occupancy			
Vacancy loss	$259	$336	$77
Vacancy rate	96.63%	96.67%	0.04%
Trend			
Growth in residential subsidy income	6.61%	3.12%	(3.49%)
Expenses			
Total Expenses	**$6,180**	**$5,567**	($613)
Professional Fees	**$292**	**$334**	$42
Legal	$87	$59	($28)
Accounting	$205	$275	$70
Administration	**$1,781**	**$1,147**	($634)
Advertising	$27	$22	($5)
Office salaries + tax	$1,029	$653	($376)
Office expenses	$725	$472	($253)
Security Payroll/ Contract Expenses	**$337**	**$98**	(239)
Repairs & Maintenance	**$1,513**	**$1,581**	$68
Property Management	**$585**	**$524**	($61)
Real Estate Taxes	**$128**	**$337**	$209
Insurance	**$357**	**$437**	$80
Utilities	**$1,081**	**$1,139**	$58
Must Pay Fees	**$65**	**($43)**	($108)
Social Services	$17	$2	($15)
Other Must Pay Fee	$48	($45)	($93)
Financing Fees	**$40**	**$13**	($27)
Trend: Increase in total expenses	3.49%	2.93%	(0.56%)

**All data are from between 2007 and 2009 and represent averages for the ten projects studied. Dollar amounts given as average amount per unit per year.*

"Enterprise was an early syndicator of tax credits for supportive housing. In our long history with these properties, that includes successful dispositions at Year 15, we have seen generally very strong performance from an operational standpoint as well as tremendous benefits to the residents living in those buildings. It's very heartening to see the changes in people's lives that come from having a decent home and the support that they need."

- *Beth O'Leary, Senior Vice President of Asset Management, Enterprise*

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