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State of the Market 38: The Push for Supportive Housing

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As affordable rental housing resources become more scarce, the market share of them devoted to Supportive Housing (SH) is climbing, as government increasingly pursues homeless-prevention and homeless-mitigation strategies that emphasize permanent housing and community-based solutions, placing ever more responsibility on private actors.

Already over 90% of LIHTC allocating agencies give SH scoring advantages; more than a third have minimum SH set-asides. Some agencies, like Louisiana, Michigan, and North Carolina, require *every* property to include SH apartments (typically 5% or 10%).

Given the financial incentives, many affordable housing providers are migrating into supportive housing, which is nudging them beyond basic real estate and into new, more service-intensive businesses.

What is Supportive Housing?

Affordable housing is justified as a haven out of poverty, and yet some people's poverty is more than just monetary, their personal self-sufficiency impaired by unwise life choices, unlucky circumstances, or just a bad roll of the genetic dice. SH couples shelter with support, using affordable occupancy as an opportunity for people to put their lives back together.

Housing + Services. SH is service-enriched accommodation that combines:

- A normal apartment (possibly retrofitted for handicapped accessibility) intended to be occupied by a recently homeless, institutionalized, or at-risk person or family who faces barriers to personal and economic independence and self-sufficiency.

Some burdens are too heavy to bear alone

plus

- A package of customized services, delivered in the home, that help residents achieve and sustain housing stability and increase their independence. These may address issues resulting from substance abuse, relapse, and mental health crises, as well as bad physical health or chronic unemployment.

Who is it for? People suitable for SH generally face cognitive or behavioral challenges that are at least episodically disabling, and will not cure themselves without help. These include mental illness, chemical dependency, HIV/AIDS, or other disabling or chronic conditions that are barriers to housing stability (e.g. experiences of domestic violence). The target populations usually include people with mental illness or disabilities (including substance abuse), often leaving jail or prison, young people aging out of foster care, and some elderly.

Why Supportive Housing?

The policy case. People with behavioral challenges can have tremendous difficulty

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sustaining a stable living environment, and that in turn disrupts or destroys their ability to regain economic stability through ongoing employment. Things that you or I might find routine – commuting to a low-wage entry job, showing up on time, taking prescribed medications, raising children – can be tough battles for folks who need help solving basic problems. Often they shuttle randomly among homeless shelters, hospital emergency rooms, jails, prisons, and living on the street, unable to break from an endless loop of chronic homelessness, as their living instability destroys hope of employment stability.

To break the homelessness cycle, we have to intervene both preventively and comprehensively. Evidence has shown that, given the opportunity, practice, and customized support, SH can help even the most disabled achieve housing stability and some modicum of independence.

Setting aside all questions of morality and examining the taxpayers' bottom line over a person's life-cycle costs, it is much cheaper for us as a society to house and fix these folks than to allow them to continue to remain homeless and broken.

The real estate case is stronger than you think. (1) SH apartments routinely run very *high physical and financial occupancy*, with consistent and dependable rent subsidies. (2) Compared with normal family affordable housing, SH properties sometimes have *fewer problems and incidents*, behavioral challenges being more than made up for by the additional on-site staff presence. (3) States are usually willing to put *more soft capital* into SH properties, so if things go wrong, the state is so heavily invested it is strongly motivated to help make the property work.

Making it work: the four roles

Given the multi-fold challenges of restoring a SH resident to self-sufficiency, affordable housing is a natural locus for supportive housing services. SH households are extremely low-income, unable to afford market housing, and many of the life-skill services they need to rebuild their lives are much more effective when readily available at their homes.

Blending a real estate asset and a social-service delivery creates stresses, particularly among owner, manager, resident, service provider, and funder. Proper handoffs are keys to make the system work, and for that, the parties need mutual understanding of each other's appropriate roles:

1. **Funder / referrer: State Department of Health, Mental Health, or Human Services.** All states have agency(ies) tasked with reducing homelessness and supporting those who have been or could become homeless. These have long backlogs of SH candidates who need housing and services, and money to pay service providers. To make their money go further, their best leverage is when someone climbs out of dependency to an improved level of independence.

   The funder has two principal duties: (1) Define, prioritize, and maintain a list of clients who are program-eligible for the affordable housing they will occupy. Program eligibility includes income (usually no problem), household size and composition, credit history, and criminal background checks. (2) Contract with and fund a service provider who will assist the resident in moving into the housing and living successfully in it.

2. **Service provider:** Usually a non-profit entity. Each service package is distinctive and customized for that individual. Moreover, under the law residents cannot be compelled to enter treatment or receive services, so they are truly the customers.

   Service providers, most of which are non-profit entities, have three principal activities. (1) Design and deliver the services package, usually at the resident's home in the affordable apartment property. (2) Coordinate their activities with the owner's and manager's requirements, often interfacing with the property's resident services coordinator. (3) Fit the cost of their services into the funder's budget, so that the property does not carry an unfunded mandate.

Out of necessity, many service providers have become affordable housing developers or partners – often reluctantly, sometimes enthusiastically. That means they have to be expert in two businesses, each complicated enough on its own.

3. **Resident.** Even if the resident individual (or household head) is struggling with inner demons, as a tenant in an affordable rental, he or she must adhere to the same rules as everyone else – in fact, that's the only way to prevent SH tenants from disrupting the property's society and its economics. As it would be for anyone else, serious misbehavior is grounds for eviction.

   Residents therefore have these duties: (1) Sign a regular lease, including security deposit, and pay rent like everyone else, with the lion's share of that rent normally paid from a resident income subsidy like Section 8. (2) Certify household income and pay the 30%-of-income tenant share. (3) Comply with the lease's normal behavioral requirements, like non-disturbance (no excessive noise), cleanliness (no hoarding), and safety (no violence or threats of violence).

4. **Owner/ manager.** Conventional owners and managers often find SH is a complication they wish they did not have to experience – which is why SH tends to be added to affordable properties, where the government can require SH participation as a condition of winning a LIHTC allocation. Thus, most of the owner/ manager's duties involve making SH apartments available but not having to subsidize them out of the operating budget.

   Owners and managers are expected to treat SH residents just like any other, and to stay out of the business of being service coordinators. That's better for everyone concerned: service providers shouldn't be managing real estate, and property managers shouldn't be provided household advice or learning intimate details of their residents' lives.

   The owner/ manager's duties include: (1) Hold the SH apartments vacant for a short interval (typically 30 days or less) so that the referring agency and service provider can deliver a qualified SH application. (2) Rent SH apartments to program-eligible residents, doing all the normal credit and background checks. (3) Be incurious. The owner and manager typically know nothing of the resident's medical or behavioral issues, and need not care: if the resident violates the lease, he or she is evicted like anyone else.

Issues and challenges with Supportive Housing

Though the roles and responsibilities are defined and the subsidies aligned, the business remains challenging, not least because many of our resources are available only after someone fails, not before. SH remains an emerging and to some degree contentious asset subclass, with many capital providers skeptical of the properties' operational viability and the government's reliability as a counterparty. Among the issues and challenges still facing this industry in emergence:

- **QAP mandates and 'sinking funds'**. When designing their QAPs, LIHTC allocators are not categorically required to assure that the winning properties are economically viable, and it is all too tempting to mandate SH or reward it with QAP scoring points, without worrying about the service costs. Sponsors competing to win LIHTC may squeeze their Sources and Uses to set aside (say) five years' worth of service costs, figuring that in the interval they can get lucky in any of several ways: revenues may rise to create cash flow, an outside servicer provider may find its own funding, or maybe the dog will talk. That's dangerous. A better strategy, adopted in some states, is a co-award by two agencies, LIHTC and service funding, at the same time.

- **Underwriting viability**. Because SH households are very poor, shortsighted allocators sometimes require that the SH apartments have rents set at a corresponding ceiling such as affordable to people with incomes of 30% of AMI (the Extremely Low Income definition). The result is a substantial increase in soft debt needed for those apartments. The allocators may have overlooked that even these minuscule rents will be higher than the SH residents can pay, so that subsidy will be needed regardless – and if the SH viability will depend on Section 8, why not set the rents at a higher level, such as 50% of AMI? That way the interruption of SH subsidy, if it happens, will mean the loss only of SH affordability, not of property viability.
- **Safety valves if funding disappears**. If the requirement for SH occupancy is absolute, owners may be forced to leave apartments vacant, through no fault of their own, because the referring agency or service provider cannot locate a suitable new program-eligible resident. Even with explicit government-agency commitments for dependable referrals, properties should have an automatic safety valve built into their regulatory agreement that if no qualifying tenant is brought forward within (say) sixty days of vacancy, then the owner can rent to a regular LIHTC resident, with the obligation to house the next proffered SH resident in the next available vacancy.
- **Purpose-built or deconcentrated?** Some SH properties are purpose-built – designed to be occupied solely by SH residents, with no regular renters. These structures can be custom-designed, with facilities built in, so there can be considerable operating efficiencies. Yet but their Total Development Costs can be quite high, and the facility may become less an apartment property and more a service facility, out of touch with its neighborhood and isolating residents from potential communities.

  Some properties deconcentrate the SH residents by sprinkling them in as a small minority of a typical affordable property. This is much more effective in mainstreaming the population, but forfeits economies of scale essential to today's most effective service programs, and risks entangling the property's operating budget with the service costs.

Conclusion

For half a century, the business of being a landlord has become ever more complicated and service-oriented, especially in affordable housing, a trend continued by Supportive Housing.

Sponsors and investors will want to master the program's nuances, as it's increasingly critical to developing and owning affordable housing.

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