The Mayor's Proposition HHH Housing Challenge: Rising to the Challenge

Executive Summary

High costs and the lengthy timeline to develop affordable housing are consistent obstacles in addressing the affordable housing crisis in Los Angeles. With limited public financial resources that often come with burdensome regulations, and consistent increases in labor and construction materials, housing costs remain a significant hurdle for development. While real estate development in general has a lengthy process, timelines tend to be specifically prolonged with affordable housing development due to the need for multiple funding sources (to begin construction) and bureaucratic municipal processes. Creating more affordable housing faster and cheaper is imperative to get Angeleos off the street and into housing with supportive services.

To address the cost and speed at which supportive housing is developed, the Mayor's Office, at the urging of the Proposition HHH Citizens Oversight Committee (COC), initiated a challenge to the developers of the City of Los Angeles– "submit your most innovative proposals for permanent supportive housing developments and we'll help fund the best ones." The Proposition HHH Housing Challenge (HC) sought to challenge and incentivize the housing development community to come forward with creative strategies for building high-quality and sustainable supportive housing more quickly and at less expense.

On May 9, 2019, as recommended by the Proposition COC and Administrative Oversight Committee (AOC), the Mayor and City Council authorized a set-aside of up to $120 million of Proposition HHH bond proceeds to issue the Housing Challenge RFP to produce 1,000 new permanent supportive housing (PSH) units faster. The challenge sought to identify process refinements, alternative housing typologies and/or innovative financial models to improve the speed of PSH development and drive down project costs.

The HC received 19 proposals with over $350 million of financing requests. In September of 2019, six development teams were awarded a total of $120 million to test innovative approaches for the construction of 975 new units of supportive housing (1,001 units inclusive of manager units). The awardees were provided the support of the Mayor's Housing Solutions Team (HST) and the HC RFP provided applicants with the choice to propose either:

- A Subordinate Loan (with similar terms and underwriting policies and procedures of the current Prop HHH Loan Program) to support an individual project for which the Proposer already had site control, or
- Prop HHH Reservation (of up to $40M) for Development Teams that wished to pursue multiple projects and/or alternative financing strategies other than the current Prop HHH Loan Program.

The six awardees chose the Prop HHH Reservation to pursue multiple projects with alternative financing strategies. The awardees were:

- Restore Neighborhoods, LA ("RNLA")
- Daylight Community Development
- Abode Communities/Mercy Housing/LA Family Housing ("Collaborative")
- Brilliant Corners
- Bridge Housing
- Flyaway Homes

Their solutions include the following:

- A simplified capital stack with minimal funding sources (specifically less public sources) that does not include Low Income Housing Tax Credits (LIHTC) on small, by-right sites. Eliminating added funding sources also eliminates extra legwork, legal fees, and time– all of which minimize overall development costs;
- A revolving construction loan fund (RCLF) to finance modular construction and predevelopment costs which gives developers access to funds while the project is being built. As those funds are paid off, they "revolve" into other projects to maximize impact;
- Funding from Opportunity Zone Funds and other private sector capital that could potentially minimize the use of LIHTCs and other public financing sources, saving time and money;
- Prefabricated modular construction, or units that are factory-built, can be constructed simultaneously with the building, which provides crucial time savings; and
- A strategy focused on adaptive reuse of non-residential properties, allowing the City to make use of other, and ultimately, more available sites to produce affordable housing.

Rising to the Challenge

It is unprecedented for a municipality to carve out a significant amount of funding ($120M) to test solutions to scale the production of affordable housing. By testing these ideas for developing housing with speed, reduced costs, while delivering quality housing, the City has the opportunity to build on the promising outcomes and solutions created through the Housing Challenge, and refine municipal processes to encourage speed of housing development while minimizing overall costs. Promoting and supporting these solutions in the City requires providing the necessary leadership and resources to each City department and continually evaluating internal processes to find ways to streamline and improve the ability of the development community to secure capital, expedite the entitlement process, close financing, and speed up construction and lease-up. This centralized collaborative housing production effort in the City paves the way for greater collaboration and efficiencies with our federal, state, county, and private sector partners.

In addition to outlining the City and Mayor's Office involvement in the Housing Challenge, this report describes the solutions identified by awardees and offers recommendations for how the City might scale these solutions to further promote quality and safe affordable housing faster and at a lower cost.

HHH Housing Challenge: Three Years Later

As of November 2022, of the 15 projects in the HC development pipeline, six projects representing 343 permanent supportive housing units are under construction. A total of 851 units of PSH units are expected to come online, just 124 units short of the 975 PSH units targeted to come online through the six application HC applications.

Unforeseen circumstances, specifically the COVID-19 Pandemic, had a dramatic impact on the development of these projects on multiple fronts. As a result of the pandemic, one of the key actions implemented by the Mayor, included a tolling order to suspend development timelines to allow developers more time to secure sites. Also as a result of the pandemic, increased market uncertainty, restrictive covenants on potential land purchases (Los Angeles County related), significant construction delays and skyrocketing materials costs resulted in more stringent construction budget underwriting requirements which drove up costs and increased the demand for additional sources of capital.

The initial completion timeline for the 15 HC projects will fall outside of the RFP milestones which anticipated all projects to be built and leased by December 2022. This is largely a function of the aforementioned challenges and the City's housing ecosystem infrastructure and lack of nimbleness and resources to accommodate new innovations that speed up the development of affordable housing.

Despite the aforementioned challenges and criticisms on HHH investments including the HC program, the HC has delivered on its promises via the RFP mandate of achieving overall lower costs and successfully testing scalable innovative housing solutions.

To further illustrate: The estimated average total development cost (TDC) per unit for all 15 projects in the HC pipeline is and estimated $515,684 (versus $600,000 + for Affordable Housing projects in the City), with HHH proceeds of $111,211 per PSH unit (below the HHH Program maximum of $140,000).

Promising Solutions

HST has arrived at this point of the HC development process by closely working with LAHD and other City agencies. In the last three years, HST has learned more about the infrastructure of the City's housing production machine that has helped facilitate the HC projects through the development process as well aspects of the City housing production infrastructure that could be reimagined.

Additionally, over the course of the HC, a series of "Developer Roundtable" discussions provided the development teams and the HST with an opportunity to elevate issues of maximum impact to improve housing development in Los Angeles. The HC identified several solutions that could further speed development and reduce costs. The innovations were identified and the merits of the innovations were weighed against potential risk. Moving forward, a process will need to be formalized to implement the innovation including procedural changes within City departments. The many lessons and outcomes are outlined below.

- **Modular Construction:** Four of the six awardees chose modular construction as a construction typology. This typology received funding from the traditional PSH loan program before the Housing Challenge RFP was issued. The Housing Challenge placed greater emphasis on this construction typology as a viable time savings tool. Modular construction as a time savings option is a viable tool for the LA affordable housing ecosystem that will need to leverage streamlining initiatives such as ED 30 and the Modular Memorandum Of Understanding (MOU) established by city departments in conjunction with one of the HC awardees.

  Further, HC developers' proposals included the use of HHH proceeds to fund modular deposits. Modular construction requires capital earlier in the development process to pay for production and material deposits. While construction lenders are increasingly more comfortable paying these deposits earlier, oftentimes financial partners (including LAHD HHH proceeds) have to come in sooner to pay for modular deposits. This solution requires that the City revise and streamline internal payment processes.

  The Mayor and the HST support the use of modular construction as a viable option for the timely production of affordable housing and permanent supportive housing units. This support includes the alignment of state and local agencies to standardize and streamline modular production and the funding of modular related costs. Modular construction is a featured innovation in several Housing Challenge projects and promising innovations regarding financing modular related costs are part of several of the Housing Challenge developer's strategies.

- **Modular MOU:** The Collaborative (through its application) introduced an outline to clarify the City and the State approval process for factory built housing from initial plan submittal through Certificate of Occupancy. HST convened a working group of developers, designers, and consultants to create an interdepartmental MOU between the Department of Building & Safety (DBS), Fire (LAFD), City Planning, and LAHD which was executed in October of 2020. The MOU facilitates process improvements to provide payments at construction loan closing.

- **Expand Adaptive Reuse:** Brilliant Corners believes an adaptive reuse strategy focused on the production of affordable housing has merit; however, the types of sites that are best suited for adaptive reuse and achievement of projects over 40 units are not in abundant supply. Smaller sites may be easier to identify, but current funding streams for supportive housing (including LAHD's Affordable Housing Manage Pipeline) incentivize larger scale projects. Also, the adaptive reuse strategy is not without its challenges. While there are savings from utilizing an existing structure, Brilliant Corners has encountered unforeseen conditions that have increased costs and delayed the schedule (such as required soil compaction under the existing building) and repair of the structure's trusses. The Brilliant Corners concept of utilizing Adaptive Reuse experienced challenges with parking reductions and an exemption from site plan review. These factors prevented some prospective sites from being feasible for development.
- **Capital:** The Collaborative successfully convened LISC, the California Community Foundation, the Conrad N. Hilton Foundation, and CommonSpirit Health for the creation of a $6M Revolving Construction Loan Fund (RCLF) to pay for predevelopment deposits associated with modular construction. The Revolving Construction Loan Fund structure introduced by the Collaborative evolved to exclude City funding. The initial RCLF pool was expected to be over $10M. According to the developer, as private construction lenders have become more comfortable paying modular deposits during construction, the coalition of funders became comfortable without having a top loss guarantee from the City. The Collaborative determined they wouldn't need as much for the RCLF and instead ended up funding through CDFI/ foundation partners while using the $5M of their HHH award as a top-loss guarantee. LAHD did not support this approach but nevertheless the RCLF proved to be a popular tool amongst all Awardees. The new tool can be used for a number of pre-development expenses (including during modular deposits to hold a place in the construction queue). This is a common theme and ongoing need of developers including the HC awardees.

A simplified capital stack with minimal funding sources (and potentially excluding Low Income Housing Tax Credits, LIHTCs) reduces the time and risk associated with sourcing funds, as well as reducing the various regulatory requirements associated with each funding source. For example, HC developers' proposal of financing with a simplified capital stacks and using HHH proceeds evolved into efforts by HST (working with City departments) to revise processes to accommodate alternative sources of capital that help reduce the overall funding sources needed to build housing. Rather than coordinating, on average 5-6 various sources, an optimum simplified capital stack is four or fewer capital sources. In this way, implementing these innovations requires the City to revise and streamline internal processes and consider different loan structures for City funds.

Opportunity Zone Funding: Bridge Housing secured a commitment for Opportunity Zone Funds from an institutional source. The proceeds are somewhat minimal and still requires the developer to leverage LIHTCs and other sources in addition to HHH proceeds. Nonetheless, this represents a new capital source that has an appetite for affordable housing investing. The City will need to further encourage the investor community to offer alternatives to LIHTC funding. There is statistical evidence that the public sector's increasing role in policy and land use incentives will add institutional capital to affordable housing development. Additional data and testing will be needed to determine true scalability. Implementing this solution requires the City to revise and streamline internal processes and consider different loan structures for City funds.

- **Experience Level of Developer Pool:** Navigating the development process within the City can be challenging for newer developers seeking to enter the field. Technical assistance (with more staff) is key. While new HC solutions and innovations are viable, the broader development community may not have the technical knowledge of the development process within LAHD (and of City departments in general). As the development processes within the City continue to be reimagined/improved, a mechanism to regularly and easily translate the new procedures and requirements to developers will be necessary.
- **Increasing subsidy per unit:** Several awardees relied on No Place Like Home (NPLH) funding in their initial application. NPLH was not readily available due to a compressed timetable. This caused gaps in the capital stack for several HC developers. Exploring a greater subsidy per unit going forward is a viable alternative to eliminate gaps in the capital stack and limit the number of funding sources needed to fund construction.

Awardee Program Summaries/Proposed Strategies

Once final projects were selected, HST partnered closely with LAHD and each developer to implement solutions outlined in each unique MOU. HST established offices within LAHD and became acquainted with the day to day process for bringing each project to a financing close. Working with several teams within LAHD, the Housing Finance Officer (HFO) set up loan profiles for each HC project through a HC portal that connected to LAHD's Housing Information Management Systems (HIMS). This placed all HC projects in the same database as all LAHD loan transactions and allowed LAHD to include HC monthly updates on its Dashboard that the HFO also helps to update.

HST became familiar with the LAHD's underwriting teams and senior leadership and conducted daily briefings on each awardee's proposed solutions to accelerate permanent supportive housing production. HST worked with LAHD's Financial Development Officers (FDOs) to obtain necessary approvals beginning with the Citizens Oversight Committee to the full City Council.

As a result, 13 of 15 projects have LAHD Financial Development Officers (FDOs) assigned. This created an early transition of projects to their final home (from the Mayor's office to LAHD). Due to strained resources, two projects currently do not have FDO's. Although the two project's do not have a FDO assigned, they are part of an official HC tracking pipeline managed by an LAHD Management Analyst (MA) and a transition is in process. Once resources are available, FDO's will be assigned to the projects. Once project's have a FDO, they are officially transitioned to LAHD.

All HC projects have had significant time to secure all remaining capital commitments (beyond the 12 month expectation). HST has set the expectation that all projects should secure final capital commitments and close financing in 2023. As all projects (not just HC transactions) go through a development life cycle, LAHD will make a feasibility decision to continue with a project based on timing of the initial HHH award and feasibility of moving forward and securing all capital commitments (subject to the existing Mayor Tolling order).

Although projects transferred to LAHD, the catalyst to scale Promising Solutions initiated through leadership from the Mayor's office to support the HC which promotes centralized financing and streamlining (ED 30) decisions to improve the entire development process for affordable housing production in the City.

A full list of the 15 projects can be found on the following page.

PROJECT NAME	DEVELOPER	TOTAL PSH UNITS	NEIGHBORHOOD	PROJECTED COMPLETION
WHITTIER PSH (Under Construction)	Mercy (Collaborative)	63	Boyle Heights	2023
BEACON LANDING PSH (Under Construction)	Abode (Collaborative)	88	San Pedro	2023
WESTERN PSH (Pre-development)	Abode (Collaborative)	80	Harbor City	2024
SHERMAN WAY PSH (Pre-development)	LA Family Housing (Collaborative)	63	Reseda	2024
DEVONSHIRE PSH (Pre-development)	LA Family Housing (Collaborative)	99	Chatsworth	2024
NEW HAMPSHIRE PSH (Pre-development)	Bridge Housing	93	Koreatown	2025
WEST ANAHEIM PSH (Pre-development)	Flyaway	49	Wilmington	2024
LAGOON PSH (Pre-development)	Flyaway	39	Wilmington	2024
MCDANIELS HOUSE (Under Construction)	Daylight	46	Van Nuys	2023
THE MAHALIA (Under Construction)	Daylight	48	North Hollywood	2023
OATSIES PLACE (Under Construction)	Daylight	45	Van Nuys	2023
FIGUEROA PSH (Pre-development)	RNLA	41	South Los Angeles	2024
WESTLAKE PSH (Pre-development)	RNLA	18	Echo Park	2024
62ND STREET PSH (Pre-development)	RNLA	26	South Los Angeles	2024
AVALON (Under Construction)	Brilliant Corners	53	Wilmington	2023
Total		851		

The following section highlights Awardees strategies detailing the proposed and actual outcomes relative to the following salient RFP scoring factors.

Streamlining Solutions: A Collaboration of Abode Communities, Mercy Housing California and LA Family Housing ("the Collaborative")

Housing Challenge Awardee, the Collaborative, was awarded a HC Proposition HHH Reservation of $40 million to build 354 permanent supportive housing units. The Collaborative's program standardizes modular design and reduces timing for securing entitlements. In terms of its financing plan, the Collaborative utilizes 4% Low Income Housing Tax Credits (LIHTCs) and bonds. In consideration of the projects employing off-site modular construction, the Collaborative utilizes funding from their proposed Revolving Construction Loan Fund (RCLF) carving out $5 million from the $40M HHH award.

Proposed. The Collaborative requested an HHH subsidy/unit amount of $97,222 (well within the maximum $140,000 subsidy per unit allowed under the RFP) while pursuing modular construction to build 354 PSH units. The expected TDCs were $429,675 and the capital structure utilizes LIHTCs and a RCLF with $5M in funding from the $40M HHH award.

Actual. Average TDCs for the Collaborative's projects are now $534,286 and the capital structure remains a LIHTC execution. The Collaborative's actual subsidy per unit amount is now $101,787. The RCLF is funded solely through contributions from the California Community Foundation (CCF), CommonSpirit Health, and the Hilton Foundation to pay for upfront modular deposits. On August 2, 2022, the Housing Finance Officer successfully received approval from City Council for the awardee to use the $5M set aside for the RCLF as capital for three of the five projects yet to close construction financing. The Collaborative is on track to build 393 units in five projects. Two sites from the Collaborative, Beacon Landing and Whittier PSH are currently under construction and both are expected to be completed in June 2024. The remaining projects include Western PSH which has been underwritten by LAHD and the project submitted a CDLAC application in August of 2022. Sherman Way and Devonshire are still pending LAHD underwriting. Once reviewed and approved, these projects will be presented for consideration for admission to a Project Expenditure Plan (PEP). The developer is outside of the HC RFP timeline milestone completion date of December 2022 but remains at TDCs below most City funded affordable housing projects. The remaining projects will require an additional funding source. The Collaborative is applying for other public funding (including funding from the state and county). The expectation is that these remaining projects secure all remaining funding commitments and close in 2023. LAHD will assess the feasibility of the projects moving forward if the projects don't receive the remaining funding commitments.

RETHINK Housing Program (RNLA)

Housing Challenge Awardee, RNLA, was awarded a Proposition HHH Reservation of $10M to build up to 95 permanent supportive housing units. Using Genesis LA's RETHINK Housing model, RNLA's program streamline development and financing with a "One Stop Shop" model consisting of a vertically integrated team with expertise in development, architecture, financing, social services, and property management. Genesis LA will provide a single source of financing for predevelopment, construction, and permanent financing. HHH was the only other source of financing at the time of the application.

The developer proposed by-right land use incentives, no parking requirements, increased density for projects near transit, and expedited permitting for a compressed development timeline. Moreover, the development team created efficient designs built upon archetypal Los Angeles housing typologies, such as bungalow courts and garden apartments. A typical 20-unit project (19 PSH units, 1 manager's unit) of studio apartments will serve single individuals who have experienced homelessness and need services.

Proposed. RNLA requested an HHH subsidy/unit amount of $100,000 (well within the maximum $140,000 subsidy per unit allowed under the program) to build 95 PSH units. The expected TDCs were $205,220 and the financing approach was a simple capital structure utilizing HHH and funding from GenesisLA (construction and permanent financing). LIHTCs was not contemplated.

Actual. Currently, RNLA's subsidy per unit request is $140,000. The developer is on track to build 85 units in three projects (Westlake PSH, 62nd ST PSH, and Figueroa PSH). Average TDCs for three projects are now $412,610 and the capital structure remains a non LIHTC execution with the use of HHH, a loan from GenesisLA, Affordable Housing Program (AHP) funding, and potential proceeds from the California Department of Housing and Community Development (HCD) through its Multifamily Housing Program (MHP). According to the developer, structural costs and labor compliance costs placed upward pressure on TDCs. Specifically, significant increases in construction materials and overall inflation placed upward pressure on overall TDCs. One of the challenges RNLA has faced with their smaller unit program is that PSH requires an on-site manager which adds to costs for smaller projects. In addition, the developer needed to increase its operating expense budget to adhere to LAHD underwriting standards. LAHD underwriting standards largely follow LIHTCs underwriting standards.

Westlake PSH, 62nd ST PSH, and Figueroa PSH are still pending LAHD underwriting. Once reviewed and approved, these projects will be presented for consideration for admission to a Project Expenditure Plan (PEP) and subsequently to a construction close in the first quarter of 2023. The developer is also outside of the timeline milestones completion date of December 2022. As a backup to the non LIHTC strategy, the developer has prepared CDLAC and TCAC applications for potential 4% or 9% executions.

Daylight Community Development

Housing Challenge Awardee, Daylight, was awarded a Proposition HHH Reservation of approximately $23.8M to build up to 132 permanent supportive housing units across three projects. Daylight's program standardizes modular design and reduces timing for securing entitlements (by-right, high density projects in smaller, urban, in-fill parcels). Daylight's program model focused on a non LIHTC solution, well-funded public programs (such as No Place Like Home, NPLH) and new and leveraging existing streamlining initiatives, to bring market-rate efficiencies to the affordable housing industry. Daylight's proposal contemplated creating a two Tranche (Tranche A and Tranche B) HHH loan for each of the three projects. Tranche B is anticipated to fund at construction loan closing. Tranche B would be repaid in part from Net Operating Income (NOI) level cash flow during the first three years of project operation. Three years after construction completion and building occupancy, Daylight will secure privately placed permanent financing. The outstanding balance of Tranche B would be paid through the permanent loan proceeds. Tranche A would be a residual receipts loan payable to LAHD.

Proposed. Daylight requested an HHH subsidy/unit amount of $125,000 while pursuing modular construction to build 132 PSH units. The expected TDCs were $429,675 and the capital structure utilizes public funding from LAHD and the Los Angeles County Development Authority (LACDA) through NPLH along with private funding.

Actual. Currently, Daylight's subsidy per unit request is $126,619. NPLH was an integral part of the developer's strategy. Once this source was not available, the developer worked with LAHD to convert their three projects into LIHTC transactions. The speed of conversion to LIHTCs (including one 9% project) allowed this developer team to maintain a relatively decent timeline for completion of its projects. The developer is on track to build 139 units in three projects (The Mahaila, Oatsies Place, and McDaniel House) and the average TDC across for all projects is now $477,063; all are currently under construction. The Mahaila will be the first HC project to open out of the entire HC program. Oatsies Place and McDaniel House will open shortly afterwards.

Flyaway Homes

Housing Challenge Awardee, Flyaway, was awarded a Proposition HHH Reservation of $19.5M to build up to 195 permanent supportive housing units. Flyaway's program standardizes modular design and reduces timing for securing entitlements. Team FlyAwayHomes' (in collaboration with Gensler, CBRE, The People's Concern, and West Builders) included plans to leverage its HHH reservation funding along with private debt and equity capital to produce supportive units through a shared housing model. By limiting the size of developments to no more than 50 units (possibly up to 65 units under SB 35), Flyaway uses zoning ordinances such as AB 2162 and the Transit Oriented Communities (TOC) ordinances to build by right, reducing development risk, time, parking requirements, uncertainty, and costs. As each development will be approximately 70% funded with private capital, Team Flyaway requested that HHH's Residual Receipts Note ("HHH Note") be subordinate to all private capital until such capital receives its stated or preferred return.

Proposed. Flyaway requested an HHH subsidy/unit amount of $100,000 while pursuing modular construction to build 195 PSH units. The expected TDCs were $311,629 per unit and the capital structure was a non LIHTC execution with funding from the HHH award and private capital.

Actual. Average TDCs for the Flyaway projects are now $447,496 and the capital structure remains a non LIHTC execution but the team has brought in a partner (Holos Communities) and the collaboration with Holos will also include LIHTC executions as a back up plan. Flyaway's actual subsidy per unit request remains at $100,000. Flyaway is on track to build 88 units of PSH in two separate projects (Lagoon PSH and West Anaheim PSH) utilizing approximately 45% of its HC $19.5M award. The remaining 55% in proceeds were returned and repurposed to a non Housing Challenge program. As a result of the pandemic and growing inflation, Flyaway moved from private capital to instead rely on public sources (MHP) for Lagoon and West Anaheim. Lagoon and West Anaheim are pending LAHD underwriting. Once reviewed and approved, these projects will be presented for consideration for admission to a Project Expenditure Plan (PEP) and subsequently to a construction close date in the first half of 2023. This project will also exceed the December 2022 deadline for all HC projects. As referred to in this section the developer has prepared CDLAC and TCAC applications for potential 4% or 9% (through the Affordable Housing Managed Pipeline, AHMP) executions.

Brilliant Corners

Housing Challenge Awardee, Brilliant Corners, was awarded a Proposition HHH Reservation of $7M to build up to 55 permanent supportive housing units. Brilliant Corner's program centers around scaling adaptive reuse to address homelessness. This approach includes exploring potential sites such as using existing structures with minimal site work needed and where the building envelope can be retained, centering most construction around interior improvements, and building system upgrades, leading to much lower per unit costs of development. Examples of these properties could include office buildings, churches, self-storage facilities or warehouses. Brilliant Corners proposed to use Los Angeles County Development Authority's (LACDA) No Place Like Home (NPLH) funds as a source of financing. The original application did not contemplate the use of LIHTCs.

Proposed. Brilliant Corners requested an HHH subsidy/unit amount of $125,000 while pursuing an adaptive reuse construction typology to build 55 PSH units. The expected TDCs were $442,154 and the capital structure was a non LIHTC execution that included HHH, AHP, LACDA funding, and permanent debt.

Actual. Currently, Brilliant Corner's subsidy per unit request is $129,630. No Place Like Home (NPLH) was an integral part of the developer's strategy but these funds were highly competitive and disbursed on an accelerated timeline. According to the developer, it remains difficult to identify non-traditional financing sources for deeply affordable supportive housing due to the increased cost of construction.To avoid delays in development, Brilliant Corners chose to restructure with 4% tax credit equity and bonds to fill any capital gap. The developer is on track to build 53 units of PSH in one project (the Avalon) utilizing 100% of its $7M award. Avalon is currently under construction and is expected to be completed in June 2023.

Currently, average TDCs for the project is $611,447, this amount is consistent with rising affordable housing costs in the City. The estimated total development cost has increased due to unprecedented levels of cost escalation during the past few years, in part due to the COVID-19 pandemic and supply chain issues.

While Brilliant Corners reports savings from utilizing an adaptive reuse strategy, some unanticipated conditions increased costs and delayed the timeline, such as the required soil compaction under the existing building and repair of the structure's trusses.

According to the developer, the Qualified Permanent Supportive Housing (QPSH) Ordinance was key, allowing the development to move forward as proposed, with additional density and parking reductions as well as other incentives such as set back reductions requested as part of the entitlement approval. It also allowed for a CEQA exemption, with no possibility of appeals. This process expedited approval of the development and removed uncertainty from the process, which is extremely beneficial to developers as it lowers risk.

The project began construction in March 2022. The expected completion date of June 2023 was pushed back due to unforeseen conditions related to the existing building, including additional soil compaction and repair of trusses in the building.

Bridge Housing

Housing Challenge Awardee, Bridge Housing, was awarded a Proposition HHH Reservation of $19.7 million to build up to 142 permanent supportive housing units in two projects. Bridge proposed a three pronged solution approach for the creation of permanent supportive housing in the City of Los Angeles through: 1) Utilization of Opportunity Zone investment to increase available equity in the capital stack; 2) Employing innovative building technologies to shorten construction time, thereby reducing costs; and 3) Creatinge replicable and scalable design programs and service prototypes that serve the unique needs of Transition Age Youth (TAY) and homeless families.

Proposed. Bridge Housing requested an HHH subsidy/unit amount of $139,000 while pursuing traditional construction that employs innovative building technology through the use of Prefabricated Steel Frame System (Prescient) that is expected to reduce construction time to build 142 PSH units. The expected TDCs were $550,000 and the capital structure utilizes LIHTCs, HHH award, Opportunity Zone proceeds and funding from LACDA through NPLH.

Actual. Currently, Bridge's subsidy per unit request is $136,631. No Place Like Home has been replaced with MHP in the financing stack due to lack of availability of NPLH funding. Currently, average TDCs for the project is $608,085. The estimated total development cost has increased due to unprecedented levels of cost escalation during the past few years.

Bridge Housing is on track to build 93 units of PSH in one project (New Hampshire PSH) utilizing approximately 66% of its $19.7M award. New Hampshire is still pending LAHD underwriting. Once reviewed and approved, the project will be presented for consideration for admission to a Project Expenditure Plan. A second project was withdrawn due to a covenant issue on the land purchase.

Housing Challenge Request For Proposal (RFP) Review Process

This section of the appendix describes the application and review process (including threshold review, eligibility review, and financial feasibility analysis) scoring process, proposals recommended for funding, Memorandum of Understanding, as well as market dynamics and implications for the housing ecosystem for scaling aspects of each solution.

Threshold Review:

A critical component that contributes to a successful proposal includes well-prepared documentation that establishes a clear understanding of the requirements set forth in the Prop HHH Housing Challenge RFP. To that end, all the 19 applications underwent a threshold review process performed by LAHD staff with assistance from the Housing Solutions team to ensure that all required documents were completed and submitted in each organization's application by the submission deadline of June 24, 2019. Fifteen submitted applications passed the threshold review and advanced to the eligibility review and feasibility analysis.

Eligibility Review and Financial Feasibility Analysis:

In addition to the threshold review, the Mayor's Office thoroughly reviewed each of the 15 applications for program and project eligibility requirements including, but not limited to, the following:

- Demonstrates proposed projects are ineligible or unfeasible under current LAHD Prop HHH Call for Project guidelines;
- Proposed project(s) is located in the City of Los Angeles;
- Proposal application type is identified (Subordinate Loan or Prop HHH Reservation);
- Terms of Funding commitments meet specified RFP limits;
- Funding Amounts meet specified RFP limits;
- Projects must include ancillary space for the provision of on-site supportive services; and;
- AH projects must utilize the Coordinated Entry System (CES) for tenant selection.

To determine financial feasibility, the Mayor's Office staff reviewed each proposal's development costs and underwritten expenses. The financial feasibility analysis included but was not limited to the following:

- Reasonableness of project construction costs and tax credit pricing assumptions;
- Review of estimated project rents to determine if they are reasonable and realistic;
- Review of cash flow after debt service to determine if cash flow is positive over the course of time;
- Review of project reserve accounts and replacement reserve levels to ensure amounts are appropriate and feasible;
- Review of the HHH per-unit funding to ensure that the amount is within the approved maximum HHH funding limits; and,
- Review of financial statements submitted by members of the development team to affirm sustainability of the ownership entity, and to safeguard completion of the project.

Scoring Process

LAHD and the Mayor's Office anticipated that the Housing Challenge RFP could be competitive and established a scoring structure to be employed if the total requested amount exceeded $120 million. Given that the total requested amount of all 13 proposals that passed the threshold, eligibility review, and financial feasibility analysis exceeded $235 million, the scoring procedure was utilized.

Applications were scored based on points that adhered to the Housing Challenge Program Priorities. The seven program priorities, with corresponding points available for a total of 100 points, are outlined below. Proposals were required to receive a minimum score of 75 to be recommended for a funding commitment.

Staff from City departments, as well as a group of outside experts, were recruited to participate in the scoring panel that reviewed and scored each of the 13 applications that passed threshold, eligibility review, and financial feasibility analysis. Each panelist was assigned to score applications in at least one of the seven program priority areas.

- Development Strategy (15 points)
- Organizational Structure, Experience, and Capacity (15 points)
- Design Features (15 points)
- Financing Structure and Cost Efficiency (30 points)
- Streamlined Entitlements/Permitting Path (10 points)

- Construction Timeline and Quality (10 points)
- Community Engagement (5 points)

Once all scores were compiled, the HST scheduled a consensus meeting. In addition to the scoring panel, senior staff from the Mayor's Office, LAHD, and CAO were in attendance, at the consensus meeting, where each proposal was discussed and reviewed for overall program feasibility, financial viability, and compliance with the Housing Challenge program regulations.

Proposals Recommended for Funding

Of the proposals submitted, 13 were scored. and the scoring panel reached consensus on a final ranked list of six (6) proposals to be recommended for funding.

Original Memorandum of Understanding (MOU)

On October 16, 2019, the Mayor and City Council authorized LAHD to enter into a six (6) separate MOU's with each of the development teams. The MOUs were individually negotiated and contained all of the salient points of each developer's strategy. MOU's were executed by the development teams on January 10, 2020. Once the MOU was executed, the development teams had four months to secure site control for individual projects. Additionally, LAHD staff underwrites each of the proposals that convert to projects before conditional commitments are made. Conditional commitments will last no longer than 12 months, and construction must be completed within 18 months.

Market Dynamics and Moving Forward

The Pandemic Impact

Unforeseen circumstances such as COVID-19, increased pressure on the price of construction materials, and tightening underwriting standards from banks in Los Angeles had a dramatic impact on development of the Housing Challenge projects. Several developers originally proposed a simplified capital stack using No Place Like Home (NPLH) funding administered by the Los Angeles County Development Authority (LACDA) in lieu of Low-Income Housing Tax Credits (LIHTC). However, NPLH was unavailable in 2020, requiring some development teams to revise their financial models and pivot to a LIHTC execution.

On April 17, 2020, Mayor Garcetti issued a public notice, which tolled and suspended until further notice all deadlines related to financing and predevelopment activities necessary to develop or rehabilitate affordable and supportive housing (primarily driven by COVID 19). While this tolling order provided each awardee additional time to secure site control beyond the required four months, the established timeline of 24 months was compromised. As a result of the pandemic, increased market uncertainty, significant construction delays and exorbitant materials costs resulted in more stringent construction budget underwriting requirements which drove up costs and increased the demand for additional sources of capital. This pushed out timelines for all HC projects. The COVID 19 pandemic created a ripple effect in the market for real estate development in general. Other market factors that had an impact on the HC program timeline and costs included:

- The California Debt Limit Allocation Committee (CDLAC) pushed back the March 2020 and May 2020 bond award dates which resulted in only two rounds of Award opportunities and not the usual three rounds (as a direct result of COVID). This occurred again for 2021. There were only two rounds;
- The California Housing and Community Development Department (HCD) signaled that future Notice of Funding Approvals (NOFA's) may be delayed;
- Uncertainty around No Place Like Home (NPLH) funding;
- The limited availability of Project Based Vouchers; and
- Low Income Housing Tax Credit investors indicated credit pricing reductions and limited interest in new business relationships for 2021.

Moving Forward: Amplifying Promising Solution Opportunities

The HC program is closing on its third year. As outlined in this appendix, several Promising Solutions from each Awardee should be further explored and tested in the context of a broader housing ecosystem that considers the leadership delivered to affordable housing production through the Mayor's office and specifically through the HST. Each awardee took advantage of by-right programs implemented by the City in order to streamline the development process. The new ordinances and entitlementment streamlining efforts are valuable tools in the City's playbook of affordable housing solutions. However, Los Angeles will further need to diligently evaluate its own internal processes (by departments) for ways to further streamline and improve the ability of the development community to move quickly through entitlement, construction and lease up. Although it is too early and more data points should be collected to make definitive conclusions about the long term scalable success of the Promising Solutions, the HC is showing good results, specifically regarding reducing overall production costs.

The next administration will need to assess the lifting of the tolling order going forward. Promoting and supporting the Promising Solutions in the City means providing the necessary leadership and resources to each City department and continually evaluating internal processes for ways to streamline and improve the ability of the development community to secure capital, expedite the entitlement process, close financing, and speed up construction and lease-up. Building on what we've learned in the HC, the Promising Solutions in this document are viable production tools that have yielded notable cost savings.

The estimated average total development cost (TDC) per unit for all 15 projects in the HC pipeline is $515,684 (versus $600,000 + for Affordable Housing projects in the City), with HHH proceeds of $111,211 per PSH unit (below the HHH Program maximum of $140,000).

The Promising Solutions also paved the way to alternative thinking on financing affordable housing production and preservation in the City including new sources of capital for housing production to be explored include the following:

- Exploring a collaboration with local/state organizations (including the Los Angeles County Housing Affordable Housing Agency) and municipalities to strengthen the City's local sources of funding for Angelenos.
- Engaging with the private sector to supplement public financing sources through loan funds focused on Institutional Asset Owners (including Pension Funds, Life Insurance companies), technology, and healthcare firms.
- Establishing a Qualified Investment Manager (QIM) program that qualifies a list of well capitalized private operators and owners to purchase at-risk properties to protect affordability in coordination with City/County partners and mission-driven organizations.
- Explore the concept of Master Lease in conjunction with Institutional Asset Owners.
- To centralize this alternative capital approach to stakeholder engagement, the City can take a proactive approach and implement a Real Estate Capital Markets (RECM) team within the Mayor's office or other designated agency that leverages the city's municipal authority, transaction access, land use and housing finance capabilities to attract private sector capital providers with a socially responsible and impact platform.

With the passing of the United to House Los Angeles (ULA) ballot initiative, the Housing Solutions Team (HST) within the Mayor's Office is poised to lead the implementation of the substantial tax proceeds including directing ULA funding to further promote the implementation and use of HC Promising Solutions and other nontraditional capital alternatives identified by the HFO above.

These efforts will further support the City's goal to end homelessness, add and maintain affordable housing and increase housing that is affordable for extremely low income to moderate-income households.