



AHIC Permanent Supportive Housing Underwriting Guidance



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INTRODUCTION

Permanent Supportive Housing (PSH) is the combination of permanent, deeply affordable housing with wrap-around supportive services. PSH is specifically designed to serve individuals and families who face significant barriers to stable housing. These populations often struggle with complex health and social issues, such as mental illness, substance use disorders, and long-term disabilities, which make it challenging to maintain housing without additional support. By combining affordable housing with a flexible array of supportive services, PSH helps tenants remain housed while addressing their broader health and social needs.

From an investment perspective, PSH projects can be more complex than traditional low-income housing tax credit (LIHTC) properties.

They often involve multiple funding sources and require coordination between housing providers, service agencies, and multiple levels of government, each with different requirements. The success of PSH projects depends heavily on effectively aligning housing with services, the reliability of multiple funding streams, and the ability to meet various regulatory requirements.

These guidelines provide investors with a framework for assessing PSH projects, highlighting key considerations unique to this housing model. By understanding the nuances of PSH, investors can more effectively assess risks, identify opportunities, and contribute to the development of high-quality supportive housing that has a meaningful impact on the lives of vulnerable individuals and communities.

NOTE: These Guidelines focus on qualitative factors, allowing investors flexibility in determining appropriate risk mitigation strategies based on their individual risk tolerance and investment criteria. While a national framework is provided, investors should recognize that state policies, local market conditions, and service delivery capacities vary significantly. Risk factors will also vary based on the property's location, the target population being served, and the experience of the project partners. Rather than proscribing a rigid set of requirements, this document presents key considerations for investors to evaluate when assessing PSH opportunities in their specific markets and with their chosen development partners.

These guidelines supplement other AHIC guidance and should be used in conjunction with those resources, most notably AHIC's [general underwriting guidelines](#) and, given the importance of rental subsidies in PSH projects, AHIC's [Operating Subsidy Review Guidelines](#).

ACKNOWLEDGMENTS

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We are equally indebted to our committee members who generously shared their insights and experience, drafting and revising various sections. They include Jeanine Armitstead, John Branam, Neal Drumm, Matt Haas, Mieke Holkeboer, Griffin Koupal, Elisa Lass, Erin Mastrangelo, Abhisek Mitra, Marina Brookins-Odom, Teresa Rubio, Ann Simpson, and Jack Wambach.

Given the complexity of PSH, AHIC recognized the critical need to engage numerous external stakeholders early in this process.

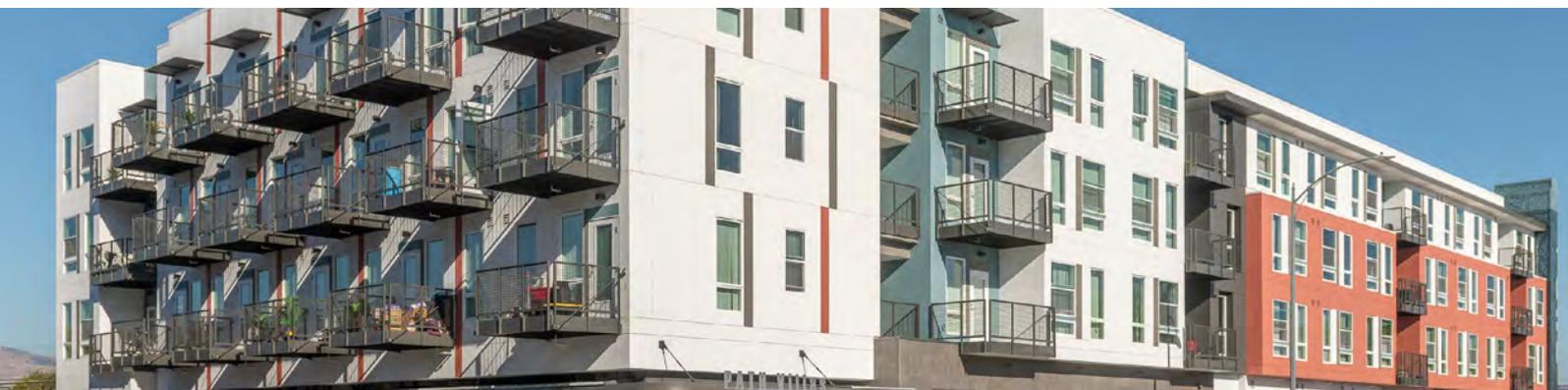
We are grateful to the developers, syndicators, supportive services providers, and state and local partners who not only provided foundational content for this document but also submitted

comprehensive and thoughtful feedback on early drafts.

The guidance has been immeasurably strengthened by their real-world expertise and practical insights.

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GENERAL PSH CONSIDERATIONS VS. TRADITIONAL LIHTC DEALS

AHIC has published general [underwriting guidelines](#) for LIHTC properties that investors are encouraged to use in conjunction with this guidance. Underwriting PSH projects, however, requires understanding additional factors not typically encountered in standard affordable housing investments. This section identifies key differences between PSH deals and traditional LIHTC projects. These general considerations provide context for the deal-specific due diligence guidance that follows.

Target Population Considerations

PSH properties serve specific target populations, often defined by the requirements of funding sources or a state Qualified Application Process (QAP).

Common priority populations include chronically homeless individuals or families, veterans experiencing homelessness, people with serious mental illnesses or developmental disabilities, youth aging out of foster care, survivors of domestic violence, elderly or medically fragile individuals at risk of homelessness, and people exiting institutional settings (hospitals, jails, prisons). There may be regulatory definitions of who qualifies (e.g., HUD's definitions of homelessness) that the project must adhere to.

Understanding the target population and their level of service needs is critical to underwriting a PSH project. Investors should have a thorough understanding of the availability of alternative housing options and the process for re-housing any tenants who might require more care than the project can provide.

Housing First Approach

“**Housing First**” is a specialized approach within PSH that specifically targets individuals and families with chronic illnesses, disabilities, mental health issues, or substance use disorders who have experienced long-term or repeated homelessness.

Under Housing First, individuals are immediately connected with housing and provided access to supportive services.

This approach minimizes pre-conditions for residency (e.g., substance use status, prior criminal history) and encourages, but does not mandate, participation in supportive services. As such, employing a Housing First model alters the approach to tenant selection and property management compared to a typical LIHTC deal.

Sponsor Capacity and Experience

Given PSH's additional operational and financial complexities, a thorough assessment of the sponsor's capacity to manage PSH is critical. They should have the commitment and expertise to oversee these deals. Investors should understand a sponsor's PSH experience, operational capacity, and staffing and gain an understanding of their track record with comparable projects. PSH deals may require more hands-on asset management than a traditional LIHTC deal. They also need to be able to mediate the often-competing demands imposed by the various parties involved in the deal (e.g., funding sources, service providers, etc.).

Property Management Expertise

Property management in a PSH context requires specialized experience dealing with targeted populations and referral systems. Staffing levels and training (e.g., de-escalation, trauma-informed care, and crisis management) differ in PSH from traditional LIHTC deals. PSH deals often come with layered funding that may require additional compliance expertise and capacity.

Supportive Services Provider Role

Most PSH deals involve one or more service provider organizations responsible for delivering or coordinating those supportive services. Tailoring the service provider experience, staff ratio, and quality of services offered to PSH tenants are crucial to a project's success.

Investors should also understand the service provider's relationship with the developer, as that relationship impacts due diligence around funding, staffing, and mission.

There are three standard models:

- 1 Housing and services are vertically integrated under the sponsor
- 2 The sponsor/owner contracts with a third-party to staff and run the on-site services program
- 3 A partner service agency refers eligible tenants and provides services periodically (on-site as needed or off-site at the agency's facilities), rather than maintaining full-time on-site staff.

Given the importance of supportive services to the success of these projects, investors also need to understand the availability of backup service providers in case the primary service provider cannot perform or loses funding, as well as who has the authority to approve a replacement service provider.

Coordination Among Partners

Successful PSH projects rely on effective coordination among the three key stakeholders: the sponsor/owner, the property management team, and the service provider(s). These parties must work in concert despite having different roles. Investors need to ensure that all parties have reasonably aligned philosophies on tenant selection, behavioral expectations, and thresholds for evicting or re-housing tenants. For example, if service staff operate with a "harm reduction" mindset but property management has a low tolerance for lease violations, conflicts could arise. Investors should ensure the development team has a plan for collaboration and that mechanisms are in place to mediate tough decisions. Misalignment here can threaten both the project's financial stability (if evictions lead to high vacancies or turnover costs) and its social mission.

Services Funding and Sustainability

A key differentiator between standard LIHTC and PSH deals is that the latter generally require additional supportive services, beyond a resident services coordinator, to address health, behavioral, and social issues to maintain tenant stability.

Investors need to understand how the services are being funded and who is responsible for securing the funding. In some cases, services will be funded as part of the operating budget and underwritten as part of the partnership budget. These internally funded projects often deliver lower complexity services to residents with stronger independent living skills. In other cases, projects that deliver higher-complexity services for tenants or where a higher proportion of tenants rely on them may use external funding for supportive services.

In those cases, investors must conduct due diligence on the service provider’s financial capacity, including the stability of the outside funding source. Investors also need to understand what backup strategies (e.g., regulatory relief, dedicated reserves, sponsor guarantee) are available if funding streams shrink or disappear. (See [Appendix IV](#) for sample regulatory relief language in the event of service funding loss.)

Furthermore, some funding sources, such as Medicaid and CoC, require particular skills to manage. Investors need to ensure that the sponsor and property manager have expertise in these programs if they are being used.

Rental Subsidies and Income

While standard LIHTC properties often rely on rental subsidies, PSH residents typically have no or limited fixed incomes and cannot afford to pay 30% of the area median income (AMI) rents without rental subsidies. Most PSH properties rely heavily on these subsidies to generate sufficient cash flow for operations. While some projects may underwrite extremely low rents and fill the gap with an operating subsidy or services funding, having a dependable rental subsidy for each PSH unit is strongly preferred. Investors should understand who administers the rental subsidies and their track record. (Given the importance of rental subsidies to PSH, investors are strongly encouraged to use [AHIC’s Operating Subsidy Review Guidelines](#) in conjunction with this guidance.)

Tenant Referral Processes and Lease-Up

Unlike traditional LIHTC properties, which generally use open marketing and a waitlist, PSH units are often filled through referral networks or coordinated entry systems (CES) operated by government agencies or service providers. These programs vary by region and can affect marketing, leasing, and unit-turn timelines.

A referral process with bottlenecks and delays can extend the lease-up period or result in higher ongoing vacancy and turnover time. On the other hand, the existence of lengthy waitlists of pre-qualified prospective residents can mean a PSH deal has less difficulty leasing units than a traditional LIHTC project.

One drawback of a CES is that individuals with the highest acuity are often referred first to the next available unit, limiting the sponsor’s ability to manage tenant selection. While understandable as public policy, directing more high-need individuals to a property than its services are designed to handle can overwhelm the property, create a financial burden, and in extreme or prolonged instances, negatively impact other residents at the property.

Investors need to understand the impact the referral system may have on the property, including what options and flexibilities exist under the system. They need to ensure that the property sponsor, property manager, and service provider are experts in the referral system. Lastly, from a Fair Housing perspective, while referral agencies screen applicants for eligibility, the property management must still ensure that final tenant selection does not illegally discriminate. See [“Tenant Referral Processes”](#) for additional information.

Operating and Maintenance Costs

PSH properties often have higher operating expenses than typical LIHTC properties due to:

- **Management Intensity:** PSH can be more labor-intensive, resulting in higher management fees or increased staffing costs.
- **Maintenance and Turnover:** The level of tenant acuity can impact maintenance costs. Units may experience more wear and tear; there may be instances of damage to units or common areas related to specific behaviors or the needs of residents. Turnover costs (e.g., unit rehab, cleaning) can be higher.

- **Insurance:** Premiums may be higher if insurers perceive a higher risk associated with the special-needs population or if the property has a history of more incidents (i.e., some PSH properties report higher claims due to incidents such as small fires, floods resulting from tenant damage, etc.).

Staffing Levels and Training

Sufficient property-level staffing is crucial to the success of PSH. Depending on the property location and target population, PSH properties may have higher staffing needs than standard LIHTC properties. This can be true whether a project is 100% PSH or only has a portion of PSH units. Properties may require additional positions and additional training in crisis management and de-escalation techniques. They may need to offer higher salaries and benefits and additional training to attract and retain individuals with the necessary skill set to manage PSH housing. High staff turnover can be very destabilizing for a PSH property.

Security Measures

Many PSH properties can expect to spend more on security than a standard affordable housing property, particularly during lease-up and early stabilization. Security needs will vary based on the property location and the acuity level of the tenants. Some security concerns can be addressed through building design (e.g., orienting entry doors with sight lines to the leasing office), others through security systems, and still others through personnel (e.g., 24-hour front desk staffing). Investors should ensure that property budgets and designs adequately address security issues.

Regulatory Environment and Compliance

Like all affordable housing, PSH projects operate within layers of regulatory compliance. However, PSH deals often have additional regulatory or

contractual requirements tied to the special needs population and service delivery. They may also have higher reporting and compliance costs. Investors need to identify all loan or regulatory restrictions that require specific populations to be served or specific services to be provided at a property. Non-compliance could lead to the loss of subsidies or even default under certain agreements.

Regulatory restrictions and programmatic policy frameworks also impact the project's ability to adapt if something goes wrong (for instance, if service funding is lost).

[Appendix IV](#) provides sample language that some investors and agencies can use to obtain relief from PSH set-aside requirements if service funding or rental subsidies are reduced or eliminated and cannot be replaced. Investors should be aware of whether any such provisions exist in the deal documents. However, they should also be mindful of the extent to which transitioning from a PSH to a general LIHTC population may be difficult, if not infeasible.

Design Considerations

Thoughtful building and unit design can significantly impact a property's ability to support tenant needs and promote the safety and stability of residents and staff. It can also affect the ability of the property to pivot away from PSH in the future if necessary. Although investors have limited opportunities to modify designs by the time they are reviewing a deal, they should understand how design teams have incorporated the specific needs of the target population to understand any potential impact on operational success. [Appendix VI](#) provides a list of potential design elements.

DEAL-SPECIFIC DUE DILIGENCE FOR PSH PROJECTS

The following section outlines deal-specific due diligence issues and key questions to help investors evaluate and mitigate risks in a PSH transaction, noting that not all elements will apply to all PSH projects. These questions supplement standard LIHTC underwriting due diligence by focusing on elements unique to PSH deals. Investors should tailor their diligence to their risk tolerance and investment criteria.

Target Population

- What target population will the property serve? What is their level of acuity/need?
- If the property serves people experiencing homelessness, what definition of homelessness is being used? If the property serves other special-needs populations, what defines that population? Some state agencies may target households experiencing homelessness due to economic conditions, which differ from HUD's definition of chronic homelessness. Instead, they define homelessness as: (a) an individual or family who lacks a fixed, regular, and adequate night-time residence or (b) an individual or family who will imminently lose their primary night-time residence.
- Will the project include a mix of PSH units and non-PSH (standard LIHTC or market-rate) units? If so, what percentage of the total units are PSH?
- Do the service model and staffing plan align with the highest needs levels among residents?
- What income, rent, and special needs targeting requirements are required by each funding/financing source? Which source has the most restrictive target tenancy definition and service requirements, and how many units are impacted by these requirements?
- Can the requirements for PSH units be reduced or removed if funding is reduced or eliminated and no replacement funding sources are available?

Sponsor Evaluation

Given the complexity of PSH deals, sponsor experience and capacity are particularly important. In addition to standard sponsor review (financial capacity, track record, etc.), underwriters should focus on the sponsor's PSH-specific experience and capabilities. They should consider visiting a sponsor's existing PSH properties.

- **PSH Experience:** What is the sponsor's experience with supportive housing? Do they have experience with the specific tenancy? If the project has a mixed tenancy (including PSH and non-PSH units), does the sponsor have experience managing such a mix? Is the sponsor also the supportive housing provider with its own staff?
- **Real Estate Owned (REO)/Portfolio Performance:** Does the sponsor own other affordable or supportive housing properties, and are any of them underperforming? If there are troubled assets in their portfolio, what were the issues, and how has the sponsor addressed them? What is the age and condition of the sponsor's portfolio? If they have many older properties, how are they recapitalizing or disposing of those to maintain organizational financial health?
- **Financial & Guarantor Strength:** Consider the sponsor's net worth and liquidity given the added risks of a PSH deal (e.g., they might need to cover service funding gaps or higher operating costs). What are their strategies for sustaining organizational liquidity?

What is their development pipeline, and how much of their resources are allocated to pre-development expenditures for future deals? Is the sponsor materially supporting property-level operations from their balance sheet to cover service costs because of an adverse event? If so, how do they plan to stabilize the properties to avoid a more significant impact on the organization? Does the sponsor routinely rely on fundraising as a source of funding? If so, do they have sufficient staffing to support that activity?

Do the sponsor's other PSH projects have a reliable source of funding committed for the life of the project(s) to pay for PSH services and operations?

- Organizational Capacity & Key Staff:** Evaluate the sponsor's staffing and organizational structure. If the sponsor is a nonprofit organization, review the strength of its board and their level of involvement. If the sponsor is also the service provider, how do they balance and staff both functions? What is the staffing ratio for property management and services across their portfolio? High staff turnover or understaffing at the organizational level could be a red flag. In diligence, consider asking if the organization has maintained key personnel in their housing and services departments and whether salaries are competitive enough to retain talent in these challenging roles.

Additionally, if the sponsor is providing two or three of these roles (sponsor, property manager, service provider) in a vertically integrated general partner, do they have a strong financial standing, substantial liquidity, and adequate staffing (number and expertise) for each of those roles?
- Asset Management & Oversight:** Do they have dedicated asset management staff who understand PSH? Does the asset management team have regular interactions with property managers and service partners, and if so, how frequently? Are they routinely visiting portfolio properties? Are there monthly reviews of budgets, CAPEX projects, leasing, and staffing?

- Existing PSH Portfolio Performance:** If the sponsor already operates PSH projects, are those properties able to cover operating costs with project income (including subsidies)? If not, are reserves sufficient to maintain operations? Do the sponsor's other PSH projects have stable sources of funding to pay for PSH services and operations for the life of the project? What is their insurance claim history? Do their properties have code violations, subsidy reductions/terminations, or lawsuits?
- Compliance and Reporting History:** Who in the sponsor organization is responsible for compliance (resident screening and selection, LIHTC compliance, HUD reporting, etc.)—the sponsor itself, property manager, or a third-party? Do they have a track record of managing federal, state, and local funding contracts? Have there been audit findings or compliance issues in the past? What is the quality and timeliness of required reporting?
- Service Provider Partnerships (Back-up Plans):** If the sponsor is not itself the service provider, do they have experience with other service providers in the area and/or partnerships within the community in case a service provider needs to be replaced?

Property Manager Evaluation

- Supportive Housing Experience:** What is the manager's experience with PSH in general and in this market in particular? Direct experience in the local context is valuable (for instance, managing a PSH building in the same city or state, with similar referral and funding systems).
- Population-Specific Experience:** Does the manager have experience with the specific type of tenancy?
- Multilayered Compliance Experience:** What is their experience with the funding sources and layered compliance? Is compliance handled in-house or via a third party?

- **Mixed-Tenancy Management:** If the project will be a mix of PSH and non-PSH units, what is their experience with the particular tenancy/population mix? What is their plan to prevent friction or stigma between PSH tenants and other residents? If they cannot fill non-PSH units with regular applicants, what steps do they take to prevent the property from becoming a 100% PSH property without sufficient subsidy or case management to support 100% PSH?
- **Staffing:** Is the staffing plan sufficient for the type of tenancy? Who makes that determination? How do they manage staff stress levels? Are their staff adequately qualified, and do they invest sufficiently in training (e.g., trauma-informed care, de-escalation techniques, crisis management, fair housing)? Are their salaries and benefits sufficient to attract and retain staff? What is their staff turnover rate?
- **Familiarity with Referral Systems:** If they are leasing through a tenant referral system, what is their experience with it? What is their ability to scale the acuity of the residents referred to the property to the available service funding?
- **Service Provider Experience and Coordination:** What is their experience with the service provider? How will property management coordinate with the service provider staff? Do they have a clear delineation of responsibilities and a protocol for working together on tenant issues? Do the property manager and service provider have aligned philosophies on tenant selection, behavioral expectations, and eviction thresholds?
- **Service Provider Partnerships (Back-up Plans):** Does the property manager have experience with other service providers in the area and/or partnerships in the community if a service provider needs to be replaced?

Service Provider Evaluation

- **Organizational Capacity:** How long has the organization been in existence? How strong is its

Board of Directors, and how engaged are they? How many individuals or households do they currently serve (with breakdowns, if available, to show how many clients require multiple services)? What is their geographical footprint?

- **Relevant Experience:** Does the service provider have experience with similar housing projects or populations in this market? What is their experience with the specific target population?
- **Relationship with Developer/Owner:** What is the service provider's relationship with the developer? If they are not integrated with the developer, is this a new partnership, or have they worked successfully together on other projects?
- **Services:** What standard services do they offer (e.g., after-hours and weekend services, 24-hour coverage)? Is it sufficient for the residents' level of acuity?
- **Funding Sources and Stability:** What are the service provider's sources of revenue for its operations?

Are they grant-funded, reliant on fundraising, or do they have any more stable funding (like a government line item or Medicaid billings)? Are they materially dependent on a single source of funding? If so, what is the predictability and reliability of that funding? Does the sponsor have a track record of receiving funding from that source? Is the provider's funding specifically tied to this project?

- **Staffing and Turnover:** What is the provider's staffing plan for the project (how many case managers, service coordinators, etc., and their qualifications)? Does it align with the residents' acuity, and does it meet the requirements of the funding source(s)? Are case managers required to meet with or check in on residents on a regular basis? Evaluate the process for unit inspections and service staff to assist in other property management activities (e.g., housekeeping). What is the average tenure or turnover rate for case managers? High turnover could disrupt services to tenants.

- **Alignment of Philosophy:** Are the service provider and property manager in sync regarding tenant rules, engagement, and eviction prevention? How will information about tenant issues be shared? Is there a standing meeting schedule to review occupancy, incidents, and service updates? What happens if there is a disagreement about a tenant's tenancy? Do coordination mechanisms exist to resolve conflicts and ensure coordination (e.g., operations committee, management meetings, regular case conferences, written policies, etc.)?
- **Special Programs Experience:** If the funding includes Medicaid or CoC, has the service provider successfully managed those programs before?
- **Site Visits:** Visiting another property or program run by the service provider can be useful to observe their operations firsthand.
- **Sources of and Responsibility for Funding:** Are any of the services covered within the operating budget, including any service staff members? What is the specific source(s) of external funding, and what is the stability and longevity of those sources (e.g., philanthropic grants, government contracts, or other sources)? Are services funded in arrears? If so, what is the typical wait time for reimbursement, and how is cash flow managed? Who governs the source of funding? Who is responsible for securing funding and funding renewals? Can the project guarantors provide financial support for the services if necessary? Is a service funding reserve separate from the operating deficit guarantee or any other reserves possible?
- **Contract/Loss of Services:** Is there a written contract that defines the level of services to be delivered, measures for success, notice and cure obligations, reporting requirements, and clear parameters and processes for addressing and resolving tenant issues, including eviction or relocation to suitable housing? What notice and cure provisions does the services contract include? Who has approval authority over a replacement service provider (e.g., investor LP, state or local agency)? What is the length of the services contract (multi-year or annual)?
- **Flexibility:** Is there any flexibility in the service scope if funding is reduced? For instance, can the services be pared down, or can the provider refer tenants to off-site services if an on-site program loses funding? Does the state's Qualified Allocation Plan (QAP) or other regulatory framework allow the owner to opt out of providing PSH services or units if funding is not viable?
- **Service Availability:** Are all required services available on-site or conveniently located nearby so tenants are motivated to access them on a regular basis? It is generally preferred that services are provided on-site.

BACKUP OPTIONS: Are there other qualified service providers available in the area (or providers outside of the area that could expand their geographic footprint) if the current one cannot perform or loses funding? Who has the authority to replace the service provider? Understanding the backup options provides insight into the project's service component's resiliency and its ongoing viability.

Services Funding and Contracts

As previously noted, services can be funded inside or outside of the operating budget, which will affect how they are underwritten. Key elements to understand include:

- **Scope of Services:** What services are required by various funding sources (including tax credit award), and what services are supplemental based on the mission of the development team?

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Does the property have enough space to offer the services listed in the service contract? If services are being provided off-site, will transportation be provided? Is that cost and service included in the contract?

Tenant Referral Processes

Due diligence on tenant referrals involves confirming how tenants will be identified and placed in PSH units, as well as whether the process is likely to function smoothly.

Key questions include:

- **Referral Mechanism:** Is the property required to go through a CES or other referral process, or can a site-based waiting list be established?
- **Referral Timing:** What is the referral agency's typical time frame for locating and referring a qualified tenant when a unit becomes available?
- **Referral Requirements:** What are the referral agency's requirements for management and services to process and approve an applicant?
- **Referral Volume:** How many potential applicants will the referral agency provide for each vacancy? In some jurisdictions, they may give one name at a time. In others, they might send a few candidates simultaneously, so the property can screen multiple and take the first who qualifies. If the process requires going through one applicant at a time to find one who is qualified, that again affects how long a unit might be vacant.
- **Known Bottlenecks:** Is the referral system in this region experiencing any known delays or issues? If so, underwriting might incorporate a higher vacancy factor or longer lease-up period.
- **Team and Property Readiness:** Does the development team have a plan for engaging with the referral partners? Have they worked with this referral agency/CES before? Is the development and management team prepared to support tenants coming through the referral network?

Some referral agencies may send tenants with very high needs (due to vulnerability prioritization). Does the team possess the specialized services and management skills necessary to successfully house tenants referred by the referral system?

- **Contingency Options:** If the referral system is backlogged, can the property fill the unit with another tenant (e.g., a non-PSH qualified tenant) after a good faith effort? Can the sponsor, manager, or service provider turn away residents with very high needs (i.e., the most vulnerable) if services would be overwhelmed and accepting those residents would threaten the project's viability and/or harm other residents?
- **Fair Housing Compliance:** Does the property have guidance and protocols in place for rejecting a referral, if allowed, to ensure it's done in compliance with fair housing laws and any requirements of any funders or regulatory agencies?

Rental Subsidies

Underwriters should verify that a reliable rental subsidy will be available for the PSH units. They should consider the following:

- Who is providing the subsidy (housing authority, state agency, etc.)? How reliable are they? What is the likelihood of reduced support in the future?
- What are the terms of the subsidy contract (length, renewal conditions)?
- Will the subsidy amount escalate over time with operating cost increases? Is the increase expected to keep up with rising operating costs over the 15-year compliance period?

Security

- Evaluate the project's security plan, which might include elements such as surveillance cameras, controlled entry systems, nighttime front desk or security guard coverage, and partnerships with local law enforcement or community patrols. Is it sufficient for the property's location and the acuity level of the tenants?
- Does the operating budget include appropriate security costs? Has it incorporated ongoing expenses for security systems as well as initial installation costs?
- If the budget seems low on security, investors should get clarity on how the property will maintain safety. Conversely, if the target population or location suggests minimal security needs, that should be backed up by a rationale (e.g., a small PSH project in a low-crime rural area might reasonably have low security expense).

Regulatory and Legislative Considerations

Underwriters also need to consider market-specific issues related to funding, compliance, and evictions. Among the things to determine:

- What is the history of the state, county, and municipal government in funding PSH projects?
- What state/county/municipal resources are available for PSH (e.g., development capital, operating subsidies, services)?
- Is the state or local legislature renewing, considering new funding initiatives, or cutting its support to PSH? If so, how will this affect property funding as well as the developer's REO?
- Are there market-based restrictions on evictions, based either on political will, regulatory restrictions, or system capacity? What is the processing time for evictions, and is priority given to "danger to self and others" versus non-payment of rent?

PSH UNDERWRITING GUIDELINES

When underwriting a project that includes PSH units, it's useful to distinguish between considerations at the unit level (i.e., factors affecting individual supportive housing units) and at the project level (i.e., factors affecting the entire development's viability). The following guidelines provide recommended approaches and questions for underwriting a potential investment in a project with PSH units. They are organized into unit-level and project-level considerations.

Unit-level guidelines apply to each PSH unit, regardless of how many PSH units are in the project. For example, in a 100-unit property with 10 PSH units, unit-level guidelines should be applied to those 10 units specifically.

Project-level guidelines apply to the overall project primarily when a substantial portion of the units are PSH (i.e., a project that is mostly PSH units may warrant different overall standards than a typical deal). In a project with 75% PSH units, both the project-level and unit-level guidelines would be relevant.

Unit-level Guidelines

Set-Asides

Consider the definition for each required set-aside (i.e., does the project target households experiencing temporary or intermittent homelessness, or do the project's set-asides fall under HUD's Chronic Homelessness definition?). Consider the service needs of the targeted population.

Tenant Subsidies

It is **strongly preferred** that every PSH unit has a reliable rental subsidy (such as a project-based voucher or equivalent) or a sufficiently capitalized operating subsidy reserve. The sizing and term of such reserves should be considered in the context of ongoing tenant/operating subsidies.

Ensure that any PSH unit where tenants are relied upon for rent payment is well-supported by market statistics, prior experience of the sponsor, and with risks mitigated. See Section III.A.1 of the [AHIC Underwriting Guidelines](#) for additional information on rental subsidies.

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| <p>Vacancy Allowance</p> | <p>Consider using a higher vacancy factor for PSH units to account for potentially higher economic vacancy, longer turnover periods, and possible gaps in or loss of subsidy payments. Additional considerations:</p> <ul style="list-style-type: none"> • Do any of the subsidies (e.g., HUD project-based vouchers under an AHAP/HAP contract) provide vacancy loss payments, and if so, for how long? • Can the property, after a good faith effort to lease to the targeted PSH tenancy, lease to non-PSH tenants, and how long must they wait? • Does the referral mechanism have a robust waiting list that would justify lower vacancy factors? |
| <p>Lease-Up Timing</p> | <p>Plan for extended lease-up periods if PSH tenants are coming through a CES or other referral processes known to be slow. Build a cushion on top of the market study's lease-up and stabilization timeline assumptions, unless the market study explicitly considered the PSH referral processes' effectiveness.</p> |
| <p>Replacement Reserves</p> | <p>Industry best practices now recommend one to two years of annual replacement reserves capitalized into the development budget and increased annual replacement reserve contributions (if allowed by funding agencies) to account for potentially higher turnover and/or higher costs for repairs.</p> |

Project-level Guidelines

These guidelines are particularly relevant when most project units are PSH, but they can also inform analysis of smaller PSH components. They identify specific costs that may be higher in PSH properties and should be vetted against comparable operating PSH properties, preferably in the same market.

Underwriters should also recognize that, in some markets, PSH properties may lack true comparables. Additionally, costs may be more variable than typical LIHTC deals, depending on the tenant population, their acuity levels, and the required or necessary services. Underwriters should consider whether operating expense, income, or vacancy cushions for any of these items are warranted.

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| <p>Debt Service Coverage Ratio (DSCR)/Operating Expense Coverage Ratio (OECR)</p> | <p>Evaluate whether the minimum projected DSCR or OECR is sufficient to cover the 15-year compliance period. Note that public lenders may require the project to maintain a minimum DSCR/OECR for the term of the project-based voucher contract, which may extend beyond the 15-year compliance period. If a project is 100% PSH, there may be minimal or no hard debt; in this case, OECR is important to ensure the property can operate as intended for the full compliance period.</p> |
| <p>Income/Rent/Targeting</p> | <p>Request and review the matrix of the tenant income/rent/targeting restrictions and the required services for each funding source. Include land-use restrictions and the duration of each restriction. Understanding the most restrictive requirements among all agreements is critical.</p> |
| <p>Operating Expenses</p> | <p>Since PSH properties often have higher operating expenses, ensure the overall operating expenses are underwritten using similar PSH properties operating in the area and/or by the GP/Property Manager. This potentially includes higher management fees, staffing levels, training budgets, compensation and benefits, and higher compliance costs, among others.</p> |
| <p>Insurance Costs</p> | <p>Ensure the insurance costs are supported by similar PSH comps and a quote during underwriting. Consider the impact of higher insurance claims and deductibles on operating expenses.</p> <p>A pre-funded insurance reserve might mitigate against larger-than-typical premiums, deductibles, and excluded coverage items if insurance markets remain volatile.</p> |
| <p>Turnover Costs</p> | <p>Turnover-related expenses (e.g., bad debt, repairs and maintenance, delays from referral agencies, etc.) should be based on similar PSH tenancy comparables.</p> |
| <p>Security Costs</p> | <p>Security budget (e.g., equipment and staffing) should be based on similar comparables, staffing plans, or contract bids. A detailed description of security expenses (i.e., installation and ongoing operations) should be included.</p> |

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| <p>Resident Services</p> | <p>Review the resident services plan and budget. Understand how services are funded and how reliable the funding sources are.</p> <p>Know whether any of the funding sources allow for a release of PSH units or a reduction of services if rental subsidy or services funding is reduced or eliminated, and there are no replacement sources. Note as well what services are required versus what are being provided as part of the provider’s mission and thus could be pared back if funding is reduced. Consider adding a cushion to the services budget if services are required to keep the tenancy stably housed, but the service funding source is not deemed stable, or the partnership is funding all services. If the budget does not cover the full cost of services required by the regulatory and loan agreements, consider providing additional reserves.</p> |
| <p>Transportation Services</p> | <p>Given the resident population, consider the need for and availability of free or reduced-cost transportation (e.g., on-call van or shuttle service) for residents to access work, off-site service providers, shopping, and other destinations.</p> |
| <p>Operating Reserves</p> | <p>Consider whether the minimum operating reserve is sufficient given the tenancy. The sponsor should establish an operating reserve budget based on the current market environment and comparable operating properties.</p> |
| <p>Capital Reserves</p> | <p>Aside from the ongoing replacement reserve contributions discussed under unit guidelines, underwriters should consider whether any additional upfront capitalized reserves are warranted. PSH projects often anticipate more wear and tear on the property.</p> |
| <p>Other Reserves</p> | <p>Additional reserves may also be needed. Factors to consider:</p> <ul style="list-style-type: none"> ● Resident services plan required by regulatory or loan agreements and the availability/reliability of funding sources (see Appendix III for recommendations related to Re-tenancing Reserves). ● Reliability of the source of rental income (see AHIC’s separate guidance on underwriting rental subsidies). ● Hard set-asides that cannot be waived. ● Timeliness and restrictions of the resident referral process/system. <p>Before establishing additional reserves, confirm what is allowable under loan or regulatory agreements.</p> |
| <p>Loan or Regulatory Agreements</p> | <p>Be aware of and incorporate any loan covenants or regulatory agreements that impact operations (e.g., require specific tenancies or services). Understand the most restrictive requirements among all of them.</p> |

APPENDIX I: BRIEF HISTORY OF PERMANENT SUPPORTIVE HOUSING

PSH emerged in the late 20th century as a response to increasing homelessness and housing instability among vulnerable populations. The model evolved from early efforts to provide services in single-room occupancy (SRO) hotels into a housing approach that combines affordable units with comprehensive tenant support services. Key historical milestones include:

Origins in Deinstitutionalization

A major catalyst for PSH was the deinstitutionalization of psychiatric patients beginning in the 1950s. Public outcry over conditions in large state hospitals, combined with the introduction of new psychotropic medications, led to the release of many patients to more independent living situations. Long-term psychiatric facility populations dropped dramatically (from about 550,000 patients in 1955 to 125,000 by 1981), creating a significant population in need of housing and community-based supports. In the 1980s, the number of people experiencing homelessness grew due to factors like rising housing costs, stagnant incomes, and reductions in social welfare programs.

Emergence of the Modern PSH Model

During the 1980s, nonprofit organizations began acquiring and rehabilitating distressed SRO properties, laying the groundwork for the modern PSH model. Early prototypes—such as a 101-unit renovation of an abandoned SRO in New York City for individuals with serious mental illness—demonstrated the viability of combining affordable housing with on-site services. Subsequent projects introduced mixed-tenancy models (integrating special needs units with general low-income units) and complex financing structures leveraging government funds, conventional bank loans, and tax credit equity. New York City saw PSH scale up with projects like a 652-unit development serving homeless individuals, and other cities (San Francisco, Chicago, etc.) developed their own regional variations of PSH.

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The success of these efforts led to growing recognition of PSH as a cost-effective alternative to emergency shelters and institutional care. Key innovations included permanent housing with standard leases, integration of supportive services on-site, a focus on housing stability rather than temporary shelter, mixed-tenancy approaches, diverse financing sources, and formal partnerships between housing developers and service providers.

Financial Innovation and Policy Support

Several policy developments and funding programs facilitated the nationwide expansion of PSH. The Low-Income Housing Tax Credit (LIHTC) program, created in 1986, enabled private investment in affordable housing and became a major source of capital for PSH developments.

The McKinney-Vento Homeless Assistance Act of 1987 provided new federal funding streams for housing and services for individuals and families experiencing homelessness. Over time, federal programs (such as HUD's Continuum of Care (CoC) and HUD-VASH vouchers for veterans) and state/local initiatives have increasingly prioritized PSH as an effective intervention. Many states now give priority to PSH projects in their Qualified Allocation Plans (QAP).

The history of PSH demonstrates both the complexity and the sustainability of the model when properly structured and funded. Understanding this evolution helps investors evaluate current opportunities within the broader context of the sector's growth and institutionalization.

APPENDIX II: UNDERWRITING THE MARKET

Establishing reasonable supply-and-demand characteristics is just as important, if not more so, for a PSH project as it is for a typical LIHTC project. This includes evaluating the housing development as a real estate asset and the supportive services component as an operating business.

Assessing the supply and demand characteristics of a primary market area (PMA) for a proposed PSH project is more complex than for a standard LIHTC property. Both involve determining capture rates, penetration rates, occupancy levels, the amount of alternative supply, and the demographic characteristics of eligible households (often summarized in a band-of-eligibility metric). (AHIC’s [Underwriting Guidelines](#), particularly the “Due Diligence” section on Market Study, are a helpful resource.) Many of the principles of a standard NCHMA-style market study apply equally to the unique elements of a PSH market analysis.

Unique elements involved in underwriting the market for a PSH project include the following:

- **Demand is defined by service need:** The pool of eligible households (demand) is determined by the number of individuals in the PMA who meet the set-aside definition and require the specific supportive services targeted by the project.
- **Competition/Supply and Comparability:** Alternative housing arrangements that provide the necessary services are typically more limited than those for a traditional housing project. Additionally, the services required by the project’s target population may or may not align with those provided by other providers of combined housing and services in the PMA, making it challenging to identify true competitors and conduct direct comparisons for supply analysis.

Most traditional LIHTC market studies do not adequately demonstrate the presence of qualified tenants for PSH, nor do they effectively evaluate service providers or referral agencies and their impact on lease-up (absorption) rates.

AHIC acknowledges that much of what is outlined in the following material represents the desire for market study professionals to develop report methodologies that address these gaps. AHIC recommends expanding the scope of any market analysis (whether a formal third-party study or an informal in-house assessment) to include these PSH-specific dynamics.

The following key areas should be researched by the investor (or included in a third-party market study) to underwrite the market for a PSH project properly. If a specialized PSH market study is not available, some of this information may be available from local government agencies (city or county), CoCs, service providers, and property managers working with the target population.

Service Providers

It is crucial to understand the capacity of the chosen service provider to serve the priority population and to understand the landscape of service providers in the area that have a proven capacity to serve the project’s target population. Analyzing the service provider marketplace helps gauge the level of competition and identify potential alternative

providers if the primary service provider cannot meet the project's requirements.

The market study report should include an analysis of the service provider network in the relevant geography. This analysis can be used to inform any risk mitigants if the service provider is no longer able to provide services. Where possible, the analysis should list alternate service providers and provide key details on each (e.g., funding sources, years of experience, target populations served, geographic reach, and types of services offered).

If a comprehensive analysis is not possible, investors or market analysts should contact other service providers in the area to determine the number of clients serviced and geographic footprint to supplement the information shared by the sponsor and associated service provider.

Demand for Proposed Services

The market study should confirm whether a sufficient number of eligible tenants exist to support the project.

Key metrics to determine demand include:

- **Capture rate (target population specific):**
The percentage of the eligible target population the subject project would need to attract to achieve full occupancy of its units.
- **Penetration rate (target population specific):**
The percentage of the eligible target population that all existing and proposed similar projects in the area, including the subject property, could serve to measure market saturation.

Potential data sources to quantify demand for PSH housing include point-in-time data (caveated with known limitations related to time of year conducted, potential undercounting, etc.) and U.S. Census Bureau statistics for non-homeless characteristics, such as disability, and local sources.

Referral Timelines

A standard NCHMA market study will project an expected absorption period for new units. A PSH-focused market study should also quantify how the referral/intake process might impact lease-up speed and ongoing vacancy rates for the project. It should provide sufficient information to understand the likely timeframe between contacting the referral agency for a replacement resident and the day the resident can take occupancy. It should also note any known bottlenecks in the referral process. This information allows the underwriter to determine whether an additional "frictional vacancy" factor should be applied on top of baseline vacancy assumptions in the financial projections.

Comparable Facilities

To demonstrate the viability of the subject project relative to the current supply, the market study should also review existing supportive housing facilities in the area that serve a similar tenant population.

The report should identify both private and public facilities within the same geographic region offering comparable housing and services.

For each such facility, the study would ideally provide details including the following (with the caveat that some information may not be available):

- Location: Proximity to the subject property
- Ownership: Public or private
- Tenant income limits
- Presence and type of project-based subsidy
- Presence and type of service-dependent subsidy
- Age or year built/opened/renovated
- Size in terms of units and square footage
- Current occupancy
- Source of tenant referrals/use of CES
- Waitlist detail

APPENDIX III: PSH SERVICE FUNDING LOSS: UNDERWRITING AND TRANSITION CONSIDERATIONS

PSH projects that serve high-need residents generally rely on supportive services that are funded outside the real estate partnership to keep those residents stably housed. Project viability thus depends on the solvency of the service provider and the reliability of its funding sources. If that funding is reduced or eliminated and cannot be replaced, it puts the housing at risk.

NOTE: The financial viability of these projects also depends heavily on the continued availability of rental subsidies, given that most tenants in these types of PSH properties have no or limited fixed incomes. AHIC has separate guidance on [underwriting rental subsidies](#) and [sample subsidy loss regulatory relief language](#). This appendix addresses only the loss of service funding, although some of the provisions and recommendations contained here would also apply in the event of a loss of rental subsidies.

If funding for services is wholly lost, the primary public policy goal should be to preserve the housing. This may require regulatory relief that allows the property to transition from PSH to more traditional affordable housing without services.

(See [Appendix IV](#): Sample PSH Service Provider Funding Loss Regulatory Relief Language.)

Underwriting Considerations: Re-tenanting Reserve

Underwriting considerations and potential risk mitigants for a total or partial loss of services funding have been covered in the main content of this document. These can include an increased operating reserve, an uncapped or increased operating deficit guarantee if the guarantor has the financial wherewithal to cover it, and funding a reserve over time through excess cash flow.

In addition, if regulatory relief from set-asides is possible, investors should consider including a re-tenanting reserve. The re-tenanting reserve should be sized based on general due diligence factors identified under “Service Provider Evaluation,” including the strength of the service provider as an operating business and the availability of alternative service providers and suitable housing options for relocating tenants.

It should also consider:

- Duration and scale of the current service contract and the project’s services plan that outlines the services required to maintain stable housing.

- The necessary time for current tenants to transition to alternative housing.
- Relocation costs.
- The time for the property to be re-tenanted under a new occupancy plan.
- Whether existing tenants could realistically remain housed if only minimal services are provided and/or if re-tenanting isn't available.
- The availability of alternative support services in the community, including inferior but adequate interim solutions whether other service providers are willing to provide replacement services at a loss.
- The mission alignment and commitment of stakeholders, including general partners, investors, lenders, service providers, property managers, and public partners.
- Local community practices related to landlord/tenant law, particularly with special needs populations, including local housing court policies, eviction moratoria, community advocacy efforts, and homelessness prevention measures.

The reserve should be sufficient to cover any loss of income incurred during the transition and assume that the required level of tenant services (not supplementally mission-driven services) is maintained throughout the transition period.

Transition Considerations

If services funding is significantly reduced or wholly eliminated, the potential response will depend on a variety of legal, moral, ethical, and political factors, including:

- Whether the regulatory and lending agreements allow for re-tenanting. If so, what approvals are necessary?

APPENDIX IV: SAMPLE PSH SERVICE PROVIDER FUNDING LOSS REGULATORY RELIEF LANGUAGE

This content is intended to be a starting point for discussions with state allocating agencies or any funding organization that requires such services or a set-aside for populations that require services to remain stably housed.

Project sponsors should attempt to negotiate, and underwriters should evaluate the sufficiency of relief language in all regulatory and loan agreements for cases where services funding cannot be replaced, and other prospective partners or funding sources required to support the services cannot be identified. When negotiating for regulatory relief in project documents, investors should also consider how a transition would be perceived in relation to moral, ethical, and

NOTE: Investors can find sample regulatory relief language covering the loss of rental subsidies in AHIC's [Sample Public Operating Subsidy Loss Regulatory Relief Language](#).

LURA Sample Language

Owner represents to Agency that targeted PSH services consisting of the following are anticipated and expected to be deliverable by Owner to project residents based on existing programs, relationships, and funding mechanisms:

- [Service #1]
- [Service #2]

Notwithstanding any provisions of this Agreement to the contrary, in the event:

- i** Owner has in good faith applied for and accepted all renewals of the PSH funding available on substantively the same terms and conditions as were originally available, and

- ii** A decrease, termination, or material limitation of the PSH funding with respect to any or all of the identified units occurs, and Project is otherwise in full compliance with the terms of this Agreement, and
- iii** Such decrease, termination, or material limitation does not arise from an uncured default or other material failure by Owner to comply with applicable PSH documents, and
- iv** Owner has in good faith pursued alternative sources to replace PSH funding on substantially the same terms and conditions as were originally available, and
- v** Such a decrease, termination, or material limitation has an adverse impact on the financial feasibility of the Project, then Owner may request that the Agency allow Owner to:
 - a.** decrease the targeted PSH services provided to Project residents.
 - b.** make adjustments to serve the targeted special needs population, and/or

- c. find alternate housing offering similar targeted services for any existing residents whose continued occupancy at the subject Project without the provision of the targeted services would/could present a detrimental quality of life for either the subject resident or other residents within the Project

All of which actions shall be aimed at preserving the financial feasibility of the Project as a development capable of providing an appropriate and responsible quality of life for residential residents—even if no longer serving the original target PSH population (referred to herein as “PSH Loss Regulatory Relief”).

Such request for PSH Loss Regulatory Relief shall contain the material facts and supporting documentation substantiating Owner’s request, including, but not limited to, addressing the conditions listed above. Within 60 days of receipt by the Agency of the request, Agency shall review and respond in writing to the request and either confirm acceptance of the request or describe the nature of Agency’s objections with respect to the specific conditions listed above.

The Owner shall have the right, but not the obligation, to cure or address any objections. The Agency’s response shall not be unreasonably withheld or delayed, and if no objections or response have been received by the Owner within 60 days of the initial request, the request shall be deemed approved.

Upon receipt of Agency’s acceptance of Owner’s request, Owner may, as necessary to preserve the financial feasibility of the Project, cease to target and serve the special needs populations. Any necessary tenant relocation will be phased in as gradually as commercially reasonable, balancing the need to transition the overall development with the need to protect individual resident health and safety.

Nothing herein, however, shall be construed as requiring Owner to violate regulatory limitations with respect to regulatory compliance. Owner may modify the mix or number of targeted households to reduce the number of or eliminate special needs units.

Owner shall attempt to minimize disruption to existing special needs households in particular and transition to non-special needs households only as necessary for financial feasibility and upon vacancy whenever possible.

Nothing in this provision shall alter Owner’s obligation to remain in compliance with S-42 minimum set-aside elections for the Project for the remainder of the tax credit compliance and extended use periods.

If at any time thereafter during the remainder of the tax credit compliance and extended use periods:

- i Agency determines that a replacement PSH funding source and/or service provider (“Replacement PSH Funding Source”) is available for Project, and
- ii Replacement PSH Funding Source and/or service provider does not adversely affect the availability of the tax credits, and
- iii Replacement PSH Funding Source or service provider permits Project to again serve households with the target services and/or to serve the originally targeted PSH population consistent with financial feasibility of the Project, then Agency shall request that Owner apply for such Replacement PSH Funding Source and/or service provider.

Owner shall be reasonably obligated to make good faith efforts to apply for such Replacement PSH Funding Source or partner with such replacement service provider on substantively the same terms and conditions as the original PSH Funding Source and/or service provider or notify the Agency in writing within 60 days as to why such replacement is not reasonably similar in terms and conditions or is not financially feasible.

If a replacement PSH Funding Source and/or service provider is obtained, Owner shall again set aside such units when available for serving households with the originally targeted service needs and/or serve the originally targeted special needs population.

QAP Sample

Owners may submit tax credit applications containing representations as to PSH services to be provided that go beyond the real estate partnership's ability to fund solely using income sources from within the real estate partnership. Underwriting for those Projects may depend on the existence of PSH funding source or joint ventures with PSH service providers that rely on sources outside the real estate partnership for the financial feasibility of the Project (e.g., Medicaid, state and local philanthropic sources) and assume that these PSH services will remain in place through the compliance period, notwithstanding the service delivery funding risk inherent in some programs and with some service providers. These applications may receive extra tax credit QAP points or other special considerations due to representations as to targeted PSH services.

In the event PSH Loss Regulatory Relief (as described in the Reservation Agreement, Extended Use Agreement, Land Use Restriction Agreement, Tax Credit Regulatory Agreement, Affordable Housing Restrictions Agreement, and/or Declaration of Restrictive Covenants) is required for such Project, Project will be deemed to have satisfied the targeted PSH services requirements by virtue of Owner having: (i) proposed the PSH services-dependent restrictions in the application, (ii) implemented the restrictions and/or satisfied the special needs targeting during the period under which the PSH funding remained available, (iii) exercised good-faith efforts to retain

PSH funding for the duration of the compliance and extended compliance periods, and (iv) obtained Agency approval or deemed approval for the PSH Loss Regulatory Relief in accordance with applicable requirements.

Agency agrees that the Owner satisfied and will continue to satisfy scoring requirements regardless of whether the Owner ultimately must deploy PSH Loss Regulatory Relief to preserve Project financial feasibility.

Lender Documents

Owners and Agencies are encouraged to consider the extent to which lender documents, including but not limited to first mortgages, subordinate debt instruments, debt-related regulatory agreements, etc. (whether hard or soft), may require the inclusion of language similar to the LURA sample language above to bring the terms of those instruments into conformance with the concept of PSH Loss Regulatory Relief.

In particular, loans associated with VASH, HOME, state agency debt, HUD mortgages, FHA, etc., may require the addition of similar notice and relief protections.

APPENDIX V: UNDERSTANDING TENANT REFERRAL NETWORKS

The tenant referral process for PSH typically involves several steps to ensure individuals most in need of long-term housing with supportive services can access these resources. The process will vary depending on the region and specific housing programs but generally follows this structure:

Identification and Outreach

- **Service Providers, Shelters, or Outreach Teams:** Social services agencies, homeless shelters, street outreach teams, or healthcare providers identify individuals or families who are experiencing homelessness or are at chronic risk of homelessness. Candidates for PSH often have disabling conditions such as mental illness, substance use disorders, or physical disabilities.
- **Initial Assessment:** The individual or family's situation is assessed to determine their eligibility for PSH. This may include verifying homelessness status, income level, and the presence of disabling conditions.

Referral to Coordinated Entry System (CES) and Housing Provider

- **CES Assessment:** Many communities use a CES to streamline access to housing and services, and HUD requires all CoCs to have a CES. The CES, which can be operated by the CoC, local government, or nonprofit organizations, is a centralized referral network that enables people to access housing and support services within a specific area.

- **Prioritization:** In a CES system, individuals are prioritized using standardized assessment tools to ensure that those with the greatest need are allocated the limited PSH resources. Individuals with the highest acuity are often referred first to the next available unit at properties within the network, which limits sponsors' ability to manage tenant selection. As noted earlier, this can potentially cause a mismatch between the acuity level of the tenants and the supportive services available and funded.
- **Referral to Housing Provider:** Once an individual is prioritized, the CES refers them to specific PSH providers that have identified vacant units.

Application Process

- **Screening:** The individual may be required to go through multiple eligibility and screening determinations, including with the CoC partner, the housing authority, and government agencies.
- **Application Process:** Once the individual is determined to be fully eligible, the individual/household must complete a housing application and submit any required documentation, such as identification, income verification, or proof of homelessness status. There can be a long lead time for the agency to process a new tenant application.

- **Eligibility Check:** The housing provider verifies the applicant's eligibility based on criteria such as income, disability status, and housing history. They may also perform a background check or interview the candidate.
- **Approval:** If the prospective tenant meets all the criteria, they are approved for a unit.
- **Disapproval:** If the prospective tenant is denied, the housing provider must request a new referral from CES, and the process begins again.

Move-In, Support Services, and Case Management

- **Housing Placement:** Once approved, the tenant is offered a PSH unit. They may receive assistance with the move-in process, such as help with furniture, deposits, or utilities.
- **Support Services and Case Management:** The key component of PSH is the ongoing supportive services for tenants. Case managers or social workers can also provide ancillary services such as mental health counseling, substance use treatment, job training, primary care, or assistance with daily living skills. These services help tenants maintain their housing and improve their overall quality of life.

APPENDIX VI: DESIGN CONSIDERATIONS FOR PSH PROPERTIES

PSH projects serve tenants with diverse needs and acuity levels. Thoughtful building and unit design can significantly impact resident safety, health, and comfort while reducing maintenance and operational risks. Appropriate design choices depend on the project's location, resident population, unit mix, and budget constraints.

The design elements listed below illustrate how project design can affect property performance and resident outcomes. This list is neither exhaustive nor prescriptive—it serves as a reference point for evaluation rather than a set of requirements. Design is a rapidly evolving field, and emerging innovations may offer additional solutions not captured here. Additionally, local building codes and regulatory requirements may constrain certain design options, regardless of their theoretical benefits.

Building Considerations

- **Controlled Single-Point Entry:** Where appropriate, design the building with a single, secure entry point (instead of multiple entryways or garden-style unit entries) to better monitor and control access to the property.
- **Durable Common Areas:** Use high-durability features in hallways and common areas, especially in buildings dedicated entirely to PSH (i.e., place corner guards on wall edges to prevent damage from carts or mobility equipment and add kickplates on unit door bottoms to protect against scuffs and impacts).
- **Floor Drains in Common Areas:** Install floor drains in hallways and common spaces (if feasible) to prevent water from flooding into adjacent units or lower floors in the event of plumbing leaks or accidental overflows.
- **Accessible Fire Extinguishers:** Provide accessible and noticeable fire extinguishers in hallways or common areas on every floor.
- **Soundproofing for Noise Control:** Arrange and construct the building to minimize noise impacts on living areas. For example, add extra sound insulation beyond code minimums around noisy facilities like laundry rooms, mechanical rooms, or community spaces to reduce disturbances to tenants.
- **Conveniently Located Amenities:** Position common amenities (such as laundry, mail, or community rooms) along main travel routes in the building to encourage resident usage and engagement.
- **On-site Management and Services Offices:** Include offices on-site for property management and supportive services staff. Design these offices with safety in mind (for instance, having two exits or other security measures) to protect staff in case a situation with a resident escalates.
- **Community Kitchen with Pantry Storage:** If space and programming allow, incorporate a community kitchen for resident use (e.g., for group cooking activities or events) and provide an adjacent storage area for a food pantry or donated food supplies.

- **Design for 24/7 Front Desk or Security:** In properties serving higher-needs populations (especially buildings that are 100% PSH and/or in urban areas), consider a design that accommodates a 24-hour reception desk and/or security station. This includes allocating space in the lobby for a staff desk or security office and infrastructure for surveillance monitors, controlled entry systems, and other monitoring technology.
- **Security:** Install voice-capable cameras with speakers/two-way communications at building entrances.
- **Adequate Parking Provisions:** Plan for some resident parking even in supportive housing projects. While car ownership will be lower than in general occupancy housing, providing a modest amount of tenant parking (beyond just spaces for staff and service providers) is recommended where site space allows. In addition, consider the security of on-site parking for staff and service providers.

Unit Considerations

- **Recessed/Tamper-Resistant Sprinklers:** Where sprinklers are included, use recessed fire sprinkler heads in units (flush with the ceiling) to prevent tampering or accidental damage by residents.
- **Durable, Easy-Clean Finishes:** For example, choose commercial-grade flooring (such as vinyl plank/tile, sheet linoleum, or ceramic tile) instead of standard residential carpet, and use scrubbable paints or wall coverings that can withstand frequent cleaning. All surfaces should be easy to clean and resistant to moisture and impact.
- **Waterproofing:** Install waterproof membranes or other water-resistant barriers beneath under floors and baseboards.
- **Open Storage Solutions:** Where appropriate, opt for open shelving and open closets/pantries in units rather than cabinets or closets with doors.

- **Bedbug-Resistant Furnishings:** In addition to mattresses, use solid wood or metal furniture that can't harbor pests.

Kitchen Considerations

- **Flood-Prevention Fixtures:** Use kitchen sink components that help prevent accidental flooding. Install sinks that have overflow drains, and consider faucets equipped with low-flow spray heads or automatic shut-off sensors.
- **Kitchen Floor Drain (Optional):** Where feasible, add a floor drain in the kitchen to limit damage from leaks or overflows.
- **Stove Safety Features:** Equip the cooking area with safety devices to prevent fires and injuries. For example, use electric ranges with traditional coil burners instead of glass-top ranges. Install an automatic shut-off or timer for the stove burners—this could be a wall-mounted timer switch. Additionally, include stove firestops on all range hoods.
- **Low-Maintenance Appliances:** Choose appliances that are durable and require minimal resident maintenance. For instance, self-defrosting refrigerators and ovens with solid metal doors (no glass windows) and a self-cleaning function.
- **Open Cabinetry:** As noted for unit storage, consider using open shelving in kitchens instead of traditional cabinets with doors.

Bathroom Considerations

- Heavy-duty, floor-mounted toilets
- Floor drain in bathroom
- Automatic faucet and toilet water shut-offs
- Leak detection sensors
- Blocking for grab bars behind all walls
- Open storage

APPENDIX VII: CHECKLIST FOR SITE VISIT INTERVIEWS

Subsidy Types:

| | | |
|--|-------------|----------------------|
| Operating Subsidy (ACC, etc.) | # of Units: | Contract Expiration: |
| Project-Based Vouchers (PBV) | # of Units: | Contract Expiration: |
| Project-Based HAP (not PBV or Housing Choice Vouchers) | # of Units: | Contract Expiration: |
| VASH-Veterans Program | # of Units: | Contract Expiration: |
| Section 8 Housing Choice Vouchers (portable vouchers) | # of Units: | Contract Expiration: |
| Other: | # of Units: | Contract Expiration: |
| Other: | # of Units: | Contract Expiration: |

• Are vacancy claims allowed in the subsidy contract? No Yes

• Are special/damage claims allowed in the subsidy contract? No Yes

• What is the Section 8 rent per unit type?

• Are Section 8 rents above tax credit maximums? No Yes

• Are Section 8 rents above market? No Yes

• What is the contract rent for the HAP units?

• What is the process of applying for annual rent increases on HAP Contract units (OCAF/Fair Market)?

Property Set-Aside Requirements and Overlay with Income & Rent Targeting Restrictions:

| | Set-Aside | Target | Actual |
|--|-----------------------------|-------------|-------------|
| | Senior 62+ | # of Units: | # of Units: |
| | Senior 55+ | # of Units: | # of Units: |
| | Family | # of Units: | # of Units: |
| | Physical Disability | # of Units: | # of Units: |
| | Mental/Emotional Disability | # of Units: | # of Units: |
| | Developmental Disability | # of Units: | # of Units: |
| | Justice System Re-Entry | # of Units: | # of Units: |
| | Transitional Age Youth | # of Units: | # of Units: |
| | Veterans | # of Units: | # of Units: |
| | Other | # of Units: | # of Units: |

- If not a Hard Set-Aside, is there a Preference or Affirmative Fair Marking Plan in place? No Yes

- Can Set-Aside units be re-rented outside of the referring agency after a period of vacancy (e.g., 30 days)? No Yes
 - Term after which they may be rented outside the referring agency:

- Can the Set-Aside requirement be eliminated if there is a loss in subsidy/loss of service funding? No Yes

Services Funding (PLEASE ATTACH A COPY OF THE MOST CURRENT SERVICES CONTRACT/AGREEMENT)

| Service Provider: Referral Agency: | Funded Through Property Budget | Funded Off-Property Budget | Proforma Underwriting Commitment |
|---|-----------------------------------|----------------------------------|--|
| Annual Funding Committed to Site: Source: | \$ | \$ | Operating Budget: \$ Off-Budget: \$ |
| # of Services Staff Committed to Site: Breakdown of FTEs by specialty/certification: | | | Operating Budget: # Off-Budget: # |
| # of Services Staff Hours/Week Committed to Site: | | | Operating Budget: _____ Hrs/Wk Off-Budget: _____ Hrs/Wk |
| Types of On-site Services Provided: Include therapeutic, case management, education, job training or placement, etc. Are Services Provided Sufficient: <input type="checkbox"/> No <input type="checkbox"/> Yes | • • • • • | • • • • • | • • • • • |

*Annual funding committed solely for Services, not including rental/operating subsidy above.

Special Needs Intake/Admissions/Resident Screening:

1. Are social services a hard requirement?

2. Is there a waiting list specifically for set-aside units? No Yes – If so, # on list:
3. What are the waiting list preferences?
4. Who maintains the waiting list (agency, management, etc.)?
5. Describe the referral agency procedures. Are applications processed in bulk or one-at-a-time? How many referrals are provided per unit? Are criminal background and credit checks performed by the referring agency, etc.?
6. Describe the timing of application processing from the referring agency.
7. To what extent, and around what issues, can the property manager or owner perform additional screening to accept/reject prospective residents?
8. Does management perform criminal background checks on all adult applicants? No Yes (Attach screening criteria)
9. Where are referrals currently residing (e.g., transitional housing, shelter, car, street, another rental unit, etc.)?
10. Is there an Affirmative Marketing Plan to target a specific population? (Ex. special needs, disabled, formerly/at-risk for homelessness, etc.) If so, what efforts are being employed?
11. Is management able to lease the required number of units per the regulatory agreement to the designated special needs population? Yes No Explain:
12. How will the property manager or owner determine if the level of services required for independent living is commensurate with the services provided by the development?
13. How are the appropriateness of tenant services, supportive services staffing, and supportive services expenses for the project (not specific individual tenants) determined?
14. If the social service provider closes or is no longer able to provide supportive services, is there another entity that can perform the required services? If the social service provider closes or is no longer able to provide social services, would the property still be required to provide the social services?
15. Is there a reasonable accommodation/modification policy? No Yes

16. Who pays for reasonable accommodations/modifications? Tenant Property Budget Services Provider

17. List reasonable accommodation/modification requests in the past 12 months, regardless of whether they were approved. If not approved, please explain.

Lease Compliance

1. How are behavioral lease breaches handled?

2. How are financial (rent/damages) lease violations handled?

3. Total number of evictions in the past 12 months:

Behavioral Related: #

Financial/Rent Related: #

4. Is supportive service provider involved with lease breach and violation resolutions? No Yes

Explain how they are involved:

5. Describe the eviction process and timing in the municipality and whether legal counsel was used.

Lease Compliance

1. Average Vacancy

Supportive Services Units (# of days): vs. Non-Service Units (# of days):

2. Average Turn/Make Ready

Supportive Services Units (# of days): vs. Non-Service Units (# of days):

3. Average Turn Cost/Unit:

Supportive Services Units (# of days): vs. Non-Service Units (# of days):

4. Average Damage Cost/Unit:

Supportive Services Units (# of days):

vs Non-Service Units (# of days):

5. List any common/frequently recurring damages:

6. Are any units furnished?

No

Yes

If yes, describe:

7. Current economic vacancy:

8. Current frictional vacancy:

9. Are there any instances of extreme, unusual, or repetitive damage?

- Do they relate to resident behavior intended to be managed by case management or services?
- Do these damages or evictions reflect poorly on the delivery of case management or services?
- What remedy does the owner have for insufficient case management or services?



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