



AHIC Permanent Supportive Housing Guidance



AHIC PSH Guidance: Why?

Why This?

—
PSH is more complex than traditional LIHTC, requiring additional thought and due diligence

—
Current AHIC underwriting guidelines do not cover PSH specifics

Why Now?

—
Two high-profile PSH sponsor failures

—
Need to focus on investor underwriting to replace fear with education

What We Hope to Achieve



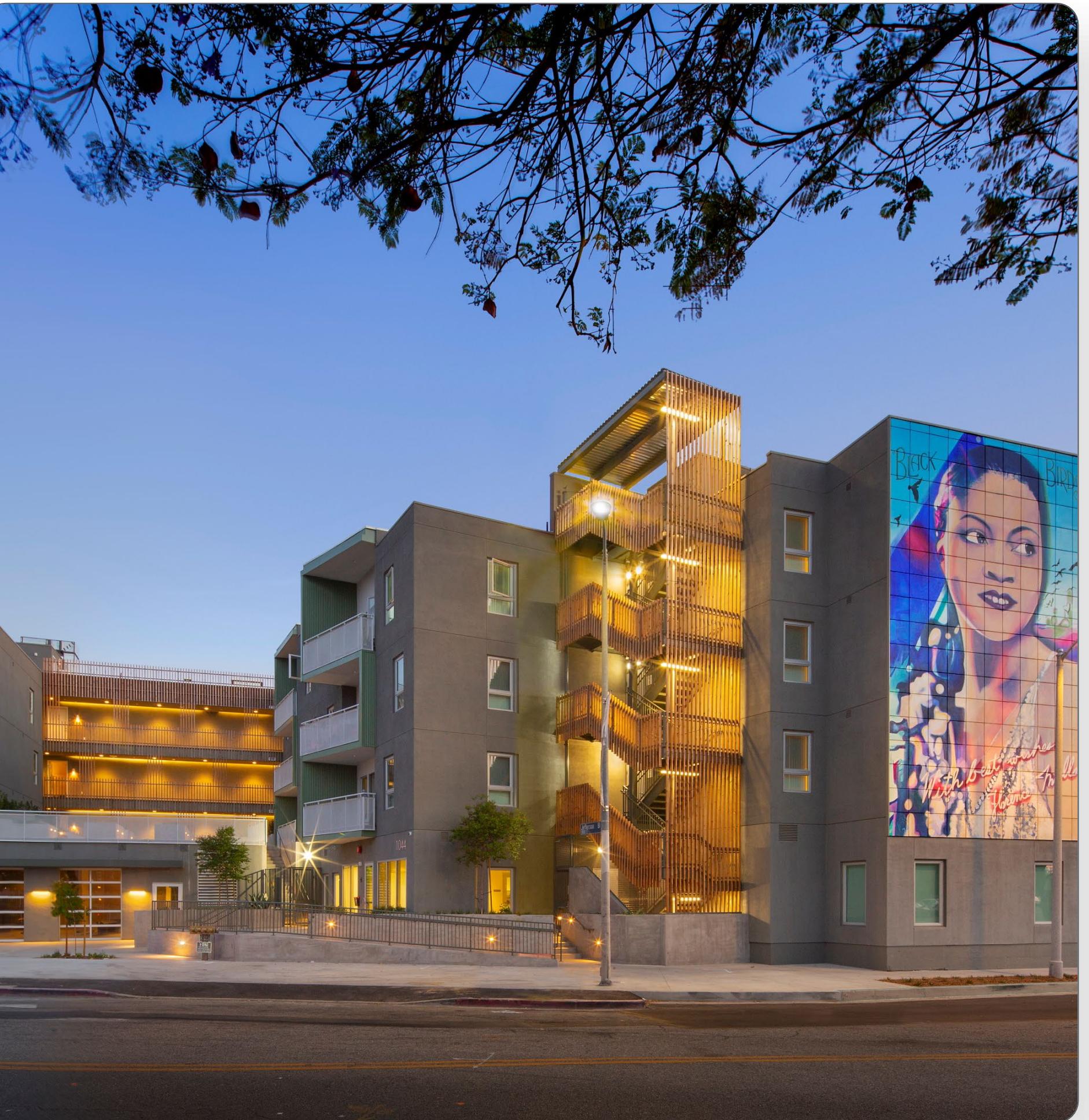
Provide investors with framework
for assessing PSH projects



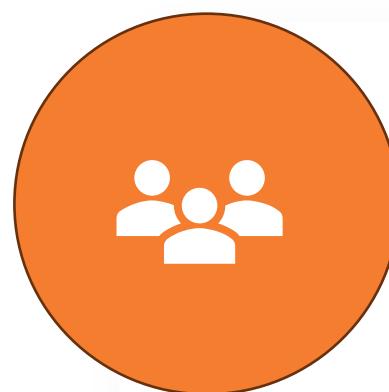
Highlight key considerations to more
effectively assess risks



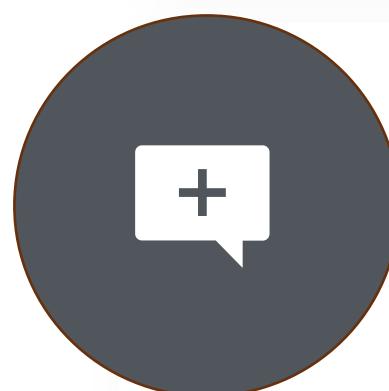
Identify opportunities and contribute to
the development of high-quality PSH



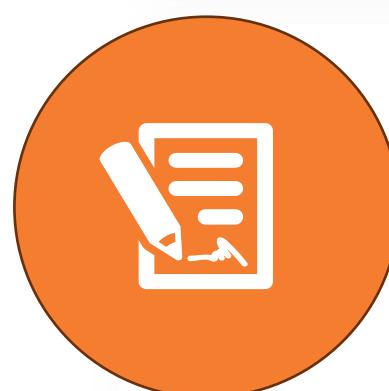
How AHIC Developed the Guidance



Put together a task force of experienced PSH underwriters



Solicited feedback from developers, syndicators, allocators and service providers



Incorporated extensive feedback and integrated various points of view into content



Approved by the AHIC Board Fall 2025

Key Attributes of the Guidance

Flexible Criteria

Avoid rigid set of requirements

Qualitative Factors

Focus on understanding issues and considerations rather than prescriptive guidelines

Investor Customization

Allow investors to determine risk mitigants based on risk tolerance and investment criteria

Supplemental Guidance

Intended to be used WITH AHIC's general underwriting and operating subsidy guidance

Three Main Components

**1. Special
Considerations
for PSH**

**2. Due
Diligence for
PSH Deals**

**3. Underwriting
Guidance for
Investors**

1 Unique Considerations for PSH



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.).

[Return to the Table of Contents](#)

1 Unique Considerations: Topics Covered

Development Team Capacity and Experience

Coordination Among Partners

Needs and Characteristics of Tenant Populations

Tenant Referral Processes

Staffing Levels and Training

Rental Subsidies and Other Revenue Sources

Services Funding and Stability

Regulatory Financing Restrictions

Operating Expenses

Security and Insurance Costs

Design Considerations

Due Diligence for PSH

This section outlines deal-specific due diligence issues to help investors understand and evaluate risks in a PSH transaction.

Detailed questions for “key differences” supplement standard LIHTC underwriting by focusing on elements unique to PSH

Comprehensive guidance with understanding not all elements or questions apply to all PSH deals

Allows investors to tailor their diligence and risk tolerance and investment criteria.



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?

[Return to the Table of Contents](#)

2 Due Diligence: Topics Covered

Targeted
Populations

Sponsor

Property
Manager

Service
Provider

Tenant
Referral
Process

Services and
Rental Subsidy
Funding

Security

Legislative and
Regulatory
Concerns

3 Investor Underwriting Guidelines



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.

[Return to the Table of Contents](#)

Investor Underwriting Guidelines

Guidelines provide recommended approaches and questions for underwriting PSH investments and recognize there may be less debt, more restrictions, different costs, or need for other reserves.

Unit-level Guidelines for Integrated Housing Model

- Set-asides
- Tenant subsidies
- Vacancy allowance
- Lease-up
- Reserves

Project-level Guidelines for Projects with Majority PSH Units

- Debt service or expense coverage
- Income and rent restrictions
- OpEx: insurance, security, turnover
- Resident services requirements and funding
- Loan/regulatory agreement restrictions
- Reserves

4

Appendices



Appendix: Brief History of PSH

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.

[Return to the Table of Contents](#)

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: Underwriting the Market

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.

[Return to the Table of Contents](#)

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

Appendix: PSH Service Funding Loss: Underwriting and Transition Considerations



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.

[Return to the Table of Contents](#)

Appendix: Sample PSH Service Provider Funding Loss Regulatory Relief Language

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

[Return to the Table of Contents](#)

Appendix: Understanding Tenant Referral Networks



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.

[Return to the Table of Contents](#)

Appendix: Design Considerations for PSH

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.

[Return to the Table of Contents](#)

Appendix: Checklist for Site Visits

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)?

[Return to the Table of Contents](#)

BEST PRACTICES: PERMANENT SUPPORTIVE HOUSING



Permanent Supportive Housing Underwriting Guidance

used a comprehensive resource to help investors understand and evaluate **Permanent Supportive Housing (PSH)**—developments that combine deeply affordable housing with wrap-around services for individuals and families facing complex challenges such as homelessness, disabilities, or chronic illness.

over 18 months and shaped by input from **investors, syndicators, developers, service providers, and state and local housing partners**, the **AHIC PSH Underwriting Guidance** provides practical tools to navigate this segment of the LIHTC market.

Key Features:

A framework for understanding how PSH differs from traditional LIHTC investments, including due diligence checklists covering sponsor, property manager, and service provider

Guidelines on underwriting rental subsidies, service funding, reserves, and vacancy

and project-level underwriting recommendations

along with sample regulatory relief language, design considerations, and a site-visit checklist

[press release](#) announcing the new resource, "Our aim is not to raise alarms, but to replace fear with education," said **Mark A. Smith, AHIC President and Managing Director of Affordable Housing at U.S. Bancorp Impact Finance**. "We want investors to understand the nuances of PSH so they can engage with confidence and help expand housing solutions for vulnerable populations."

[Download the Guidance](#)



AHIC Permanent Supportive Housing Underwriting Guidance



PSH Resources

[AHIC PSH Guidance](#)

[Press Release](#)

[Overview PowerPoint](#)

Other Best Practices

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[Asset Management](#)

[Secondary Market Transactions](#)

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Thank You



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