

Underwriting Supportive Housing vs. “Standard” LIHTC

Permanent Supportive Housing (PSH) combines permanent, deeply affordable housing with wrap-around supportive services for individuals and families facing significant barriers to stable housing.

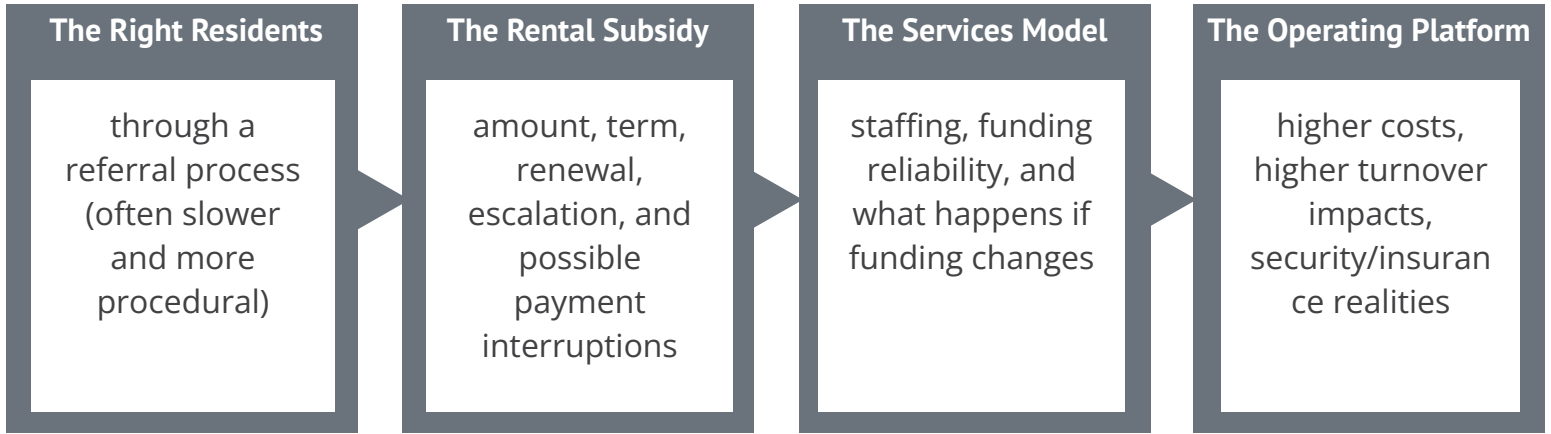
PSH transactions use the same LIHTC framework as traditional affordable housing, but typically involve more funding sources, added operational complexity and greater coordination among housing providers, service agencies, and multiple levels of government with differing requirements.

This Explainer identifies **key underwriting differences between PSH deals and traditional LIHTC transactions** and highlights due diligence items underwriters commonly evaluate.

PSH vs. Traditional LIHTC: What Changes “At A Glance”

In a typical LIHTC deal, underwriting focuses on achievable restricted rents, market lease-up, stabilized physical occupancy, predictable property operations, and standard compliance risk.

In a PSH deal, you’re underwriting all of the above plus whether a multi-party system can reliably deliver:



Tenant Population Considerations

In PSH, the target population is often defined by **Qualified Allocation Plan (QAP) requirements** (e.g., chronically homeless, veterans, people with serious mental illness, youth aging out of foster care, survivors of domestic violence) as well as by **funding source requirements** (e.g., Medicaid, HUD Continuum of Care (CoC), State Mental Health Agencies).



Underwriting evaluates whether the project’s service model, staffing, property management approach and building design matches the resident profile and acuity.






Tenant Referral Process and Lease-Up

PSH units are commonly filled through **coordinated entry systems (CES) or other referral networks** operated by government agencies or service providers.

These systems often prioritize individuals with the highest needs, which can limit sponsor control over tenant selection and, in some instances, overwhelm an operator's ability to provide services appropriate to the population's acuity level.

Referral speed directly affects economic performance. If the process is slow or backlogged, that affects vacancy, turnover downtime and lease-up timing. Alternatively, systems with substantial pre-qualified waitlists may mean fewer leasing difficulties than a traditional LIHTC property.

Underwriters should evaluate:

-  The referral agency's typical timeframe
-  The number of referrals per vacancy
-  Any known bottlenecks
-  Whether there is a defined "good faith" process if referrals stall
-  How much discretion an owner/operator has in managing the tenant population profile

Loan and Regulatory Agreements

PSH projects often have multiple funding sources and therefore multiple agreements—each with its own eligibility, reporting cadence, inspection, and compliance requirements. **Underwriting should reflect the most restrictive requirements and recognize the operational cost of administering layered programs.**


AHIC recommends underwriters **evaluate whether loan and regulatory agreements should contain explicit language** addressing what tenant-targeting transitions the owner/operator has as of right in PSH services funding is cut or reduced through no fault of theirs.

The Operating System: Sponsor, Property Manager, Service Provider

Standard LIHTC underwriting evaluates sponsor and PM capacity. PSH underwriting also evaluates the supportive services partner and—critically—how the parties work together.

Key diligence themes include:

- ▶ Sponsor capacity for complexity (PSH, layered funding, higher-touch oversight)
- ▶ Property management experience with PSH (specialized training in de-escalation and trauma-informed care, crisis management, compliance complexity)
- ▶ Service provider stability and scope (on-site/off-site model, staffing plan, funding sources)


With PSH, you are underwriting not only the real estate, but also the strength and alignment of the service provider operating and funding system around it.

The underwriting question isn't just "are the parties qualified?" It's also: are they aligned? Misalignment among sponsors/PMs/services (tenant expectations, behavioral thresholds, eviction practices) can increase vacancies/turnover costs and threaten the project's financial stability and mission.

Deal Type Matters: Majority PSH vs. Integrated

Majority/100% PSH: underwriting is largely at the project-level.

The entire operating profile is shaped by PSH systems and requirements.

Integrated model (PSH units within a broader property): underwriting becomes unit-level.

How PSH set-asides, subsidy mechanics and the referral pipeline interact with the broader property's performance.

Rental Subsidies: Often Core to Feasibility

PSH residents often have little or no fixed income and cannot support even deeply restricted rents without assistance. **PSH properties' reliance on rental subsidies—such as project-based vouchers—is more pronounced than in traditional LIHTC transactions.**

Underwriters should verify:

- ▶ Who provides it (PHA, state agency, etc.) and their reliability
- ▶ Contract terms (length, renewal conditions, termination rights)
- ▶ Escalation and whether it keeps pace with operating costs over the compliance period in accordance with AHIC's Operating Subsidy Review Guidelines

Services Funding Sources & Reliability

PSH properties serving high-need residents generally rely on services beyond a resident services coordinator. These may be funded inside the real estate partnership operating budget (typically for lower-complexity needs) or through external sources such as Medicaid, CoC programs or philanthropies.

When services are funded externally, underwriters should be aware of:

- ▶ The **durability** of service funding commitments
- ▶ The **capacity** of the provider as an operating business
- ▶ What **flexibility** exists under the Land Use Restrictive Agreement (LURA) if service funding is reduced or eliminated and cannot be replaced.



A time-horizon mismatch between long-term LIHTC compliance requirements and services funding that can be shorter-term and less predictable warrants explicit attention in due diligence.

It is also important to understand who is responsible for securing funding and funding renewals.

Design Matters



Thoughtful building and unit design can significantly impact a property's ability to support resident needs and the property's operation. Although investors have limited opportunities to modify designs, they should understand how the design teams have incorporated the specific needs of the target population.

Expenses: Use PSH Comparables, And Expect Different Drivers

PSH properties can have different cost drivers than standard LIHTC properties, depending on the population served, property design, and services model.

- ▶ Management can be more labor-intensive.
- ▶ Depending on acuity levels, units may experience increased wear, and turnover costs for rehabilitation and cleaning can be higher.
- ▶ Security costs may be higher
- ▶ Insurance premiums may also be higher, depending on the population or claims history.
- ▶ Operating expense assumptions should be supported by comparable PSH properties.

Common Underwriting Adjustments

PSH transactions vary in structure, but common underwriting adjustments include:

- ▶ Vacancy allowance: potentially higher to reflect higher economic vacancy, longer turnover periods, and subsidy payment gaps/loss.
- ▶ Lease-up timing: build a cushion if CES/referral processes are known to be slow, unless the market study explicitly accounted for that.
- ▶ Replacement reserves: industry best practices recommend capitalizing 1–2 years of annual replacement reserves in the development budget and increasing annual contributions (if allowed) due to potentially higher turnover/repair costs.

Practical “First-Pass” PSH Checklist ✓

- Target population definition + required eligibility documentation
- Referral pathway description + known bottlenecks
- Rental subsidy provider + contract term/renewal/escalation
- Services model + staffing plan + funding sources and contingencies
- PSH operating comps (expenses, turnover, security, insurance)
- Proposed vacancy/lease-up assumptions that reflect referral realities
- Reserve strategy (operating + replacement + any insurance/services reserves)



Housing First changes the underwriting lens.

Many PSH properties operate with a Housing First approach that minimizes pre-conditions for residency and encourages (but does not mandate) participation in services—shifting expectations for screening, tenant selection, and day-to-day management compared to a typical LIHTC deal.



NEXT STEPS

Learn more about LIHTC program from the investor’s perspective with AHIC’s suite of underwriting and asset management best practices at bit.ly/LIHTCKnowledge.

About the Series: AHIC's LIHTC Decoded series helps educate industry participants and stakeholders about the investor's perspective of this public-private partnership.



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