



Summary and Takeaways:

Implementing Homekey in Los Angeles

June 2022



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LA County Chief Executive Office, Homeless Initiative

- Elizabeth Ben-Ishai, Principal Analyst
- Cheri Todoroff, Executive Director

Los Angeles County Department of Health Services

- Ashley Lewis, Associate Director of Interim Housing Program
- Nicole Donnellon, Program Manager of Interim Housing Program
- Rasheena Buchanan, Senior Program Manager of Interim Housing Program
- Leepi Shimkhada, Director of Housing and Services

Los Angeles Homeless Service Authority

- Emily Andrade, Director of Interim Housing
- Ivet Samvelyan, Director of Permanent Housing
- Jaclyn Grant, Interim Housing Associate Director
- Raqayyah Muhammed, System Component Supervisor
- Jacqueline Beltran, CES Outreach Coordinator
- Jonathan Sanabria, Program Advisor

City of Los Angeles Chief Administrative Office

- Yolanda Chavez, Assistant City Administrative Officer
- Jennifer Lopez, Chief Administrative Analyst
- Elyse Matson, Senior Administrative Analyst

Los Angeles Housing Department

- Daniel Huynh, Assistant General Manager
- Douglas Swoger, Director of Housing

Housing Authority of the City of Los Angeles

- Jenny Scanlin, Chief Strategic Development Officer

Alcott Center

- Janette Boire, Director of Interim Housing
- Exodus Recovery Services
- Elisa McCormick, Program Manager

HOPICS

- Veronica Lewis, MPA, Director
- Victor James, Associate Director of Interim Housing
- Katie Hill, Deputy Director
- Marion Sanders, Deputy Director

LA Family Housing

- Stephanie Klasky-Gamer, Chief Executive Officer
- Elda Mendez, Director of Housing Development

National CORE

- Michael de la Torre, CFO

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- Jennifer Hark-Dietz, CEO
- AJ Azarian, Director of Development

The Salvation Army

- Christina Cuevas, Director of Operations
- Mayra Chaidez, Program Social Worker

Weingart Center Association

- Tonja Boykin, Chief Operating Officer
- Ben Rosen, Director of Real Estate Development



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Cover photo courtesy of: Daisy Naranjo: <https://www.pexels.com/photo/photography-of-city-building-1049302/>

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Research Scope

The purpose of this research is twofold: 1) to assess lessons learned, successes, and challenges with the early phase (2020-2022) of the state's Homekey implementation across Los Angeles County; and 2) to inform program design, policymaking, and strategic interventions as the state and localities prepare for subsequent funding rounds. Overall, our analysis reflects on the opportunities and challenges associated with program implementation and suggests policy recommendations as well as topics for further inquiry and research

There are three primary deliverables associated with this research project:

1. this summary report that synthesizes interviews with Homekey operators and program administrators, along with a review of literature and program materials, to offer key findings and recommendations
2. project-level case studies from a sample of Homekey projects awarded during the program's initial round of funding in 2020
3. a [virtual convening](#) of stakeholders, operators, and administrators to share and moderate discussion on the research findings.¹



Methodology

This project team began planning in fall 2021 but the research officially commenced and occurred during the spring of 2022. We concentrated on qualitative interviews with eight (8) nonprofit housing operators of Homekey sites in the Los Angeles area as well as housing officials with the city and county of Los Angeles that are responsible fully or partially for program administration. Prior to conducting interviews with

public partners, we reviewed public documents, departmental staff reports, Homekey solicitations (e.g., Notices of Funding Availability), and statewide research to inform our interview question set. The case study sites and operators were selected to ensure a diversity of sites in both the city and county, respectively, and notably because they exemplified the themes highlighted in this report.

¹ The event is archived on YouTube and hyperlinked for access. This event occurred on May 11, 2022.



Photo courtesy Roberto Nickson via Pexels

Introduction

Homekey (referred hereafter as Homekey 1.0) was launched in July 2020 in response to the public health and humanitarian crises resulting from the COVID-19 pandemic, with the objectives of producing interim and permanent supportive housing swiftly and cost-efficiently for homeless individuals at high risk for COVID-19. The program, currently in its second round of funding, provides localities with capital grants to support the acquisition of underutilized hotels, motels, and other properties (e.g., apartments, single family homes, etc.). Homekey 1.0 allowed for sites to convert to permanent supportive housing (PSH) directly, serve initially as interim housing with a plan to convert to PSH, or as interim housing with a clear strategy for transitioning clients to PSH over time. Despite the wider array of eligible sites, the program is widely understood as a hotel and motel conversion program and the successor program to [Project Roomkey](#), which leveraged federal Emergency Management Agency (FEMA) resources to lease 15,000 hotel and motel rooms for interim housing at the height of the pandemic. The state recognized the opportunity to purchase these properties for longer-term housing needs and thus Homekey was launched, using \$550 million in federal Coronavirus Relief Funding (CRF) and some foundation support to size the program at \$800 million when it arrived in 2020.

The state prioritized funding awards for projects that could achieve 50% occupancy within 90 days of acquisition. Converting vacant motels into interim housing was almost the only strategy available to localities wanting to access Homekey funds to satisfy such an abbreviated timeframe. Furthermore, in the summer of 2020, motels were vacant, relatively affordable to acquire, and in habitable condition, whereas existing vacant apartments were rare finds.

In Los Angeles, the first round of Homekey resulted in the acquisition of 20 motel properties, totaling more than 1,600 units of interim housing created and occupied within 6 months, an unprecedented success in terms of the speed and volume of production of new units added to the local inventory. Los Angeles had a unique approach to implementing Homekey, in comparison to the rest of the state, by using funding nearly exclusively to prioritize the creation of interim housing, with a longer-term intention to convert those sites to PSH within the next five years.² Those sites awarded Homekey funds in the first round have been occupied for a little more than a year, too soon to understand their full cost to convert from motel to interim housing to permanent housing. Similarly, the second round of Homekey-funded sites are being awarded as this research and analysis is being released. Consequently, it is premature to fully evaluate the outcomes and efficacy of program implementation as these programs and PSH conversion candidates continue to evolve.

And although Homekey has not made available long-term operating subsidies (i.e., 5 years or more), the program was timely and demonstrated a level of programmatic flexibility that resonated with stakeholders. Homekey funding enabled the city and county of Los Angeles to expand the local interim housing inventory, respond to a critical shortage of housing and shelter, comply with negotiated terms of multi-year litigation, and shelter thousands of people at a critical time.³ Furthermore, Homekey enabled nonprofit housing operators to advance their mission and expand their asset base without assuming significant financial risk associated with real estate development.

² <https://ternercenter.berkeley.edu/wp-content/uploads/2022/03/Homekey-Lessons-Learned-Final-March-2022.pdf>

³ <https://www.latimes.com/homeless-housing/story/2022-04-01/los-angeles-homeless-lawsuit-settlement-judge-carter>

Converting aging motel properties to interim housing was extremely challenging due to the time constraints imposed by federal regulations. Converting them a second time to PSH in the next five years is expected to pose significant political and fiscal challenges since the capital and operating subsidies have not been identified for all the properties. Approximately 1,600 vouchers will be needed in the next three years to support the conversion of the Homekey interim housing inventory to permanent housing, not including the backlog of new construction affordable housing developments in the city and county awaiting these subsidies. Without significant increases to federal operating subsidies, the local pipeline of PSH will be stalled, unless other funding sources at the state or local level become available. It is important to remember that local governments could hardly have anticipated Homekey's emergence in 2020. Accordingly, they had not been preparing to absorb those projects into their housing budgets, nor the commensurate expectation for project-based rental assistance commitments. To what extent, if any, this surge in demand for resources to pay for the conversion of Homekey-funded units to permanent housing will take away funds from a system that is already over-subscribed remains to be seen.

Meanwhile, operators want to convert their Homekey sites to permanent housing but cannot identify the needed resources from the public sector to do so. Three of twenty sites are in the planning stages of converting to permanent housing and are paying for the capital costs with private foundation funding, while commitments of operating subsidy are not yet available. These operators are resting on faith that, by the time properties are ready to convert, the operating subsidy commitments will be in place. State and local governments have yet to confirm where the funding will come from and what can be done to streamline the conversion process for local housing operators tasked with a second round of renovations and operating them as long-term PSH. But despite these looming challenges with Homekey 1.0 implementation, the program demonstrates the potential for intergovernmental collaboration to produce positive outcomes quickly and efficiently when significant resources and the political will are committed.

The following sections highlight key themes in the implementation of Homekey by local jurisdictions and nonprofit operators, as well as offer suggestions for policy reform and process improvement to potentially support the goal of maximizing resources to expand PSH in Los Angeles County.



Summary of Key Findings

Theme #1:

Nonprofit operators and public administrators expressed different motivations for wanting to participate in Homekey, suggesting that the program is advancing a more diverse set of outcomes beyond its core intent to address public health and housing supply goals.

At its core, Homekey represents an opportunity to expand the supply of interim housing and PSH and bring those sites into the regional affordable housing inventory. That said, our research identified additional program motivations and impacts that are worth sharing and for consideration by state and localities as they refine and implement the program in the coming years.

In our conversations with public partners, it was clear that Los Angeles, with the largest unsheltered homeless population statewide and mired in fierce debates as to how best to respond to sprawling encampments, faced public policy pressures to come up with rehousing strategies quickly at the start of the pandemic. There were also pressures from the Carter Settlement which mandates the city to, “sufficiently shelter and/or house” 60 percent of the city’s homeless population.”⁴ While the mandate did not specify the amount of interim housing vs permanent supportive housing stock that is needed to sufficiently house people experiencing homelessness, it shed light on the housing supply crisis in Los Angeles. More than one interviewee attested that Homekey 1.0 acquisitions were viewed strategically to satisfy, at least partially, this legal obligation and buttress complementary efforts across the region to create more interim beds and PSH.⁵

For housing operators procured locally through the city and county programs, Homekey presents a unique opportunity to expand their asset base with relatively little financial risk while advancing their mission and exercising more control over the quality of the participant experience and continuity in service provision. Mission-driven nonprofit operators spoke to their eagerness to help in a time of dual crises: public health and homelessness. Another provider explained acquiring Homekey properties was the opportunity of a lifetime to expand their portfolio to include permanent housing. One Homekey operator with a longstanding record providing interim housing, street outreach, and supportive services, but not real estate development, underscored the importance of the moment, “When we saw the opportunity to essentially purchase or get money to acquire assets that would be in-house, we said we had to figure this out. It was a once-in-a-lifetime opportunity to help get more people housed.”

Expanding interim housing inventory was also described as a means to facilitate permanent housing placements and better service coordination for vulnerable clientele. With a fixed place to stay, LAHSA staff stated it was easier to connect people to housing opportunities because housing navigators knew where to find participants, they had access to intensive case management services through the county’s ICMS program, and they could work in advance of a housing placement to secure client-level eligibility documentation that is required by housing owners during the tenant screening phase.

In some cases, Homekey provided communities a rare chance to create interim housing where there was none and to refer households to short-term housing options within their community, where children might attend school or their medical home may be located. An operator in Compton explained that leading up to the launch of Homekey, the city of Compton did not have any interim housing, which meant those wanting to be rehoused in Compton were sent to sites further away from their communities.

⁴ <https://www.latimes.com/homeless-housing/story/2022-04-01/los-angeles-homeless-lawsuit-settlement-judge-carter>

⁵ Under such circumstances, Homekey’s core policy objectives of speed and cost efficiency in producing new units are mission critical in addressing homelessness and the threat to public health posed by COVID-19. At the same rate, people remain in those beds for a year or longer because the inventory of permanent housing is grievously over-subscribed. This extended length of stay in interim housing indicates a shortage of available PSH and points to how critical it is to convert the Homekey interim housing sites to PSH to enable people to exit into permanent housing.

Homekey also appears to be a transformative tool in stabilizing, and in some cases, beautifying neighborhoods. Some operators spoke about lengthy histories of certain hotels and motels that were public nuisances and crime hotspots. Yet, as the Homekey operators took possession of the properties and changed the property's use and management, they observed significant decreases in criminal activity and law enforcement contact.

Some interviewees noted positive impacts on local traffic. For instance, PATH talked about the high volume of people who crossed through their Ramada site to cut the corner of the busy intersection at Lincoln Avenue and Washington Boulevard. Site improvements have now negated that access, which they described as a major plus. Other cases pointed to site beautification, such as a fence being erected to feature local artwork and developing a community garden adjacent to the property. There was also testimony to the flexibility in program design for interim housing sites, specifically to allow for couples or participants with pets, two accommodations that are not as common in traditional shelter formats. Sites that are proximate to retail, grocery stores, and pharmacies, also offer tangible benefits for residents that are stabilizing and regaining independence with limited resources.



Theme #2:

Homekey's requirements demanded an exceptionally high level of coordination among state and local governments, as well as local housing operators, to execute the program objectives in the required timeframes, pointing to the potential for intergovernmental collaboration to achieve meaningful results when resources and political will are committed. At the same time, multiple funding rounds enabled the state and local government to learn from prior experience and refine their future strategies to optimize Homekey outcomes.

The first round of Homekey, initiated in the summer of 2020, required localities to close escrow on properties by December 30, 2020, and meet occupancy requirements 90 days later. Statewide, more than 5,000 housing units were created with Homekey funding in less than a year at one-fifth the cost of new construction developments funded by other California Department of Housing and Community Development (HCD) programs.⁶ The city and county of Los Angeles received Homekey funds totaling \$268 million, which paid for the acquisition and rehabilitation of 20 properties totaling more than 1,600 units of interim housing that will be required to convert to permanent supportive housing (PSH) by 2025-2026. Based on these outcomes, the Newsom Administration committed to expand Homekey with two more funding rounds and an additional \$2.75 billion to continue to build on the success of the program's first round.

All the properties acquired in Los Angeles were motels that had to undergo renovations to be occupied as interim housing or PSH, and due to the abbreviated timeframe, completing renovations was the biggest obstacle to achieving the state's occupancy target. Although the city and county of Los Angeles took differing approaches to Homekey administration, the program to date demonstrates the capacity for local

jurisdictions to coordinate with the state to execute high-volume housing production strategies responsive to local needs.

The city and county of Los Angeles both submitted Homekey applications to HCD without co-applicants and led their respective efforts to acquire sites. However, the city chose immediately to administer a disposition process for the properties through a request for proposals (RFP) targeting housing operators that were experienced (directly or through partnerships) in both interim housing operations and PSH development and operations. This strategy made the sites available to awardees at no cost and committed roughly \$22 million overall to the renovation of the properties, but it also placed the responsibility of renovation and occupancy on housing operators, as well as converting the sites to PSH within five years. This approach proved to be a harrowing process due to the abbreviated timeframe for meeting Homekey milestones, a lack of interdepartmental coordination in the permitting and inspections, as well as a lack of clarity about the roles and responsibilities of the nonprofit operators vis a vis the city.⁷ Among the city's housing operators, three have initiated their PSH conversions primarily because they received private foundation support to accelerate the process and reduce development budget gaps, as the city has not provided long-term operating or capital subsidies.

In contrast, LA County (through its Homeless Initiative situated within the Chief Executive Office) opted to acquire, own, and manage its Homekey 1.0 sites, and selected qualified interim housing operators to manage interim housing programs at those locations. As a result, LA County was responsible for the rehabilitation scope and ongoing major repairs and maintenance, leaving contracted operators to focus on their area of expertise, providing short-term housing and supportive services. Of the 10 sites funded by the Homeless Initiative, the Los Angeles Homeless Services Authority (LAHSA) oversees three sites, one targeting families and two others that previously operated as Project Roomkey programs. The Los Angeles County Department of Health Services (DHS) oversees seven sites targeting homeless adults.

⁶ <https://ternercenter.berkeley.edu/research-and-policy/homekey-1-0-lessons-learned/>

⁷ At the time of ownership transfer to the nonprofit operators, the city had committed to providing building permits for the property's change of use from transient occupancy to residential use as well as architectural plans for the required accessibility alterations approved by the Los Angeles Department of Building and Safety (LADBS). In actuality, permits were issued several months after ownership transfer to operators, the accessibility plans provided by the city did not accurately reflect site conditions, and to the extent capital needs assessments were obtained by the city, the reports did not provide enough data and analysis to develop an appropriate scope of work or budget for rehabilitation. Multiple housing operators noted a significant difference between the city's physical needs assessment and the actual scope of repairs needed. As a result, the cost of rehabilitation was significantly more than budgeted at multiple properties funded by the city.



For Homekey 1.0, the county spent roughly \$24 million on due diligence costs, relocation, acquisition matching funds, and renovations to convert the motels to interim housing. In addition, the county contributed another \$20 million in operating subsidy on top of the \$17 million the state provided to fund services and building maintenance. These operating subsidies are intended to last through the end of September 2022, at which point the county expects to end its Project Homekey interim housing programs and fund renovations to convert them to PSH.⁸

Both jurisdictions adapted their approaches when the second round of the program was announced in 2021. For Homekey 2.0, the county pivoted from leading the site acquisition and rehabilitation process to issuing a request for statement of interest (RFSI), which, in effect, allowed housing operator applicants to control the site selection and development process. This change in strategy resulted from the county learning that partnering with experienced housing developers would both tap into their experience with acquiring and developing residential properties for the target population, and offer a better long-term approach to managing the sites (as opposed to county ownership of residential properties, which is not a model that fits well into the county's current asset management structure). While the county was able to identify a substantial amount of federal funds to subsidize the conversion and operations of its Homekey 1.0 sites, there is a dwindling supply of federal and local operating subsidies available to support second round projects.⁹

After the first program round, the city revised its strategy for using Homekey by prioritizing permanent housing over interim beds. It has submitted 16 second round applications for sites totaling 1,325 housing units from recently completed vacant apartments. Familiarity with the program enabled the city to anticipate the requirements for Homekey 2.0, which proved to be a meaningful advantage. The Housing Authority of the city of Los Angeles (HACLA), which led the site selection and negotiation process, began identifying sites and placing properties into escrow as early as March 2021, well ahead of the state NOFA's release in October. At the time, apartment developers were receptive to selling, given the uncertainty of demand during the pandemic and the enforcement of local and state eviction moratoria. The HACLA also acknowledged that another key component of its ability to execute this strategy was driven by HCD increasing its per unit grant limit from the first NOFA, which allowed it to implement this different strategy.

Although the city's Homekey 2.0 properties cost more per unit than Homekey 1.0 motels purchased in 2020, therefore requiring a higher capital commitment per unit, these units are expected to cost less than new construction PSH that triggers other regulatory and sustainability requirements not applicable to Homekey. This strategic approach bypasses the challenges presented with renovating motels and provides a more immediate supply solution that fits the city's needs. The city also intends to use about half of its federal Emergency Housing Vouchers to support the long-term operations of 2.0 sites.

⁸ To facilitate the conversion of these 10 properties to PSH, the county has identified federally funded resources to pay for the cost of renovations and long-term operating subsidy needed to ensure long-term financial feasibility. The County has also reserved approximately \$100 million in ARPA funds (roughly \$ 110,000 per unit) to pay for renovations and 800 federal housing vouchers.

⁹ Thus, the county's RFSI specifies "non-Homekey operating sources that may be layered to support Homekey operations include local, state, federal, private or philanthropic funding sources," but does not explicitly commit, let alone promise, subsidies to awarded projects. Similarly, for any Homekey 2.0 sites that will eventually convert to PSH, federal funding sources have been potentially identified but not reserved for these sites, including project based and tenant based federal subsidies, and American Recovery and Reinvestment Act funds.

In general, operators participating in the city's Homekey program expressed both appreciation for the city partnership to produce these housing units, and a significant amount of frustration with the renovation process. One operator explained that the relationship with the city forged through Homekey feels more like a partnership than other dealings involving competitive processes for funding PSH. One reason for this is the structure of Homekey. The city's obligations to perform under the terms of the regulatory agreement increases its stake in the outcomes for the properties and creates incentives to coordinate other city departments to expedite processes and procedures needed to meet the performance deadlines. In contrast, another operator characterized the city relationship as "a lot of micro-management" without enough resources to get the work done. On the other hand, operators of county sites were not responsible for permitting processes, renovation, or facilities maintenance and management. These operators expressed a higher level of satisfaction with their participation in Homekey because they could focus on their interim housing and supportive services expertise. The county's decision to take responsibility for the renovations avoided a lot of the operational challenges faced by operators in the city's program.

Despite limited resources to pay for new beds and housing units, and the overwhelming demand for both interim and permanent housing across Los Angeles, Homekey 1.0 sites now pose a series of challenges at the local level that may require still more coordination with the state and federal government. To the extent Homekey 3.0, expected in fall 2022, can contribute funding necessary for the PSH conversion phase, it will help to alleviate the uncertainty of funding availability. Altogether, the varying jurisdictional approaches reveal distinct results and implications for both the operators and the jurisdictions.



Theme #3:

Like all interim housing, Homekey-funded sites are expensive to operate, and in many cases, not resourced at the level that operators suggest is required to provide the level of services that clients need.

Interim housing provides shelter and allows for those experiencing homelessness to come indoors and off the street, but it is an expensive intervention and not a long-term solution to our affordable housing shortage. The model is expensive to operate due to the need for meal service, and when appropriate, full-time security onsite, in contrast with current reimbursement rates that currently do not cover security, which operators see as a necessary “around the clock” service. To illustrate, one operator described a site that was broken into five times, and in one instance, major damage was done to the copper pipes and doors. Additionally, the prevalence of insurance claim events increases premiums for operators and further impacts their operating budget. Operators also struggled with having appropriate meal prep and food storage space at interim housing sites, making it more costly to store food properly. The inherent wear and tear of motels and hotels also strains operations and their maintenance personnel and budgets.

According to Cheri Todoroff, Executive Director of the county Homeless Initiative, which is leading the county’s Homekey administration, “Our lowest cost interim bed is \$50/bed night, with a moderate level of services the cost is closer to \$80 to \$100/night. With higher acuity individuals with more robust services, the cost can go up to \$150 per bed night and higher.” For permanent supportive housing, the (operating) cost (to the county) with a federal voucher is \$15-\$20 per bed night for the services versus \$50-\$150 per bed night. Operators in county-owned sites working with higher acuity adults, funded with Department of Health Services contracts, expressed uniformly that they were satisfied with the level of funding received for the program offered. However, the city of Los Angeles operators funded by LAHSA contracts expressed a desire for a higher bed night rate to pay for the level of services needed to meet client needs and facilities maintenance standards. Some operators felt like they had entered a partnership with the city only to be saddled with properties in poor condition without

the resources to address the capital or operating costs. The per diem cost for congregate housing facilities is even lower than the bed rate for Homekey sites that offer private rooms.

Insufficient reimbursement rates also underline the challenge that Homekey operators face with recruiting and retaining quality staff. Operators expressed frustration with their ability to pay competitive wages to front-line staff working with highly vulnerable populations.

These staff retention issues are not specific to Homekey and speak to a larger trend in workforce retention across community-based organizations in which jobs tend to not pay as much and are demanding physically and emotionally. As a result, the disruption in treatment for those experiencing homelessness and participating in Homekey can delay the recovery process, lead to inconsistent outcomes, and add costs as it takes longer to triage and transition participants within the homelessness system.



Theme #4:

The City and the County are now grappling with identifying capital and operating subsidy to convert the sites to permanent supportive housing because operating subsidy from project-based vouchers is dwindling and/or over-subscribed.

This theme was introduced and touched upon in Theme #2, but there was no more resounding theme from our stakeholder interviews than the deep concern about the lack of long-term operating support to ensure that Homekey projects can convert to PSH, help secure other capital financing if needed, and remain financially viable long-term. Despite being extremely limited right now, project-based operating subsidies, like Section 8 Project-based Vouchers (PBVs), serve to ensure the long-term financial sustainability of permanent supportive housing for operators and residents. Yet these subsidies are extremely limited as an affordable housing finance tool — Housing Authority of the City of Los Angeles (HACLA) has nearly exceeded its PBV cap for example — and did not get packaged as part of the state funding but rather left up to localities to allocate as available through their local housing authorities.^{10,11} Even with some operating subsidy support from local and federal levels, there remains a dwindling supply of operating subsidies available to support the second round of Homekey sites. With the clock ticking now that Homekey has launched and communities well underway with implementation, the future of these program assets is clearly intertwined with the ability of public and private partners to get more creative to alleviate the building pressure on local voucher supplies while they work with policymakers to craft and execute legislative remedies to ensure long-term project viability.



¹⁰ The state's Department of Housing and Community Development (HCD) also provided operating subsidies based on an applicant's match funds. In the more recent Homekey 2.0 solicitation from HCD, assisted units serving those experiencing chronic homelessness are given \$1,400 per month, and all other assisted units are not to exceed \$1,000. The duration of the operating subsidy HCD provided was based on the applicant's match or their ability to leverage local funds.

¹¹ This constraint has been consistent statewide and was highlighted in the Turner Center report.

Theme #5:

The configuration and land use restrictions of motel/hotel sites were not intended for use as interim or permanent supportive housing and presented challenges for operators as it relates to service delivery and conversion planning.

While interviewees widely lauded the advantages of privacy inherent in the motel format, they were quick to point out that these buildings that are now 40 years old (or more) and not designed to meet the requirements of modern-day PSH. The rooms are generally small, such that adding cooking facilities or complying with accessibility standards is extremely challenging. Furthermore, most of the Homekey sites could only accommodate a single adult per room. The smaller motels have few on-site amenities, such as sufficient office space for staff and meeting spaces of varying sizes for community activities that are an integral part of meeting resident needs and building a sense of community. To compensate for the absence of such amenities, one operator with a 22-unit motel erected a tent in the parking lot to create a community space where residents and staff can gather to conduct meetings and social events. Others have had to convert rooms that would have been used for housing into office space.

“ Making that transition for people who’ve already been living at the site for more than a year is difficult. Hotels that are currently occupied with individuals and trying to transition them from Homekey interim to PSH, with what may be the same individual in that room is a daunting task. It is very challenging.”

-TONJA BOYKIN, WEINGART CENTER

However, even though the majority of Homekey sites appeared well maintained for the purposes of accommodating short-term stays, and in some instances had recently completed cosmetic upgrades, converting the properties from transient occupancy (R-1) to residential occupancy (R-2) was the biggest hurdle to initiate operations since the change in use triggered upgrades to fire sprinklers and fire alarm systems at every hospitality property. In many cases, the new fire life safety standards required an upgrade to the electrical system to accommodate the higher lode. Operators also inherited property conditions that resulted in additional unanticipated costs in conversion planning. For example, one operator inherited an unpermitted pool, another encountered several rooms with mold, another was awarded a property that had no record of a certificate of occupancy. For most sites, the rehabilitation costs far exceeded the initial cost projections due to the compressed timeframe for completing due diligence.

Ultimately, converting the sites to interim housing was expedient (in most cases), but in the long run, may not be cost-efficient. Among the operators who provided cost data, the per unit rehabilitation cost for converting motels to interim housing ranged from \$9,000 to more than \$60,000 per unit. One operator determined the cost to convert to permanent housing was \$160,000 per unit due to the poor condition of the property at acquisition, and it should be noted that property remains unoccupied a little more than a year after the first round Homekey occupancy deadline. In this case, the acquisition cost per unit could potentially range from \$159,000 to as much as \$350,000 for the interim housing plus another \$150,000, or more, for the PSH conversion, for a total capital cost of up to \$500,000 over three to five years. Furthermore, these costs do not necessarily reflect the organizational costs for Homekey operators to undergo duplicative renovation processes, which takes away organizational focus and energy from producing new units.

Theme #6:

For Los Angeles and its vast and diverse homeless population, congregate and non-congregate interim housing are necessary options but the varying formats present advantages and disadvantages that warrant more study.

Many of the operators interviewed stated a preference for the privacy inherent in the motel layout, in contrast to congregate configurations that are more common in traditional shelters, to support the dignity and well-being of individual participants. The county Homeless Initiative reported that Homekey sites had a significantly higher acceptance rate among chronically homeless adults compared with congregate facilities, which enables those participants to receive intensive case management services. Anecdotally, participants with private rooms were reported to have a higher satisfaction level than those placed in congregate facilities. Participants are reluctant to move into congregate sites due to concerns about losing their pets and belongings, noise, safety, and lack of privacy.¹²

However, all operators cited challenges when intervening in hoarding, hygiene, and issues with social isolation since the private format allows participants to simply close their door and disengage. Congregate settings provide more compact quarters for participants and enable operators to exercise a higher level of oversight of participants at a lower cost. One operator suggested the ideal would be a hybrid that offered partitions tall enough to provide personal privacy in a congregate setting that would allow program staff to identify and address resident needs early.

Altogether, interviews with operators provided little hard evidence or data to suggest a private room is quantitatively or qualitatively better than congregate but, undoubtedly, there is efficacy in having a range of interim housing options, including both private rooms and shared or semi-private facilities, to address the needs and desires of a diverse homeless population.

We acknowledge important considerations in each approach and therefore a need for better participant-level analysis to assess the strengths and weaknesses in the different interim housing formats, at least in relation to Homekey-assisted interim housing.

On that note, the research team was not able to secure participant-level data in any consistent way and certainly not across the entire programmatic footprint. That could reflect our lack of access to such information and not necessarily suggest the data is nonexistent or could not be retrieved given more time or follow-up. We received some input anecdotally about average lengths of stay for Homekey participants. That metric appears to be averaging a year or more for all interim sites, consistent with non-Homekey interim housing. Such lengths of stay are largely attributable to a severe shortage of permanent supportive housing while participants wait for a permanent housing placement to become available.



¹² https://www.rand.org/pubs/research_reports/RRA1890-1.html

Theme #7:

Homekey's regulatory flexibility, including exempting properties from the California Environmental Quality Act (CEQA), is an important tool for expediting housing creation, but at the same time, community engagement is necessary, even for projects that are not changing the physical form of neighborhoods.

Theme #8:

Converting sites from interim to permanent housing will be challenging for all operators, especially those without in-house real estate development capacity, which presents an opportunity for local government to arrange technical assistance and streamline review and approval process for these sites.

The performance schedule for Homekey 1.0, coupled with provisions that expedited project approvals, like the CEQA exemption, created a faster track for advancing projects, which was lauded by stakeholders as a positive outcome of the program. However, the speed of implementation came at the expense of allowing administrators and operators sufficient time to engage the community appropriately before occupancy.

The site located in Venice Beach, adjacent to a single-family neighborhood, was the only one (of the 20 Homekey 1.0 sites) that reported substantive opposition. The neighbors sued the operator and the city since the property was "awarded" to the operator outside of a competitive bidding process, and on grounds that it was not compliant with CEQA requirements, which were waived for all Homekey funded sites by California Assembly Bill (AB 83). The litigation was eventually dropped, but this was an instance when the roles and responsibilities of the city and the operators were not clearly defined. Had the operator, which is a large service provider with an affiliated affordable housing development corporation, led the acquisition and due diligence process from the outset, such neighborhood engagement would have been entirely controlled by the operator and normally occurred prior to closing escrow. The resulting negotiation with the neighbors, which initiated with the city and was concluded by the operator, led to commitments for implementing costly security measures, which were not part of the original budget proposed by the operator. We heard that these costs will not be reimbursed by the city. In addition to the security costs, litigation can absorb a tremendous amount of organizational energy and focus, the cost of which is not compensated by a \$65 per night reimbursement rate. As a result, the operator is subsidizing the property operations costs.

The most challenging facet of Homekey 1.0 was completing renovations to enable participants to occupy the units within defined programmatic deadlines. As mentioned above, in some instances housing operators had only 90 days to complete a substantial scope of work. All the city of Los Angeles operators had a strong critique of the inefficiencies and chaos in the permitting, renovation, and inspection process. Most of those renovations focused on accessibility compliance and fire and life safety. The subsequent renovation will be equally, if not more, complicated, for instance installing kitchens and completing other necessary systems improvements or replacements.

Many of the Homekey 1.0 operators are also affordable housing developers experienced in navigating the real estate development process whereas other operators have expertise in interim housing and service provision but not real estate development. For those organizations less experienced with housing development, they will be uniquely challenged adapting as they prepare to convert their sites to PSH. This conversion phase presents local government the opportunity to support that process by streamlining approval processes, waiving fees, and expediting plan check, permitting, and inspections, in addition to providing technical assistance to operators. These takeaways also point to a need for an intergovernmental team to facilitate streamlining the renovation process, including developing the scope of work, permitting, inspections, and approvals.

Policy Recommendations & Areas For Future Inquiry

Although Homekey is relatively new and requires more study, especially to reflect on completed PSH conversions, there are recommendations for policy reform and areas for additional inquiry and research to maximize the program's impact on our homelessness response.

City and County of Los Angeles

1. Conduct a full cost analysis to better understand the economics and potential cost savings of converting existing motels to permanent supportive housing versus new construction permanent supportive housing.
2. Continue working to balance the inventory by increasing the pace of adding PSH units to the local homeless response system:
 - a. To balance the local inventory of interim and permanent supportive housing, the city and county will potentially want to prioritize permanent housing for Homekey funding opportunities in the future. The city of Los Angeles has already made this adjustment to its strategy, but the county may want to consider prioritizing PSH requests for its third Homekey round as it evaluates applications to submit to HCD.
 - b. Use Homekey funding to protect vulnerable, low-income renters and thereby prevent homelessness. Consider acquiring existing, occupied buildings where residents are extremely low-income (below 30% of Area Median Income) and at-risk of homelessness. However, it is difficult to identify properties with residents who meet the at-risk of homelessness definition to be Homekey eligible. To the extent local jurisdictions want to pursue this strategy, they could conduct outreach with tenant organizers and other community-based organizations to identify such acquisition opportunities.
3. Increase the bed rate for LAHSA-funded interim housing sites to fairly compensate operators for providing the level of services needed by participants and to stabilize property operations.
4. Streamline the permitting, inspection, and approval process for PSH conversions. Based on the challenges posed by Homekey 1.0 during their initial conversion to interim housing, the city and county can consider supporting housing operators in a variety of ways with navigating the permitting, inspection, and approval process:
 - a. Organize a dedicated team of building officials briefed on Homekey objectives and sites to process and expedite plan check, building permits, and on-site inspections, including providing advisory inspections ahead of plan check (especially for fire department) to help define the initial scope of work conforms with applicable requirements.
 - b. Waive permits and fees, as allowed by law.
 - c. Organize or coordinate listening sessions with operators and building department officials to discuss challenges with initial renovation and suggestions for process improvement.
 - d. Provide consulting resources to support operators through the renovation planning process: physical needs assessment, construction management/ architecture and engineering.
 - e. Provide a dedicated consulting team (architects, engineers, expeditors) to support operators in meeting the requirements for converting to PSH.
5. Provide operators with more reliable funding sources for converting Homekey sites to PSH, including capital and operating subsidies:
6. Using Homekey 3.0 funds to support conversion costs and allocate a higher percentage of overall funds to operating subsidies. Convene a periodic roundtable of Homekey operators to share more lessons learned about conversion process, including funding opportunities, and strategies for coordinating with local government on approvals for renovations.

State

1. Anticipating commercial and office properties may be available at a better price point than other classes of real estate, consider extending the performance schedule for Homekey applications proposing adaptive reuse strategies.
2. Increase Homekey operating subsidy limits and provide greater flexibility for disbursing those funds. Currently, HCD caps its operating subsidy amount at \$1,000 per unit per month compared with an actual operating cost of up to \$4,350 per unit per month for interim housing. Furthermore, HCD requires its operating subsidies to be fully disbursed within 4 years but having greater flexibility about using those HCD operating funds over a longer period would provide operators with greater flexibility in structuring revenue streams to achieve long-term financial sustainability.
3. Increase the per unit grant limits for Homekey 3.0 to keep pace with construction cost escalation and the property sales prices as the economy rebounds.
4. Consider using future rounds of Homekey funding to pay for some of the conversion costs for Homekey 1.0 projects that function as interim housing but need to convert to PSH in the next few years.
5. To ensure HCD executes on its commitment to announce awards within 45 days, increase HCD program staffing levels to expand on the well-received pre-application consultation process from Homekey 2.0 and the level of technical assistance offered to applicants to optimize their applications. Public partners expressed appreciation for this level of pre-application support but, due to the delays in awarding projects, they had to advance millions of dollars to acquire sites that are awaiting awards where the escrow deadline could not be extended any longer. Though reimbursement from HCD is expected, this is a significant risk that might not be tolerable for smaller jurisdictions without comparable financial resources.

Federal

1. Advocacy at the federal level to increase the operating subsidies will be necessary to increase access to these resources. Alternatively, using tenant-based vouchers to support the conversion to PSH needs further exploration as that subsidy structure is not widely accepted by conventional lenders to leverage debt.

Areas for Future Inquiry

1. What does it cost to operate Homekey sites as interim and, eventually, permanent supportive housing (PSH)? How can we better understand the potential cost savings of converting existing motels to PSH versus constructing new PSH?
2. What impact will Homekey have on the Low-Income Housing Tax Credit and tax-exempt bond pipeline as projects with Homekey awards are converting from interim to permanent with additional capital raised from debt and equity markets?
3. Acknowledging purchase prices for hospitality properties have rebounded, will Homekey have to significantly increase its maximum award amount?
4. What does Homekey's early implementation in Los Angeles, with its focus on non-congregate interim housing, tell us about the relationship between housing configuration and client-level outcomes, especially for those considered chronically homeless and living with mental illness and/or substance abuse barriers?
5. How do communities perceive Homekey? Interviewees suggested that the public is not necessarily differentiating Homekey from other homelessness interventions and clientele, which can create communications challenges. Also, with additional scaling of the program, are there certain expectations from local government or the public that are unrelated to Homekey, like certain site or neighborhood improvements (fencing, façade work, etc.) or resolution of nearby encampments?

