HOUSING AUTHORITY CITY OF LOS ANGELES
INTEROFFICE MEMORANDUM

TO: HACLA Board of Commissioners

FROM: Margarita Lares, Chief Programs Officer *Margarita Lares*
Carlos Van Natter, Director of Section 8 *Carlos VanNatter*

THROUGH: Douglas Guthrie, President and CEO *Douglas Guthrie*

DATE: September 24, 2020

SUBJECT: Section 8 Housing Choice Voucher Leasing Projections and Efforts to Increase Lease Up

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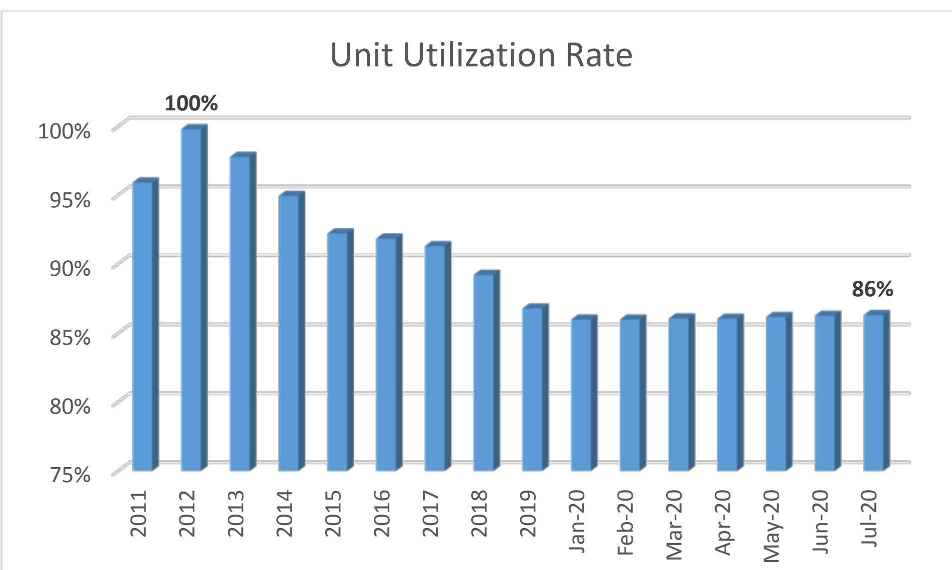
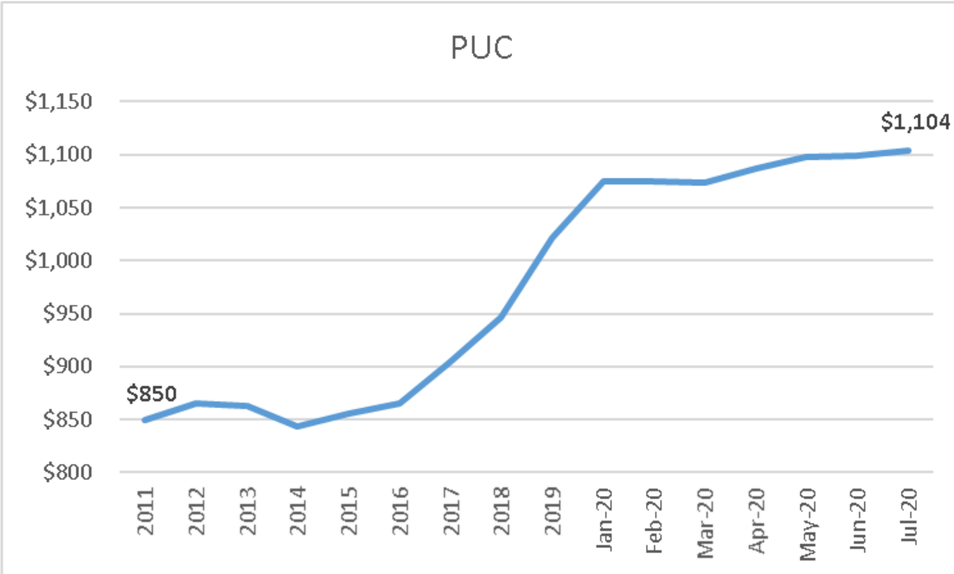
This informational report is intended to provide the Housing Authority of the City of Los Angeles ("HACLA") Board of Commissioners an overview of the Section 8 Housing Choice Voucher (HCV) leasing projections and efforts to increase lease up.

By regulation, HUD prohibits the use of appropriated Housing Assistance Payment (HAP) funds by any Public Housing Authority (PHA), except for PHAs in the Moving To Work (MTW) demonstration, to lease units above their baseline units during any Calendar Year (CY), even if the PHA has sufficient budget authority (BA) and/or reserves to support the additional units.

The key performance leasing indicator for the HCV program is the utilization rate. For utilization rate, HUD monitors if the PHA executed HAP contracts up to the number of vouchers/units allocated to the PHA or if the PHA expended its allocated BA. The graph below shows HACLA's utilization rate based on units leased:



The BA utilization rate is impacted by the higher Per Unit Cost (PUC), or amount paid in Housing Assistance Payments for each contract. The PUC increases over time as new leases are executed at higher contract rent. For HACLA's assisted units within the City of Los Angeles, the PUC is as follows:



As of June 2020, the S8 HCV program utilization by unit and BA are as follows:

Indicator	US	CA	HACLA
2020 BA Utilization Rate	99.77%	99.79%	98.90%
2020 Unit Utilization Rate	88.48%	88.38%	86.30%[1]
Average Per Unit Cost	$ 757.63	$1,109.05	$1,100.00

As of June 2020, HACLA is providing HCV housing assistance to 43,904 participant families. From January 2020 to June 2020, the PUC increased from $1075 to $1100. Taking into account vouchers on the street, planned additions from project-based vouchers scheduled to come online by the end of the year, plus interviews to be scheduled from applicant families currently on the waiting list, the S8 Program estimates to end CY2020 at the following utilization rates:

- 87% based on baseline units allocated by HUD, and
- 101% based on budget authority. HUD Held Reserves will be used to cover the shortfall.

This scenario relies upon the following key variables:

- Success rate (how many issued vouchers will execute a lease agreement): 57%
- Attrition rate (what percent of participant annually leave the program): 4%
- Per Unit Cost (Average monthly cost of a voucher) $1,103

For CY2021, the following utilization rates are expected:

- 88% based on baseline units allocated by HUD, and
- 103% based on budget authority. HUD Held Reserves will be used to cover the shortfall. This is an estimate using HUD's formula to calculate renewal funding eligibility for CY2021. The Housing Authority receives notification of its annual renewal funding notice after Consolidated Appropriations Bill is enacted. As a reference, for CY2020 this notice was received 60 days after enactment of this Act.

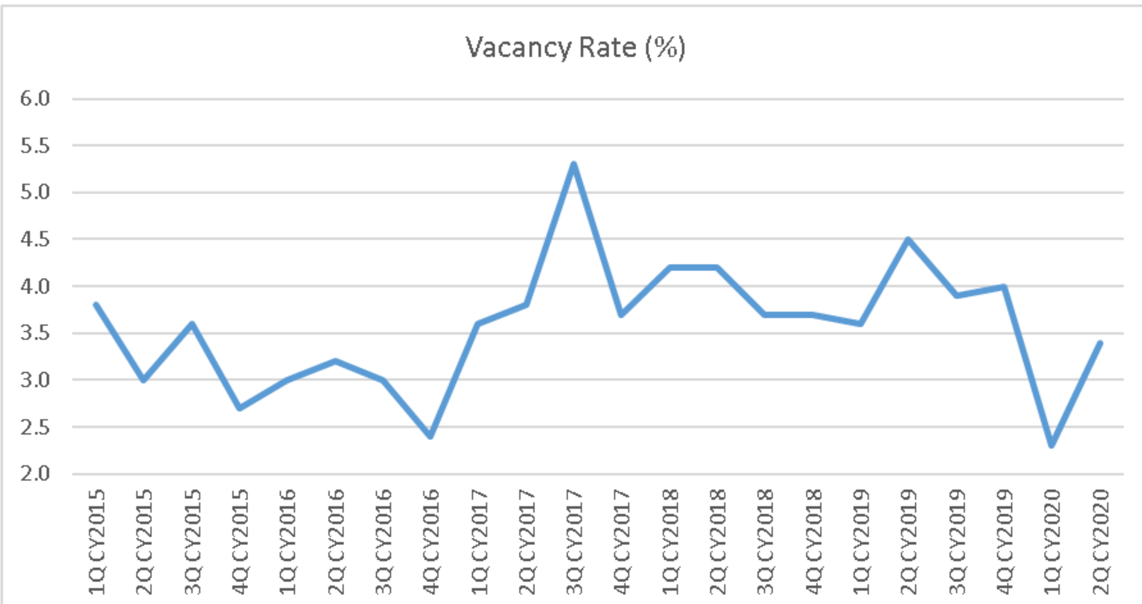
[1] A figure of 82% had been noted previously from a calculation of the PBV cap using a different baseline.

In addition to the key variables listed above, there are many drivers that impact program utilization including, but not limited to, vacancy rate, market rents, voucher payment standards, and landlord participation in the HCV program. Some of them HACLA has control over, others we do not.

VACANCY RATE

HCV holders have a very difficult time locating housing units because the vacancy rate in the city is extremely low due to a shortage of housing stock.

The Los Angeles-Long Beach-Anaheim Metropolitan Statistical Area market conditions remain tight with a vacancy rate at 3.7% (*Source*: Market condition: Economic and Market Analysis Division; vacancy rate and average monthly rent: RealPage, Inc.)[2]



Source: US Census

One important point is that this percentage is an average of all rental units in an area, including luxury units which skew the average higher. While reliable estimates of the percentage of vacant units on the lower end of the rental range are difficult to come by, it is generally believed that the percentage of vacant units in that range, where HACLA primarily operates, is even lower.

MARKET RENTS

HCV holders also have a very difficult time locating housing units because market rents are extremely high.

Current rental market conditions indicate that contract rents are high and have increased:

[2] U.S. Department of Housing and Urban Development | Office of Policy Development and Research | Regional Reports , Region 9 Pacific, p.6

> The average monthly rent for the Los Angeles – Long Beach – Anaheim Metropolitan Statistical Area stands at $2,258, representing an increase of 3.3% from 1QCY2019 to 1QCY2020.[3]

This data is consistent with the *2019 Multifamily Report Casden Real Estate Economics Forecast* issued by the University of Southern California Lusk Center for Real Estate. The report analyzes twelve submarkets within LA County that cover HACLA's jurisdiction:[4]

> Average apartment rent was $2,230 per month, up from $2,180 in 2018. Los Angeles County registered the highest county-level average rent in Southern California in 2019, continuing a trend going back at least to the start of the decade. The average rent increased 2.3% year over year.

VOUCHER PAYMENT STANDARDS

HACLA uses the Los Angeles – Long Beach – Glendale, CA Metropolitan area figures provided by HUD for the Fair Market Rent (FMR). By regulation PHAs must adopt voucher payment standard (VPS) amounts based on the FMR area in the PHA jurisdiction. PHAs may set their VPS between 90 and 110% of the FMR,

The VPS is used to calculate the monthly housing assistance payment for a family. The VPS is the maximum monthly subsidy payment. Once the VPS is set, the PHA must determine if the contract rent requested by the landlord is reasonable in comparison to rent for other comparable unassisted units. To make this determination, the PHA must consider:
1. The location, quality, size, unit type, and age of the contract unit; and
2. Any amenities, housing services, maintenance and utilities to be provided by the landlord in accordance with the lease.

Based on market rents and taking into account the final FMR schedule issued by HUD to be effective October 1, 2020, showing an increase between 4% to 7% vs. prior year, HACLA will adjust its VPS schedule as follows:[5]

Bedroom Size	FMR 2020	VPS 2019 Eff. 10/1/2019	FMR 2021	VPS 2020 Eff. 10/1/2020
SRO	959	959	1,026	1,026
0	1,279	1,279	1,369	1,369
1	1,517	1,668	1,605	1,765
2	1,956	2,151	2,058	2,263
3	2,614	2,641	2,735	2,735
4	2,857	2,905	2,982	2,982
5	3,285	3,340	3,429	3,429
6	3,714	3,776	3,876	3,876
7	4,142	4,211	4,323	4,323

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[3] Ibid

[4] Burbank-Glendale, Central Los Angeles, Coastal Communities – Beverly Hills, Downtown, East San Gabriel Valley, Inglewood – Gardena – Hawthorne, Koreatown – Mid City, Long Beach – South Bay, Palmdale – Lancaster, San Fernando Valley, Southeast Los Angeles, and West San Gabriel Valley.

[5] Per HUD "The trend factors used in the FY 2021 FMRs include updated economic assumptions to reflect the economic downturn caused by the COVID–19 pandemic." (FR / Vol. 85, No. 158 / Friday, August 14, 2020)

8	4,571	4,647	4,771	4,771
9	4,999	5,083	5,218	5,218
10	5,428	5,518	5,665	5,665

HACLA will set its VPS to 110% of the 1 and 2 bedroom FMR in order to better serve our clients, 70% of whom use vouchers in those bedroom sizes. Other bedroom sizes will remain at the FMR. This will enable us to get closer to market rent averages while also allowing our clients to access broader sections of the City for units. As noted, all contract rents must be supported by comparable rents of like and similar units within the neighborhood.

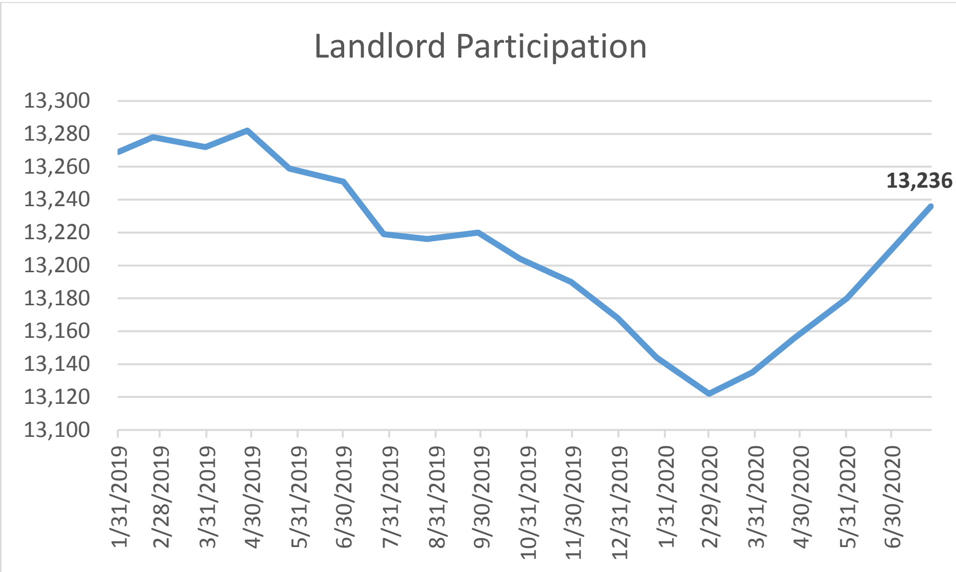
Overall it is estimated that this new VPS schedule may represent a 1.3% increase in PUC by the end of CY2021. On average the gross rent for 97% of participant families occupying a one or two bedroom unit is below the VPS.[6]

Note that these assumptions do not account for rent increases for current program participants. On March 30, 2020, the City of Los Angeles issued a Public Order to halt all rent increases for occupied rental units subject to the Los Angeles Rent Stabilization Ordinance (RSO). On May 12, 2020 Ordinance No. 186607 was issued to temporarily prohibit rent increases for rental units subject to the RSO. In accordance with Ordinance No. 186607, the Housing Authority will not approve rent increases for assisted units subject to RSO. Based on Elite Demographics report as of September 14, 2020, 57% of assisted units within HACLA's jurisdiction fall under the RSO. For non-RSO units, there is a maximum state rent cap to be applied as required by Assembly Bill No. 1482. That cap is set at 5.7%.

[6] 83% of current HCV participant families occupy a unit where number of bedrooms is at or less than two bedrooms. *Source*: PIC Resident Characteristics Report as of July 31, 2020

LANDLORD PARTICIPATION/EFFORTS TO INCREASE LEASE UP

Multiple studies have been issued regarding landlord participation in the HCV program,[7] as well as outreach efforts to address landlords' concerns.[8] As a result of these studies HACLA implemented the Homeless Incentive Program (HIP)[9] in partnership with the Los Angeles Community Development Authority using county Measure H funds. The HIP program provided incentives to landlords to house homeless applicants through holding fees and security deposit assistance. The Housing Authority has seen a reversal in the trend of landlords participating in the program:



It is expected that this increasing trend registered since the beginning of CY2020 will continue with the implementation of landlord incentives using CARES Administrative Fee Funding. This new program, called HACLA CARES, has expanded its reach and is available to all new tenant-based voucher holders searching for units. In addition to landlord outreach materials emphasizing the positive aspects of working with HACLA, a major new marketing push has begun to inform landlords of this new program through virtual meetings with landlords and advertisements in local newspapers and landlord association publications.

The results of this effort will be monitored to determine the impact on new contracting. HACLA will track the number of new landlords, and those deciding to rent turnover units to HACLA applicants, while also determining if voucher holders are moving into new areas of the City or those where we have worked in the past.

Project basing of units will continue as a major initiative for the agency as that program actually increases the housing stock of units for our target population. Housing Authorities can project base up to 30% of their units for PBV and HACLA is currently at 18.6% of its cap.

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[7] *A Pilot Study of Landlord Acceptance of Housing Choice Vouchers*, August 2018. Urban Institute

[8] https://www.hud.gov/program_offices/public_indian_housing/programs/hcv/landlord

[9] On May 2016, Section 8 launched the Homeless Incentive Program (HIP) as part of HACLA's involvement in the City's Comprehensive Homeless Strategy to encourage landlord acceptance of applicant families eligible for housing assistance under the homeless programs.

HACLA continues to prioritize and streamline the work to lease up new clients onto the program by expediting new contracting work in specific intake units and quickly inspecting new units for contractingTo fill turnover vacates, staff works closely with the Coordinated Entry System and HCV homeless program partners to receive applicant referrals and also draws down applicants from the Section 8 Waitlist..

Customer service for participant families and landlords is being improved by establishment of a customer contact center, automating more functions, such as annual reexaminations, and processing eligible rent increases for landlords timely.

The HCV Program is a complex one to administer. There are many moving parts and some items are within the agency’s control and some are not. We are constantly looking for new ways to address challenges and improve program outcomes for everyone.