



TO: Board of Commissioners
FROM: Geoffrey Moen, Director of Development *Geoffrey Moen*
DATE: January 27, 2022
SUBJECT: **Update on Homekey Round 2 Acquisitions**

The purpose of this memo is to provide an update to the Board of Commissioners (“BOC”) of the Housing Authority of the City of Los Angeles (“HACLA”) on the status of HACLA’s acquisitions activities with respect to the Notice of Funding Availability, Round 2 (the “Round 2 NOFA”) of the State of California’s Homekey Program (“Homekey”) administered by the California Department of Housing and Community Development (“HCD”).

Background

On September 9, 2021, HCD released the Round 2 NOFA, which announced the availability of approximately \$1.45 billion in funding to expand the inventory of housing for people experiencing homelessness or at risk of homelessness, including homeless youth and youth at risk of homelessness (together, the “Target Populations”), who are impacted by or at increased risk for medical diseases or conditions due to the COVID-19 pandemic or other communicable diseases. Homekey provides funding for public entities to acquire, adapt, or develop hotels, multifamily buildings, and other property types to provide Permanent or Interim Housing for the Target Populations. Homekey also recognizes the disparate impacts of both homelessness and of the pandemic on Black, Indigenous, and People of Color (“BIPOC”) populations, and encourages applicants to develop strategies to address these impacts.

Of the \$1.45 billion in Homekey grant funds, \$1.2 billion is derived from the state's direct allocation of the federal Coronavirus State Fiscal Recovery Fund (CSFRF), which was established by the American Rescue Plan Act of 2021 (ARPA) (Pub. L. No. 117-2). In addition, \$250 million is derived from the state's General Fund. The State also statutorily exempted Homekey projects from the California Environmental Quality Act (CEQA) by adding section 50675.1.4 to the California Health and Safety Code.

Program Guidelines

The guidelines for Homekey are set forth by HCD in the Round 2 NOFA. Under the Round 2 NOFA, the majority of Homekey funds are allocated to eight regions, with each region receiving a set aside of funding that may be accessed by applications submitted on or before January 31, 2022. The allocations are based on each region’s proportionate share of the 2019 Homeless Point In Time (“PIT”) counts and each region’s proportionate share of severely rent-burdened extremely low income (“ELI”) households. Los Angeles County, which reported a PIT count of 58,936 people and a severely burdened ELI population of 395,380 people, has the largest geographic set aside allocation, with a total of \$358,681,953. Geographic set asides dissolve on February 1, 2022, and unused funds are reallocated to a statewide pool. Twenty percent of the overall funds are to be awarded on a discretionary basis by HCD and are not subject to geographic set asides. Five percent of the funds are allocated for Tribal Set Aside and eight percent are allocated to a Homeless Youth Set Aside.

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The Round 2 NOFA provides Homekey funding for both: 1) capital expenditures, including property purchase, rehabilitation, and development, and 2) operating subsidy. Capital grants are comprised of a baseline allocation based on the bedroom count of the unit combined with a match of up to \$100,000 per unit for local funding contributed to the project. The program also provides additional capital funding for units targeted for chronically homeless individuals and for youth. Projects that submit applications by January 31 are also eligible for a \$10,000 per unit bonus. Finally, projects that are 90% occupied within eight months of award by HCD are eligible for an additional bonus of \$10,000 per unit. The amount of capital subsidy per unit may range from \$150,000 for a studio or one bedroom with no local match, submitted after January 31, and with 90% occupancy more than eight months from award, to \$320,000 for a three bedroom unit (or any size chronic homeless unit) with a full local match, submitted prior to February 1 and with 90% occupancy within 8 month. The occupancy bonus is awarded with the capital funds but must be spent on operations.

Projects underwritten with a net operating deficit are eligible to apply for operating subsidy up to an amount equal to \$1,000 per unit per month for three years. The cap increases to \$1,400 per unit per month for chronic homeless or youth homeless targeted units. The maximum subsidy is available only if there is a local commitment to subsidize four years of operations at the same rates.

Partnership with the City of Los Angeles

HACLA began sourcing and evaluating potential properties for Homekey in early 2021 in anticipation of the forthcoming Round 2 NOFA. In the spring of 2021, the City of Los Angeles (“City”) requested that HACLA consider reprising its role in partnership with the City, whereby HACLA would manage acquisitions on behalf of the City. HACLA and the City, through the Los Angeles Housing Department (“LAHD”), entered into a Professional Services Agreement to that effect in November of 2021. Properties acquired on behalf of the City (“City Projects”) will be transferred by HACLA either at closing or post-closing to owner-operators to be selected by LAHD through a competitive Request for Proposals (“RFP”) to be issued in February 2022. HACLA also issued a Notice of Funding Availability (“NOFA”) for 650 Project-Based Section 8 Housing Choice Vouchers (“PBVs”) to provide rental subsidy and support operations for Homekey properties. Through the second round of Homekey, HACLA anticipated that it would acquire approximately 350 units in multiple properties for HACLA’s asset management portfolio, while HACLA would also acquire 750 or more units on behalf of the City of Los Angeles. Also in November of 2021, the City approved an action allocating \$15 million to HACLA for soft residual receipts loans for HACLA Properties (“City HACLA Loans”).

Funding for the local match will come from draws on HACLA’s revolving line of credit with City National Bank (the “LOC”) and from City HACLA Loans for HACLA-owned properties, and from cash at closing by the City for City Projects. The draws on the HACLA LOC will be taken out following lease-up and stabilization with conventional debt or bond financing. City Projects, which are anticipated to have approximately 30% to 35% of their units covered by PBV, will utilize HCD operating subsidy, City operating subsidy, and tenant based vouchers in order to meet operating expense needs.

Property Selection and Acquisition

LAHD provided a series of priorities to HACLA for Homekey acquisitions. The first priority was for good condition, vacant multifamily structures with 40 or more units that could be occupied almost immediately following closing and with little or no need for capital expenditure beyond acquisition. Other priorities include hotels with kitchenettes, followed by other hotels and property types. HACLA staff identified potential properties through

property brokers, analysis of City building permit records, and searches of proprietary real estate information service data. HACLA created a database of potential properties and worked diligently to source properties meeting the City's priorities in as many of the City's Council Districts as possible. Beginning in the summer of 2021, HACLA began negotiating pricing and terms with multiple sellers in an effort to secure the number of units needed to reach HACLA's and the City's goals at the lowest prices. HACLA executed the first purchase contract for 6521 S. Brynhurst Avenue, a 41 unit new construction multifamily development in Council District 8 in the Hyde Park neighborhood, on July 14, 2021. HACLA entered into additional purchase contracts throughout the following months. In each case, the contract requires the delivery of a final certificate of occupancy ("COO") to HACLA prior to closing, in addition to various contingencies, including approval by the BOC. HACLA also conducts multiple investigations during a blanket due diligence period for each property, including appraisals, physical needs assessments, zoning and permitting analysis, title and surveys, accessibility code analysis, and other items.

Homekey Round 2 Portfolios and Application Status

HACLA began submitting applications to HCD for Homekey awards in November of 2021. On January 18, 2022, HACLA received its first award, for approximately \$21 million, for a 79 unit new construction multifamily HACLA Project at 5050 W. Pico Boulevard in CD 10. On January 21, 2022, HACLA will close on the purchase of the first Homekey Round 2 project, an 80 unit new construction multifamily project at 740 S. Alvarado Street in the Westlake neighborhood in CD 1 near HACLA's central office.

Prior to the January 27, 2022 BOC meeting, the BOC had considered and approved of the acquisition of 8 properties with 462 units at a total purchase price of \$190,793,300 (\$412,973/unit). In an effort to submit funding applications prior to February 1 and to maximize the use of state resource to address the homelessness crisis in Los Angeles, HACLA staff, at the request of the City and based on internal priorities and underwriting, has brought forward proposals for an additional eight (8) properties with 814 units at a total purchase price of \$317,175,000 (\$389,650/unit) at the January 27 BOC meeting. Following submission of applications, HACLA staff anticipates award letters will be issued in 45 to 60 days by HCD, followed by closings 30 to 45 days afterward, or later in accordance with the construction schedule and purchase contract for each property.

In sum, the HACLA round 2 portfolio consist of 5 projects with 302 units at an average cost of \$426,824 per unit, and the City Homekey round 2 portfolio consists of 11 projects with 969 units at an average cost of \$388,992 per unit. The following tables provide a summary of the portfolios. HACLA anticipates that it will bring forward another HACLA Project in the coming months to utilize the remaining 48 PBVs under the PBV NOFA.

Table 1: Homekey Round 2 Property Information



Address	CD	Concilmember	Project Type	Type	Property Units					Purchase Price	Price/Unit	Closing Date
					Total	Studios	1BRs	2BRs	3BRs			
6521 Brynhurst	8	Harris-Dawson	City	Multifamily	41	-	-	41	-	\$ 17,340,000	\$ 422,927	2/28/2022
2812 W Temple	13	O'Farrell	City	Multifamily	42	18	24	-	-	18,580,800	442,400	5/31/2022
14949 Roscoe	6	Martinez	HACLA	Multifamily	29	4	13	11	1	10,000,000	344,828	5/1/2022
7639 Van Nuys	6	Martinez	City	Multifamily	36	-	8	28	-	16,600,000	461,111	2/28/2022
916 N Alvarado	13	O'Farrell	City	Multifamily	27	24	2	1	-	11,272,500	417,500	5/31/2022
1654 W Florence	8	Harris-Dawson	City	Multifamily	128	-	128	-	-	49,500,000	386,719	3/30/2022
740 S Alvarado	1	Cedillo	HACLA	Multifamily	80	42	33	5	-	31,000,000	387,500	1/21/2022
21121 Vanowen	3	Blumenfield	City	Multifamily	101	41	46	14	-	55,240,000	546,931	4/15/2022
5050 W Pico	10	Office of District 10	HACLA	Multifamily	79	6	73	-	-	36,500,000	462,025	1/28/2022
6531 S Sepulveda	11	Bonin	City	Hotel	133	133	-	-	-	52,535,000	395,000	6/30/2022
18602 S Vermont	15	Buscaino	City	Hotel	136	136	-	-	-	37,808,000	278,000	6/30/2022
20205 Ventura	3	Blumenfield	City	Hotel	146	146	-	-	-	46,866,000	321,000	6/30/2022
19325 Londelius	12	Lee	City	Hotel	117	117	-	-	-	46,791,000	399,923	6/30/2022
10150 Hillhaven	7	Rodriguez	HACLA	Multifamily	34	-	7	26	1	17,750,000	522,059	5/30/2022
BLVD Hotel	4	Raman	City	Hotel	62	61	-	1	-	24,400,000	393,548	5/31/2022
1044 N Soto	14	de León	HACLA	Hotel	85	85	-	-	-	35,785,000	421,000	9/1/2022
Total: 16 Properties					1,276	813	334	127	2	\$ 507,968,300	\$ 398,094	

* Note: Certain terms still subject to finalization for certain properties. All terms are based on executed purchase contracts or signed letters of intent.

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Table 2

Homekey Round 2 Portfolio Summaries



HACLA				
<u>Under Contract (01/19/22)</u>		<u>Units</u>	<u>Purchase Price</u>	<u>Price/Unit</u>
5050 W Pico	CD 10	79	\$ 36,500,000	\$ 462,025
14949 Roscoe	CD 6	29	10,000,000	344,828
10150 Hillhaven	CD 7	34	17,750,000	522,059
740 S Alvarado	CD 1	80	31,000,000	387,500
1044 N Soto	CD 14	85	35,785,000	421,000
Total		307	\$ 131,035,000	\$ 426,824

<u>Unit Types</u>	<u>Number</u>	<u>Proportion</u>
Studios	137	45%
1BRs	126	41%
2BRs	42	14%
3BRs	2	1%
Total HACLA Units	307	

City of Los Angeles				
<u>Under Contract (01/19/22)</u>		<u>Units</u>	<u>Purchase Price</u>	<u>Price/Unit</u>
6521 Brynhurst	CD 8	41	\$ 17,340,000	\$ 422,927
7639 Van Nuys	CD 6	36	16,600,000	461,111
1654 W Florence	CD 8	128	49,500,000	386,719
2812 W Temple	CD 13	42	18,580,800	442,400
916 N Alvarado	CD 13	27	11,272,500	417,500
<u>Signed LOI (a/o 1/19/2022)</u>				
21121 Vanowen	CD 3	101	55,240,000	546,931
BLVD Hotel	CD 4	62	24,400,000	393,548
6531 S Sepulveda	CD 11	133	52,535,000	395,000
18602 S Vermont	CD 15	136	37,808,000	278,000
20205 Ventura	CD 3	146	46,866,000	321,000
19325 Londelius	CD 12	117	46,791,000	399,923
Total		969	\$ 376,933,300	\$ 388,992

<u>Unit Types</u>	<u>Number</u>	<u>Proportion</u>
Studios	676	70%
1BRs	208	21%
2BRs	85	9%
3BRs	-	0%
Total City Units	969	

Total Combined Units	1,276
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** Note: certain properties still negotiating purchase contracts.*

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