

REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE: December 1, 2023

TO: Honorable Members of the City Council

FROM: Sharon M. Tso
Chief Legislative Analyst

Council File No.: 22-1577
Assignment No.: 23-01-0049

SUBJECT: Master Leasing Report

SUMMARY

On January 31, 2023, Motion (Yaroslavsky – Raman, C.F. 22-1577) was adopted instructing the Chief Legislative Analyst (CLA) to work with the City Administrative Officer (CAO), Los Angeles Housing Department (LAHD), and Los Angeles Homeless Authority (LAHSA) to report on the feasibility of operating a master lease program to expand the number of available units for individuals experiencing homelessness within Council District 5.

This report provides Council with a comprehensive overview of the master leasing program developed by LAHSA and the County of Los Angeles. The report also evaluates the feasibility of establishing a master leasing program in the City with potential opportunities for expansion. The report describes a proposed program with the cost and funding associated with it. The report also lays out the structural foundation of creating such a program within the City. Finally, the report provides recommendations to implement the program in Council District 5 and to expand it Citywide.

RECOMMENDATIONS

That the City Council:

1. Instruct the City Administrative Officer and Chief Legislative Analyst, with the assistance of the City Attorney and the Housing Department to prepare contract terms, program metrics and benchmarks, and other necessary program elements to implement the LAHSA Master Leasing program in the City, including master leasing of scattered sites, starting with a pilot program in Council District 5, and report to Council in 60 days.
2. Instruct the City Administrative Officer to identify funding for the Council District 5 Master Lease Pilot Program and for a Citywide Master Lease Program in order to ensure that appropriate insurance policies can be purchased and to cover any other additional costs of the program.
3. Request the City Attorney and instruct the City Administrative Officer's risk management team to evaluate the funding agreement between the County of Los Angeles and Los Angeles Homeless Services Authority and the lease agreement between LAHSA and the

landlord to further identify risks and liabilities and to report to Council with recommendations of reconciling risks, if needed.

BACKGROUND

According to the 2023 LAHSA Point-in-Time Count results, there are approximately 75,518 people experiencing homelessness on any given night in the County of Los Angeles (County). There are 46,260 people experiencing homelessness on any given night in the City. Out of the 46,260 total homeless individuals, 32,680 are experiencing unsheltered homelessness, one of the largest unsheltered populations in the country. While approximately 10,000 Proposition HHH-funded units are either under construction or in design phase, and collection of the 2022 voter-approved Measure ULA tax revenue for affordable housing started in April 2023, there is still a need to dramatically expand housing options for individuals who are currently living on our streets while new units are constructed.

One proposed strategy by which the City can increase the number of housing units that can be made available quickly is through master leasing. Master leasing secures all or part of a property or building through a lease with a property owner. The units are subsequently subleased to individuals experiencing homelessness by the master lessee. In August 2022, the Urban Institute released a report titled, “Master Leasing in Los Angeles,” which highlighted the benefits of a comprehensive master leasing program (Attachment II). Benefits include increasing the ability of service providers to swiftly house clients, reducing barriers for those struggling to find and secure housing, and maximizing the utilization of federal voucher programs such as Housing Choice Vouchers and Emergency Housing Vouchers. The Urban Institute Report also states that service providers and subject matter experts argue that, if designed in conjunction with shared housing, master leasing can successfully house a larger number of individuals.

Studies by the National Alliance to End Homelessness state that people experiencing homelessness are often discriminated against for having a federal housing voucher, not having reliable income, or having previous evictions on their records. Master leasing allows a homeless service agency to eliminate barriers perpetuated by discrimination and prejudice against homeless individuals and significantly increase access to housing by establishing inclusive criteria in the leasing process.

A master lease is a type of lease that allows the lessee the right to sublease the units in the property during the duration of the lease. Master leasing is designed to help entities providing homeless housing and services to acquire and control units of housing for people experiencing homelessness. An agency chosen by the City, such as LAHSA, becomes the primary leaseholder and subleases out individual units. According to standard lease agreements, the primary leaseholder assumes almost all responsibilities of the landlord such as property management and maintenance and has control over the selection and terms of subleases. However, each lease agreement can be customized and negotiated with the landlord on a case-by-case basis. There are various iterations of master leasing, but most versions prefer a “triple net” agreement. A triple net agreement means that the lessee assumes all responsibility for maintenance, repairs, taxes, and insurance.

DISCUSSION

The Motion instructs the Chief Legislative Analyst, in coordination with other relevant departments, to report on the feasibility of operating a master lease program in the City in order to

expand the number of available housing units for people experiencing homelessness in Council District 5. The Motion also instructs CLA and other relevant departments to report on a proposed structure for a Citywide master leasing program. Our Office met with LAHSA, CAO, Los Angeles Housing Department, and the City Attorney to discuss a pilot program that has been proposed by LAHSA. Our Office discussed the structure and design of this pilot program with LAHSA to evaluate whether this program can be adopted and implemented in the City. Furthermore, there were various discussions with the departments to assess the risks and liabilities that are associated with the program.

Proposed Program

LAHSA has developed a master lease program, with funding support by the County. LAHSA's program required approval by the United States Department of Housing and Urban Development (HUD); so LAHSA presented to HUD three options for types of master leasing implementation in Los Angeles. They include:

- 1) A Viable Subleasing Model
- 2) An Owner's Representative or Agent Model, and
- 3) Contract Public Housing Authority Administrative Responsibilities to a Service Provider.

Under Option 1, all owner responsibilities would be assumed by the service provider under the Housing Choice Voucher program, including maintenance and repairs of the unit. The service provider can hire a third party to maintain or make repairs to the unit on their behalf under this option. Under Option 2, the service provider acts as a representative or agent of the owner who would allow the service provider to handle certain negotiated responsibilities such as executing leases, making rent payments, and enforcing lease provisions, while the owner fulfills other responsibilities such as unit repair and maintenance. Under Option 3, the Public Housing Authority (PHA) would contract with a service provider to perform certain PHA administrative functions such as housing search assistance, owner recruitment, and retention efforts. LAHSA worked with the Housing Authority of the City of Los Angeles (HACLA) and Los Angeles County Development Authority (LACDA) to develop a hybrid model that incorporate options 1 and 2. This model is the proposed model that was been approved by HUD and LAHSA intends to operate as a pilot program in the County.

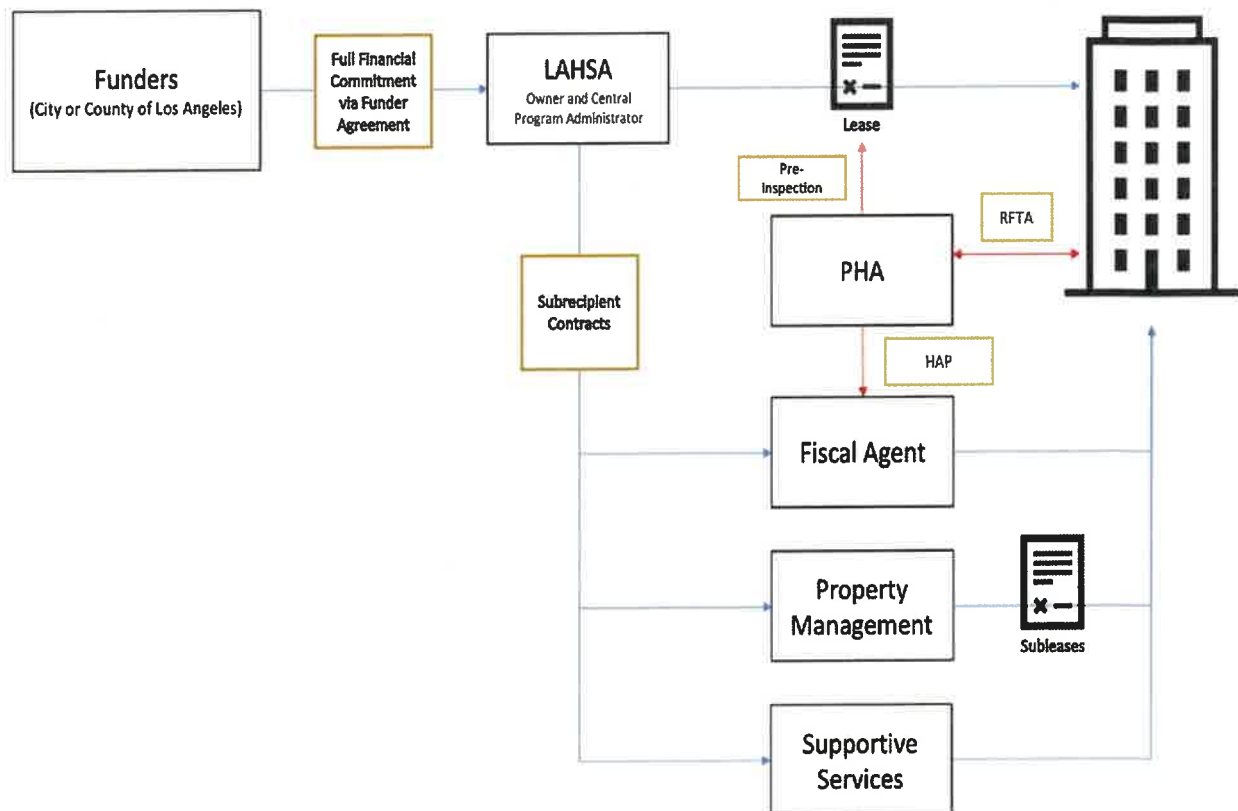
In the proposed model, called the Lease/Sublease and Owner Agent model, LAHSA will execute an agreement with landlords to lease properties that will be subleased to individual experiencing homelessness. Units will meet the Housing Choice Voucher (HCV) and Emergency Housing Voucher (EHV) housing requirements. In the Code of Federal Regulations, an owner is defined as any person or entity with the legal right to lease or sublease a unit to a client. In the proposed model, LAHSA will be the entity who will assume the legal role of an owner. The lease agreement will have terms that will, at minimum, allow LAHSA to fulfill all the HCV/EHV responsibilities as the owner. The model will be designed to allow HCV and EHV to be used to fund rental costs for eligible households, in accordance with HUD guidelines. Other costs for the program will need to be funded through local sources.

The proposed model will be designed such that property owners will not have to interact with HCV/EHV tenants or the Housing Authority (HACLA or LACDA). The landlord will not have

any responsibility to fulfill for the HCV and EHV program. LAHSA will be responsible to fulfill the owner responsibility, but will procure a third party to serve these requirements. Ultimately, LAHSA will still be subject to any enforcement action available to the tenant should LAHSA fail to fulfill their responsibilities, despite a procured third party fulfilling those responsibilities.

LAHSA will procure a Fiscal Agent who will serve as their agent to enter into Housing Assistance Payment (HAP) contracts with HACLA. HAPs are payments made by housing authorities to assist a tenant to lease a unit from an owner. LAHSA's fiscal agent will, under the agreement, collect HAP from the housing authority and rent payments from tenants to pay the property owner. When a unit is vacant, the Fiscal Agent will pay the property owner through local funding sources to ensure performance under the lease agreement. In this proposed model, LAHSA intends to procure a property manager who will be an agent of LAHSA. The property manager will perform duties such as executing subleases, sublease enforcement, repairs, and maintenance of the units. LAHSA also intends to procure supportive services that are outside the HAP obligations. These would need to be funded with local funding sources as well. Because LAHSA will be procuring these agents to deliver program elements and ensuring that every entity is performing as needed by the agreements, LAHSA will be designated as the Central Program Administrator.

LAHSA has provided the following visual depiction of the various stakeholders and the relationships.



All parties involved will make a commitment to the program for five years. LAHSA will include in the lease agreement with the property owner that the lease holder is not expected to return the unit vacant at the end of the five-year term. LAHSA will also require that the property owner must agree to retain any tenants as its own tenants when the master lease agreement comes to an end. LAHSA will also include terms to require property owners to accept HAP contracts so that they are not able to discriminate against tenant's sources of income when the property owner resumes the duty of landlord. LAHSA will also include a clause for an option to purchase the property and right of first refusal in case acquisition funding is identified.

Pilot Program

LAHSA has been working with the County CEO's Office, LACDA, and HACLA to develop the above-mentioned master leasing program as a pilot program in the County. In this phase, LAHSA has been working with service providers to assume the role of the owner with the service provider assuming all the roles and responsibilities of the owners as described above. LAHSA has identified property owners and worked with them to develop a lease agreement. LAHSA has stated that they are anticipating the execution of the agreements with move-in within the next two months. After the execution of the agreements, the service providers will be sub-leasing the units to people experiencing homelessness.

The program will use HCVs and EHV's to pay for rent while the County's Housing and Homelessness Incentive Program (HHIP) funding will be used to pay for supplemental costs related to the program outside of rent. The HHIP funding is made possible through the partnership between the County of Los Angeles and the managed care plans, LA Care and Health Net. The HHIP funds will be used to support the County's strategy of increasing the number of available housing units for people experiencing homelessness by paying for backfill expenses for master leased sites. On October 27th, 2023, LAHSA's Commission approved the funding agreement between the County and LAHSA for HHIP funding. This signed agreement between the County and LAHSA should be reviewed by the City Attorney and CAO risk managers in order to evaluate whether the City should adopt a similar approach when implementing master leasing in the City.

Program Expansion

After the roll out of the pilot program, the next phase of the program is to scale up both City- and Countywide. In the expanded version of the program, the City or the County would assume the role of the "funder" who will be the financial backstop of the program. LAHSA will be the primary leaseholder and will assume the role of the owner and central program administrator and will procure contracts for fiscal agent, property management, and service provider. In discussions with LAHSA, they have stated that there are interested property owners and landlords who are willing to work with the City and County on master leasing their properties. LAHSA has also stated that they have a relationship with the Apartment Association of Greater Los Angeles to help identify property owners who are interested in master leasing. LAHSA is also exploring a master leasing model where they lease individual or groups of units in multiple sites, rather than all units in a building (scattered sites).

While County HHIP funding is intended to pay for the cost related to the program in the pilot phase, there is still need to secure additional funding through other local resources to pay for these costs for an expanded program. Additionally, LAHSA has stated that this is intended to be an

encampment to unit program, with a focus on getting individuals from Inside Safe encampment resolutions into the master leased units.

Liabilities

Discussions were held with the City Attorney's Office as well as CAO Risk Managers to discuss potential risks and liabilities should the City participate in this program and the City assumes the role of the guarantor or funder. The preference is that LAHSA buys insurance to cover the property owner responsibilities they will have to assume. However, insurance policy costs are particularly high at this moment and there still needs to be additional discussion and findings on purchasing the appropriate insurance policy. LAHSA has stated that at this time, insurance options have been limited and expensive to buy. Since the County or City will be the funder, it will eventually be the responsibility of the funder to back this cost.

LAHSA has shared with the City its draft lease agreement for the pilot phase of the program. The CAO's Risk Management team has stated that they do not recommend the City be a financial backstop to LAHSA's efforts to master lease apartments if the City is not a party in the lease agreement. If the City is not a party in the agreement, it would have no control over liabilities taken on by LAHSA. The City would not be able to legally enforce or mitigate liabilities that LAHSA takes on. Furthermore, LAHSA would control the operations of the program and will select who they subcontract with. The Risk Managers suggest that if the City were to pursue master leasing, then it should contract directly with property manager/property operations contractor and the contractor indemnifies the City. If there are subcontractors, then the subcontractor should indemnify them and the City as well. The liabilities should be pushed down to the contractor then to subcontractors, which has been the case traditionally and is also risk management industry best practice method.

Furthermore, the City Attorney's Office has stated that the City has never held a residential lease before. A comprehensive analysis and review of all future master leases needs to be done by appropriate City staff in order to ensure that all liabilities are covered should the City pursue a master lease program.

Additionally, in discussion with LAHSA and City Attorney's Office, it has been stated that scattered site master leasing might yield less risk than master leasing an entire building. Scattered sites might be less risky because the lease holder would only be liable for the leased unit and will not have to take on the liability for the whole building. This option needs to be further explored by City Departments, especially if a pilot program will be implemented in Council District 5.

Alternately, it may be possible for the City to serve simply in the role of funder with a requirement that LAHSA and its contractors include adequate insurance and indemnity provisions to protect the City. A more streamlined approach such as this may simplify the City's involvement while delivering units to address homelessness.


NEXT STEPS

The City needs to closely monitor development of the pilot program rollout with the execution of the lease agreement with the property owners, and implementation of the program. As LAHSA will start the tenant selection and move in process into the master leased program soon, the City

should receive reports from LAHSA on the benchmarks of the program, and operation and implementation of the various elements of the program. This will inform the City as it works through the liability thresholds and works with stakeholders to develop a program that the City can support. The City should also use this time to identify a source of funds to operate master leasing in the City.

In the meantime, LAHSA should be requested to develop a master lease program, specifically a scattered site model, with a focus on properties in Council District 5. Furthermore, the City needs to work with the County to ensure that there is a single template for master leasing in both the City and the County. A cohesive and standard program standard needs to be set in order to achieve a comprehensive and successful program regionally to constrain costs and to ensure streamlined, efficient program administration and operations.

There is also a need for exploration of which City department will hold any future contracts in the City for master leasing and to monitor the performance of the program and provide appropriate benchmarks and metrics to the Council.


Pranita Amatya
Analyst

Attachments:

- I. Motion
- II. The Urban Institute's "Master Leasing in Los Angeles"

MOTION

According to the 2022 Greater Los Angeles Homeless Count results, of the over 41,000 Angelenos experiencing homelessness, two-thirds, or 28,458 individuals, are experiencing unsheltered homelessness, constituting the single largest unsheltered population of any municipality within the country.

While 9,047 Proposition HHH-funded units are either under construction or in design phase and the voter-approved Measure ULA tax revenue for affordable housing will begin to be collected starting April 1, 2023, there remains an immediate and pressing need to dramatically expand available housing options for those Angelenos currently living on our streets.

This need is compounded by the ongoing difficulties faced by individuals and families who hold federally funded Housing Choice Vouchers (HCVs) and Emergency Housing Vouchers (EHVs) in securing stable housing. According to the U.S. Department of Housing and Urban Development's "Emergency Housing Voucher Dashboard," only 20% of Angelenos who received an EHV disbursed by the Housing Authority of the City of Los Angeles (HACLA) have successfully secured a unit ("Emergency Housing Voucher Dashboard," U.S. Department of Housing and Urban Development). Meanwhile, in October 2022 the California Civil Rights Department announced that it is sponsoring a fair housing assessment after 38 of 80 residential properties "showed evidence of unlawful discrimination" toward voucher holders ("California Civil Rights Department Finds Widespread Housing Discrimination Against Federal Housing Choice Vouchers," California Civil Rights Department, October 17, 2022).

A potential vehicle by which the city could substantially increase the number of available units is through master leasing, whereby all or part of a property is leased from a landlord and the units are subsequently subleased to individuals. In an August 2022 report, "Master Leasing in Los Angeles," researchers at the Urban Institute highlighted that potential benefits of a comprehensive master leasing program can include increasing the ability of service providers to quickly house clients, reducing barriers for those who have historically struggled to gain housing, and maximizing the utilization of programs such as Housing Choice Vouchers ("Master Leasing in Los Angeles – Opportunities and Limitations," Urban Institute, August 2022). Service providers and subject matter experts have also argued that master leased units, if coupled with shared housing – the matching of individuals or couples with roommates – can successfully move an even greater number of individuals indoors ("How Master Leasing Can Help the Affordable Housing Crisis," Kris Freed, May 17, 2022).

Master leasing is already being successfully deployed in Los Angeles. The Homeless Outreach Program Integrated Care System (HOPICS), a division of Special Service for Groups (HOPICS-SSG, or HOPICS), one of the largest homeless service providers in Los Angeles and the lead agency for Individual Adults and Families for Service Planning Area (SPA) 6 covering South LA, has over seven master-leased sites in the city, of which six utilize shared housing.

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With vacancy rates across the city at or near all-time lows, and with land values in high-resource neighborhoods often making new affordable or supportive housing projects cost-prohibitive, it is imperative that the City explores how to better utilize our current housing stock toward housing our nearly 29,000 unsheltered neighbors.

I THEREFORE MOVE that the Chief Legislative Analyst (CLA), in coordination with the Chief Administrative Officer (CAO), the Los Angeles Homeless Services Authority (LAHSA), and the Los Angeles Housing Department (LAHD), and with requested collaboration from the Coordinated Entry System (CES) lead agencies operating within the City of Los Angeles, report back in 30 days on the feasibility of operating a master lease program to expand the number of available units for individuals experiencing homelessness within the Fifth Council district.

I FURTHER MOVE that the CLA, in coordination with the CAO, the Los Angeles Homeless Services LAHSA, LAHD, and with requested collaboration from HACLA, CES lead agencies operating within the City of Los Angeles, subject matter experts, and others, report back in 60 days on a proposed structure and potential funding sources – including, but not limited to, eligible state and federal dollars – for a citywide master leasing program, and whether that program can successfully incorporate components of shared housing to maximize the number of leased units.

PRESENTED BY:


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Councilwoman, 5th District

SECONDED BY:





RESEARCH REPORT

Master Leasing in Los Angeles

Opportunities and Limitations

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August 2022



ABOUT THE URBAN INSTITUTE

The nonprofit Urban Institute is a leading research organization dedicated to developing evidence-based insights that improve people's lives and strengthen communities. For 50 years, Urban has been the trusted source for rigorous analysis of complex social and economic issues; strategic advice to policymakers, philanthropists, and practitioners; and new, promising ideas that expand opportunities for all. Our work inspires effective decisions that advance fairness and enhance the well-being of people and places.

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Executive Summary

On any given night in 2020, nearly 50,000 people endured unsheltered homelessness in Los Angeles County (Henry et al. 2021). In response to stagnating progress on placing people in housing, local and statewide agencies have been experimenting with various distinct strategies commonly referred to as “master leasing.” In practice, these master leasing strategies vary dramatically in terms of legal responsibilities, opportunities, limitations, and implementation costs. The Conrad N. Hilton Foundation engaged the Urban Institute to explore the feasibility and potential infrastructure of a master leasing strategy in Los Angeles. This report categorizes different master leasing strategies, discusses their associated opportunities and limitations, examines potential infrastructure models, and provides a financial framework for understanding costs.

From January to March 2022, we interviewed a series of stakeholders about a wide range of leasing and landlord agreement strategies. We identified two primary types of programming that were frequently described as master leasing: traditional master leasing and master rent subsidy agreements. Los Angeles is implementing both traditional master leasing and master rent subsidy agreements to varying degrees.

Traditional master leasing is a third-party leasing strategy in which an agency becomes the primary leaseholder and leases individual units, a subset of units in a single building, or all units in an entire building. The agency then subleases to the secondary tenant. Interviewed stakeholders commonly understood that under these agreements, the leasing agency assumes all roles and responsibilities of the landlord, including final selection and approval of tenants, property management responsibilities, and responsibility for the costs for vacant units and costs for any evictions or damages. However, the extent of costs and responsibilities the leasing agency takes on varies based on what is negotiated during the leasing process. The negotiation process determines the provisions of each lease, but some master lease structures are less or more likely to appeal to landlords than others.

Master rent subsidy agreements (MRSAs) are a landlord incentive strategy commonly described as a master leasing strategy by community stakeholders. Under an MRSA strategy, an agency works with a property owner to sign an agreement—typically a multiyear agreement—where the provider takes on limited responsibilities and costs but does not sublease units to tenants. For example, the agency could take on costs for vacant units for a limited duration within the agreement and may identify potential

tenants, but the eventual lease remains between the tenant and the landlord, and the landlord retains final selection and approval of tenants.

Stakeholders identified four primary advantages of traditional master leasing and similarly attributed them to MRSAs and other incentive programs:

- **Expedited access to buildings and units.** Stakeholders strongly believed that expedited access to units and buildings—through long-term master leasing or MRSAs—was the primary advantage to a master leasing strategy, particularly in cities like Los Angeles with expensive and low-vacancy private rental housing markets. Master leasing strategies allow service providers to quickly house clients and cut down on how long people wait for a housing unit, minimizing the time and level of effort spent searching for housing and the risk of subsidy loss.
- **Access to units for people excluded from the private rental market.** Master leasing allows the system to overcome some of the more traditional barriers people face in accessing housing in the private rental market, including incarceration and eviction histories or issues related to credit, employment, or income. With respect to tenant selection, stakeholders believed that traditional master leasing offers the best opportunity for people seeking housing.
- **Maximizing resources and program potential.** Stakeholders also saw master leasing as an opportunity to maximize resources, particularly for certain underused programs including the Section 8 Housing Choice Voucher program, rapid re-housing, and shared housing.
- **Expanding relationships with new landlords and developers.** Master leasing provides an opportunity to recruit new landlords and build relationships with developers. Stakeholders noted that traditional master leasing and MRSAs allows organizations to rent units with landlords who would, in theory, likely turn away certain tenants. Master leasing also offers the opportunity to bring new developers to the table who otherwise may not have pursued development of more affordable housing units. Landlords and developers also expressed that they preferred to work with a traditional master leasing program because they did not have to manage multiple separate leases or navigate the bureaucracy of working with a government entity to receive individual unit payments.

Stakeholders also described what they perceive as limitations of master leasing programs:

- **Lease duration and liability challenges.** Stakeholders raised concerns about the length of leases as well as the costs and liabilities associated with holding the lease. Both traditional master leasing and MRSA strategies typically last for longer than the funding source that is

available to pay for rent once tenants secure the lease, and the contract lengths that community-based organizations have with government agencies do not extend for the duration of these leases.

- **Unfunded costs.** Stakeholders also explained that there are many costs associated with master leasing agreements that typical subsidies or homeless assistance programs do not cover. These include costs for when units are vacant, either before a tenant leases up or when a unit turns over; the difference between the cost of rent for a unit and what a subsidy will cover, as different subsidies have different rental caps; eviction costs (such as legal and court fees); and costs associated with unit repairs between tenants. Additionally, agencies engaged in both strategies accrue costs associated with legal expenses and the administrative costs associated with those activities.
- **Private rental market challenges.** Although stakeholders viewed master leasing as a tool to engage new or more difficult-to-reach landlords, and some agencies described landlords approaching them and requesting master leases, many shared that landlords' interest grows and wanes with shifts in the private rental market. They emphasized that a successful master leasing strategy would need to find a way to incentivize landlords to work with them.

We identified three types of agencies that could assume the role of the lease-holding agency, each with different strengths and limitations as potential infrastructure agencies: **government**, **community-based nonprofits**, and **community-based for-profit agencies**. Stakeholders identified the primary strengths of government agencies, specifically housing authorities, as the ability to take on the fiscal liability associated with these agreements and the capacity to scale to the full jurisdiction without support from other agencies; however, they also observed that governmental agencies were not as flexible or agile as other potential infrastructure agencies because of government processes, which would likely slow any procurement process.

In contrast, stakeholders observed that nonprofit agencies had the flexibility and agility to build relationships and work closely with landlords to create these agreements quickly without having to go through government procurement processes. However, they universally agreed that nonprofit agencies are not able to assume the liability associated with these agreements, at least not at any significant scale, without government backing. And, most stakeholders agreed that it would take several nonprofit agencies to scale a traditional master leasing strategy or MRSA strategy to address the level of need for the entire county. Finally, a community-based, for-profit entity could serve in this role. These agencies would likely face the same limitations as community-based nonprofits, as well as additional constraints in some of the types of funding they could receive.

The majority of stakeholders we interviewed felt that community-based nonprofit organizations should be the primary vehicle to advance both traditional master leasing and MRSA strategies. This recommendation is, of course, dependent on the backing of a government agency, since many nonprofits would not be able to assume long-term leases with significant liability on their own. In addition to their ability to work more flexibly and quickly with landlords and developers, these agencies have the ability to develop relationships and work directly with tenants, which stakeholders viewed as crucial to the success of program implementation. However, some raised concerns that no single nonprofit agency had the capacity to scale a master leasing or MRSA strategy across the full county.

Interviews with stakeholders helped us identify the universe of potential costs associated with the proposed infrastructure models and which model was more likely to accrue certain costs. They had mixed perspectives on whether master leasing strategies would cost the jurisdiction additional resources to implement. Some stakeholders felt that the additional resources spent on master leasing would result in increased efficiency and lower spending on managing homelessness, particularly unsheltered homelessness, that would offset the costs of operationalizing a large-scale master leasing strategy. Others argued that while these programs cost additional money, they are necessary to operate in the highly competitive private rental market in Los Angeles—essentially, the cost is the cost, and it is not small. Additionally, some stakeholders—including landlords and developers—noted that while a master leasing strategy may accelerate housing placements in the short term, it is more expensive in the long term than acquisition or development because the agencies do not accrue any equity in the properties.

Master leasing strategies have clear potential benefits for local housing systems, agencies operating in those local systems, and people experiencing homelessness or housing instability. Additionally, these strategies offer potential unknown returns on investment from decreased competition between agencies for landlords and units and cost savings from reducing the number of people experiencing homelessness. Despite this, master leasing strategies must minimize or overcome certain limitations and implementation challenges in order to become an efficient and effective tool.

Based on these findings, we recommend that Los Angeles consider the following three strategies for master leasing implementation:

Maximize the impact of the MRSA strategy. An MRSA strategy is likely effective enough at helping most people to navigate the private rental market with various subsidy types without adding the significant liability of a traditional master leasing model. We recommend implementing this strategy using several community-based nonprofit agencies across the county, with a plan for close coordination

developed before the program's launch. Flexible local and state government funding—in addition to possible philanthropic grants or donations—would play a key role in funding resources that federal government housing subsidies do not cover, such as landlord incentives, damage mitigations funds, unit holds, and gap funding.

Use traditional master leasing in targeted ways. Traditional master leasing does provide a substantive advantage to specific target populations that may otherwise struggle to participate in the rental market or qualify for specific programs. The county could implement this strategy using community-based nonprofits with financial backing from government agencies.

Develop a long-term strategy to increase housing unit capacity. Implementing the above strategies will help provide quicker access to units and address the urgency of the community's housing needs. However, it is also important for the county to develop a long-term plan for acquisition and development of units for both affordable housing and dedicated homeless services programs. In the absence of these efforts, master leasing strategies will not reverse longstanding and worsening trends in housing instability and homelessness in Los Angeles.

Master Leasing in Los Angeles

On any given night in January 2020, 63,706 people in Los Angeles County were experiencing homelessness, more than 46,000 of whom were unsheltered—nearly double the number of people experiencing homelessness in 2010 (Henry et al. 2021). Homelessness is extremely visible in the region, spurring numerous voter referendums and efforts to invest in housing, emergency shelters, and other responses to the crisis over the past several years. Yet community-based organizations are struggling to help people gain access to the private rental market, and millions of dollars for housing assistance programs go unspent every year. In response, government agencies have been experimenting with a variety of distinct leasing and landlord agreement strategies, commonly referred to as “master leasing.” In practice, master leasing strategies vary dramatically in terms of the lease-holding agency’s legal responsibilities, opportunities, limitations, and implementation costs. This report categorizes the different strategies, discusses the opportunities and limitations associated with master leasing, examines potential infrastructure models, and provides a financial framework for understanding costs.

Background

Despite extensive and dedicated efforts by community-based nonprofits and government agencies in Los Angeles to help people secure housing, the region continues to struggle with acquisition of rental units for a variety of programs, including federal housing vouchers and dedicated homelessness assistance programs. And rates of people experiencing homelessness and housing instability have been climbing for at least a decade.

The response to homelessness in Los Angeles has been significant. In 2016, voters in the city of Los Angeles passed Proposition HHH, which committed \$1.2 billion to building affordable and supportive housing for people experiencing homelessness and those at risk of homelessness. In 2017, county residents voted to pass Measure H, a 0.25 percentage point increase in the sales tax estimated to generate approximately \$355 million dollars per year to end homelessness. And in 2019, the homelessness response system estimated that nearly 23,000 people experiencing homelessness had been placed into housing in the prior year—about 62 people per day—but the overall number of people experiencing homelessness still grew.¹

Despite these resources and the efforts of countless agencies to place people in housing, the city and county governments and local partners are struggling to maximize resources in the private rental

market. In an attempt to mitigate this challenge, policymakers and community leaders began to innovate and create strategies to acquire and streamline access to housing units to maximize the number of people who could be housed. Master leasing describes various strategies that have gained support among community partners because they can both increase the number of people placed in housing and house people more quickly, while also appealing to landlords.

This report aims to contribute to the dialogue on the feasibility of a master leasing strategy in Los Angeles. We first share a project overview and a brief summary of our research methods. Then, we share findings from our interviews and listening sessions with key stakeholders, including by categorizing the different master leasing strategies and associated opportunities and limitations, potential infrastructure models and their associated opportunities and limitations, and a financial framework for understanding costs. Finally, we provide key takeaways and recommendations for the implementation of a program in Los Angeles as well as recommendations for future research and evaluation.

Project Overview

The Conrad N. Hilton Foundation approached Urban to explore the feasibility and potential infrastructures of a master leasing strategy in Los Angeles. The project was grounded in the following research questions:

- What are the potential infrastructure models for operationalizing a master leasing or third-party leasing strategy? What are the opportunities and challenges associated with each?
- What are the potential costs associated with implementing this strategy? Do they vary based on the infrastructure model and proposed scale of the project? What is the potential role for different entities, including philanthropic organizations, government agencies, and community-based nonprofits? What are the financial risks associated with each infrastructure model, and who undertakes that risk?
- What lessons can we learn from similar undertakings in Los Angeles and other jurisdictions? What other jurisdictions have attempted similar strategies, and what were the successes and challenges associated with those efforts?

We compiled the findings and recommendations in this report through three primary activities: interviews with key stakeholders in Los Angeles, as well as stakeholders in other communities

implementing master leasing programs; a financial modeling exercise to determine the costs associated with the potential infrastructure models; and listening sessions with community members.

Interviews with key stakeholders. To better understand the capacity, opportunities, and costs associated with different master leasing models, we conducted interviews with two groups of stakeholders. The first group comprised 16 Los Angeles–based stakeholders, who included people at agencies that have been part of discussions on the development of a master leasing strategy, employees at agencies that are currently operating master leasing programs, or individuals who could serve as core partners within potential master leasing infrastructure models. Specifically, we interviewed four stakeholders who were involved in the management or operation of Brilliant Corners’ MRSAs; two who were involved in traditional master leasing in Los Angeles (the Homeless Outreach Program Integrated Care System (HOPICS) and The People Concern); and five who had prior experience with the Los Angeles Homeless Services Authority’s Resident and Property Support Services program and the People Assisting the Homeless LeaseUp program. Table 1 lists the Los Angeles–based organizations and staff who participated in interviews.

TABLE 1

Participating Organizations and Staff Roles, Los Angeles

Organization	Role	Number of Respondents
BRC Advisors Commercial Real Estate	Private sector developer	1
Brilliant Corners	Nonprofit agency	2
Housing Authority of the City of Los Angeles	Government agency	3
Homeless Outreach Program Integrated Care System (HOPICS)	Nonprofit agency	1
KH Equities	Private sector developer	1
Los Angeles County Homeless Initiative	Government agency	1
Los Angeles Family Housing	Nonprofit agency	1
Los Angeles County Department of Health Services	Government agency	1
Los Angeles Housing Department	Government agency	1
Los Angeles Homeless Services Authority	Government agency	1
People Assisting the Homeless (PATH)	Nonprofit agency	2
The People Concern	Nonprofit agency	1
Total		16

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The second interview series engaged 10 stakeholders in jurisdictions outside of Los Angeles. Some had previously implemented or were currently implementing some form of master leasing within their agencies or jurisdictions, while others were just considering a strategy. Still others were not directly part of a master leasing project but had either been involved in conversations around master leasing in their jurisdictions or had thought about master leasing in relation to their current roles or jurisdictions. Table 2 lists the organizations and staff who participated in this set of interviews.²

TABLE 2

Participating Organizations and Staff Roles, Communities Outside of Los Angeles

Organization	Role	Number of Respondents
Canavan Associates (MA)	Consultant	1
City of Aurora Homelessness Programs (CO)	Government agency	1
County of Santa Clara Office of Supportive Housing (CA)	Government agency	2
Fresno County Department of Social Services (CA)	Government agency	2
HOM, Inc. (Phoenix, AZ)	For-profit community agency	1
Low Country Continuum of Care (Charleston, SC)	Government agency	1
San Diego County Health and Human Services Agency (CA)	Government agency	1
San Francisco Department of Homelessness and Supportive Housing (CA)	Government agency	2
Total		11

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Financial modeling. Using information collected through interviews as well as access to some aggregated data from Brilliant Corners, we created a cost framework that captures the universe of potential costs associated with the proposed infrastructure models. We were not able to collect sufficient cost data associated with all potential infrastructure models or scales to model how costs would vary by infrastructure model or to determine if economies of scale exist.

Listening sessions. We engaged 18 community members in two community listening sessions.³ During these sessions, we conducted a data walk, presenting preliminary findings from our data collection activities and analyses. Research team staff presented key takeaways and recommendations, but the majority of both sessions was dedicated to collecting community input and feedback.

Master Leasing Strategy Types, Opportunities, and Limitations

In this section, we provide an overview of commonly described types of master leasing and discuss the perceived opportunities and challenges associated with the two most frequently described models.

Master Leasing Strategy Types

In our conversations with stakeholders, respondents used the phrase “master leasing” to describe a wide range of leasing and landlord agreement strategies. We identified two primary types of master leasing programming: traditional or third-party master leasing and MRSAs.⁴ Los Angeles is implementing both traditional master leasing and MRSAs to varying degrees.

Traditional or third-party master leasing is a strategy in which an agency leases individual units, a subset of units in a single building, or all units in an entire building and becomes the primary leaseholder. The agency then subleases to the secondary tenant. Under these agreements, the leasing agency assumes all roles and responsibilities of the landlord, including final selection and approval of tenants, property management responsibilities, and responsibility for the costs for vacant units and costs for any evictions. However, the extent of costs and responsibilities the leasing agency undertakes varies depending on the leasing process. The negotiation process determines the provisions of each lease, but some master lease structures are less or more likely to appeal to landlords than others. The lease structures can follow the below hierarchy:⁵

- **Single net loans:** The leasing agency pays the landlord rent and then takes on limited additional fiscal responsibilities, commonly leaving the landlord responsible for insurance, maintenance, and repairs. This lease structure is unlikely to meet the goals of a landlord leasing to a homeless services agency, as the primary goal for most landlords is to minimize liability for maintenance and repairs to units.
- **Double net loans:** The leasing agency takes on slightly more fiscal responsibilities than under a single net loan and potentially receives a reduction in the rent payment amount as a result. As with single net leases, landlords often retain maintenance costs, meaning they are less desirable to landlords considering renting to people being served by homeless assistance programs.
- **Triple net loans:** The leasing agency takes on nearly all of the costs associated with the units being leased, including property taxes, insurance premiums, repairs, and maintenance. The landlord may charge a lower base rent for the units as a result of the leasing agency taking on all the other costs. This type of lease is the most desirable to landlords, as they reduce landlords' responsibilities while maintaining regular payments and equity growth.

In both the interviews and community listening sessions, Los Angeles stakeholders—including community-based nonprofit providers and developers—indicated that landlords largely prefer the triple net loan structure. Currently, traditional master leasing occurs on a small scale through community-based nonprofits, including HOPICS (box 1) and The People Concern.

BOX 1

HOPICS: An Example of Traditional Master Leasing

The Homeless Outreach Program Integrated Care System (HOPICS), a division of Special Service for Groups, is a California-based nonprofit organization that provides a broad suite of behavioral health, reentry, and housing services to low-income households. Under its housing umbrella, HOPICS also holds one of the most established and large-scale master leasing portfolios in Los Angeles. The organization operates seven sites across the city that support roughly 95 tenants in total. With the more recent expansion of relief funds as a result of the pandemic, HOPICS has been able to fund several of its master-leased sites using rapid or recovery re-housing dollars, with the aim of eventually moving people onto longer-term subsidies.

The sites vary widely in size and target population, with some containing just a block of units and others leasing out the building in full (including one newly constructed 28-unit project). HOPICS is implementing a shared housing approach in six of these sites, where tenants have individual bedrooms but share common areas and facilities. According to HOPICS Director Veronica Lewis, these diverse living options capture the full breadth of housing needs, challenges, and desires of their clientele, including features aimed at building community ties or added social service supports (e.g., substance abuse treatment centers and mental health counseling).

A vocal advocate for inclusive housing, Lewis emphasized a few key advantages under the traditional master leasing model, namely, greater control over tenant selection. This commonly cited benefit addresses the screening barriers faced by certain households in the private market, particularly justice-involved populations, undocumented households, and people with poor credit histories. By guaranteeing income to landlords without the responsibility of property management or risk mitigation, HOPICS' master leasing program has helped placate owner and/or landlord resistance to these tenant groups.

Landlords and developers, I would say...want to be a part of the solution, but they don't want to be worried about having to collect rents, whether or not they're going to get paid, and also, in some cases, the challenges that may come with the population—especially when I'm talking about the street-to-home effort, where you're moving people who have been living outdoors for a long time.

—Veronica Lewis, Director of HOPICS

While acknowledging the need to develop new project-based sites that are specifically designed to support high-needs populations, Lewis also highlighted the practical conveniences of master leasing, as an approach that offers a speedier pathway to getting people off the street by capitalizing on existing housing stock and ensures that people with both time-limited and long-term rental subsidies have access to units in their communities.

Lewis remained agnostic about the vehicle best suited to spearheading master leasing on larger scale in Los Angeles, noting both the bureaucratic hurdles faced by public entities such as public housing authorities and the funding and capacity limitations of third-party nonprofits like HOPICS.

MRSAs are a landlord incentive strategy commonly described as a master leasing strategy by community stakeholders. Under an MRSA, an agency works with a property owner to sign an agreement—typically a multiyear agreement—where the provider takes on limited responsibilities and costs but does not sublease units to tenants. For example, the agency could take on costs for vacant units for a limited duration within the agreement and may identify potential tenants, but the eventual lease remains between the tenant and the landlord, and the landlord retains final selection and approval of tenants.

Brilliant Corners operates the largest MRSA strategy in Los Angeles, which is implemented as part of the flexible housing subsidy pool with oversight from the Los Angeles Department of Health (box 2). The Los Angeles Homeless Services Authority’s Resident and Property Support Services program is a similarly structured incentive program as opposed to a master leasing program. We also identified a few other programs that provided similar services—such as multiyear agreements with attached incentives, contributions to property management costs, building rehabilitation, and vacancy losses—to encourage landlords or developers to work with the agency to provide a building to fill with their clients; however, the leases were still between the tenants and the landlord.

BOX 2

Brilliant Corners: The Master Rent Subsidy Agreement

Brilliant Corners operates the largest MRSA program in Los Angeles. As with traditional master leasing, the MRSA program is premised on a third-party legal agreement, with Brilliant Corners acting as a fiscal intermediary between building owners and the Los Angeles Department of Health Services under the county's flexible housing subsidy pool. Since launching its first MRSA in 2014, Brilliant Corners has expanded to 56 active sites, with an additional 15 sites in development. The buildings range in size from 7 units to 122 units.

While acknowledging areas of overlap between the two models, Brilliant Corners staff were quick to emphasize the differences between a traditional master leasing approach and an MRSA. Unlike traditional master leasing, landlords recruited to Brilliant Corners' MRSA program retain control over tenant selection, though they still abide by certain "Housing First" parameters enforced by the county.⁶ Tenants also sign a lease directly with the landlord instead of with Brilliant Corners. Brilliant Corners employs occupancy specialists to curate a pipeline of tenant referrals to each site, which is overseen and managed by the county's Department of Health Services—Housing for Health. Brilliant Corners holds units for limited periods of time while the occupancy specialists match tenants to units and pays for vacant rental units for up to two months after a tenant turns over and while the owner seeks a replacement tenant. Following the 60-day vacancy period, owners have the option of filling the unit themselves if Brilliant Corners has not referred a participant who was successfully housed.

Under the MRSA model, landlords continue to shoulder property management and operational costs, creating less liability for Brilliant Corners than a traditional master leasing program would entail. Brilliant Corners staff noted that this arrangement can vary based on the details of each contract, but typically, MRSA costs are restricted to time-limited gap funding to hold vacant units and the cost of the subsidy itself, including utilities. The organization also maintains a damage mitigation fund to incentivize landlords and help cover costs of damage to units, but unlike in a traditional master lease, it is not responsible for repairing or financing repairs to damaged units.

From the perspective of maximizing access to units for historically excluded groups, several Brilliant Corners stakeholders noted the benefits of traditional master leasing to targeted sub-populations, such as justice-involved individuals. They also observed, however, that the long-term relationships and trust building that MRSAs encourage with landlords can have a lasting and incrementally inclusive effect:

Over time, landlords just get more comfortable with us, more comfortable with our clients, [and] more comfortable with our program. So, we can really move the needle on whole spectrum of folks that they are willing to accept, but they get to have their own screening criteria.

—Brilliant Corners staff member

Consistent with other nonprofit providers involved in master leasing, staff reiterated that nonprofits were well-suited to lead and execute master leasing programs more efficiently than their public agency counterparts. Government backing, however, remains crucial to securing the necessary buy-in and trust among landlords to commit to an MRSA, which can span anywhere between 3 and 15 years.

Opportunities Associated with Master Leasing

Stakeholders identified four primary advantages under traditional master leasing and similarly attributed them to MRSAs and other incentive programs: (1) expedited access to units and buildings, (2) access to units for people who are excluded from the private rental market, (3) the ability to maximize resources and program types, and (4) the ability to recruit new landlords and encourage new development. The expected outcomes and benefits, however, vary across different master leasing and incentive programs. We do our best to note throughout this section the extent to which community stakeholders believed these opportunities might be realized.

EXPEDITED ACCESS TO BUILDINGS AND UNITS

Stakeholders strongly believed that expedited access to units and buildings, through long-term master leasing or MRSAs, is the primary advantage of a master leasing strategy. Master leasing strategies allow service providers to quickly house clients and cut down on the time people have to wait for a housing unit. Additionally, providers could compete more effectively for units in a private rental market with high rents and low vacancies, minimizing the time and level of effort spent searching for housing and the risk of subsidy loss.

First, master leasing gives programs more oversight and knowledge about vacancies, which allows them to identify a potential tenant for the unit as soon as possible. Second, in the case of traditional master leasing, programs do not have to wait for applications to be completed and processed. As one provider who was operating a traditional master leasing program outside of Los Angeles said, they were essentially able to hand households keys to their units immediately after completing intake. Third, stakeholders felt that using a master leasing strategy allowed programs to acquire units more quickly than through development, acquisition through purchasing, or a traditional housing search in the private market, especially in cities with a tight housing market like Los Angeles. Because of these efficiencies, a significant number of stakeholders believed master leasing offered potentially significant returns on investment as a result of less competition among community-based organizations, which frequently have to compete with one another in searching for units, and fewer people experiencing homelessness.

ACCESS TO UNITS FOR PEOPLE EXCLUDED FROM THE PRIVATE RENTAL MARKET

Importantly, stakeholders noted that master leasing allows people to overcome some of the more traditional barriers to accessing housing in the private rental market, including incarceration and

eviction histories or issues related to credit, employment, or income. Stakeholders believe that traditional master leasing offers the best opportunity with respect to tenant selection. Because master leasing agencies are the leaseholders, they are able to create their own criteria for choosing tenants (in accordance with the negotiated lease agreement), which typically means that they do not require tenants to undergo background checks or provide financial statements before acceptance. This practice “screens in” rather than “screens out” households that landlords would typically reject.

Two stakeholders mentioned that in their experiences with traditional master leasing, some landlords still requested screenings for potential tenants, highlighting that the structure of master leasing agreements can vary. In one example, the landlord still required the service provider to complete a background check, but the provider could choose the screening criteria, including whether to consider eviction and criminal legal history. Stakeholders acknowledged that MRSAs and similar incentive programs grant access to the private market for people who have been traditionally excluded, but they also noted that there are some limitations to this strategy, given that the property owner still ultimately decides whether a prospective tenant can sign the lease.

MAXIMIZING RESOURCES AND PROGRAM POTENTIAL

Stakeholders also saw master leasing as an opportunity to maximize resources, particularly for some programming types that are currently underused, including the Section 8 Housing Choice Voucher program, rapid rehousing, and shared housing. With limited access to units, programs are often unable to use Housing Choice Vouchers and rapid re-housing resources during the fiscal year, meaning that they are reclaimed by the government. Others noted that a master leasing program could maximize the use of strategies that have greater tenant capacity, such as shared housing. Most stakeholders were confident that an MRSA or incentive strategy could accomplish the goals of maximizing resources expenditures. For shared housing, stakeholders agreed that the traditional master leasing model would likely be necessary to fully implement that strategy.

EXPANDING RELATIONSHIPS WITH NEW LANDLORDS AND DEVELOPERS

Finally, stakeholders shared that master leasing provides an opportunity to recruit new landlords and build relationships with developers. Interviewees stated that master leasing and MRSAs allow their organizations to rent units from landlords who would, in theory, likely turn away tenants. Traditional master leasing presents the strongest opportunity to rent to historically excluded tenants because the agency is the leaseholder. Landlords prefer this strategy because of concerns about receiving payments from multiple sources and dealing with tenant challenges, including possible evictions and the

associated costs. Traditional master leasing alleviates this concern by creating a lease between the primary leasing agency and the tenants and guaranteeing that the landlord receives payment each month.

Master leasing also offers the opportunity to bring new developers to the table who may not have pursued development of more affordable housing units. Developers can use master leasing agreements to secure financing for development from financial institutions.

Landlords and developers expressed that they preferred to work with a traditional master leasing program because they do not have to manage multiple separate leases or deal with the bureaucracy of working with a government entity to receive individual unit payments. Yet in interviews and listening sessions, both groups acknowledged that while traditional master leasing provides greater opportunity than incentive programs such as MRSAs, they would still pursue an MRSA or similar agreement if offered. They also indicated that they have used MRSA agreements in the past to secure financing for development.

Limitations Associated with Master Leasing

Stakeholders also described what they perceive as limitations of master leasing programs. These limitations were related to (1) the length of and liability associated with lease agreements, (2) unfunded costs, (3) the role of the private rental market, (4) regulatory challenges, and (5) conflicts between leasing agency roles.

LEASE DURATION AND LIABILITY CHALLENGES

Stakeholders raised concerns about the length of leases as well as the costs and liabilities associated with holding the lease, for both traditional master leasing and MRSA strategies. Both agreement types typically last for longer than the funding source that is available to pay for rent once tenants are leasing their units, and the contract lengths that community-based organizations have with government agencies do not extend for the duration of these leases. Similarly, the liability associated with these long-term leases is prohibitive to community-based agencies being able to scale master leasing as a strategy without government backing. Under both traditional master leasing and MRSAs, a government agency must guarantee the liability associated with these long-term leases and meet the lease duration requirements.

UNFUNDED COSTS

Stakeholders also explained that there are many costs associated with master leasing agreements that subsidies or homeless assistance programs, especially those funded through the federal government, typically do not cover. It is important to note that local and state government subsidies or programs could cover some of these costs (and in some cases do). These include costs for vacant units, either before a tenant leases up or when a unit turns over; the difference between the cost of rent for a unit and what a subsidy will cover, as different subsidies have different rental caps; eviction costs (such as legal and court fees); and costs associated with repairing units between tenants. Traditional master leasing programs bear all of these costs, whereas MRSA agreements are only burdened with the costs of holding units before a tenant moves in and guaranteeing rental payments during the turnover period between tenants. Brilliant Corners' MRSA agreements with landlords limit the agency's responsibility for empty units to two months, which would not be possible under a traditional master leasing strategy.

Additionally, agencies engaged in both traditional master leasing and MRSA strategies accrue costs associated with legal expenses for the development of their lease with the primary landlord, as well as the administrative costs associated with processing payments and issuing checks, as applicable. Under a traditional master leasing strategy, the leasing agency also has legal and administrative costs associated with every sublease agreement with a tenant.

PRIVATE RENTAL MARKET CHALLENGES

Across interviews, stakeholders noted the impermanence of master leasing programs and how programs may partially depend on the state of the private rental market. While stakeholders viewed master leasing as a tool to engage new or more difficult-to-reach landlords, and some agencies described landlords approaching them and requesting master leases, many shared that landlords' interest grows and wanes with shifts in the private rental market. For example, when a city is experiencing a low vacancy rate and limited rental unit supply, stakeholders expect that landlords will be less interested in a master leasing program because there are other accessible avenues for filling units. Stakeholders emphasized that a successful master leasing strategy would need to find a way to incentivize and entice landlords to work with them. Landlords may be more or less accepting of master leasing depending on the population being served (for example, high-acuity tenants) and the extent to which the program provides supportive and wraparound services. Ameliorating landlords' concerns requires buy-in from providers and partners as well as landlords. Agencies using both traditional master leasing and MRSA strategies face challenges with enticing landlords and navigating private market shifts that may influence how cautious a landlord will be.

For landlords who are participating in a master leasing program, there is also a chance that they will raise the rent at the end of the lease term, based on the state of the rental market—particularly if there is a lot of competition for units. One stakeholder operating a master leasing program outside of Los Angeles recounted that they had acquired rentals for \$700 on their initial lease, but during the lease renewal process, landlords asked for \$2,000 per unit. Another concern raised by stakeholders was what would occur if the landlord chose to sell the building during the master leasing term. Stakeholders mentioned strategies for preempting some of these challenges, such as adding language to leases about having the first chance to buy buildings if the landlord chooses to sell. While both traditional master leasing and MRSA strategies face these challenges, traditional master leasing programs are significantly more affected by rent raises than MRSA strategies, as they are liable for all rental payments whereas an MRSA agreement has limited rental liability.

A limited number of stakeholders also mentioned two other challenges associated with the private rental market:

- Some suggested that these strategies could push other low-income renters out of the private rental market and into housing instability or homelessness. These concerns were generally dismissed by most stakeholders, as the programs currently undertaking these strategies are only securing vacant units and not displacing any residents.
- Others claimed that siting master leasing buildings would face “NIMBY” pushback from neighborhoods. Stakeholders postulated that such opposition is more likely to affect the implementation of a traditional master leasing strategy, which is typically more project-based than are MRSA. The extent to which this would be realized, however, is unclear; regardless, project-based programs developed or acquired through other means would likely face the same pushback.

REGULATORY CHALLENGES

Stakeholders also perceived certain regulatory challenges with implementing master leasing strategies, primarily with respect to US Department of Housing and Urban Development–funded vouchers and restrictions on how programs use those funds, though these challenges were largely considered manageable. A few stakeholders mentioned that current regulations for tenant-based vouchers and Emergency Solutions Grants program funds do not allow for traditional master leasing and that US Department of Housing and Urban Development funds cannot cover turnover or vacancy loss. One regulatory challenge that cannot be overcome is that housing authorities cannot pay vouchers to

themselves, so a housing authority cannot serve as the primary leasing agency for units being paid for with vouchers they administer. For example, the Housing Authority of the City of Los Angeles cannot serve as the primary leasing agency and then sublease to tenants using a Section 8 housing voucher administered by the housing authority.

CONFLICTS IN LEASING AGENCY ROLES

Some stakeholders also raised concerns with service providers holding the distinct, and potentially contradictory, roles of service provider and leaseholder. As a service provider, they provide advocacy and support, but as the leaseholder, they are in the position of enforcing leases and potentially evicting program participants. We find that this is not a significant concern, as there are developer service provider agencies and service providers indicated that they could make separate divisions within agencies to clearly delineate of roles and responsibilities.

Potential Infrastructure Models

We identified three types of agencies that could assume the role of the lease-holding agency: government, community-based nonprofits, and community-based for-profit agencies. In interviews, stakeholders shared their assessments of the strengths and potential limitations associated with each type of organization, as well as recommendations for which agencies should undertake these strategies in Los Angeles. Notably, there was stark disagreement among stakeholders across interviews and during the community feedback sessions on this issue.

Different types of agencies offer different strengths and limitations as potential infrastructure agencies (see table 3). Stakeholders identified the primary strengths of government agencies, specifically public housing authorities, as the ability to take on the fiscal liability associated with both traditional master leasing agreements and MRSAs and the capacity to scale to the full jurisdiction without support from other agencies. However, stakeholders generally observed that government agencies were not as flexible or agile as other potential infrastructure agencies because of government practices, which would slow any procurement process. In one jurisdiction outside of Los Angeles, a government agency took on the master leasing role, but due to an ever-increasing administrative burden to operate the program, it shifted the responsibility to an external, third-party nonprofit.

Interviewees observed that nonprofit agencies have the flexibility and agility to build relationships and work closely with landlords to create these agreements quickly, without government procurement

processes hampering progress. However, they universally agreed that nonprofit agencies are not able to assume the liability associated with these agreements, at least not at any scale, without government backing. Furthermore, most stakeholders agreed that it would take several nonprofit agencies to scale a traditional master leasing strategy or MRSA strategy to address the needs of the entire county, though it was unclear at what point the scale would become unfeasible for a single nonprofit agency.

Stakeholders also expressed enthusiasm for a community-based, for-profit entity serving in this role. Based on our observations nationwide, however, we find that few of these agencies are currently operating in this space. The stakeholders who were enthusiastic about this idea saw these agencies as having similar strengths as community-based nonprofits, while also meeting landlords and developers on a more even playing field. These agencies would likely face the same limitations as community-based nonprofits in that they would require government backing for lease durations and liability, and they also come with additional constraints in the types of funding they could receive.

TABLE 3
Stakeholder Observed Strengths and Limitations of Potential Infrastructure Agencies

	Government Agency	Nonprofit Agency	For-Profit Agency
Ability to assume liability	✓	✓ *	✓ *
Capacity to scale to full jurisdiction	✓		
Flexibility and agility		✓	✓

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Notes: A check mark indicates that the infrastructure agency has the strength. An asterisk indicates that there is a limitation to that strength. Community-based nonprofit and for-profit agencies have limited ability to assume liability for these agreements without the backing of a government agency.

Sources: Authors' interviews with stakeholders from both within and outside Los Angeles.

Most interviewees felt that community-based nonprofit organizations should be the primary vehicle to advance both traditional master leasing and MRSA strategies. This recommendation is, of course, dependent on the backing of a government agency, since many nonprofits would not be able to assume long-term leases with significant liability on their own. In addition to their ability to work more flexibly and quickly with landlords and developers, these agencies have the ability to develop relationships and work directly with tenants, which stakeholders viewed as crucial to successful program implementation. A few raised concerns that no single nonprofit agency has the capacity to scale a master leasing or MRSA strategy to the entire county of Los Angeles. Most thought that several agencies should operate in close coordination because of the realities of capacity building and the potential ramifications of having all institutional knowledge developed within one agency. However,

interviewees did not have clear preferences for how to divide responsibilities between these coordinating agencies—either on types of programming or by geography. Regardless, stakeholders identified that such coordination is essential to prevent competition between the implementing agencies, which could drive up the costs, liabilities, and durations of these agreements.

A small but vocal minority of stakeholders felt that public housing authorities should serve as the primary leaseholders. While acknowledging some of the limitations of housing authorities, these stakeholders argued that public housing authority leadership would be necessary to create system-level change and that community-based nonprofits should not shoulder the burden of pursuing and signing these agreements. Outside of this minority, most stakeholders questioned the administrative capacity of housing authorities to manage multiple lease agreements. Additionally, for key programs such as the Housing Choice Voucher program, the housing authority legally cannot serve as both the primary leasing agency and the administrator of the vouchers.

Financial Framework

Interviews with stakeholders helped us identify the universe of potential costs associated with the proposed infrastructure models and determine which model was more likely to accrue certain costs. Stakeholders had mixed perspectives on whether master leasing strategies would require additional resources to implement. Some felt that the additional resources would result in increased efficiency and less spending on managing homelessness, particularly unsheltered homelessness, that would offset the costs of operationalizing a large-scale master leasing strategy. Other stakeholders argued that these programs cost additional money, but they are necessary strategies to operate in the private rental market. In other words, the cost is the cost, and it is not small. Additionally, some stakeholders—including landlords and developers—noted that while a master leasing strategy may accelerate housing placements in the short term, it is more costly than acquisition or development in the long term because the agencies do not accrue any equity in the properties. However, all stakeholders saw the value in a “yes, and” approach encompassing numerous strategies to increase the number of units available to the populations they serve.

Cost Categories

To understand the costs associated with these strategies, we focused specifically on costs that would not be funded through an operating subsidy or homeless assistance programming funding

source; these costs are therefore unique to the implementation of a master leasing strategy as opposed to a program. We divide these costs into six primary categories and their components (shown in table 4 by program model).

Rental costs. Rental costs include a fixed payment per unit of time for a block of units or full building. Each unit is rented and usually covered by funds from a housing program or subsidy, such as a voucher. These costs depend on the length of the lease term, which is usually between 3 and 15 years. This category would also include any rental payments made by the program that are not covered by the subsidy while the tenant leases the unit. These rental costs can accrue under both traditional master leasing and MRSA programs. The lease-holding agency or organization must identify any resources other than the subsidies and assistance programs used to pay for rent to cover these costs.

Gap funding. This cost type guarantees rental payment for a vacant unit, either because the unit has not yet been filled or the previous tenant no longer lives in the unit. Gap funding costs accrue under both traditional master leasing and MRSA programs; however, traditional master leasing programs generally assume the full burden of vacancy costs, whereas an MRSA program may only cover up to a certain number of months. For example, Brilliant Corners' MRSA program covers up to 60 days (or two months) of gap funding for a newly vacated unit. The lease-holding agency or organization must identify any resources other than the subsidies and assistance programs used to pay for rent for tenants to cover these costs.

Housing navigation. Costs for housing navigation include paying agency staff for the hours spent on these activities. Navigation services can include connecting prospective tenants to properties, helping prospective tenants with rental applications, and taking tenants to view the units. Similar costs for this category can accrue under both traditional master leasing and MRSA programs at the same rate, though the cost depends on the specific services and staff time allocated to this work. It is possible to fund these activities through existing assistance programs, as these are eligible activities in many programs. We do not currently know how the scale of these program activities compares with the time and funds spent on housing searches for other private market interventions. Some stakeholders felt that the overall level of effort for housing navigation at community-based agencies would decrease if Los Angeles undertook a traditional master leasing strategy; stakeholders who favored an MRSA approach, however, suggested that the level of effort associated with housing navigation would remain high.

Operating. These costs include those related to the assumed roles and responsibilities that would normally fall to a landlord or property owner, such as property management staff or a call center to manage tenant-related issues. These costs also include legal and administrative fees for establishing

subleases with tenants; typical facility maintenance, such as plumbing or appliances in units; and costs expected with unit turnover. Operating costs are generally expected in traditional master leasing programs but not in an MRSA program. Agencies must identify any resources other than the subsidies and assistance programs used to pay for rent for tenants to cover these costs.

Damage or risk mitigation. Evictions or other unforeseen legal fees, damages to the unit beyond rudimentary repairs or maintenance, and unit rehabilitation are all considered costs under this category. Traditional master leasing agreements would accrue costs associated with damage to units. Agencies implementing an MRSA strategy may accrue some of these costs; however, MRSAs would likely incur these costs as a part of landlord incentive efforts, rather than as part of requirements under the program model. For example, Brilliant Corners' MRSA program maintains a damage mitigation fund that provides qualifying property providers with financial assistance to repair unit damages caused by participants, if the damages exceed the security deposit for the unit. These claims are subject to coverage limits and approval after review. Additionally, unlike traditional master leasing programs, MRSA programs are not responsible for the costs associated with evicting tenants. The lease-holding agencies must identify any resources other than the subsidies and assistance programs used to cover rent for tenants to manage these costs. It is important to note that we did not have sufficient, consistent cost data from existing programs to make accurate, conclusive findings around estimated program costs for each of these strategies. This remains a gap that would require additional study.

TABLE 4
Cost Accrual by Model

Cost Type	Components	Traditional Master Leasing	MRSAs
Rental	Long-term commitment to units (usually between 3 and 15 years)	Yes	Yes
	Rent paid by leasing agency not covered by subsidy	Yes	Yes
Gap funding	Rental payments made for vacant units	All rent when unit is not occupied	Up to two months of full rent
Housing navigation	Staff roles committed to housing navigation and leasing up	Yes	Yes
Operating	Property management	Yes	No
	Facility maintenance	Yes	No
Damage/risk mitigation	Evictions	Yes	No
	Repairs beyond standard maintenance for normal wear and tear	Yes	Depends, or up to a certain amount

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Additional Considerations

Stakeholders shared a few notable perceived benefits of master leasing or MRSA programs related to overall program costs. Owners are responsible for more significant building repairs, such as to roofing or heating systems, reducing costs agencies functioning as leaseholders. In addition, agencies are not responsible for securing funding for large down payments for building purchases. Stakeholders also indicated that rent increases for master-leased units are generally more predictable and manageable, which is especially important in a tight private rental market with rising rents like Los Angeles.

One concern was the need for adequate long-term resources allocated to the program. Stakeholders advised that anyone implementing a master leasing program needs to be clear about potential funding gaps and all of the costs that go into implementation and operations—such as turnover or vacancy payments, damage mitigation, marketing for the program, customer services, and any administrative costs—and identify which funding source would be responsible for covering those

costs. One stakeholder emphasized the need for long-term planning: “If you have a 10-year lease, there needs to be funding to pay for that over the life of the lease, including rent and major service and other components, like turnover, repairs, and maintenance.” Many of the costs we identified as accruing under either program would not be covered under the rental subsidy, and agencies or programs would likely need to secure additional funds from other government funding with fewer restrictions or through private philanthropic giving.

Conclusions and Recommendations

Master leasing programs—regardless of the strategy type or infrastructure—mitigate the limitations of government responses to homelessness and the limitations of the private rental market. We believe master leasing strategies can accelerate the process of housing people and improve housing access for people who are typically excluded from the private market.

There are several key considerations when implementing a master leasing program. First, master leasing strategies have clear potential benefits for local housing systems, for agencies operating in those local systems, and for people experiencing homelessness or housing instability. Additionally, master leasing offers potential unknown returns on investment from decreased competition between agencies for landlords and units and cost savings from fewer people experiencing homelessness.

Traditional master leasing strategies offer the strongest opportunities but also the heaviest limitations (table 5). MRSAs offered similar opportunities, to a potentially lesser extent, but also came with more limited control and fewer liabilities.

TABLE 5

Summary of Opportunities and Limitations by Master Leasing Strategy Type

Opportunity or Limitation	Traditional Master Leasing	MRSAs
<i>Opportunities</i>		
Expedited access to buildings and units	✓ +	✓
Access to the private rental market for people excluded from private rental market	✓ +	✓
Maximizing resources and program potential	✓	✓
Relationships with new landlords and developers	✓ +	✓
<i>Limitations</i>		
Lease duration and liability challenges	✓ +	✓
Unfunded costs	✓ +	✓
Private rental market challenges	✓ +	✓
Regulatory challenges	✓	
Conflicts in leasing agency roles	✓	

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Note: A check mark indicates that the strategy has an opportunity or limitation. A check plus indicates that a strategy has that opportunity or limitation to a greater extent.

Source: Authors' interviews with stakeholders from both within and outside Los Angeles.

Based on these findings, we recommend that Los Angeles considers the following three strategies for implementation.

Maximize the impact of the MRSA strategy. An MRSA strategy can likely help most people navigate the private rental market with various subsidy types without adding the significant liability of a traditional master leasing model. We recommend implementing this strategy using several community-based nonprofit agencies across the county with a plan for close coordination developed before program expansion (e.g., determining how organizations communicate with each other, how to assign responsibilities and jurisdictions, and how to share information and data on landlords and developers between agencies). Flexible government funding—or philanthropic donations or grants—would play a key role in funding resources that government housing subsidies do not cover, such as landlord incentives, damage mitigations funds, unit holds, and gap funding.

Use traditional master leasing in targeted ways. A traditional master leasing program requires agencies to assume more liability and more substantial upfront implementation costs than they would

under an MRSA strategy. As a result, it may be more challenging to scale, as fewer agencies would be able to assume those liabilities. This approach is also likely not necessary for most people to gain access to the private rental market. However, traditional master leasing does provide a substantive advantage to specific programs and target populations that may otherwise struggle to participate in the rental market (e.g., people with histories of incarceration and eviction or people with issues related to credit, employment, or income). Los Angeles could implement a targeted, traditional master leasing strategy using community-based nonprofits with financial backing from government agencies.

Develop a long-term strategy to increase capacity. Implementing the above strategies will help address urgent community needs by providing people with access to units more quickly. It is also important to develop a plan for acquisition and development of units for both affordable housing and dedicated homeless services programs. In the absence of these efforts, master leasing strategies will not reverse longstanding trends in housing instability and homelessness and are likely to use resources that could be used for development.

Consider further research and evaluation focused on implementation. This report focused on examining the feasibility of a master leasing or similar program. As stakeholders move toward implementation, future research can more closely examine the following potential topics:

- Pilot of a multiagency collaboration on a countywide (or multi-service planning area) MRSA strategy, which identifies best practices for collaboration as well as pain points and strategies for mitigation
- Series of case studies that includes an in-depth cost component on master leasing strategies targeted to different subpopulations or using different programs
- An implementation and outcomes study for shared housing within a master leasing structure

Any additional research should include the perspectives of landlords and developers as key stakeholders, as well as tenants in these units who can provide insight on their lived experiences. Further research could also consider collecting information from places that have not pursued master leasing and documenting their reasons for choosing alternative strategies.

Notes

- ¹ “Greater Los Angeles Homeless Count 2020 Presentation,” Los Angeles Homeless Services Authority, accessed April 18, 2022, <https://www.lahsa.org/documents?id=4558-2020-greater-los-angeles-homeless-count-presentation>.
- ² Following the listening sessions, we held three conversations with national US Department of Housing and Urban Development staff and HUD technical assistance providers to clarify answers to specific regulatory questions.
- ³ Several community stakeholders participated in both listening sessions. There were 9 participants in the first listening session and 10 participants in the second listening session. One stakeholder participated in both listening sessions.
- ⁴ We identified corporate leasing as another master leasing strategy, but our team did not find any specific examples of corporate leasing and did not speak to any stakeholders with direct experience implementing this program model. Additionally, during our listening sessions, community stakeholders did not identify this model as a master leasing strategy under consideration.
- ⁵ Mary Hall, “Single vs. Double vs. Triple Net Leases: What's the Difference?,” Investopedia, updated December 31, 2021, <https://www.investopedia.com/ask/answers/040115/what-are-differences-between-single-double-and-triplenet-leases.asp#:~:text=A%20single%20net%20lease%20requires,plus%20all%20three%20additional%20expenses>.
- ⁶ The “Housing First” model centers permanent supportive housing as a first step to help people exit chronic homelessness, taking priority over other life-quality issues such as substance abuse and unemployment.

References

Henry, Meghan, Tanya de Sousa, Caroline Roddey, Swati Gayen, and Thomas Joe Bednar. 2021. *The 2020 Annual Homeless Assessment Report to Congress Part 1: Point-in-Time Estimates of Homelessness*. Washington, DC: US Department of Housing and Urban Development, Office of Policy Development and Research.

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