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Anti-Displacement & Community Ownership in Koreatown: Acquisition-Rehabilitation of Naturally Occurring Affordable Housing

Author

Keibler, Nathan

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A comprehensive project submitted in partial satisfaction of the requirements for the degree Master of Urban & Regional Planning

Nathan Keibler • 2022
Client: Beverly-Vermont Community Land Trust (BVCLT)
Faculty Advisor: Joan Ling

UCLA Lewis Center for Regional Policy Studies

UCLA Luskin Institute on Inequality and Democracy
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by

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Faculty Chair of Committee: Joan Ling

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Disclaimer

This report was prepared in partial fulfillment of the requirements for the Master in Urban and Regional Planning degree in the Department of Urban Planning at the University of California, Los Angeles. It was prepared at the direction of the Department and of the Beverly-Vermont Community Land Trust as a planning client. The views expressed herein are those of the authors and not necessarily those of the Department, the UCLA Luskin School of Public Affairs, UCLA as a whole, or the client.

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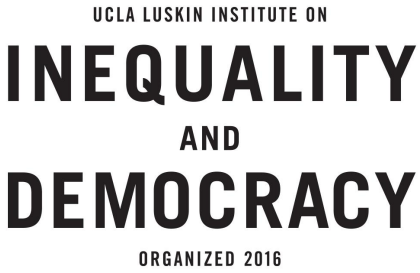

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Executive Summary

The Greater Los Angeles region is rich in resources. Its culture and history are vibrant and complex, largely due to the many immigrant communities that call it home. LA offers access to housing, public transit, and job opportunities. However, due to the housing affordability crisis plaguing the region, this access has become increasingly strained, particularly for low-income renters of color.

This research project considered the work of the Beverly-Vermont Community Land Trust (BVCLT), an organization based in LA's Koreatown neighborhood focused on anti-displacement and permanent housing affordability for LA's low-income renters of color. The organization does this by acquiring "naturally occurring affordable housing" (NOAH), removing it from the speculative real estate market, and rehabilitating it to provide existing renters with a safe and permanently affordable living environment.

Affordable housing exists along a spectrum. Naturally occurring affordable housing (NOAH) is distinct because it is pre-existing affordably priced housing without any government subsidy. Much of the existing research on NOAH attributes this housing stock's ability to provide affordable rents to the older age or distressed physical condition of the buildings in which it exists. More information about this previous research can be found in the Literature Review in Appendix A.

This project first examined the current state of Koreatown's renters and multifamily housing stock through a market analysis that considered data from the U.S. Census and real estate market analytics. Next, I identified three comparable multifamily "NOAH" properties in Koreatown. I then conducted a financial feasibility study for hypothetical scenarios in which BVCLT acquired and rehabilitated the three properties. Finally, I summarized existing public and private funding sources available to preserve existing affordable housing and discussed the limitations associated with each source. More detailed information about this project's methodology is in Appendix B.

The research found that most of Koreatown's residents were renters of color. Additionally, 60% of residents reported an annual household income of less than $50,000. 2019 5-Year data from the American Community Survey showed that approximately half of the existing rents charged in Koreatown apartments met BVCLT's definition for "naturally occurring affordable housing," (NOAH). But, less than 5% of the apartments available for rent in January 2022 met the NOAH rent limits. It is likely that sitting tenants benefit from below-market rents provided by the city's Rent Stabilization Ordinance. However, low-income renters searching for a new apartment will have a difficult time finding one with an affordable rent.

Additionally, nearly 60% of renters experienced rent burden by paying more than 30% of their income on housing costs. Further, from 2015 to 2019, the share of households paying lower rents (<$1,250 per month) decreased while the share paying higher rents (>$1,250) increased.

This finding indicates that the neighborhood's existing unsubsidized affordable housing stock is disappearing.

The neighborhood's vacancy rate for multifamily buildings was 4.6%, and the majority of its housing stock was in medium- to large-sized apartment buildings that were at least 40 years old. However, many reports cited Koreatown as a "neighborhood in transition" in which NOAH properties are being demolished or changing ownership. New residential construction is entirely limited to luxury apartment rentals. The need for NOAH preservation efforts is urgent.

Proforma studies identified funding gaps for the hypothetical acquisition-rehabilitation of small-, medium- and large-sized Koreatown properties. The resulting funding gaps varied depending on the property's size and the intensity of the rehabilitation conducted. If BVCLT continues to acquire NOAH properties and keep existing residents in place without substantially altering their monthly rent payments, it should anticipate needing to cover a funding gap that ranges from as low as $1.1 million (small property, least intensive rehab scenario) to as high as $9.6 million (large property, most intensive rehab scenario).

There are many sources of funding available to preserve existing affordable housing. The report organized these sources into two categories, public and private. Numerous limitations were attached to each funding source, many of which effectively prevent an organization like BVCLT from being a qualified applicant. Some of the funding sources are limited to existing Low-Income Housing Tax Credit projects, only consider projects containing 100 or more units, and/or require applicants to be "financially strong" by possessing millions of dollars in net worth.

The report concludes with recommendations intended for three different parties: BVCLT, public agencies, and private funders. As BVCLT continues its acquisition-rehabilitation work, it should keep in mind that most of Koreatown's housing stock was constructed before 1980 and sits within buildings containing 20 or more units.

Additionally, nearly 80% of the neighborhood's existing NOAH units were studio or one-bedroom apartments. NOAH properties typically sold for between $210,000 and $350,000 per unit. Based on multifamily building sale listings for early 2022, the lowest prices on a per unit basis were in buildings constructed in the 1940s, 1960s, and 1980s. BVCLT should also be mindful of the unit thresholds that trigger prevailing wage requirements for certain public funding sources, as these can drastically increase each project's total development cost. Lastly, considering the prevalence of rent burden in Koreatown, BVCLT should consider lowering the rent limits it currently uses to define "affordable housing."

To better support the work of BVCLT, public agencies should create a publicly-accessible rent registry platform that provides current rent prices charged at properties throughout the Los Angeles region to ease the search process for NOAH buildings. Public agencies should also drastically increase the number of project-based rental subsidies they offer to directly serve mission-driven entities like BVCLT that steward land for the benefit of low-income renters of

color. Expanded subsidies would increase BVCLT's rent revenue, lower their funding gaps and make their acquisition-rehabilitation work more financially feasible.

Additionally, public agencies should increase the funding and technical support they offer LA-based CLTs. Further, they should consider creating a land bank program that acquires vacant, foreclosed, or tax-delinquent apartment buildings and donates them to CLTs or holds them until an organization like BVCLT has gathered the required funding to acquire the property. A land bank managed by a public agency would prevent market-rate developers from acquiring properties before mission-driven organizations. Finally, until existing funding sources relax their eligibility requirements to expand access to BVCLT, public agencies should establish exceptions for accessibility retrofit and prevailing wage requirements for CLTs. As explained later in this report, these two items can significantly increase development costs and make CLT acquisition-rehabilitation projects infeasible.

The final recommendations target private funders' models to expand access to organizations like BVCLT. Private funders should lower their unit count threshold requirements and consider unsubsidized affordable housing properties. Lastly, these funders should offer CLTs more favorable loan terms and alter their ownership models to ensure that the property remains in the hands of the CLT on a long-term basis.

Introduction

In response to California's ongoing housing affordability crisis, many organizations in Los Angeles (LA) County are working to preserve the region's unsubsidized affordable rental housing stock to prevent the displacement of low-income renters. The Beverly-Vermont Community Land Trust (BVCLT), a nonprofit 501.c.3 organization based in LA's Koreatown neighborhood, is one such organization. BVCLT's mission is to build community power to keep working-class communities of color in their homes through permanent affordability and democratic community ownership.[1] To do this, BVCLT utilizes a community land trust (CLT) model through a ground lease arrangement with the owner of the improvements on the property. By removing land from the speculative real estate market and retaining its rights, BVCLT ensures the housing structure's selling price remains affordable, regardless of current market forces. The organization focuses on acquiring multifamily buildings and pursuing cooperative ownership structures whereby a housing cooperative owns the improvements and residents own shares in the housing cooperative.

Since September 2020, BVCLT has participated in LA County's Pilot Community Land Trust Partnership Program (the "Partnership"). This program is a unique collaboration between member organizations of the LA CLT Coalition (comprising five LA-based CLTs including BVCLT, T.R.U.S.T. South LA, Fideicomiso Comunitario Tierra Libre, Liberty Community Land Trust, and El Sereno Community Land Trust), LA-based Community Development Corporations (CDCs) and various county agencies, including the Treasurer Tax Collector (TTC), Los Angeles County Development Authority (LACDA), and County Counsel. The Partnership was founded primarily as an anti-displacement measure to expand low-income households' long-term access to affordable housing, as well as opportunities to build equity through the eventual formation of limited-equity housing cooperatives.[2]

In November 2020, the LA County Board of Supervisors approved $14 million in funding for each CLT "to acquire and rehabilitate properties to serve the public purpose of preserving affordable housing" (LA County Board of Supervisors, 2020). LA County provided CLTs with a recoverable grant for deposits and due diligence costs through the Strong, Prosperous, And Resilient Communities Challenge (SPARCC), a national funders collaborative administered by Genesis LA, a local Community Development Financial Institution (CDFI).

The Partnership identified both tax-defaulted properties through Chapter 8 Agreement Sales and non-Chapter 8 properties suitable for preservation through the CLT acquisition-rehabilitation model. Once acquired, the properties are maintained as permanently affordable rental housing, with ownership ground leases up to 99 years. Priority property characteristics include the following:

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[1] "About Us." *Beverly-Vermont Community Land Trust.* Accessed 3 Jan 2022. https://www.bvclt.org/

[2] "LA County to Develop a Pilot Community Land Trust Partnership Program." *Hilda L. Solis, Los Angeles County Supervisor First District.* Accessed 14 Dec. 2021. https://hildalsolis.org/la-county-to-develop-a-pilot-community-land-partnership-program/

- Small or medium multifamily properties (4-20 units)
- Purchase price of $150,000 - $350,000 per unit
- Estimated rehabilitation costs of $50,000 per unit
- Adjacency to transit
- Located in areas designated as high resource with increased risk of displacement
- Existing affordable rental housing for households earning 30-80% AMI, with special emphasis on < 60% AMI
- Properties housing organized tenants interested in ownership

Additionally, if the acquired property housed any existing residents earning above the program's target AMI levels, such tenants would be grandfathered in to satisfy the Partnership's anti-displacement goals. However, at first turnover, new tenants would be required to comply with the 30-80% AMI requirement. As of August 2021, the LA CLT Coalition had collectively acquired 43 units of unsubsidized, or naturally occurring, affordable housing (NOAH) and is currently working to develop additional properties throughout LA County.[3] In October 2021, BVCLT initiated this research project and posed the following research questions:

1. What are the characteristics of existing renters and multifamily buildings in Koreatown?
2. What is the financial feasibility of acquiring and rehabilitating naturally occurring affordable housing (NOAH) in Koreatown?
3. What are the available funding sources for the preservation of NOAH in Los Angeles?

More detailed information about how this project's methodology addressed each of these research questions is provided in Appendix B. In the sections that follow, the project's findings are organized by the three research questions.

[3] Linton, Joe. "L.A. County Community Land Trusts Picking Up Momentum in Preserving Affordable Housing." *Streetsblog LA.* Accessed 15 Oct. 2021. https://la.streetsblog.org/2021/08/10/l-a-county-community-land-trusts-picking-up-momentum-in-preserving-affordable-housing/

Literature Review

This report's literature review further contextualizes the information previously shared in the main report's Introduction, particularly as it concerns California's housing affordability crisis, the responses from public agencies working to alleviate said crisis, and the gaps associated with these responses. The literature review ends with a brief discussion of existing research on naturally occurring affordable housing (NOAH).

A. Affordability Crisis

Recent studies conducted by the California Housing Partnership Corporation (CHPC) found that six of the ten most expensive cities in the U.S. to rent a two-bedroom apartment are in California (Mazzella & Rosenfeld, 2021a), four of which are in Los Angeles (LA) County (California Housing Partnership, 2021). Since 2000, the state's median rent has increased by 35%, but its median income for renter households has only increased by 6% when adjusted for inflation (Mazzella & Rosenfeld, 2021a).

California's ongoing affordability crisis disproportionately impacts its low-income residents, particularly in LA County. Approximately 78% of the county's extremely low-income households (those earning less than 30% Area Median Income [AMI]) are severely cost-burdened as they pay more than 50% of their income on housing costs. Meanwhile, only 2% of its moderate-income households (those earning 80-120% AMI) are paying more than half their income on housing costs (Mazzella & Rosenfeld, 2021b). Housing cost burden can have drastic negative impacts on an individual's quality of life; it hinders one's ability to afford other necessities like food, transportation, healthcare, and education or workforce development opportunities.

LA County's low-income *renter* households (those earning 50% AMI or below) are especially vulnerable to the adverse effects of housing cost burden. There is little support from the state government for renters compared to homeowners. California spends nearly five times more on funding for homeowners (~$7 billion) compared to renters (~$1.5 billion), which breaks down to approximately $970 per owner household vs. $250 per renter household Funding for homeowners in the state is provided through the CalHome program, as well as deductions for real property tax and mortgage interest. California renters receive funding support from the following sources: TOD, SB 2, Proposition 1 (2018), No Place Like Home, State Low-Income Housing Tax Credits, and Renter's Credit (California Housing Partnership, 2021). LA County's renters must earn ~$38 per hour, roughly 2.5 times the city of LA's minimum wage, to afford the region's average monthly rent of ~$2,000. Lastly, nearly 500,000 of the county's low-income renter households do not have access to affordable housing (Mazzella & Rosenfeld, 2021b).

Renters of color are more likely to be rent-burdened (paying more than 30% of their income on rent) than white renters in LA County. 62% of Black renters are rent-burdened, followed by Latinx renters (56%), Native American renters (53%), multiracial renters (53%), Asian renters (52%), and white renters (51%) (California Housing Partnership, 2021). The Covid-19 pandemic

has also disproportionately worsened the financial state of low-income Black and Latinx households in LA County. Approximately 59% of the county's adults reported lost income due to the pandemic. However, 70% of households with incomes less than $75,000 lost income compared to 51% of households with incomes above $75,000. Further, 60% of Black and 67% of Latinx households reported lost income, while only 51% of white households reported a loss in income (California Housing Partnership, 2021).

Additionally, the county's affordability crisis is one contributing factor to its increased rates of homelessness. Between 2019 and 2020, LA County experienced a 13% increase in the number of people experiencing homelessness (LAHSA, 2020). The majority of individuals experiencing homelessness in the county are Latinx (36%) or Black (34%). The latter demographic disproportionately suffers from homelessness as Black residents represent only 8% of the region's population (California Housing Partnership, 2021). High rates of rent burden and a growing homeless population indicate a dire need for affordable housing in LA County, particularly for low-income communities of color.

B. Response by Public Agencies

State and local governments have responded to the housing crisis with more urgency in recent years than they have in the past. Between 2019 and 2020, production and preservation rates of affordable housing through the Low-Income Housing Tax Credit (LIHTC) program have increased by roughly 69% in LA County. Additionally, between Fiscal Year (FY) 2018-19 and FY 2019-20, state funding has increased by 108% and federal funding by 48% for housing production and preservation in the county (California Housing Partnership, 2021).

Despite this increased funding, the state is severely lagging in its production goals. Roadmap HOME 2030 is a statewide coalition led by Housing California and the California Housing Partnership Corporation (CHPC). It lists an annual production goal of 119,287 new affordable units as necessary for ending the state's affordability crisis (Roadmap Home 2030, 2021). In 2020, the state produced 16,698 new affordable units with LIHTC funding, only 14% of the Roadmap Home 2030 annual production goal (Mazzella & Rosenfeld, 2021a).

In 2016, the average cost to produce new affordable housing in LA County was approximately $429,000 per unit. This amount increased by 36% to $583,000 per unit by 2020 (California Housing Partnership, 2021). Past research shows that the cost of preserving, or acquiring and rehabilitating, existing affordable rental housing, is typically much lower compared to new construction (Deora & Heegaard, 2013). The average cost to acquire and rehabilitate an existing affordable rental unit in 2020 was $436,000 per unit, approximately $147,000 lower than the per-unit cost for new construction (California Housing Partnership, 2021).

Despite increased funding opportunities for affordable housing preservation, LA County continues to lose existing affordable rental housing. Between 1997 and 2020, the region has lost 6,153 subsidized affordable rental units, largely due to expiring affordability covenants. These expirations allowed property owners to opt-out of affordability restrictions and sell and/or allow

their properties to convert to market rate. Most of the units lost were part of the first generation of developments to receive LIHTC funding with affordability covenants that expired after only 15 years (California Housing Partnership, 2021). Today, most affordability covenants attached to LIHTC-funded properties include a 55-year expiration date.

A recent research report conducted by CHPC, “Affordable Homes At Risk (February 2021),” found that roughly 30,000 subsidized affordable rental units in California are at moderate to very high risk of conversion to condominiums or market-rate rents (Mazzella, 2021). Approximately 34% of these at-risk units are in LA County (Mazzella & Rosenfeld, 2019). A separate CHPC report found that most of these at-risk affordable rental homes are in LA County Supervisorial Districts 2 (24%) and 3 (33%) (California Housing Partnership, 2021). Affordable rental units at risk of conversion pose a huge risk to low-income renters as such a risk represents a potential loss of housing and economic stability. In the context of LA County, the loss of affordable rental housing results in patterns of displacement of low-income households from the region’s resource-rich and gentrifying neighborhoods (California Housing Partnership, 2021). Because of high development costs for the new construction of affordable housing and increasing neighborhood opposition, these lost units are difficult to replace.

C. Gaps in Responses by Public Agencies

Much of the research previously mentioned reports fails to consider the *unsubsidized* affordable rental units at risk of loss and the benefits this type of housing offers to low-income renter households. This type of affordable housing, also known as naturally occurring affordable housing (NOAH), is worthy of close analysis. It represents the bulk of affordable housing for individuals residing in the U.S. who do not have access to government assistance for housing costs (Reynolds et al., 2019). Many affordable housing developments funded by the LIHTC program do not serve extremely low-income households. According to a 2018 report conducted by the Urban Institute titled “The Low-Income Housing Tax Credit: How It Works and Who It Serves,” affordable housing developments subsidized by the LIHTC program serve, on average, households that make 60% AMI. In the past, LIHTC has struggled to provide housing for extremely low-income households (< 30% AMI) without relying on additional subsidies (Scally et al., 2018).

However, there has been some research conducted on NOAH. At the 2016 National Association of Affordable Housing Lenders & Urban Land Institute Symposium at the Terwilliger Center for Housing, the commercial real estate information company CoStar presented data analysis concerning affordable rental homes without public subsidy, otherwise known as “naturally occurring affordable housing (NOAH).” CoStar classified NOAH units as 1- or 2-star properties using its 5-star Building Rating System, which considers architectural design, structure/systems, amenities, site/landscaping, and certifications (CoStar, 2016). 1-star properties are the “lowest quality properties” and 2-star as “functional properties with minimal amenities” (National Low Income Housing Coalition, 2016). Lastly, most NOAH properties were constructed 35 or more years ago.

NOAH properties represent a significant portion of the rental market in this country. CoStar classified over 75% of all residential properties and 36% of all the rental properties monitored as NOAH. Additionally, Los Angeles (LA) has the largest share of NOAH units (18.4%). CoStar also found that the average asking monthly rent for a 1- or 2-star unit in LA was approximately $1,500. CoStar deemed NOAH stock a “stable, income-producing asset,” but one that presented a challenge for “mission-driven investors willing to protect the stock’s affordability” (National Low Income Housing Coalition, 2016), which I will detail in a later section in this report.

In a 2016 Memo to Members of the National Low Income Housing Coalition (NLIHC) regarding CoStar’s NOAH presentation, the coalition noted that the type 1- and 2-star NOAH units do not provide affordable rents for extremely low-income (ELI) renters (< 30% AMI). The average NOAH rental price in the U.S. typically requires that an ELI household pays 55% of its income on rent. Thus, ELI households renting the average NOAH unit would be severely rent-burdened. The NLIHC memo further clarified that an affordable rent for an ELI renter household would not permit a typical NOAH landlord to cover the property’s operating costs. This statement indicated a need for financing options to cover NOAH preservation projects’ funding gaps.

D. Existing Research on Naturally Occurring Affordable Housing (NOAH)

Existing research on effective strategies for preserving NOAH units is, unfortunately, quite limited for a variety of reasons. Efforts for acquiring and rehabilitating this specific type of housing stock are not well documented or evaluated (Reynolds et al., 2019). The majority of data available for costs associated with affordable housing preservation is limited to subsidized affordable housing stock. Further, these data on subsidized housing only paint a general picture. Most analyses focus on total development costs (TDC) alone, making it difficult to isolate specific factors like development fees or wage requirements that affect a preservation project’s TDC (California Housing Partnership, 2021). Lastly, the characterization of NOAH is inconsistent due to varying metrics for “housing affordability,” as well as the lack of rent registries made available through public agencies that detail the income levels and monthly rental payments attached to unsubsidized affordable rental housing.

Despite these limitations, a few research efforts consider the potential of unsubsidized affordable rental housing. A 2011 report conducted by Harvard University’s Joint Center for Housing Studies found that unsubsidized properties comprised over three-quarters of the affordable rental housing stock in the U.S. A third of this affordable rental stock consisted of small-scale multifamily buildings (5-49 units) that were privately owned (Joint Center for Housing Studies of Harvard University, 2011). In June 2013, the Minnesota Preservation Plus Initiative (MPPI) released a report titled “Space Between: Realities and Possibilities in Preserving Unsubsidized Affordable Housing” that studied the nature of Minnesota’s NOAH stock and preservation strategies (Minnesota Preservation Plus Initiative, 2013).

MPPI's report defined preservation as interventions that prevent the loss of affordable rental housing to "deterioration, demolition, or rent increases that would move the unit 'up-market.'" It also characterized the preservation of affordable housing as existing along a continuum. On one end exists "federally subsidized affordable rental," followed by "locally subsidized affordable rental," and ends with "unsubsidized affordable rental" (Minnesota Preservation Plus Initiative, 2013). One defining feature of unsubsidized affordable rental housing is that it operates with no income restrictions; it can provide affordable rents to lower-, moderate-, and higher-income households. It is important to note that NOAH preservation as an anti-displacement tool does not always keep lower-income households in place.

"Space Between" found that one of the most pressing challenges for organizations working to preserve NOAH stock is defining "affordability." Subsidized affordable housing (ex. LIHTC) typically defines affordability by median income within the geographic boundary of a metropolitan statistical area (MSA) or county. This method can present an issue for organizations developing affordable housing for smaller "micro-markets" like a neighborhood where incomes vary greatly from the median value at the county level, particularly in an area as vast and populous as LA County. Additionally, certain financial incentives (ex. grants or loans) require organizations to commit to affordability levels for specific income groups, posing a challenge to small-scale non-profits trying to make a project "pencil out" without access to large sums of equity. Ultimately, the report classified unsubsidized affordable rental units as those priced at 30-60% AMI rents. However, MPPI acknowledged that organizations might target higher AMI levels, depending on the specific market conditions in a neighborhood or a developer's available resources (Minnesota Preservation Plus Initiative, 2013).

The three steps below list the methodology MPPI utilized to identify NOAH units in Minnesota.

1. Using HUD's Community Housing Affordability Strategies (CHAS) data, which is based on sample data from the American Community Survey (ACS), find the number of affordable rental units by calculating the total count of rental units affordable to a household earning 50% AMI.
2. Subtract the number of subsidized affordable rental housing units (federal, state, and local programs) from the total in Step 1.
3. Subtract the number of Housing Choice Section 8 vouchers from the total calculated in Step 2.

The report acknowledged that Step 3 obscured the total unit count as Section 8 vouchers can exist in subsidized and unsubsidized properties. These "double counts" are impossible to identify unless public agencies have done so and are willing to share the data publicly (Minnesota Preservation Plus Initiative, 2013).

In its attempt to characterize unsubsidized affordable rental housing, "Space Between" identified four main categories that affect affordability levels in the unsubsidized rental housing market: location, physical condition (either aging or distressed), poor property management, and the

owner's decision not to charge the maximum rents achievable (Minnesota Preservation Plus Initiative, 2013).

MPPI makes certain assumptions about Minnesota's NOAH stock that likely will not translate to NOAH found throughout LA County. For example, the report's authors share that the majority of NOAH units "functions just fine without further governmental or nonprofit involvement" and that "there are specific circumstances where a light-touch intervention can address a threat to this supply" (Minnesota Preservation Plus Initiative, 2013). These statements starkly contrast with the recent findings from the California Housing Partnership Corporation (CHPC) regarding the risks existing affordable housing units face and the need for deep subsidies to preserve them. Additionally, CHPC also found that acquisition and rehabilitation costs for existing affordable housing increased by 83% from 2012 ($238,000 per unit) to 2020 ($436,000 per unit), weakening MPPI's argument that the majority of NOAH stock requires little to no funding support.

Despite its shortcomings, "Space Between" offers many challenges that NOAH preservation poses to property owners, particularly small-scale non-profits that aim to provide affordable rents to low-income households. These challenges include property management, continually rising operating costs like property taxes and utilities, and access to financing (Minnesota Preservation Plus Initiative, 2013). A separate report conducted by the Urban Institute in 2019 titled "Preserving Affordable Rental Housing through Innovative Financing Strategies" also found that property owners often struggle to access conventional loan products to preserve existing affordable housing (Reynolds et al., 2019).

Additionally, the physical condition of NOAH varies widely. Each property requires a thorough inspection to assess the extent of repair needed for the structure to be fully code-compliant (Minnesota Preservation Plus Initiative, 2013). Conducting a thorough and accurate assessment of the integrity of building systems is quite difficult as inspectors must cut portions of the building away to allow inspectors to analyze the structural frame. Such an assessment is nearly impossible to complete before an organization acquires a building (Ling, 2021).

In response to these challenges, MPPI identified a list of interventions that can assist property owners with NOAH preservation efforts, some of which are listed below (Minnesota Preservation Plus Initiative, 2013):

- Rental subsidies from local government to secure higher net operating income while keeping rents affordable.
- Second mortgage/mezzanine debt/loan participation to increase access to long-term, private sector debt.
- Property tax incentives from local government in exchange for affordability requirements.

Lastly, the aforementioned 2019 Urban Institute report found that partnerships between Community Development Financial Institutions (CDFIs) and local governments can create pathways to NOAH preservation. The Urban Institute conducted a case study of the Community

Investment Corporation (CIC), a CDFI in Chicago focused on preserving affordable rental housing through unconventional financing methods, strategic partnerships, and policy influence. As of 2019, the CIC has provided over $1.4 billion for 2,400 loans to preserve approximately 62,000 affordable housing units and provide affordable rental housing to over 155,000 residents (Reynolds et al., 2019). The case study identified five challenges concerning NOAH preservation and the programs CIC developed in response, summarized in the table below:

Table 1. Community Investment Corporation Program Summaries

Challenge	CIC Program(s)	CIC Program(s) Details
1) Shortage of Decent, Safe Quality Housing	• Multifamily Loan Program	• Loan product providing first mortgage and acq-rehab financing for rental buildings w/ 5-100 units; underwrites on projected after-rehab values, rather than pre-rehab value
2) Lack of Conventional Financing Products	• 1-4 Unit Initiatives: Single-Family Rental Redevelopment Program • Chicago CDFI Collaborative	• Provides permanent financing for investors redeveloping groups of 1-4 unit buildings • Convened regular info-sharing meetings; purchased majority of properties through Federal Housing Finance Agency's Neighborhood Stabilization Initiative (NSI); scaled up acquisition of 1-4 unit buildings quickly, Collaborative lent $25 million to support preservation of over 590 low-income housing units
3) Loss of Units Due to Unmet Capital Needs	• Troubled Buildings Initiative	• Coordinated w/ City of Chicago to use code enforcement and CDBG funding to improve physical condition of 635+ distressed / abandoned multifamily rental properties; prevented loss of 12,500+ units of affordable rental housing
4) Loss of Units Due to Variable Operating Costs	• Energy Savers Loan Program	• Provided $25 million in loans / grants 10,500+ units to finance energy-saving retrofits to prevent variable operating costs; property owners save 25-30% on utility costs
5) Lack of Units in High-Cost Neighborhoods	• Opportunity Investment Fund	• Provided low-cost financing and/or mezzanine debt to developers producing and preserving affordable units in strong markets; encouraged developers to use rental subsidies to support affordable unit preservation

"Preserving Affordable Rental Housing through Innovative Financing Strategies" finds that meaningful collaboration between financial institutions, local public agencies and property owners can contribute to a large-scale, effective approach to preserving the affordability NOAH units provide to a city's low-income residents.

E. Key Findings

The LA region's ongoing housing affordability crisis continues to have disproportionate negative impacts on low-income renters of color, indicating a dire need for affordable housing opportunities for this specific demographic.

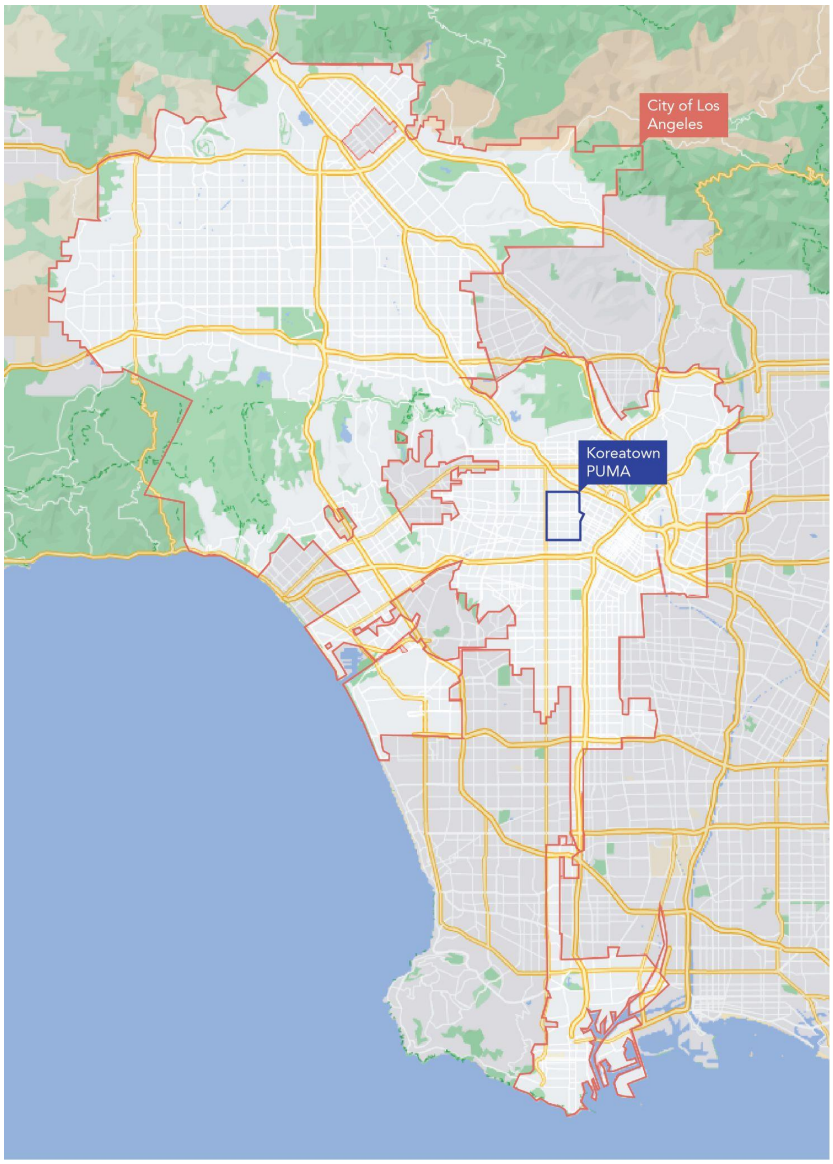
Affordable housing production rates have recently increased in LA County, but most new construction is limited to Low-Income Housing Tax Credit (LIHTC) projects. LIHTC projects have shortcomings; they typically fail to serve lower-income households making below 60% area median income (AMI) and operate with affordability restrictions that eventually expire.

The most prevalent form of existing affordable housing in the LA region is not in LIHTC projects. Rather, it is in naturally occurring affordable housing (NOAH) or unsubsidized affordable housing. Most research on affordable housing does not study this specific form of housing stock as it is difficult to characterize. There are little public data available on it, and few funding sources are available to preserve it.

Methodology

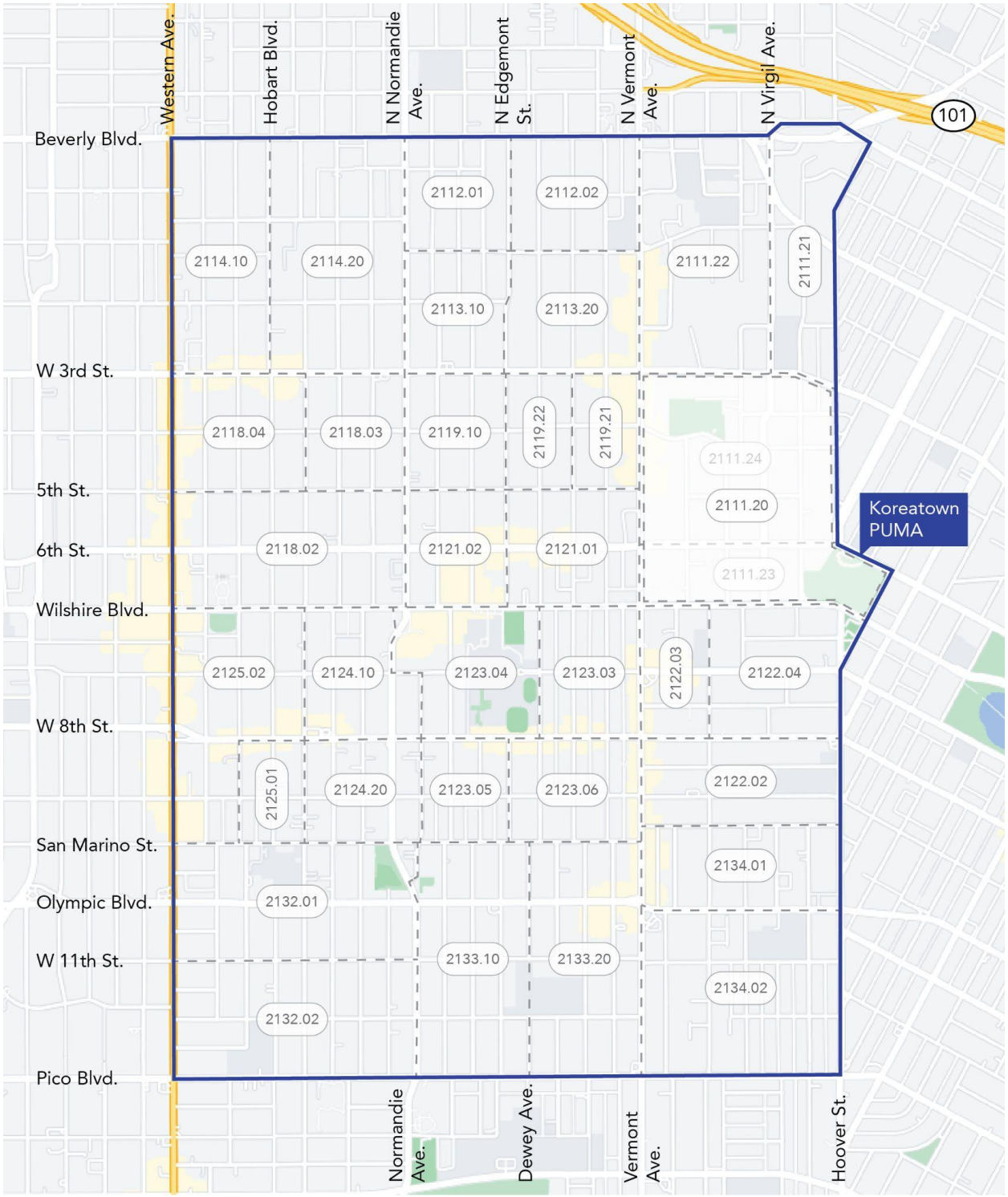
The scope of this research project included three parts: a market analysis of Los Angeles's Koreatown neighborhood, a financial feasibility analysis, and a summary of available public and private funding sources for the acquisition and rehabilitation of NOAH units. For the sake of this report, BVCLT defined the Koreatown neighborhood using the boundaries for the Public Use Microdata Area (PUMA) titled, "Los Angeles County (Central)--LA City (Central/Koreatown) PUMA (06-03733)." This geography contains 35 census tracts bounded by the following streets: Western Avenue to the west, Beverly Blvd to the north, Hoover Street to the east, and W Pico Blvd to the south. The neighborhood boundary (blue) is in the two map drawings that follow.

Figure 1. Map of City of Los Angeles & Koreatown PUMA Boundary



Red: City of Los Angeles Boundary
Blue: Los Angeles County (Central)--LA City (Central/Koreatown) PUMA Boundary
Scale: Not Defined

Figure 2. Koreatown PUMA Boundary



Blue: Los Angeles County (Central)--LA City (Central/Koreatown) PUMA Boundary
Scale: Not Defined

This project's first two parts involved quantitative analysis, while the third part was qualitative, involving the review of textual documents to identify the advantages and limitations of each funding source. This section of the report lays out a detailed approach to this project's market and financial analyses, followed by a brief discussion of the study of potential funding sources to consider for acquisition-rehabilitation funding projects.

Part 1: Market Analysis Methodology

The project's market analysis involved three components. First, I drew on data from the American Community Survey (ACS) to describe the general characteristics of renters and multifamily housing stock in Koreatown (Step A below). I then estimated the total number of existing NOAH units in Koreatown (Steps B1-B3 below). Finally, I reviewed real estate market analytics to identify the characteristics of existing NOAH units and buildings in Koreatown (Step C below). The research gathered in Part 1 created a foundational understanding of market dynamics in Koreatown to inform the acquisition and rehabilitation scenarios explored in Part 2. I explain each step in the market analysis in further detail below:

A) Residents, Renters & Housing Stock in Koreatown

For this portion of the market analysis, I utilized the U.S. Census Bureau's American Community Survey (ACS) Detailed Tables by selecting the most recent 5-Year estimates, 2015-2019, for the 35 census tracts comprising the Koreatown PUMA geography. I gathered data at the census tract level to analyze trends occurring in different areas of Koreatown.

The ACS is a yearly survey covering a broad range of topics concerning the U.S. population's social, housing, and economic characteristics. Detailed Tables offer the most comprehensive cross-tabulated information for each variable, or set of variables, provided by the ACS. 5-Year estimates represent data collected over time. I chose this multiyear estimate because it allows for increased statistical reliability, particularly for smaller geographies like a neighborhood.[4] As seen in the below, the Detailed Tables collected covered the following topics: Populations and People, Race and Ethnicity, Income and Poverty, and Housing. This data described the general characteristics of renters and multifamily housing stock in Koreatown.

Table 2. U.S. Census Bureau Tables

Topic	Table Number	Table Title
Populations and People	B01001	Population by Age
	B07013	Geographical Mobility in the Past Year by Tenure for Current Residence
	B11016	Household Type by Household Size
Race and Ethnicity	B03002	Hispanic or Latino Origin by Race

[4] "American Community Survey 5-Year Data (2009-2020)." *United States Census Bureau*. Accessed 4 Nov. 2021, https://www.census.gov/data/developers/data-sets/acs-5year.html.

Income and Poverty	B19001	Household Income in the Past 12 Months
Housing	B25002	Occupancy Status
	B25003	Tenure
	B25024	Units in Structure
	B25036	Tenure by Year Structure Built
	B25042	Tenure by Bedroom
	B25063	Gross Rent
	B25068	Bedroom by Gross Rent
	B25070	Gross Rent as a Percentage of Household Income in the Past 12 Months

B) Estimates of Koreatown's Existing NOAH Unit Count

As BVCLT continues its work to acquire and rehabilitate existing affordable housing to prevent the displacement of low-income residents, an estimate of the number of existing NOAH units in Koreatown will be crucial for future planning efforts in the neighborhood. BVCLT defines NOAH as an existing unsubsidized apartment unit offered at a rental price that is at or below the 60% Area Median Income level defined by the California Tax Credit Allocation Committee (CTCAC). For the year 2021, these monthly rent limits are in the table below.

Table 3. California Tax Credit Allocation Committee (CTCAC) 60% AMI Rent Limits

Studios	1BR	2BR	3BR	4BR
$1,242	$1,330	$1,596	$1,844	$2,058

Step B1: To estimate Koreatown's existing NOAH unit count, I began by looking at the 5-Year Estimates for ACS Table B25068, Bedroom by Gross Rent, to find the total count of multifamily rental units that are at or below the max rent limits in Table 2 above. However, Table B25068 only provided data for the following unit categories: No bedroom, 1 bedroom, 2 bedroom, and 3 or more bedrooms; it lumped three-bedroom, four-bedroom, and five-bedroom units into one category. Additionally, the monthly rental prices are organized into the following categories: Less than $300, $300 to $499, $500 to $749, $750 to $999, $1,000 to $1,499, and $1,500 or more. Lastly, it did not share if the units are in a single-family or multifamily building. Thus, Table B25068 did not allow me to provide an accurate estimate that satisfied BVCLT's definition for a NOAH unit.

Instead, I utilized the U.S. Census Bureau's Microdata Access tool, which allowed me to pull multiple variables at once for the same housing unit to create a custom table not available in the

pre-made Detailed Tables for ACS data.[5] I selected the dataset titled "ACS 5-Year Estimates - Public Use Microdata Sample" and the most recent vintage, "2019." I then loaded the variables "BLD: Units in Structure," "GRNTP: Gross Rent," and "BDSP: Number of Bedrooms" for the PUMA geography titled "Los Angeles County (Central)--LA City (Central/Koreatown) PUMA, California." Finally, I filtered the dataset to only count the following units in multifamily structures: studio apartments with monthly rents at or below $1,242, one-bedrooms at or below $1,330, two-bedrooms at or below $1,596, three-bedrooms at or below $1,844, four-bedrooms at or below $2,058, and five-bedrooms at or below $2,270.

Step B2: The unit count calculated in Step B1 includes rental units with subsidies. These subsidies are considered artificial restraints on the unit's monthly rental price that are not the result of "natural" market forces. Thus, they cannot be considered "naturally occurring" and must be subtracted from Step B1's unit count. The two primary forms of rental housing subsidy with readily available data include Low-Income Housing Tax Credit (LIHTC) projects and Section 8 Project-Based Vouchers.

I calculated the LIHTC unit count for Koreatown through the California Tax Credit Allocation Committee's (CTCAC) project mapping database and filtered for the census tracts within the neighborhood's PUMA geography.[6] I conducted the same process for the Section 8 Project-Based Voucher count using the U.S. Department of Housing and Development's (HUD) Office of Policy Development and Research Query Tool for the year 2019.[7] Because there is no way to filter the LIHTC dataset by date, there is the potential that this data includes projects that secured funding or completed construction after 2019.

Step B3: Finally, I subtracted both the LIHTC and Section 8 Project-Based Voucher unit counts from the count calculated in Step B1, resulting in the final estimate for the total number of NOAH units in Koreatown.

C) Characteristics of Multifamily Apartment Buildings in Koreatown

For this section of the market analysis, I reviewed real estate analytics data for Koreatown provided by the following sources:

- CoStar Koreatown Multifamily Submarket Report - 2021 Quarter 4
- CoStar Koreatown Multifamily Capital Submarket Report - 2021 Quarter 4
- CoStar Koreatown Multifamily Underwriting Report - 2021 Quarter 4
- Los Angeles County Office of the Assessor 2020-2021 Property Sales Portal

[5] "What is Microdata Access?" *United States Census Bureau*. Accessed 4 Nov. 2021. https://ask.census.gov/prweb/PRServletCustom/app/ECORRAsk_/YACFBFye-rFIz_FoGtyvDRUGg1Uzu5Mn*/!STANDARD?pzuiactionzzz=CXtpbn0rTEpMcGRYOG1vS0tqTFAwaENUZWpvM1NNWEMzZ3p5aFpnWUxzVmw0TjJqYWpJZzI1T3Z5UW9ENDF4QThvTnJl*

[6] "California Tax Credit Allocation Committee Project Mapping." *California State Treasurer.* Accessed Oct. 21, 2021. https://www.treasurer.ca.gov/ctcac/projects.asp

[7] "Assisted Housing: National and Local - Picture of Subsidized Households Query Tool" *HUD Office of Policy Development And Research.* Accessed 1 Nov. 2021. https://www.huduser.gov/portal/datasets/assthsg.html#2009-2020_query

- Apartments.com
- Loopnet.com
- Redfin.com
- Trulia.com
- Zillow.com

For the latter five sources, I gathered data from January 5, 2022, to January 14, 2022. All nine data sources listed above provided me with the following information regarding Koreatown's multifamily housing stock: rental prices for available apartment units, recent sales of entire multifamily buildings, and the existing physical conditions of the buildings' exteriors and interiors.

I filtered the information provided by these databases in two ways. First, for any listings that shared the existing rents charged at the property, I only considered the buildings that contained units that satisfied the maximum affordable rent limits listed in Table 2 of Step B above. Second, regarding the CoStar data specifically, I only analyzed the data provided for buildings that were either 1-Star or 2-Star properties through CoStar's Building Rating System (BRS).[8] I paid special attention to these properties because CoStar representatives previously labeled both 1-Star and 2-Star properties as "NOAH" at a 2016 presentation.[9]

This analysis allowed me to respond to the following questions:

- On average, how many units does a NOAH building in Koreatown contain?
- What are the average monthly rents charged in NOAH buildings in Koreatown?
- On average, at what prices were NOAH buildings sold in Koreatown? How have these prices changed over the last few years?
- What are the general physical conditions of NOAH buildings for sale in Koreatown in early January 2022?

Part 2: Financial Feasibility Analysis Methodology

This project's financial feasibility analysis involved prototypical pro-forma modeling for small- (5-9 units), medium- (10-19 units), and large-sized (20-49 units) hypothetical NOAH properties in Koreatown. The financial performance of acquisition-rehabilitation projects depends on a property's existing physical conditions and the rental prices paid by existing residents. This project's three pro-formas considered the two rent scenarios (1-2) and five rehabilitation scopes (A-D) shown in the matrix in the table below.

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[8] "CoStar Building Rating System." *CoStar*. Accessed 21 Oct. 2021. https://www.costar.com/docs/default-source/brs-lib/costar_buildingratingsystem-definition.pdf

[9] "Naturally Occurring Affordable Housing Benefits Moderate Income Households, But Not The Poor." *National Low Income Housing Coalition.* Accessed 24 Oct. 2021. https://nlihc.org/resource/naturally-occurring-affordable-housing-benefits-moderate-income-households-not-poor

Table 4. Rehabilitation & Rent Scenario Matrix

	Rent Scenario A: Existing NOAH Rents	**Rent Scenario B:** Section 8 Project-Based Voucher Payment Standard (VPS)
Rehab Scope 1: No initial rehab, renovations deferred until absolutely necessary	Funding Gap 1A	Funding Gap 1B
Rehab Scope 2: Low rehab estimate without prevailing wages	Funding Gap 2A	Funding Gap 2B
Rehab Scope 3: Low rehab estimate with prevailing wages	Funding Gap 3A	Funding Gap 3B
Rehab Scope 4: High rehab estimate without prevailing wages	Funding Gap 4A	Funding Gap 4B
Rehab Scope 5: High rehab estimate with prevailing wages	Funding Gap 5A	Funding Gap 5B

Rent Scenario A assumed that BVCLT would keep the existing rents in place upon acquiring the hypothetical property. Rent Scenario B assumed that BVCLT would have access to a Section 8 Project-Based Voucher[10], a subsidy through the Housing Authority of the City of Los Angeles (HACLA) that provides higher rental income compared to the CTCAC 60% AMI Maximum Rent Limits listed previously.[11]

Rehab Scope 1 assumed a hypothetical situation in which BVCLT acquired a NOAH building that *did not* require heavy renovations immediately. Rather, this scenario assumed that the organization deferred remaining renovations on an as-needed basis with replacement reserve funding. Rehab Scopes 2 and 3 assumed that properties required immediate repairs to provide residents with safe living conditions and utilized low-cost estimates. Rehab Scopes 4 and 5 assumed a more costly hypothetical situation: BVCLT acquired a NOAH building that required heavy renovations immediately. Thus, these scopes utilized high-cost estimates.

Additionally, Rehabilitation Scenarios 3 and 5 compensated labor with a prevailing wage. The California Department of Industrial Relations defines prevailing wage as "the basic hourly rate paid on public works projects to a majority of workers engaged in a particular craft, classification or type of work within the locality and in the nearest labor market area."[12] Further, prevailing wage laws prevent a contractor from securing a public works contract based on lower wage rates compared to a competitor. Instead, all submitted bids must use the same prevailing wage rate.

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[10] "About Section 8." *Housing Authority of the City of Los Angeles.* Accessed 3 Nov. 2021. http://home.hacla.org/abouts8

[11] "Los Angeles County Development Authority Housing Choice Voucher Program Payment Standards." *Los Angeles County Development Authority.* Accessed 5 Nov. 2021. https://www.lacda.org/docs/librariesprovider25/section-8-program/owners/resources/payment-standards-effective-05-17-2021.pdf?sfvrsn=c8ed67bc_8

[12] "Frequently Asked Questions - Prevailing Wage." *California Department of Industrial Relations.* Accessed 12 Dec. 2021. https://www.dir.ca.gov/OPRL/FAQ_PrevailingWage.html#q3

Rehabilitation Scenarios 2 and 4 did not compensate labor with a prevailing wage. Rather, market competition determined wages, which tend to be lower due to the competitive nature of the construction bidding process.

In real estate development, a pro-forma is typically a spreadsheet document that assists developers and investors with evaluating a property's potential financial performance by combining information about the project's projected costs and sources of income. A condensed version of a standard pro-forma structure is in the table below.

Table 5. Proforma Calculation Methods

Topic	Calculation Method
1) Annual Net Operating Income (NOI)	Rental Income - Operating Expenses Net Operating Income
2) Annual Cash Flow	Net Operating Income - Debt Payment Cash Flow
3) Total Development Cost	Property Price + Rehab Cost Total Development Cost
4) Equity Investment Required	Total Development Cost - Maximum Loan Amount Equity Investment Required
5) Equity Generated	Cash Flow / Internal Rate of Return (Leveraged) Equity Generated
6) Funding Gap	Total Development Cost - (Maximum Loan Amount + Equity Generated) Funding Gap

The following information was used for the variables in each of the pro-forma calculations shown in the "Calculation Method" column of the table above:

- Rental Income: Current rental prices in Koreatown's comparable NOAH properties and Section 8 Voucher Payment Standards provided by HACLA
- Operating Expenses: 2021 National Apartment Association Survey of Operating Income & Expenses in Rental Apartment Communities cross-referenced with operating expense assumptions from BVCLT's existing properties
- Property Price: Current sales prices from Koreatown's comparable NOAH properties
- Rehab Cost: Cost estimates provided by LA-based affordable housing developers and property managers

The two rent scenarios and five rehabilitation scenarios resulted in ten different potential funding gaps for BVCLT to consider as it pursues future acquisition and rehabilitation of NOAH buildings in Koreatown.

Part 3: Available Funding Sources

The project's third and final part involved qualitative research regarding both emerging and established public and private funding sources for the acquisition and rehabilitation of NOAH units in Los Angeles. The research was gathered through governmental and private agencies' websites to provide a summary of the following:

- Name of Funding Source
- Total Funding Amount
- Funding Amount Available for Acquisition-Rehabilitation Efforts
- Type: Public or Private
- Year Established
- Availability in the City of Los Angeles
- Limitations Associated with Funding Source

The information gathered in Part 3 informed this report's final policy and planning recommendations, which considered the following questions:

- What is the process for accessing these funding sources?
- What are each funding source's limitations that impact the financial feasibility of the acquisition and rehabilitation of NOAH properties? What are the advantages?
- What are the ongoing and emerging advocacy efforts in the region focused on making the preservation of existing affordable housing more feasible to prevent future displacement of existing residents?
- What policy changes would help remove the funding source limitations identified in the funding summary, particularly those limitations that are especially difficult for a small non-profit like BVCLT to overcome?

Strengths & Weaknesses of Methodology

The primary weakness of my proposed methodology stemmed from the lack of a publicly available rent registry for apartment units located in the City of Los Angeles. The city passed Ordinance No. 184529[13] in 2016, requiring landlords to upload the rental amounts and tenancy information for every Rent Stabilization Ordinance (RSO) unit on their property.[14] However, no portion of this dataset is made available for public use. Additionally, it fails to track other forms of affordable housing, most notably NOAH units.

[13] "Ordinance No. 184529." *Los Angeles Housing Department.* Accessed 10 Nov. 2021. https://housing.lacity.org/wp-content/uploads/2020/05/ordinance_184529_rent_registry.pdf?download=1
[14] https://housing.lacity.org/rental-property-owners/rent-registry

Because a dataset providing Koreatown's NOAH units is not available, I developed an alternative method for identifying the neighborhood's NOAH unit count. The research design laid out in the "Part 1: Market Analysis Methodology" section is very similar to the Minnesota Preservation Plus Initiative's process for identifying NOAH units (see Appendix A: Literature Review). This similarity lent validity to the research approach for this project's market analysis.

Though I feel confident about the proposed research design given the datasets available to me, it certainly has limitations. As explained in the "Attachment A: Methodology - Data Specific" section of "The Space Between" report, Section 8 vouchers somewhat obscured the process to calculate NOAH units as vouchers can exist in both subsidized (ex. LIHTC) and unsubsidized housing, which led to a possible double counting. Section 8 Vouchers further obscured Koreatown's NOAH unit count estimate because vouchers can be used in units that charge unaffordable rents and do not fall within the maximum rent limits listed earlier in the table titled "California Tax Credit Allocation Committee (CTCAC) 60% AMI Rent Limits."

Additionally, as of January 2022, the U.S. Census Bureau's Microdata Access tool is still in the beta phase and subject to inaccuracy. Further, there is no way of telling who is renting the units included in the final NOAH unit count estimate. As I explained in the literature review, NOAH units contain little or no restrictions on who can rent them; moderate- or high-income earners can take advantage of the lower rents this form of affordable housing provides. Therefore, it is difficult to determine to what degree BVCLT's target demographic groups, low-income and non-white households at risk of displacement, are renting these units.

One final weakness with my methodology is the varied time periods that each dataset uses to define the Koreatown neighborhood: 2019 ACS 5-Year Estimates, 2021 List of LIHTC projects, HUD's 2019 Projections based on 2010 Census for Section 8 Project-based Vouchers, etc.

Findings Part 1: Market Analysis

The first research question prompted a market analysis of Koreatown. The analysis contains three sections: U.S. Census data findings, an existing NOAH unit count estimation, and market data from various real estate analytics sources. I explain these findings in greater detail in the sections that follow.

A. Residents, Renters & Housing Stock in Koreatown

For the first portion of the market analysis, I collected Census data on Koreatown's residents, with a particular focus on renters, and housing stock. According to data collected from the U.S. Census Bureau's American Community Survey (ACS), a majority of the residents in Koreatown were between 20 and 49 years of age (52%), identified as Hispanic or Latinx (51%), had annual incomes less than $50,000 (60%) and resided in the same house that they lived in one year prior (88%). Additionally, over a third of households (35%) in Koreatown were one-person nonfamily households.

Approximately 94% of all households in Koreatown were renter-occupied. Nearly a third of all households were 1-person renter households and just over a quarter of all households were 2-person renter households. About 27% of renter-occupied households lived in overcrowded housing and just over 19% lived in severely overcrowded units.

From 2015 to 2019, the share of households with gross monthly rents between $500-$1,249 decreased by 27% while the number paying between $1,250-$2,499 increased by 23%. Approximately 59% of Koreatown renters were rent-burdened and 31% were severely rent-burdened. This stress on existing low-income renters is compounded by the fact that new residential construction in the neighborhood is entirely limited to luxury apartments.

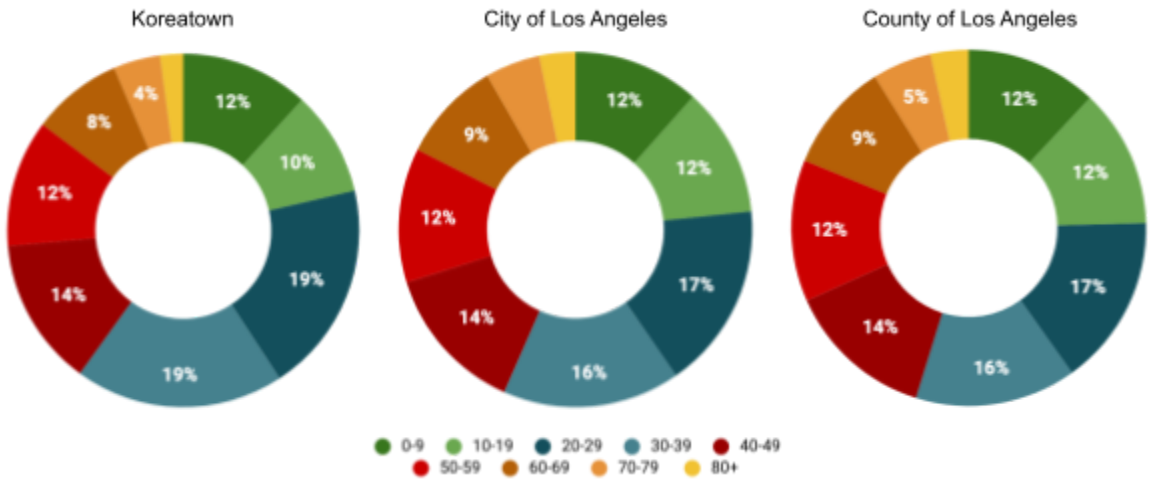
Finally, nearly 80% of housing units were in buildings that contained ten units or more, and just over 70% of the neighborhood's rental housing stock was constructed before 1980. Approximately 38% of units in the neighborhood were renter-occupied one-bedroom units, and 33% were renter-occupied two-bedroom units.

I provide greater detail on Koreatown residents, renters, and housing stock in Sections A.I - A.III below.

A.I) Koreatown Residents

The findings below pertain to all individuals residing in Koreatown. I compare each finding with the City and County of Los Angeles. According to ACS 5-Year Estimates, the age group "20-29" contained the highest share of the neighborhood's residents (19%) and is followed closely by the two next highest age groups, "30-39" (19%) and "40-49" (14%).

Figure 3. Population by Age Range



As seen above in Figure 1, more than half of the individuals living in Koreatown were between 20 and 49 years old (52%). The breakdown of age groups in Koreatown is similar to that of both the City and County of Los Angeles.

Figure 4. Race & Ethnicity

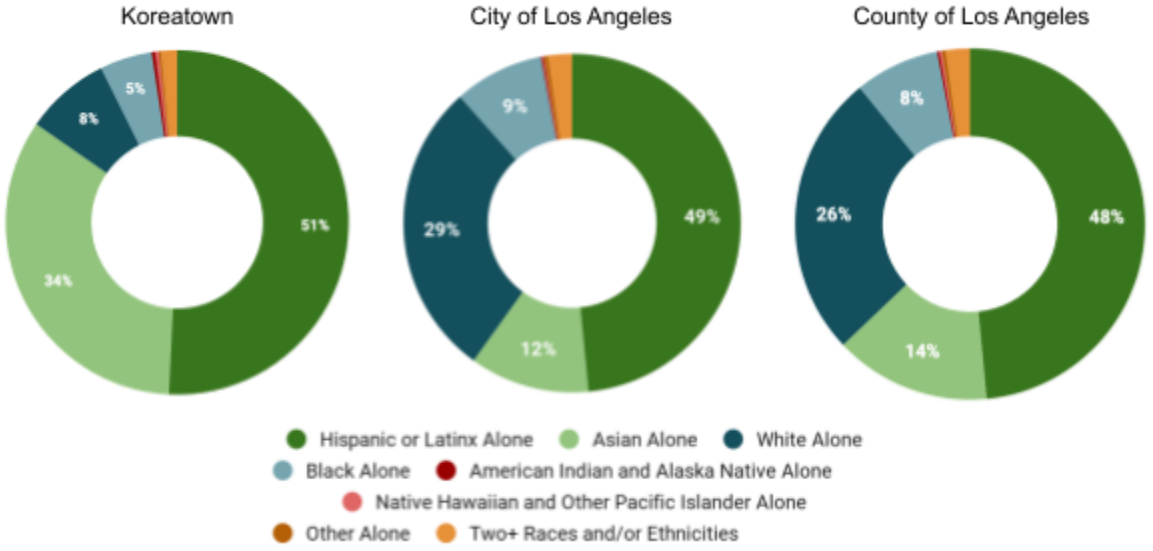
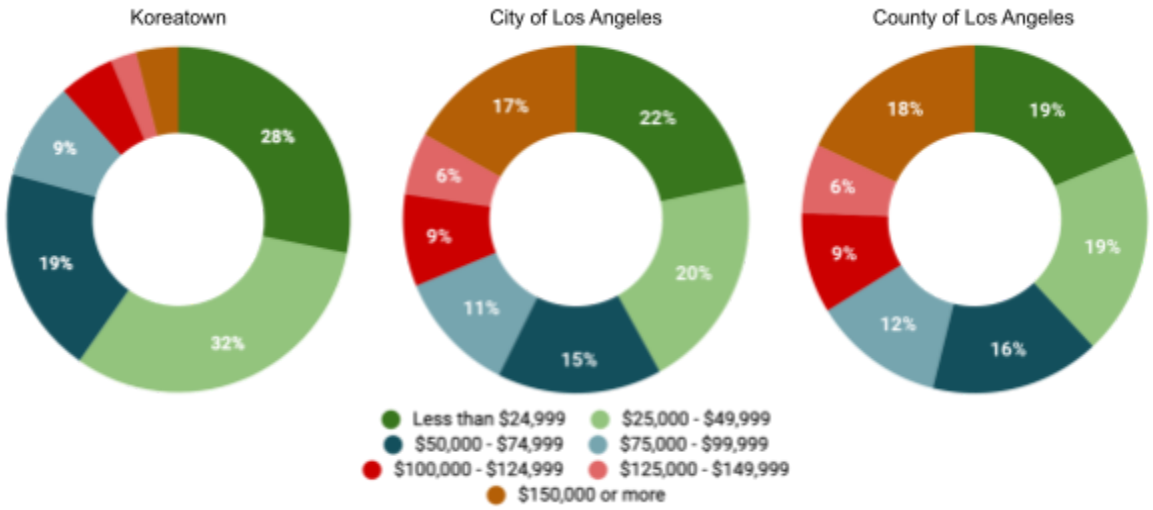


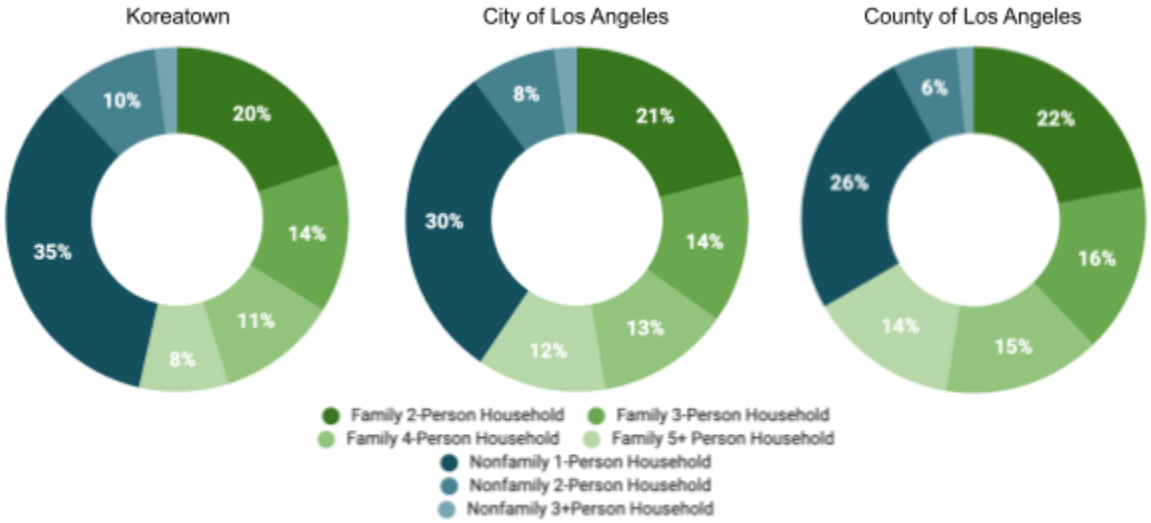
Figure 2 above shows the various ethnoracial identities reported by Koreatown's residents. "Hispanic or Latinx Alone" constituted the highest percentage of residents as just over half identified as such (51%). The next highest share included "Asian Alone" (34%), followed by White Alone (8%) and Black Alone (5%). Generally, compared to both the City and County of Los Angeles, Koreatown has a much lower share of residents who identified as "White Alone" and a much higher share of "Asian Alone."

Figure 5. Household Income in Past Year



As seen in the leftmost piechart of Figure 3 above, the two lowest income categories, “Less than $24,999” and “$25,000 - $49,999,” held the two highest shares of Koreatown households. Nearly 60% of the neighborhood’s households reported incomes of less than $50,000, compared to 42% in the City of Los Angeles and 38% in the County of Los Angeles.

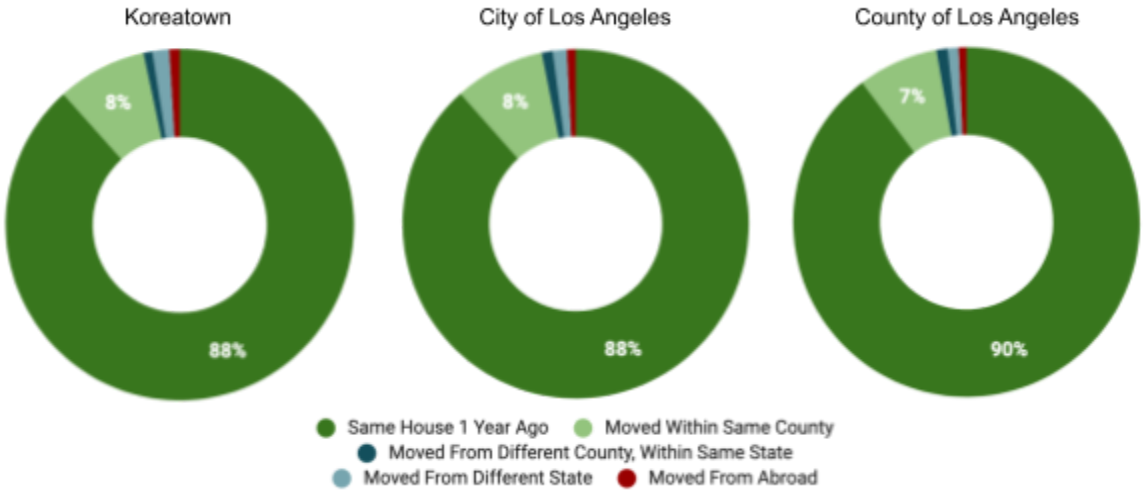
Figure 6. Household Type by Household Size



According to Figure 4 above, Koreatown contained more Family Households (53%) than Nonfamily Households (47%). The U.S. Census Bureau defines Family Households as those maintained by a householder who is in a family and includes any residing unrelated individuals, whereas Nonfamily Households consist of a householder living alone or sharing the home exclusively with people to whom they are not related.[15] The most prevalent Household Type by Household Size category was a "1-Person Nonfamily Household," as it held over a third of the share of total households in the neighborhood (35%). Koreatown's family vs. non-family household makeup differs from the City and County of Los Angeles; the neighborhood generally has fewer family households, particularly those with five or more persons, and more non-family households.

[15] "Subject Definitions." *United States Census Bureau.* Accessed 10 Jan. 2022. https://www.census.gov/programs-surveys/cps/technical-documentation/subject-definitions.html#familyhousehold

Figure 7. Geographic Mobility in Past Year



Finally, as seen in Figure 5 above, most of Koreatown's residents resided in the same house they lived in one year prior (88%). Any movement to a new home that residents reported was primarily from one part of LA County to another (8%). The City and County of Los Angeles reported nearly identical distributions.

A.II) Koreatown Renters

The findings below focus specifically on Koreatown renters. Like the previous section, I present data at the city and county scale for comparative analysis.

Figure 8. Tenure

The data in Figure 6 above focus on tenure, or whether a unit is owner-occupied or renter-occupied.[16] According to the leftmost pie chart in Figure 6, most of Koreatown's residents lived in renter-occupied housing (95%) compared to owner-occupied housing (5%). Koreatown's share of renter households is very different compared to both the City and County of Los Angeles, in which less than half of households are renters.

Figure 9. Renter Household Size

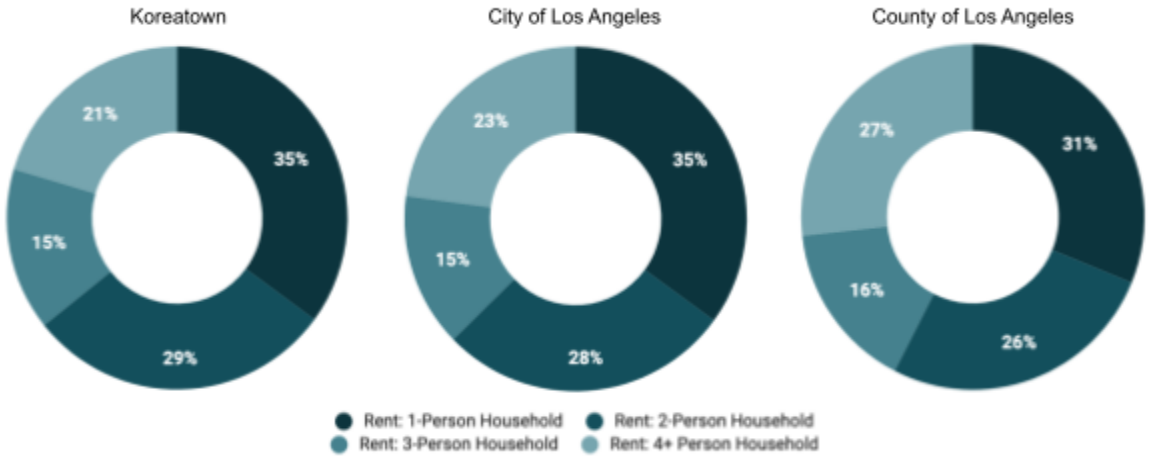


Figure 7 considers the size of renter households specifically. More than half of Koreatown's renter households are either a 1-person renter household (35%) or a 2-person renter household (29%). Nearly one-fifth (21%) of renter households in Koreatown contain four or more persons. Household size distributions do not differ drastically from those reported by renters in both the City and County of Los Angeles.

[16] "Definitions and Explanations." *United States Census Bureau.* Accessed 12 Jan. 2022. https://www.census.gov/housing/hvs/definitions.pdf

Figure 10. Renter Household Occupants per Room (Overcrowding)

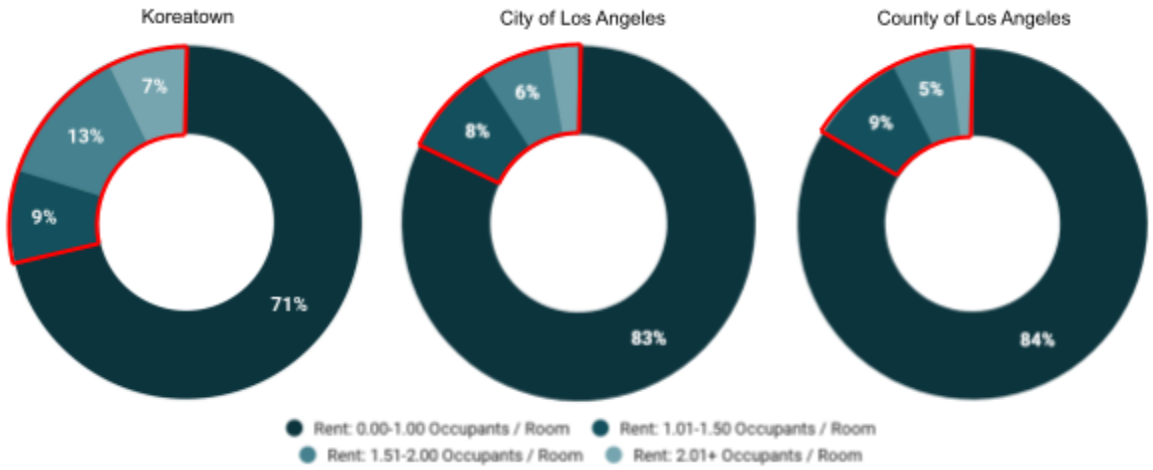


Figure 8 above displays the number of occupants per room for renter-occupied households, highlighting the degree to which renters lived in “overcrowded” housing. A unit is classified as “overcrowded” if any room in the household houses greater than 1.01 occupants. According to a report conducted by USC’s Neighborhood Data for Social Change initiative, “‘rooms’ include living rooms, dining rooms, kitchens, bedrooms, finished recreation rooms, enclosed porches suitable for year-round use, and lodger's rooms.” This study also classified “severe overcrowding” as any household that contained a room that housed greater than 1.51 occupants.[17]

As Figure 8 shows, 29% of renter households in Koreatown lived in overcrowded units (pie slices within the red outline), and 20% lived in severely overcrowded housing (the two lightest pie slices within the red outline). Generally, overcrowded rental units are more prevalent in Koreatown (29%) compared to the City of Los Angeles (17%) and the County of Los Angeles (16%).

[17] “Learn More: Overcrowding.” *USC Neighborhood Data for Social Change.* Accessed 8 Jan. 2022. https://usc.data.socrata.com/stories/s/Learn-More-Overcrowding-LA-/7bwa-87rn/

Figure 11. Gross Monthly Rent (5-Year Estimate, 2019)

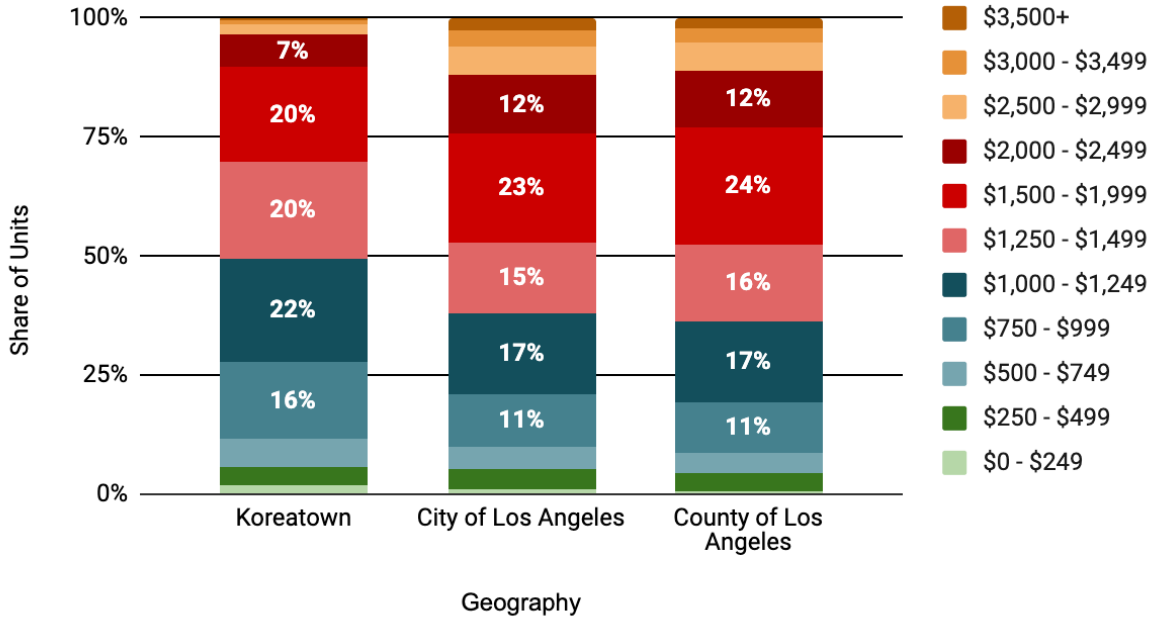
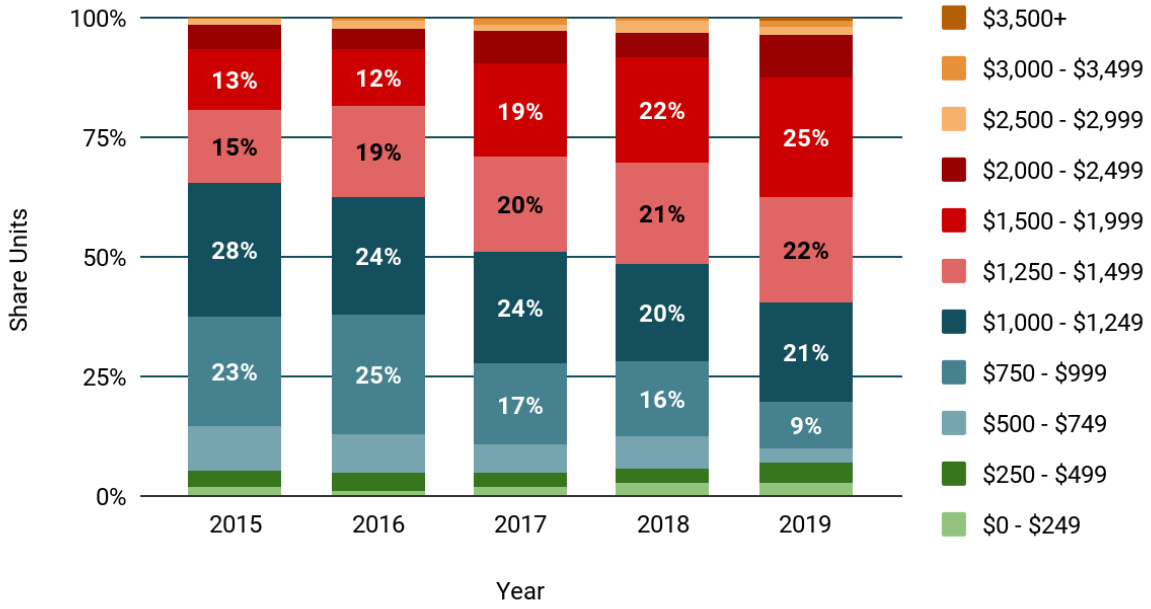


Figure 9 provides information on gross rent, which the Census defines as the monthly contract rent plus the estimated average cost of utilities and fuel. The bar chart in Figure 11 shows the share of households that fell within each rent category for three geographies: Koreatown, City of Los Angeles, and County of Los Angeles. In Koreatown, “$1,000 - $1,249” held the greatest share of households (22%), followed by “$1,250 - $1,499” (20%) and “$1,500 - $1,999” (20%). In both the City and County of Los Angeles, “$1,500 - $1,999” held the greatest share of households. These findings indicate that rents in Koreatown are generally more affordable than in the City and County of Los Angeles, highlighting the urgent need for NOAH preservation in this neighborhood.

Figure 12. Koreatown Gross Monthly Rents (1-Year Estimates, 2015-2019)

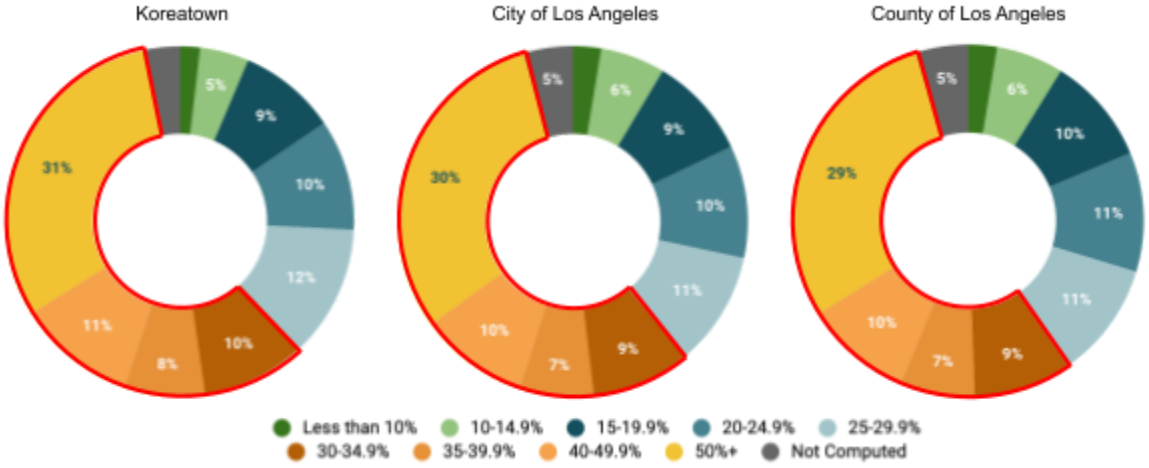


To better understand changes in gross rent over time, the bar chart in Figure 10 above shows the 1-Year Estimate data for each year covered in the 5-Year Estimates (2015, 2016, 2017, 2018, and 2019). The larger 5-Year sample provides more reliable estimates; however, the 1-Year samples provide the "most current" data and enable trend analysis.[18]

The rent category "$750 - $999" experienced the largest percent change from 2015 to 2019. In 2015, it comprised 23% of total renter-occupied households in the neighborhood and dropped 14 percentage points to 9% by 2019. The rent category "$1,500 - $1,999" exhibited a similarly significant percent change of 12 percentage points as it increased from 13% of total renter households in 2015 to 25% in 2019. Thus, from 2015 to 2019, the number of households paying lower rents *decreased* while the number of households paying higher rents *increased.* This finding indicated that units charging more affordable rents were lost between 2015 and 2019, lending even greater urgency to the need for NOAH preservation in Koreatown.

[18] "When to Use 1-year or 5-year Estimates." *United States Census Bureau.* Accessed 3 Jan. 2022. https://www.census.gov/programs-surveys/acs/guidance/estimates.html

Figure 13. Gross Rent as Percentage of Household Income (Rent Burden)



Finally, Figure 11 provides data on gross rent as a percentage of household income in the past year, a measure also known as "rent burden."[19] As mentioned previously, a household is rent-burdened if it pays more than 30% of its income on rent and severely rent-burdened if it pays more than 50% on rent. Figure 11 indicates that 60% of Koreatown's renter households were rent-burdened (red outline), and 31% were severely rent-burdened (yellow pie slice within red outline). These distributions did not differ drastically from either the city (56% rent-burden, 30% severe rent-burden) or county (55% rent-burden, 29% severe rent-burden) findings.

[19] "Housing Cost Burden." *California Health and Human Services Open Data Portal.* Accessed 4 Jan. 2022. https://data.chhs.ca.gov/dataset/housing-cost-burden-2006-2010

A.III) Koreatown Housing Stock

The findings discussed in this section focus specifically on the qualities of Koreatown's housing stock, with a particular focus on its multifamily rental properties.

Figure 14. Koreatown Housing Stock

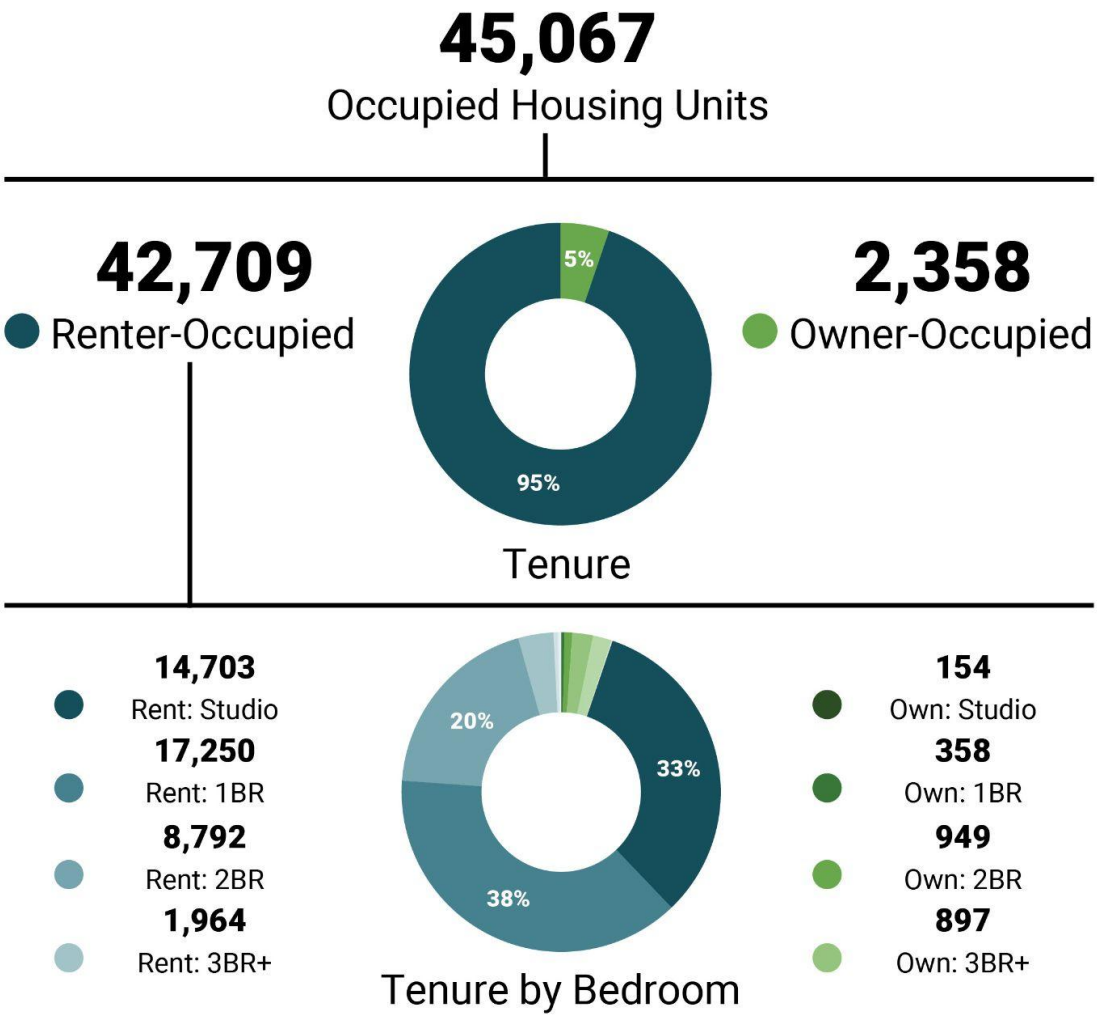


Figure 12 above summarizes Koreatown's housing stock. Renter-occupied households comprised 95% of all occupied units, while owner-occupied households comprised 5% of the neighborhood's occupied units. Figure 12's bottom pie chart organizes Koreatown's occupied housing units by tenure and number of bedrooms. Renter-occupied one-bedroom units held the largest share (38%), followed by renter-occupied studio units (33%) and renter-occupied two-bedroom units (20%). Collectively, these three categories comprised just over 90% of all housing units in the neighborhood.

Figure 15. Units in Structure

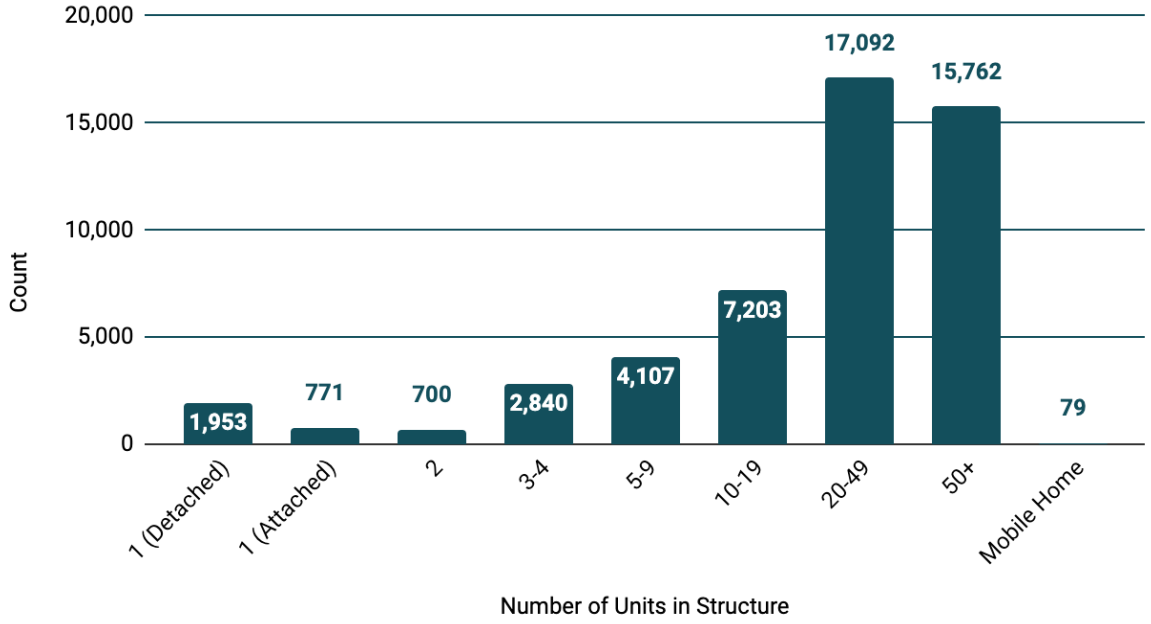


Figure 13 above categorizes Koreatown's housing stock (including vacant units) by the total unit count for the structure in which each unit is located. The category "20-49 Units in Structure" held the highest share (34%), followed by "50+ Units in Structure" (31%) and "10-19 Units in Structure" (14%). Approximately 80% of all housing units in the neighborhood were in buildings containing ten or more units.

Figure 16. Year Renter-Occupied Structure Built

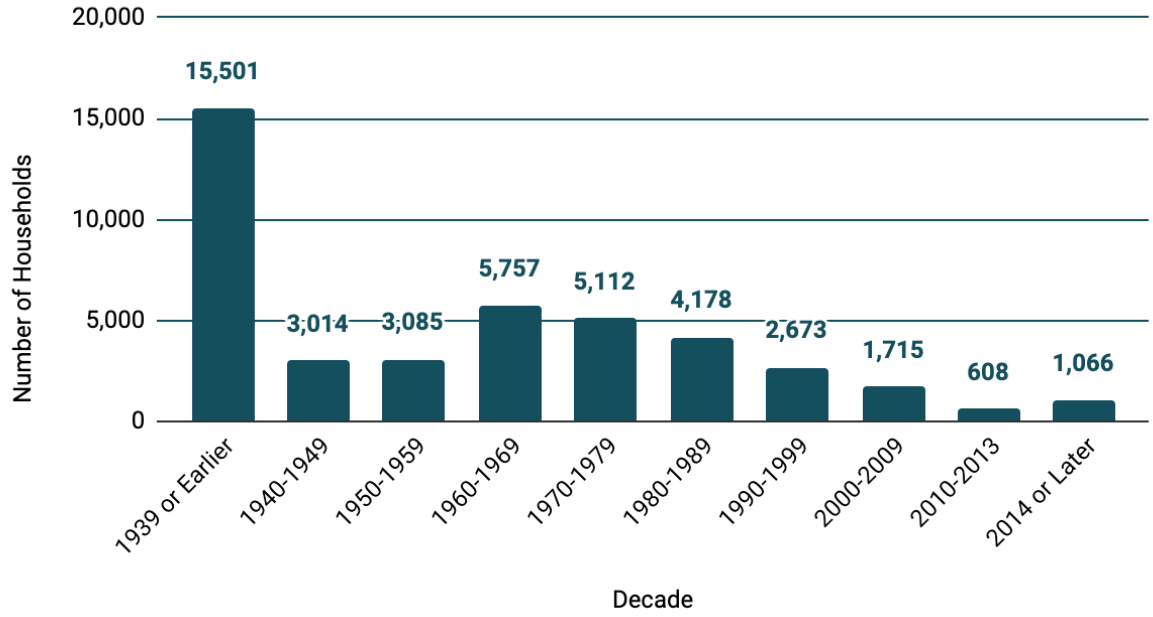
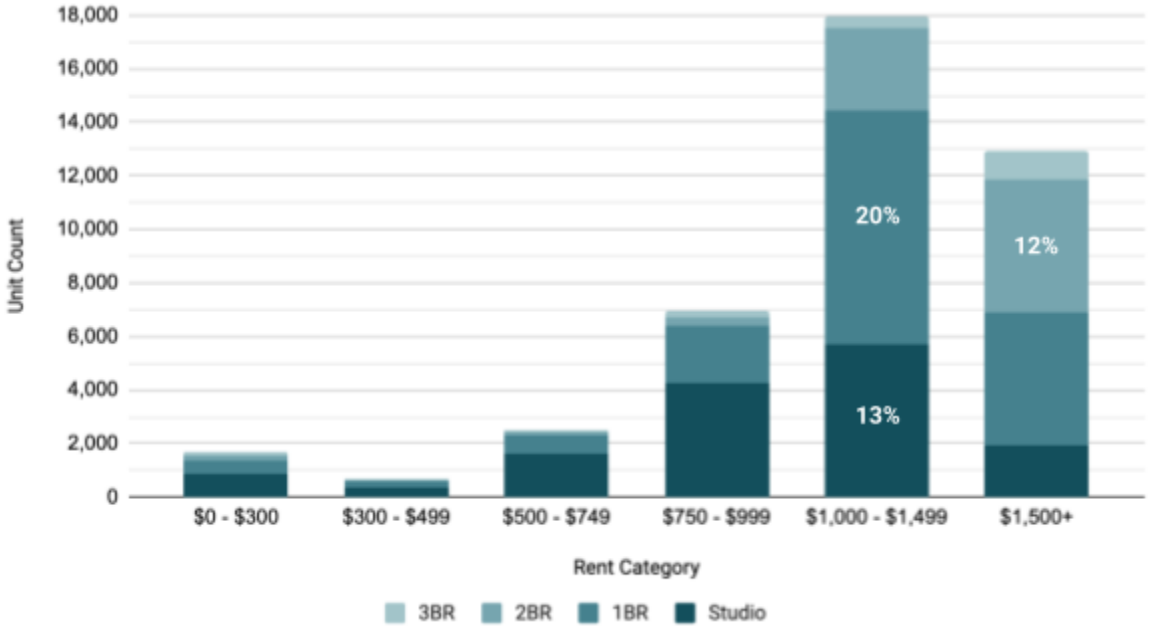


Figure 14 above organizes Koreatown's renter-occupied units by decade constructed. The category with the largest share of units (34%) was a renter-occupied unit located in a structure constructed in 1939 or earlier, the oldest category. The category with the second-largest share

of units was a renter-occupied household in a structure constructed from 1960-1969 (13%), followed by 1970-1979 (11%). Over 70% of the rental housing stock in Koreatown was constructed before 1980. As mentioned previously in this report, one aspect of CoStar's classification of NOAH units was any multifamily building constructed before 1980.

Figure 17. Koreatown Unit Type by Gross Rent Category



Lastly, Figure 15 presents rental units by the number of bedrooms and gross rent. The category with the largest share of Koreatown's rental units was a one-bedroom unit with a gross monthly rent that fell between $1,000 and $1,499 (20%). Studio units rented between $1,000 and $1,499 per month held the second-largest share (13%). Finally, two-bedroom units rented for more than $1,500 per month held the third-largest share (12%).

B. Estimates of Koreatown's Existing NOAH Unit Count

This section of the report discusses an estimation of the number of existing NOAH units in Koreatown.

Table 6. NOAH Unit Count Estimation (CTCAC 60% AMI Rent Limits)

Rental Unit Type			Count (Number of Units)
Existing Affordable Rental Units at CTCAC 60% AMI Rent Limits	Studios <$1242	10,379	25,473
	1BRs <$1330	9,662	
	2BRs <$1596	4,718	
	3BRs <$1844	569	
	4BRs <$2058	145	
Existing Section 8 Project-Based Vouchers			(1,111)
Existing Low-Income Housing Tax Credit Units			(2,612)
Total Existing NOAH Units (CTCAC)*			**21,750**
Total Rental Units	42,709	Share Rental Units	**51%**

*The estimated NOAH unit count is likely overstated as the study considered 2021 CTCAC rent limits and American Community Survey 2019 5-Year monthly gross rent.

Table 1 above includes the calculation for estimating the total number of existing NOAH units in the neighborhood per the CTCAC 60% AMI rent limits listed in the second column. CTCAC rents are based on HUD's Fair Market Rents (FMR) assessment for metropolitan areas. For Los Angeles, the metropolitan area "Los Angeles-Long Beach-Glendale, CA" applies. Because this is a high-cost area, HUD adjusts the income limits upwards to increase the number of individuals with qualifying incomes, resulting in higher rent limits.[20]

According to the data provided by the U.S. Census Bureau's Microdata Access tool, 25,473 units in the neighborhood fell within these rent limits. From this total, I subtracted the number of units that received subsidies from both the Section 8 Project-Based Voucher and LIHTC programs. This calculation resulted in a final estimation of 21,750 NOAH units in Koreatown. Thus, 51% of the 42,709 total rental units in the neighborhood qualified as NOAH units.

[20] Ling, Joan. (2021, October 6). UP280: Affordable Housing Development Studio. Class Lecture.

Table 7. NOAH Unit Count Estimation (CA State Density Bonus Law 60% AMI Rent Limits)

Rental Unit Type			Count (Number of Units)
Existing Affordable Rental Units at CA State Density Bonus 60% AMI Rent Limits	Studios <$840	6,595	14,985
	1BRs <$960	4,759	
	2BRs <$1080	2,842	
	3BRs <$1200	644	
	4BRs <$1296	145	
Existing Section 8 Project-Based Vouchers			(1,111)
Existing Low-Income Housing Tax Credit Units			(2,612)
Total Existing NOAH Units (CA State Density Bonus)*			**11,262**
Total Rental Units	42,709	Share Rental Units	**26%**

*The estimated NOAH unit count is likely overstated as the study considered 2021 CA State Density Bonus Law rent limits and American Community Survey 2019 5-Year monthly gross rent.

As explained in this report's Literature Review (see Appendix A), the term "affordable housing" can be notoriously difficult to define. It is largely dependent on the method for calculating the area median income (AMI). Considering the heavy rent burden reported by Koreatown renters (see Figure 11), Table 2 above uses a different metric of housing affordability, the 60% AMI rent limits as defined by California's State Density Bonus Law ("HCD rents"). This metric provides considerably lower rent limits compared to CTCAC rent limits. For example, the 60% AMI rent limit for a studio apartment is $1,242 as defined by CTCAC, whereas it is $840 as defined by the State Density Bonus Law, a difference of more than $400 per month.

Compared to CTCAC rent limits, HCD rents are based on unadjusted income limits; they are adjusted lower and allow households making slightly higher incomes beyond the threshold to qualify for lower rents. The state of California does this to place less rent burden on tenants in affordable rental units.

As seen in Table 2, the final estimate totaled 11,262 NOAH units in Koreatown for the HCD rent limits. This number was nearly half the NOAH unit count calculated using the CTCAC rent limits. Thus, approximately 26% of the 42,709 total rental units in the neighborhood qualified as NOAH units per State Density Bonus Law 60% AMI rent limits.

C. Characteristics of Multifamily Apartment Buildings in Koreatown

Data gathered from the real estate analytics sources listed in this report's Methodology (see Appendix B) reveal trends in Koreatown's multifamily housing market and comparable NOAH properties. It is important to note the limitations of these datasets. Each source of data covered a specific time frame (ex. market trends from early 2020 to late 2021 or available rental units during January 2022). I further explain these findings in Sections C.I - C.IV listed below.

C.I) Recent Trends in Real Estate Market Activity

This section of the report considers Koreatown's market trends according to the CoStar Koreatown Multifamily Submarket Report. This report was generated in December 2021 and includes summary data for the fourth quarter of 2021 (September to December 2021) and two-year summary data from January 2020 to December 2021.

Table 8. CoStar Koreatown Multifamily Report Key Statistics

Quarter 4 of 2021	Units	Asking Rent	Effective Rent	Vacancy Rate	Absorption Units	Delivered Units	Under Construction Units
4 & 5 Star	7,189	$ 2,730	$ 2,687	12.1%	261	366	2,067
3 Star	13,867	$ 1,843	$ 1,834	3.9%	81	0	331
1 & 2 Star	38,279	$ 1,418	$ 1,412	3.5%	139	0	0
Submarket	59,335	$ 1,778	$ 1,764	4.6%	481	366	2,398

*The boundary used by CoStar to define Koreatown is larger than the boundary for the Koreatown PUMA (see Appendix C for the full CoStar reports). Thus, the total unit count increases from 50,507 units (PUMA boundary) to 59,335 units (CoStar boundary).

The report identified Koreatown as one of the five largest apartment submarkets in Los Angeles and provided the summary data included in Table 3 above. The chart organized market data by CoStar's Building Rating System on one axis and the following variables on the opposite axis: the number of units, rents, vacancy rate, absorption, delivered units, and units under construction. I will discuss these variables in greater length in the sections that follow.

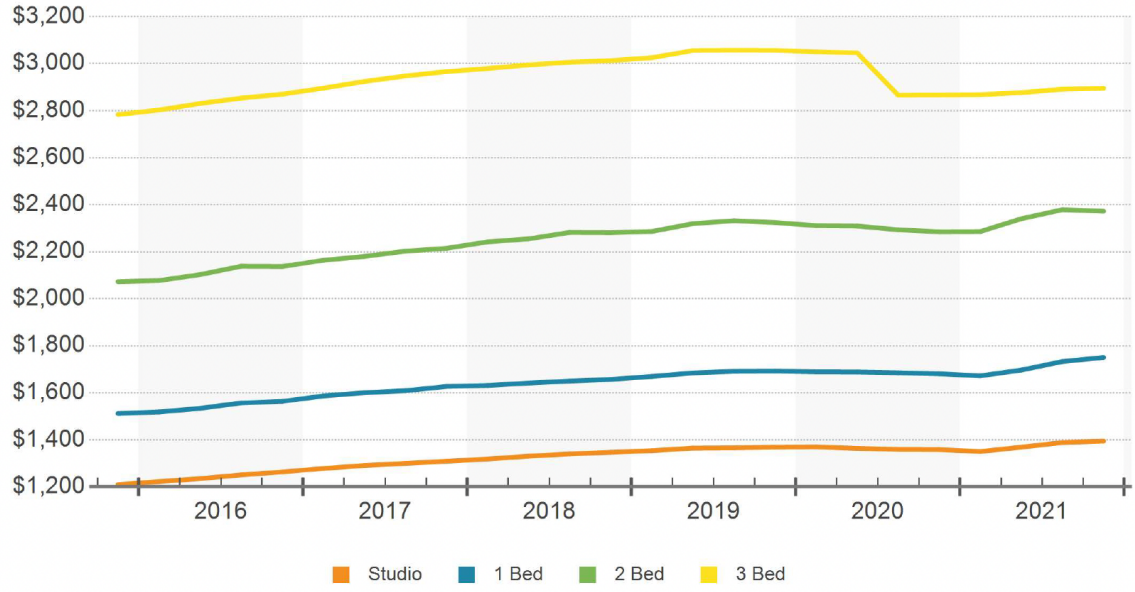
Units: Utilizing CoStar's Building Rating System (BRS)[21], the report rated approximately 65% of the existing housing units as either 1- or 2-Star properties, a designation that CoStar has previously cited as "naturally occurring affordable housing" in a 2016 public presentation.[22] Their data indicates that more than half of Koreatown's existing multifamily buildings ranged from a poorly maintained structure requiring "significant renovations" (1-Star) to a modestly maintained structure with "noticeable signs of aging" and "below average" amenities (2-Star).

Asking & Effective Rent: CoStar considers "asking rent" as the dollar amount the lessor is asking for in the lease and "effective rent" as the average rent paid adjusted downward for concessions or allowances. They list Koreatown's average rent as $1,778 per month, compared to the average rent of $2,080 for the Greater Los Angeles Region. The report shared that Koreatown has historically been home to lower-income communities. However, new renter profiles from recently constructed apartment buildings indicate an influx of higher-income residents, indicating a market in transition.

[21] "CoStar Building Rating System." *CoStar*. Accessed 21 Oct. 2021. https://www.costar.com/docs/default-source/brs-lib/costar_buildingratingsystem-definition.pdf
[22] CoStar. (2016, October). *Naturally Occurring Affordable Housing*. http://uli.org/wp-content/uploads/ULI-Documents/ULI_NAAHL_Presentation.pdf

CoStar provided further context by listing the average Koreatown rents for each star rating category. As seen above in Table 3, 1- and 2-Star properties charged an average of roughly $1,400 per month, while 4- and 5-Star properties charged an average of approximately $2,700 per month.

Figure 18. CoStar Koreatown Multifamily Report: Market Rent Per Unit by Bedroom



Additionally, the report provided the graph shown in Figure 16 above, detailing the degree to which the average market rents for each unit type have increased during the last six years. At the end of 2021, the average market rents for all unit types exceeded the 60% AMI rent limits specified by CTCAC.

Figure 19. CoStar Koreatown Multifamily Report: 1 & 2 Star Vacancy & Rent

	Vacancy			Market Rent				Effective Rents	
Year	Units	Percent	Ppts Chg	Per Unit	Per SF	% Growth	Ppts Chg	Units	Per SF
2022	1,214	3.2%	(0.4)	$1,512	$2.49	6.4%	4.9	$1,505	$2.48
2021	1,372	3.6%	(1.9)	$1,421	$2.34	1.4%	1.6	$1,415	$2.33
YTD	1,342	3.5%	(2.0)	$1,418	$2.29	1.1%	1.4	$1,412	$2.28
2020	2,117	5.5%	1.1	$1,402	$2.26	-0.2%	(2.8)	$1,393	$2.25
2019	1,686	4.4%	0.8	$1,405	$2.27	2.6%	0.1	$1,398	$2.26
2018	1,398	3.6%	0.1	$1,369	$2.21	2.5%	(1.8)	$1,362	$2.20
2017	1,342	3.5%	(0.1)	$1,336	$2.15	4.4%	(0.3)	$1,329	$2.14
2016	1,400	3.6%	0.2	$1,280	$2.06	4.6%	(1.4)	$1,273	$2.05
2015	1,332	3.4%	0	$1,223	$1.97	6.1%	3.0	$1,217	$1.96

The CoStar report also described changes in average rental prices for 1- and 2-Star properties specifically. As seen in Figure 17 above, since 2015, market rents for 1- and 2-Star multifamily buildings have generally increased. The only decrease occurred in 2020. CoStar projected that rents for these structures would increase, jumping to a growth rate as high as 6.4% in 2022. This increase in 1- and 2-Star market rents will place even greater pressure on existing low-income renters.

Vacancy: Vacancy rates, or the amount of space vacant divided by the existing rentable building area,[23] have slowly decreased after a decades-long high seen in the first quarter of 2021. The overall vacancy rate for the neighborhood was 4.6%, slightly higher than the Greater Los Angeles region (~3.9%). As seen in Table 3 above, Koreatown's higher vacancy rates have largely been driven by an increased supply of high-end properties. Vacancy rates for 1- and 2-Star (3.5%) and 3-Star properties (3.9%) were much lower than 4- and 5-Star properties (12.1%). The report predicted that Koreatown's vacancy rates would remain higher than the Greater Los Angeles Region, given the significant additional housing supply coming to the neighborhood, particularly in the submarket's high-end residential segment.

Absorption, Deliveries & Under Construction: CoStar defined absorption as the change in occupancy over a given time. The amount listed for "Absorption Units" was calculated by subtracting the total occupied units at the beginning of the quarter from the total occupied units at the end of the quarter.[24] The positive numbers listed for the "Submarket" row in Table 3 indicated that, on average, demand outstripped supply in the neighborhood; generally, more units were leased than vacated or supplied in the submarket. Additionally, positive numbers were also reported for Delivered Units, or the number of newly constructed units, and Units Under Construction.

However, these findings differed once they were filtered by the star-rating categories. As seen in Table 3, there were 366 Delivered Units in the 4- & 5-Star category, but 0 in both the 3-Star and

[23] "CoStar Glossary." *CoStar.* Accessed 7 Jan. 2022. https://www.costar.com/about/costar-glossary
[24] "Calculating Absorption." *Metropolitan Council.* Accessed 3 Feb. 2022. https://metrocouncil.org/Handbook/Files/Resources/Fact-Sheet/ECONOMIC-COMPETITIVENESS/Calculating-Absorption.aspx

1- & 2-Star categories. Further, there are currently over 2,000 Under Construction Units in the 4- & 5-Star category and 0 in the 1- & 2-Star category.

Figure 20. CoStar Koreatown Multifamily Report: Housing Growth by Star Rating

As seen in Figure 18 above, Koreatown's supply of 4- & 5-Star properties has grown *significantly* in recent years and is projected to continue growing. Over 1,400 4- & 5-Star units were added in 2021. Meanwhile, its supply of 1- & 2-Star properties has slowly decreased over time. In 2021, Koreatown lost 86 1- & 2-Star units. While these data don't share further details, there is the potential that 1- & 2-Star properties are being demolished and replaced by 4- & 5-Star buildings or that existing 1- & 2-Star rents are increasing to such a degree that they no longer qualify as "NOAH."

Table 9. CoStar Koreatown Multifamily Report: Sales Summary Statistics

Sales Attributes	Low	Average	Median	High
Sale Price	$ 865,000	$ 4,687,794	$ 2,468,000	$ 95,446,655
Price / Unit	$ 123,571	$ 256,833	$ 214,818	$ 600,293
Cap Rate	2.4%	4.3%	4.1%	6.2%
Vacancy Rate at Sale	0%	6.5%	0%	44.4%
Time Since Sale in Months (as of December 2021)	0.2	5.9	5.7	11.9
Property Attributes	**Low**	**Average**	**Median**	**High**
Property Size in Units	5	18	12	159
Number of Floors	1	2	2	6
Average Unit SF	54	756	736	2124
Year Built	1906	1948	1956	2019
Star Rating	1	2	2	4

Sales: Generally, the CoStar report found that sales activity in Koreatown was strong; investors continued to show interest in acquiring and developing properties in the neighborhood. Additionally, the report finds that the neighborhood's average sales price per unit was approximately 10% lower than that of the Greater Los Angeles region. As summarized in Table 4 above, the average sales price for a multifamily building in Koreatown was just over $4.6 million and $250,000 per unit for an 18-unit, 2-story building constructed in 1948 with an average unit size of 756 square feet and a star rating of two out of five stars. The median sales price was just over $2.4 million and $214,000 per unit for a 12-unit, 2-story building constructed in 1956 with an average unit size of 736 square feet and a 2-Star rating.

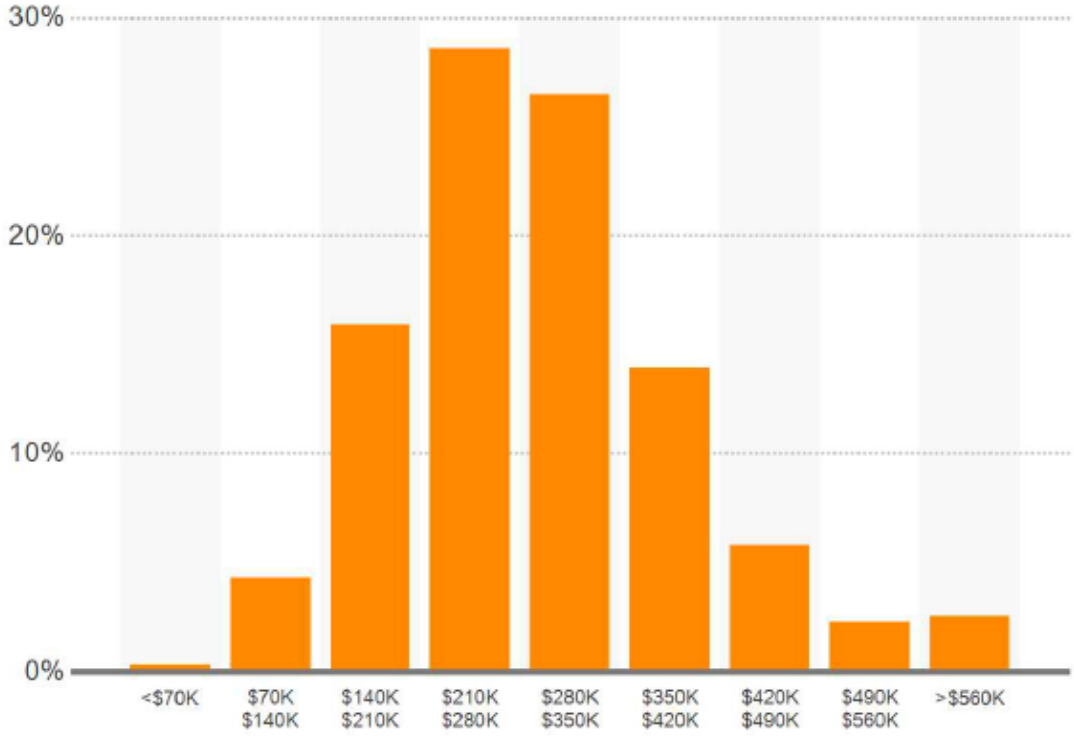
Figure 21. CoStar Koreatown Multifamily Report: 1 & 2 Star Sales

	Completed Transactions (1)						Market Pricing Trends (2)		
Year	Deals	Volume	Turnover	Avg Price	Avg Price/Unit	Avg Cap Rate	Price/Unit	Price Index	Cap Rate
2025	-	-	-	-	-	-	$331,736	296	4.3%
2024	-	-	-	-	-	-	$324,181	290	4.3%
2023	-	-	-	-	-	-	$314,231	281	4.3%
2022	-	-	-	-	-	-	$301,073	269	4.2%
2021	-	-	-	-	-	-	$279,513	250	4.3%
YTD	93	$301.7M	5.1%	$3,279,804	$219,449	4.2%	$276,889	247	4.3%
2020	74	$210.2M	4.1%	$2,840,370	$217,585	4.4%	$258,628	231	4.3%
2019	78	$191.2M	5.3%	$2,853,382	$200,185	4.4%	$252,195	225	4.3%
2018	148	$310.1M	7.0%	$3,298,801	$207,278	4.1%	$234,751	210	4.5%
2017	153	$224.4M	7.4%	$2,579,773	$182,769	4.2%	$217,696	194	4.6%
2016	140	$246.8M	5.0%	$2,243,297	$175,632	4.4%	$200,797	179	4.7%
2015	175	$292.8M	8.0%	$2,185,435	$144,189	5.0%	$184,977	165	4.9%

As seen in the Year to Date “YTD” row of Figure 19 above, 93 of the 112 sales (83%) conducted in Koreatown in 2021 involved 1- & 2-Star properties specifically, indicating that the majority of building sales were of NOAH properties. An average of eight 1- & 2-Star properties were sold

each month. Lastly, the average sales price was just over $3.2 million, and the average price per unit was $219,000.

Figure 22. CoStar Koreatown Multifamily Report: 1 & 2 Star Sale Price Per Unit



The CoStar Koreatown Multifamily Capital Submarket Report further contextualized these findings by providing the Figure 20 above, which shows the sales price per unit distribution for 1- & 2-Star properties. The price per unit category with the largest share was “$210K to $280K” (~29%), followed closely by “$280K to $350K” (~27%).

C.II) Sale Trends in Multifamily Buildings Recently Sold or Listed “For Sale”

This section of the report summarizes recent sale price data for Koreatown’s multifamily buildings. These data represent trends for multifamily buildings listed for sale in January 2022 or sold at any point from September 2021 to December 2021. The data were not representative of the entirety of Koreatown’s multifamily housing stock. Additionally, because rent prices were not listed for every property, I could not filter this particular set of data only to show NOAH properties. I gathered this information from the seven sources listed below:

- CoStar Koreatown Multifamily Submarket Report, 2021 Quarter 4
- Los Angeles County Office of the Assessor 2020-2021 Property Sales Portal
- Apartments.com
- Loopnet.com
- Redfin.com
- Trulia.com
- Zillow.com

As described in the literature review section earlier in this report, CoStar found that the majority of 1- & 2-Star properties (star ratings it qualified as “NOAH”) were constructed in 1979 or earlier.[25] The summary charts that follow organize the data shared by each source according to the decade the multifamily structure was built. I analyzed the data in this way to identify potential relationships between an apartment building’s age, size, and sale price.

There was a positive relationship between the age of an apartment building and its average size (square feet). Of the multifamily buildings recently sold or listed in Koreatown, newer buildings tended to be much larger. For example, the average size of properties constructed in the 2020s ranged from approximately 54,000 - 90,000 square feet, while the average size of properties built in the 1950s ranged from about 6,000 to 9,000 square feet. Generally, there was also a positive relationship between a building’s age and its total unit count and sale price.

[25] CoStar. (2016, October). *Naturally Occurring Affordable Housing*. http://uli.org/wp-content/uploads/ULI-Documents/ULI_NAAHL_Presentation.pdf

Figure 23. Apartment Buildings Sold / For Sale in Jan. 2022: Average Sale Price per Square Foot

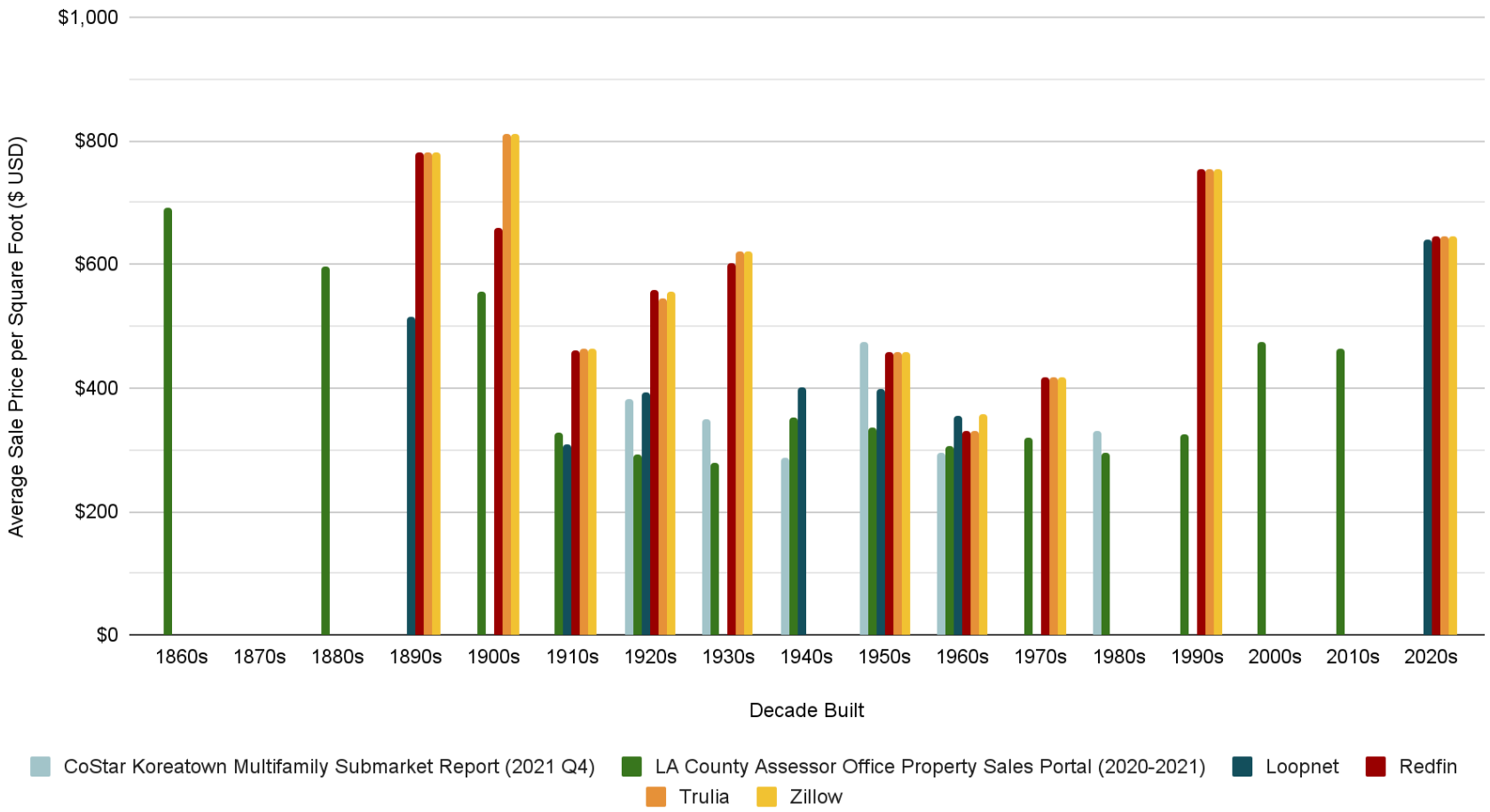


Figure 21 above considers the relationship between the average sale price *per square foot* and the decade built for recently sold or listed multifamily buildings. Though newer buildings tended to sell or list for higher prices, the relationship was not as noticeable when I organized the sale prices on a per square foot basis. Generally, the highest average sale prices per square foot

were for buildings constructed in the 1890s, 1900s, and 1990s. Meanwhile, the lowest average sale prices per square foot were for structures built in the 1940s, 1960s, and 1980s.

Figure 24. Apartment Buildings Sold / For Sale in Jan. 2022: Average Sale Price per Unit

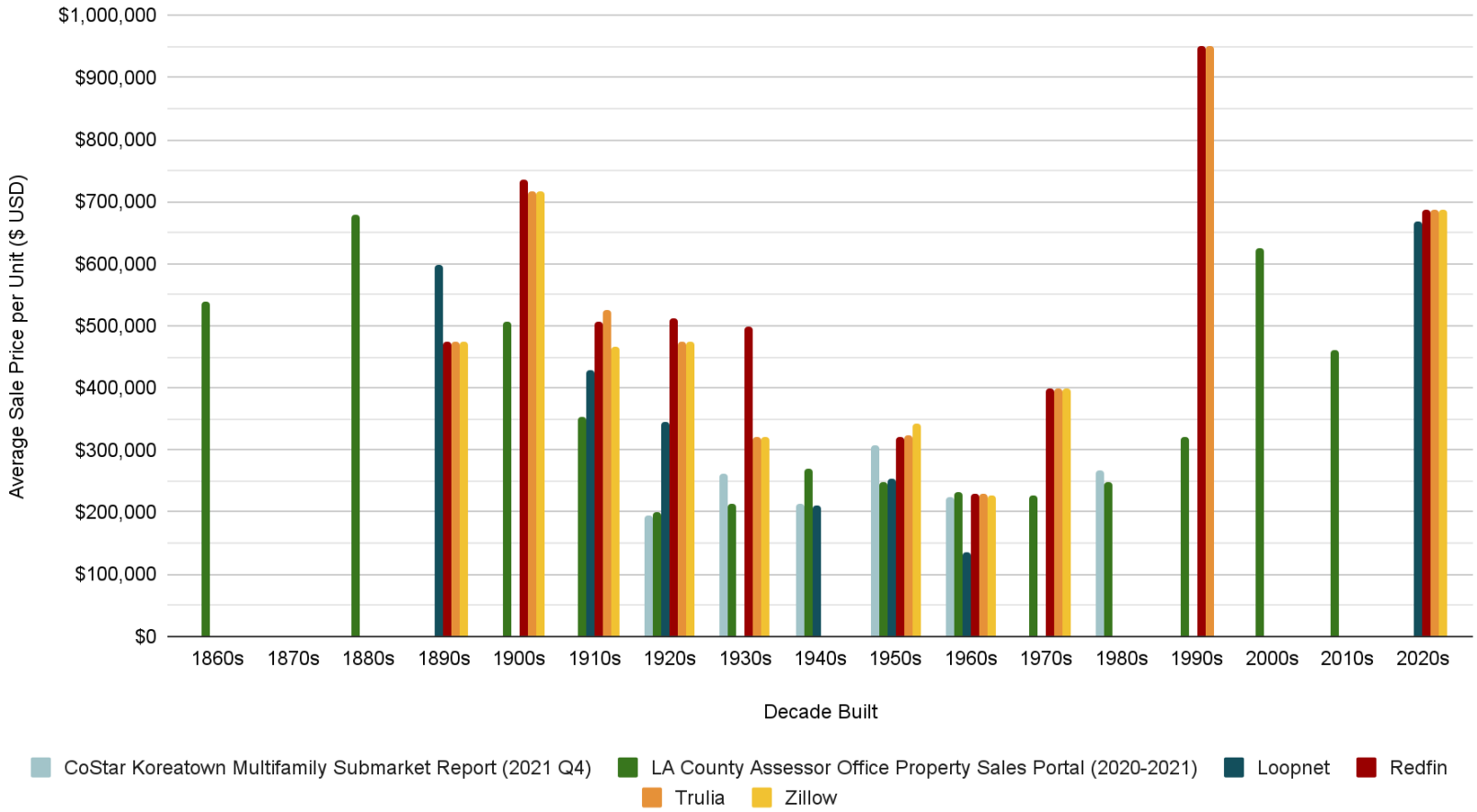


Figure 22 above shows the relationship between the average sale price *per unit* and the decade built for recently sold or listed multifamily buildings. The findings in this dataset generally align with the previous findings in Figure 21. On a *per-unit* basis, average sale prices were highest for buildings constructed in the 1890s, 1900s, 1990s, and 2020s. There is the potential that the buildings listed for sale that were constructed in the late 1800s and early 1900s were designated as historic landmarks, resulting in a higher sale price. Per unit sale prices were lowest for structures built in the 1940s, 1960s, and 1980s.

C.III) Rent Trends in Available Apartment Units

This section of the report summarizes recent rental price data for Koreatown's multifamily buildings to describe available apartments in early 2022. The data in these figures were not representative of the entirety of Koreatown's multifamily housing stock. They only represent rental price trends for multifamily buildings that contained units available for rent on apartments.com in January 2022.

Figure 25. Units Available for Rent in Jan. 2022: Monthly Rental Price

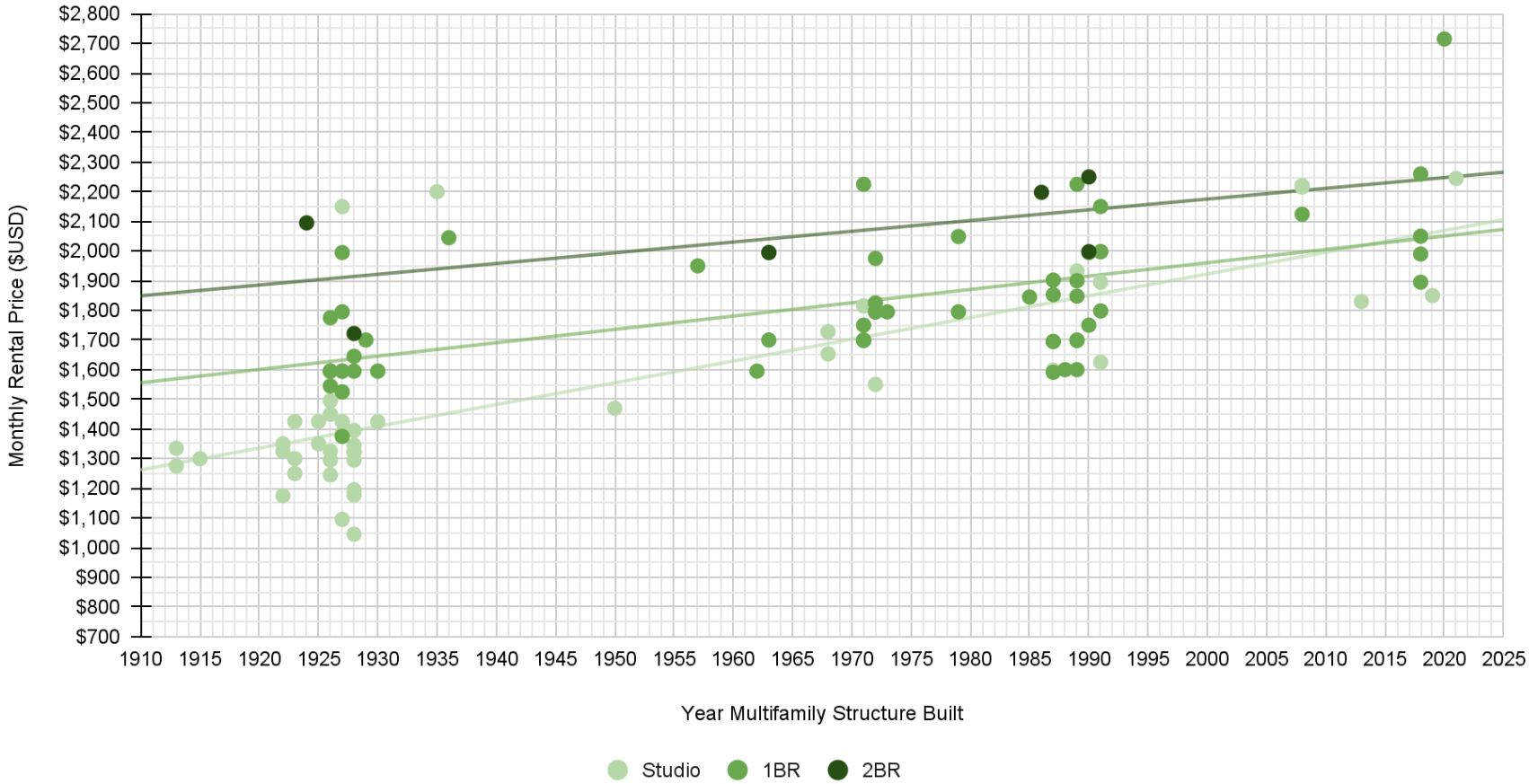


Figure 23 above shows a scatter plot distribution. It describes the relationship between an individual apartment unit's monthly rental price and the year the multifamily structure that contains the apartment was built. Each data point is color-coded by the following unit types: studios, one-bedrooms (1BR), and two-bedrooms (2BR). The scatter plot indicates a positive relationship between the monthly rental price and the age of the apartment building for all three unit types; more recently constructed

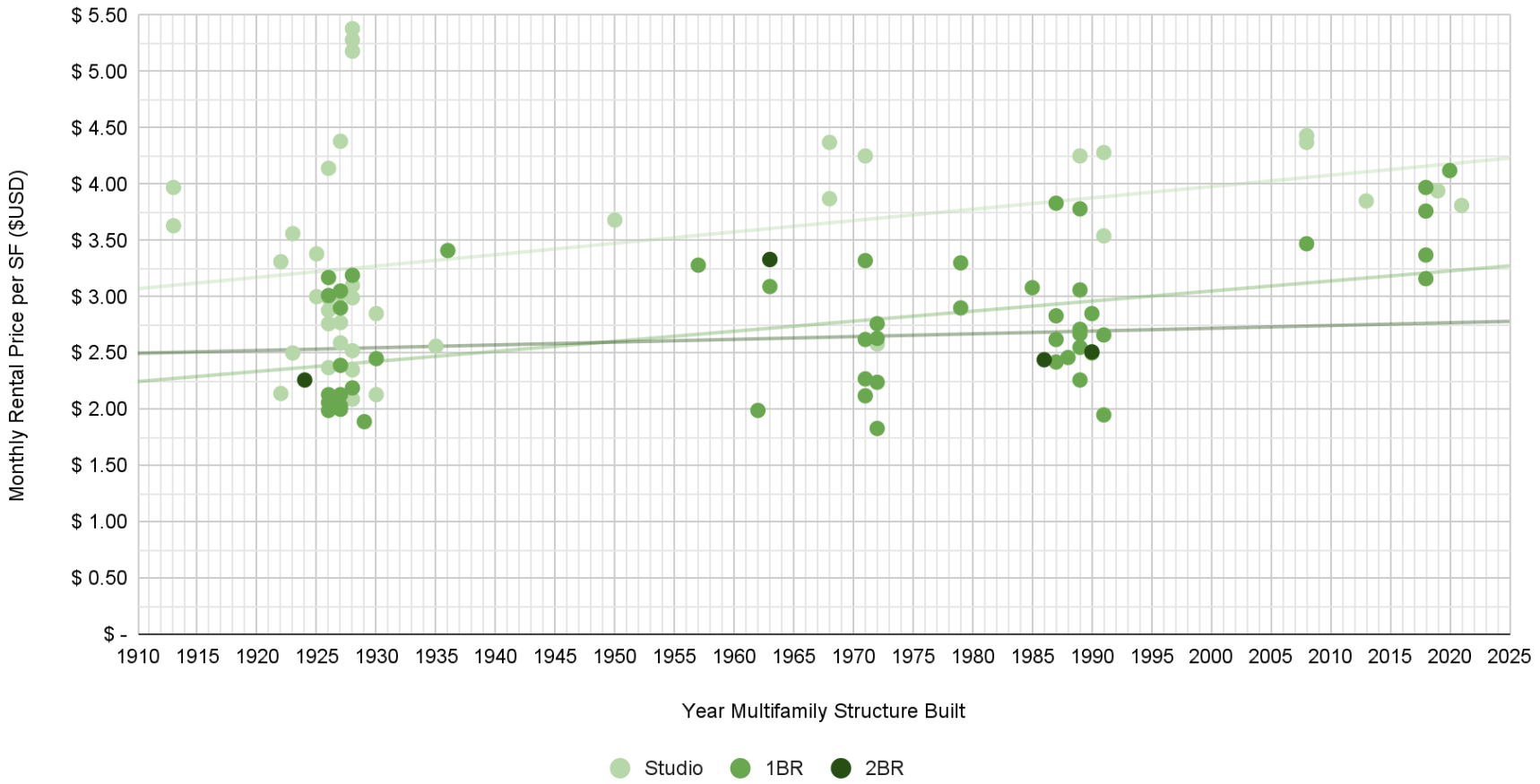
buildings contained units that charged higher monthly rental prices. Generally, studio apartments constructed from 1910 to 1930 offered the lowest rents.

Table 10. Koreatown Apartments Available for Rent at CTCAC 60% AMI Rent Limits (Apartments.com)

Building Address	Year Built	# of Stories	Units in Structure	Monthly Rental Price	Unit Type	# of Bathrooms	Unit SF	PSF Rent	Zip Code	Census Tract
3441 W 2nd Street	1922	3	75	$ 1,175	Studio	1	550	$ 2.14	90004	2111.22
840 Hobart Blvd	1928	6	147	$ 1,195	Studio	1	400	$ 2.99	90005	2125.01
715 S Normandie Ave	1927	7	181	$ 1,095	Studio	1	250	$ 4.38	90005	2124.1
751 S Normandie Ave	1928	5	51	$ 1,045	Studio	1	500	$ 2.09	90005	2124.1
751 S Normandie Ave	1928	5	51	$ 1,177	Studio	1	500	$ 2.35	90005	2124.1

Most importantly, of the 109 apartment units listed as available to rent, only five units fell within the 60% AMI rent limit specified by CTCAC. All were studio units located in 50+ unit structures constructed during the 1920s. Table 5 above provides more information about these five units. No one-bedroom or two-bedroom units met the CTCAC rent limits. Additionally, there were no three- or four-bedroom units available for rent. This finding indicates that if a low-income family were displaced and seeking another rental home in Koreatown, the likelihood of this family finding an appropriately-sized, affordably-priced unit available for rent is very slim.

Figure 26. Units Available for Rent in January 2022: Monthly Rental Price per SF by Year Structure Built



Lastly, Figure 24 above shows the positive relationship between a unit's monthly rental price on a per square foot basis and the year the multifamily structure that contains the apartment unit was built. Whereas Figure 23 above shows that, in a general sense, studio apartments constructed from 1910 to 1930 offered the lowest monthly rents, this figure shows that this same unit type had some of the highest rental prices on a *per square foot basis*. The lowest rents on a per square foot basis (<$2.00 per square foot) were one-bedroom units constructed in the late 1920s, early 1960s, early 1970s, and early 1990s.

C.IV) 2021 Comparable NOAH Properties

Table 6 below summarizes findings from listings for all multifamily buildings for sale from December 2021 to January 2022 that contained *at least one* apartment unit which satisfied BVCLT's rent limits for "naturally occurring affordable housing."

Table 11. Koreatown Apartment Buildings Available for Sale Containing Min. 1 Unit within CTCAC 60% AMI Rent Limits

Decade Built	Address	# of Stories	Total Unit Count	# Studio	# 1BR	# 2BR	# 3BR	# 4BR	Sale Price	Sale Price / Unit	Source
1910s	1146 S Hobart	2	4	0	0	4	0	0	$ 1,550,000	$ 387,500	Redfin
	1209 S Kingsley	2	5	0	4	1	0	0	$ 1,395,000	$ 279,000	Redfin
	1111 Fedora	3	3	0	2	0	0	1	$ 1,169,900	$ 389,967	Redfin
Avg	N/A	2	4	0	2	2	0	0	$ 1,371,633	$ 352,156	N/A
1920s	201 N Normandie*	2	16	4	12	0	0	0	$ 2,850,000	$ 178,125	Loopnet
	2861-2867 Leeward	1	10	0	6	4	0	0	$ 2,495,000	$ 249,500	Loopnet
	836 S Catalina	2	8	0	8	0	0	0	$ 2,550,000	$ 318,750	Loopnet
	727 S Mariposa	4	40	4	36	0	0	0	$ 6,550,000	$ 272,917	CoStar
	815 S New Hampshire	2	5	0	1	2	2	0	$ 2,000,000	$ 400,000	Redfin
	2826 Leeward	2	4	0	0	4	0	0	$ 2,350,000	$ 587,500	Redfin
	1028 S Serrano	1	3	0	3	0	0	0	$ 1,475,000	$ 491,667	Redfin
	2970 W 11th	2	3	0	0	2	0	1	$ 1,495,000	$ 498,333	Redfin
	2715 & 2723 San Marino Street	2	30	0	28	2	0	0	$ 5,895,000	$ 196,500	Loopnet
Avg	N/A	2	13	1	10	2	0	0	$ 3,073,333	$ 354,810	N/A
1950s	237 N Catalina	2	10	0	4	6	0	0	$ 2,500,000	$ 250,000	Loopnet
	252 S New Hampshire	2	19	1	18	0	0	0	$ 4,945,000	$ 260,263	Loopnet
	154 N Normandie	2	10	2	6	2	0	0	$ 2,200,000	$ 220,000	Redfin
	252 S New Hampshire	2	19	1	18	0	0	0	$ 4,945,000	$ 260,263	Redfin
	1229 S Harvard	2	4	0	2	2	0	0	$ 1,800,000	$ 450,000	Redfin
Avg	N/A	2	12	1	10	2	0	0	$ 3,278,000	$ 288,105	N/A
1960s	932 S Westmoreland*	3	32	17	12	3	0	0	$ 7,300,000	$ 228,125	Loopnet
	1146 S Kenmore*	2	6	0	1	5	0	0	$ 1,450,000	$ 241,667	Loopnet

	910 S Catalina	2	8	0	0	8	0	0	$ 1,850,000	$ 231,250	Redfin
Avg	N/A	2	15	6	4	5	0	0	$ 3,533,333	$ 233,681	N/A
Avg All Years	N/A	2	12	1	8	2	0	0	$ 2,938,245	$ 319,566	N/A

*1146 S Kenmore selected as comparable “5-9 Unit” NOAH property, 201 N Normandie as comparable “10-19 Unit” NOAH property, and 932 S Westmoreland as comparable “20-49 Unit” NOAH property used in proforma models for Part 2 Financial Feasibility Analysis Findings.

The summary table above provides data regarding the time each NOAH building was constructed, its relative size, unit counts, and sale prices. These findings were only reflective of the for-sale NOAH properties that included information about the monthly rent associated with each unit and should not be considered reflective of *all* NOAH properties in Koreatown.

Each “Decade Built” category includes a row that averages all the properties associated with that specific decade. Generally, sale prices were higher for more recently constructed NOAH buildings. The averages calculated for “Total Unit Count” mirrored this trend; total unit counts were higher for more recently constructed NOAH buildings, which could factor in newer buildings’ higher sale prices. However, the reverse trend occurred with average sale prices on a *per-unit* basis, which were generally *lower* for more recently constructed NOAH buildings. Finally, across all “Decade Built” categories, Koreatown’s for-sale NOAH properties averaged a total unit count of 12, a sale price of roughly $2.9 million, and a sale price per unit of approximately $320,000 (see the last “Avg All Years” row in Table 6).

D. Findings Part 1: Market Analysis Conclusion

ACS 2019 5-Year Estimate data revealed that more than half of residents identified as Hispanic or Latinx alone (51%) and earned an annual household income of less than $50,000 (60%). Additionally, most of Koreatown’s residents were renters (95%). Over half of all households were renter-occupied and rent-burdened (59%), and just over 30% of all households were renter-occupied and *severely* rent-burdened. Approximately 80% of all housing units were in buildings with more than ten units. Finally, just over 70% of all housing units were constructed in 1979 or earlier, a time during which CoStar has found that most NOAH buildings were constructed.

According to the U.S. Census Bureau Microdata Access tool’s 5-Year ACS Estimates for 2019, 21,750 units fell within the California Tax Credit Allocation Committee’s (CTCAC) 60% AMI rent limits, or BVCLT’s current definition of NOAH. This unit count represented 51% of the total rental units in Koreatown. A different metric of affordability with much lower 60% AMI rent limits, California’s State Density Bonus Law, was also utilized as I filtered the Microdata, resulting in a total NOAH unit count of 11,262, or 26% of all rental units in Koreatown. However, it is important to note the difference between rents paid by

sitting tenants in comparison to rents charged at apartments currently available for rent. Due to the city's Rent Stabilization Ordinance, sitting tenants likely benefit from below-market rents. As shown in Table 5, low-income renters searching for a new apartment in Koreatown will have a difficult time finding affordable rents. Only 5% of available apartments met BVCLT's affordable rent limits.

Data gathered from a variety of real estate analytics sources revealed that approximately 65% of all housing units ranged from a poorly maintained structure requiring "significant renovations" (CoStar 1-Star rating) to a modestly maintained structure with signs of aging and "below average" amenities (CoStar 2-Star rating). CoStar has previously qualified these star ratings as NOAH properties. These same reports also indicated that Koreatown is a "neighborhood in transition." Rents are steadily rising (+3.5% in 2021) while 1- & 2-Star properties are slowly being removed (-0.2% in 2021) or changing ownership (83% of all 2021 property sales were 1- & 2-Star properties). Meanwhile, there was an influx of newly constructed 4- & 5-Star properties (+25.9% in 2021) that cater to higher-income renters (average rent of $2,730 in 2021 for 4- & 5-Star properties).

Analysis of properties listed for sale in December 2021 and January 2022 found positive relationships between a multifamily building's age and the following variables: size, unit count, and sale price. Analysis of properties listed for rent in January 2022 also found a positive relationship between a multifamily building's age and the monthly rent. However, there were no clear trends between both age and sale price, as well as age and rental price, when prices were considered on both a *per unit* and *per square foot* basis.

Findings Part 2: Financial Feasibility Analysis

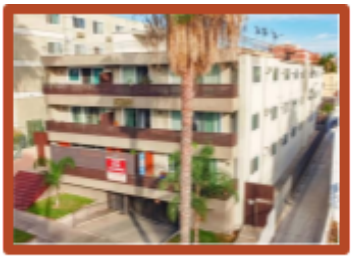
This project's financial feasibility analysis considered three comparable NOAH properties identified previously in Table 6. Figure 25 below shows each property's location. Of all the comparable NOAH properties, these three contained the greatest percentage of units satisfying BVCLT's current definition for NOAH in the following three unit range categories: 5-9 units, 10-19 units, and 20-49 units.

Figure 27. Location of Comparable NOAH Properties

Figure 28. Aerial Views of Comparable NOAH Properties

1146 S Kenmore (6 Units)

201 N Normandie (16 Units)



932 S Westmoreland (32 Units)

As shared earlier in Figure 13, these three categories were among the top four most prevalent building types in Koreatown. Though the category “50+ Units” was the second most prevalent category (31%), it was not considered in this report’s financial feasibility study because there were no available rent rolls for a building of that size.

Table 12. Comparable NOAH Properties Summary

Address	1146 S. Kenmore Ave	201 N. Normandie Ave	932 S. Westmoreland Ave
Unit Count	6 Units: (1) 1-BR, (5) 2-BRs	16 Units: (4) Studios, (12) 1-BRs	32 Units: (17) Studios, (12) 1-BRs, (3) 2-BRs
# Affordable Units	6 (100%)	16 (100%)	14 (44%)
# Stories	2	2	3
Gross Building Area (GBA)	3,894 sf	7,956 sf	20,445 sf
Net Leasable Area (NLA)	3,875 sf	7,800 sf	17,425 sf
Year Built	1961	1923	1964
Sale Price	$1.45 million	$2.85 million	$7.3 million
Sale Price per Unit	$241,667	$178,125	$228,125

A summary of each comparable NOAH property is provided in Table 7 above. The sections that follow summarize the findings for each proforma. The complete proforma models for this analysis are in Appendix E.

A. Rental Income

Rental income is the total amount of money BVCLT receives from tenants’ rent payments. This project explored two different rental income scenarios: existing rents and Section 8 rents.

Table 13. HACLA & LACDA Section 8 Voucher Payment Standards (VPS)

Bedroom Size	Studio	1BR	2BR	3BR	4BR
HACLA Payment Standard	$1,369	$1,765	$2,263	$2,735	$2,982
LACDA Payment Standard	$1,522	$1,764	$2,248	$2,962	$3,226

The Section 8 rent scenario assumed a hypothetical situation in which all existing renters at each property received a Section 8 Project-based Voucher. This study analyzed the impact of existing tenant subsidies on the overall financial feasibility of each acquisition-rehabilitation project. This form of rental subsidy is financed by the U.S. Department of Housing and Urban Development (HUD) and managed by the Housing Authority of the City of Los Angeles (HACLA) and the Los Angeles County Development Authority (LACDA). It provides housing assistance payments (HAP) to landlords on behalf of lower-income renters.[26] The monthly rental amount that participants must pay and how much HACLA or LACDA will cover varies by each renter. Typically, most voucher holders pay no more than 30% of their monthly income on rent, and the voucher will cover the remaining rental amount.

However, there is a maximum subsidy that HACLA or LACDA will provide to each tenant, known as the Voucher Payment Standard (VPS). The VPS varies by unit type. Both HACLA[27] and LACDA's[28] Voucher Payment Standards are in Table 8 above. Because all three properties are in the City of Los Angeles, the proforma analyses assumed HACLA's Voucher Payment Standards. Additionally, because each existing renter's income is not publicly available, it is impossible to know the ratio of personal income to VPS for the rent revenue received by BVCLT. This study assumed that each unit would receive the full VPS dollar amount in each Section 8 rent scenario.

[26] "About Section 8." *Housing Authority of the City of Los Angeles.* Accessed 3 Nov. 2021. http://home.hacla.org/abouts8
[27] "Voucher Payment Standards (VPS)." *Housing Authority of the City of Los Angeles.* Accessed 3 Nov. 2021. https://www.hacla.org/en/about-section-8/standards
[28] "Los Angeles County Development Authority Housing Choice Voucher Program Payment Standards." *Los Angeles County Development Authority.* Accessed 5 Nov. 2021. https://www.lacda.org/docs/librariesprovider25/section-8-program/owners/resources/payment-standards-effective-05-17-2021.pdf?sfvrsn=c8ed67bc_8

Table 14. Rental Income

Address	1146 S. Kenmore Ave (6 Units)		201 N. Normandie Ave (16 Units)		932 S. Westmoreland Ave (32 Units)	
Type of Rental Income	Existing Rents	Section 8 Rents	Existing Rents	Section 8 Rents	Existing Rents	Section 8 Rents
Total Monthly per Project	$7,719	$13,080	$13,643	$26,656	$43,860	$51,242
Total Annual per Project	$92,628	$156,960	$163,716	$319,872	$526,320	$614,904
Total Annual per Unit (Average)	$15,438	$26,160	$10,232	$19,992	$16,448	$19,216

Table 9 above summarizes the rental income associated with each comparable property. The table provides the monthly and annual rental incomes for two different rent scenarios: existing rents and Section 8 rents. The rent rolls provided existing rents in the offering memorandums associated with each property listing, which can be found in Appendix D.

The total monthly and annual rental incomes generated were higher for larger properties. Of the three properties, 201 N. Normandie, on average, generated the lowest annual rental income on a per unit basis compared to 1146 S. Kenmore and 932 S. Westmoreland. The majority of 201 N. Normandie's existing rents were *below* $1,000 per month, whereas most of 1146 S. Kenmore and 932 S. Westmoreland's existing rents were *above* $1,000 per month.

Additionally, Section 8 rent scenarios resulted in much higher rental incomes for all three properties. When utilizing the Section 8 VPS dollar amounts, the rental income for 1146 S. Kenmore (6 units) increased by about 69%, 201 N. Normandie (16 units) by approximately 95%, and 932 S. Westmoreland (32 units) by close to 17%. Since the largest property, 932 S Westmoreland, had the smallest share of existing affordable units (44%), it is no surprise that the higher rental income from Section 8 vouchers would result in the lowest percent increase of the three properties (17%).

B. Operating Expenses

Operating expenses are ongoing costs associated with managing a multifamily building to provide a stable living environment for its residents. According to the National Apartment Association 2021 Survey of Operating Income & Expenses in Rental Apartment Communities, operating expenses generally increased throughout the U.S.

from 2020 to 2021.[29] The survey explained that the increase in operating expenses was, in part, associated with the "apartment wear and tear as residents were home 24/7 for extensive periods of time" due to the COVID-19 pandemic.

Table 10 below provides the operating expense data from the National Apartment Association (NAA). Expenses vary if the property's utilities are master- or individually-metered. Master metering measures the utility (electric, water, gas) usage of multiple tenants with the same meter. Each utility bill received by property management applies to all units associated with each meter. Individually-metered properties measure the utility usage of each unit separately.[30]

The dollar amounts listed in the "Per Unit" column summarize data pulled from 28 individually metered, "garden" multifamily complexes located in the geographic area defined by Los Angeles, Long Beach, and Glendale. Because most comparable properties indicated that the building was individually-metered, the operating expense section of each proforma assumes individual metering. The per unit operating expenses for a master-metered property are in the NAA survey data in Appendix F. Lastly, the NAA provides the following definitions for each operating expense category listed in Table 10[31]:

- Salaries & Personnel: Gross salaries and wages paid to employees assigned to the property in all departments.
- Insurance: Property hazard and liability and real property insurance.
- Property Taxes: Total real estate and personal property taxes only, does not include payroll fees related to taxes.
- Utilities: Total cost of all standard utilities, net of any income reimbursements for residents.
- Management Fees: Total fees paid to management agent/company by the owner.
- Administrative: Total money spent on general and administrative items such as answering service, mileage reimbursement, bank charges, legal charges, postage, telephone/fax/internet charges, office supplies, credit reports, permits, subscriptions, data processing, etc.
- Marketing: Internet, print, resident relations, locator fees, signage, etc.
- Contract Services: Landscaping, pest control, security, etc.

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[29] "National Apartment Association 2021 Survey of Operating Income & Expenses in Rental Apartment Communities." *National Apartment Association.* Accessed 3 Jan. 2022. https://www.naahq.org/news-publications/national-apartment-association-2021-survey-operating-income-expenses-rental

[30] McCloy, John. "Master Metering vs Utility Sub-Metering: What's the Difference?" *GreenCoast.* Accessed 20 Feb 2022. https://greencoast.org/master-metering/

[31] "National Apartment Association 2021 Survey of Operating Income & Expenses in Rental Apartment Communities." *National Apartment Association.* Accessed 3 Jan. 2022. https://www.naahq.org/news-publications/national-apartment-association-2021-survey-operating-income-expenses-rental

- Repair & Maintenance: General maintenance, maintenance supplies, uniforms, minor painting/carpet repairs, plumbing supplies/repairs, security device repairs, keys/locks, minor roof/window repairs, HVAC repairs, and cleaning supplies.

Table 15. Operating Expenses

		1146 S. Kenmore Ave (6 Units)	201 N. Normandie Ave (16 Units)	932 S. Westmoreland Ave (32 Units)
Operating Expense Category	**Annual Cost Per Unit**	**Annual Cost Per Property**	**Annual Cost Per Property**	**Annual Cost Per Property**
Salaries & Personnel	$1,905	$11,430	$30,480	$60,960
Insurance	$443	$2,658	$7,088	$14,176
Property Taxes	$2,428	$17,183	$33,773	$86,505
Utilities	$634	$3,804	$10,144	$20,288
Management Fees	$763	$4,578	$12,208	$24,416
Administrative	$677	$4,062	$10,832	$21,664
Marketing	$211	$1,266	$3,376	$6,752
Contract Services	$573	$3,438	$9,168	$18,336
Repair & Maintenance	$826	$4,956	$13,216	$26,432
Total	$8,460	$53,375	$130,285	$279,529

As seen in Table 10 above, operating expenses increased for projects with higher total unit counts. The projected total annual operating expenses for each property were approximately $53,000 for the 6-unit property at 1146 S. Kenmore, $130,000 for the 16-unit property at 201 N. Normandie, and $280,000 for the 32-unit property at 932 S. Westmoreland.

The operating expense category with the highest annual cost was “Property Taxes,” which represented approximately 29% of each property’s total operating expenses. Since BVCLT is a registered 501(c)3 non-profit organization, it can access a Welfare Exemption, which exempts property owned for charitable purposes from having to pay property taxes.[32] However, this exemption applies only to the 1% general assessment fee. BVCLT will still be required to pay the special assessments applicable to each property, which typically range between 0.12-0.25% of the property’s total assessed value.[33]

[32] “California Property Tax: An Overview.” *California State Board of Equalization.* Accessed 3 Mar. 2022. https://www.boe.ca.gov/proptaxes/pdf/pub29.pdf
[33] Ling, J. (2021, May 26). UP272B: Advanced Real Estate Studio, Week 9 Lecture [Class Lecture].

The process for BVCLT to secure property tax exemption takes approximately two years to complete as it submits the required resident income verification paperwork to the Internal Revenue Service (IRS) for the Welfare Exemption approval.[34] During this period of time, the organization must pay property taxes in full. Once it receives approval, the general assessment portion of the property taxes it paid during the income verification period will be reimbursed. The proforma analyses conducted for this report included the full amount for property taxes, which were calculated by multiplying the property's purchase price by .01185 (1% general assessment plus .185%, the average of the two amounts in the 0.12-.25% range).

Finally, the operating expense estimates used in this project's proforma studies are atypical. The estimates are higher than normal because they imagine a property management model that is atypical for most NOAH properties. Rather than a lean model that relies on "sweat equity,"[35] or the labor BVCLT would dedicate to the property free of charge, this project's estimates assumed that BVCLT would hire a team of individuals specializing in property management and leasing.

C. Total Development Cost

For acquisition-rehabilitation projects, the total development cost (TDC) includes the purchase price to acquire the property, rehabilitation costs to make it a safe living environment for residents, and any staff time or overhead associated with acquisition or rehabilitation efforts.[36]

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[34] Barlas, Faizah. Director of Acquisitions & Stewardship. (2022, March 3). Personal Interview.

[35] "Sweat Equity Program." *Habitat for Humanity of Broward.* Accessed 8 Mar. 2022. https://www.habitatbroward.org/homeownership/sweat-equity/

[36] "What is included in the Total Development Cost?" *HUD Exchange.* Accessed 11 Mar. 2022. https://www.hudexchange.info/faqs/programs/neighborhood-stabilization-program-nsp/program-requirements/appraisals-and-property-valuation/what-is-included-in-the-total-development-cost/

Table 16. Rehabilitation Average Cost Estimates*

Building System Category	Subcategory	Items	Low Estimate	High Estimate	Per unit of measurement	Average Lifespan (years)
Material Finishes	**Paint**	Interior Painting	$ 1,000	$ 1,500	Per unit	5
		Exterior Painting	$ 15,000	$ 20,000	Per 10 units	7
	Roof	Flat Roof (torch down, resurface only)	$ 1,000	$ 1,300	Per 100 sf roof surface area	15
Mechanical	**Heating**	Central Heating	$ 1,300	$ 2,200	Per unit	25
Electrical	**Power Distribution**	Wiring, Main / Subpanel, Fixtures	$ 12,000	$ 18,000	Per unit	20-25
	Life Safety	Smoke Detectors	$ 2,000	$ 2,000	Per 10 units	20
Plumbing	**Hot / Cold Water Supply & Fixtures**	Supply Lines & Fixtures	$ 4,300	$ 5,200	Per unit	30-40
		Hot Water Heater (central boiler for multiple units)	$ 4,200	$ 5,700	Per 10 units	10
	Sanitary Sewer / Drainage	Sewer & Drain Lines	$ 3,100	$ 3,450	Per unit	50
	Fuel Gas	Natural Gas Lines	$ 2,300	$ 3,200	Per unit	40
Fenestration	**Doors**	Standard exterior door (80" x 36")	$ 650	$ 750	Per door (assumes 1/unit)	25
	Windows	Standard window (48" x 36")	$ 800	$ 1,150	Per window (assumes 2/unit)	30
Residential Units	**Interior Doors**	Standard interior door (80" x 36")	$ 450	$ 550	Per door (assumes 2/unit)	20-25
	Kitchen	Complete Replacement (w/o appliances)	$ 9,500	$ 13,000	Per unit	25-30
	Bathroom	Complete replacement	$ 8,000	$ 10,500	Per unit	25
	Flooring	Carpet & Vinyl	$ 1,300	$ 1,900	Per unit	5

*Estimates assume direct contract with sub-trades and include cost of installation. Estimates do not include a general contractor or prevailing wage.

Table 11 above provides both low and high cost estimates for each rehabilitation category. This information was provided by the Facilities and Maintenance Department of Community Corporation of Santa Monica (CCSM) and represented average cost estimates from the properties CCSM has previously acquired and rehabilitated. Cost estimates are organized by the following building system categories: Material Finishes, Mechanical Systems, Electrical Systems, Plumbing Systems, Fenestration (doors and windows), and Residential Units (costs specific to unit interiors). These estimates do not account for any structural repairs. The costs associated with structural repairs will be discussed later in the sections pertaining to Rehab Scopes 4 and 5.

Predicting the extent of the rehabilitation activity required in acquisition-rehabilitation projects is notoriously difficult. It is impossible to fully assess a building's physical integrity and various systems before an organization acquires it. Existing property owners rarely allow prospective buyers to tear open portions of the building's walls to analyze its structural soundness.[37] Additionally, as a condition of providing financial support, certain funding sources stipulate higher wage scales for the construction labor involved in the project, which I will discuss further in Part 3 of this report.

This project's proforma analyses considered five different rehabilitation scenarios in light of these considerations. As seen in Tables 12-16, I organized total development costs by the five rehab scopes listed below. Rehab Scope 1 resulted in the lowest cost estimate, and Rehab Scope 5 the highest.

- Rehab Scope 1: No Initial Rehab, No Prevailing Wages
- Rehab Scope 2: Low Estimate without Prevailing Wages
- Rehab Scope 3: Low Estimate with Prevailing Wages
- Rehab Scope 4: High Estimate without Prevailing Wages
- Rehab Scope 5: High Estimate with Prevailing Wages

[37] Ling, J. (2021, May 26). UP272B: Advanced Real Estate Studio, Week 9 Lecture [Class Lecture].

Table 17. Rehab Scope 1 - No Initial Rehab, No Prevailing Wages

	1146 S. Kenmore Ave (6 Units)		201 N. Normandie Ave (16 Units)		932 S. Westmoreland Ave (32 Units)	
	per property	per unit	per property	per unit	per property	per unit
Property Price	$ 1,450,000	$ 241,667	$ 2,850,000	$ 178,125	$ 7,300,000	$ 228,125
Initial Rehab (None)	$ -	$ -	$ -	$ -	$ -	$ -
Soft Cost (None)	$ -	$ -	$ -	$ -	$ -	$ -
Capitalized Replacement Reserve	$ 21,000	$ 3,500	$ 56,000	$ 3,500	$ 112,000	$ 3,500
Total Dev. Cost	**$ 1,471,000**	**$ 245,167**	**$ 2,906,000**	**$ 181,625**	**$ 7,412,000**	**$ 231,625**

Property Prices ranged from $1.45 million to $7.3 million; larger properties had higher sale prices. On a per unit basis, purchase prices ranged from about $178,000 to $242,000. Both the 6 Unit and 32 Unit property's purchase prices per unit were consistent with the CoStar Submarket Report findings discussed in this report's Recent Trends in Real Estate Market Activity section, particularly the distributions shown previously in Figure 20. However, the 16-unit property's price per unit was significantly lower, potentially explained by its lower rental income seen previously in Table 9.

Rehab Scope 1 posed a scenario where BVCLT acquired each property and conducted no initial rehabilitation. Soft costs for a rehabilitation project typically include consultant fees (developers, architects, engineers, etc.) and project and permit fees. Since no initial rehabilitation was performed, there would be no need to hire consultants to manage renovation processes or pay for the required permits, which resulted in a soft cost estimate of $0.

Additionally, this scenario assumed that there would be some deferred maintenance from the previous property owner. To account for the possibility that certain building systems may require repair before BVCLT has acquired the necessary capital to conduct repairs, I recommend capitalizing a replacement reserve for each property at $3,500 per unit.

As seen in the final line item of Table 12 above, Rehab Scope 1 represented the lowest cost estimation of all five scopes. In this scenario, the total development costs for each property ranged from approximately $1.47 to $7.41 million.

Table 18. Rehab Scope 2 - Low Estimate without Prevailing Wages

	1146 S. Kenmore Ave (6 Units)		201 N. Normandie Ave (16 Units)		932 S. Westmoreland Ave (32 Units)	
	per property	per unit	per property	per unit	per property	per unit
Property Price	$ 1,450,000	$ 241,667	$ 2,850,000	$ 178,125	$ 7,300,000	$ 228,125
Initial Rehab (Low)	$ 307,890	$ 51,315	$ 808,900	$ 50,556	$ 1,485,911	$ 46,435
General Contractor Profit & Overhead	$ 61,578	$ 10,263	$ 161,780	$ 10,111	$ 297,182	$ 9,287
Soft Cost (Low)	$ -	$ -	$ -	$ -	$ -	$ -
Total Dev. Cost	**$ 1,819,468**	**$ 303,245**	**$ 3,820,680**	**$ 238,793**	**$ 9,083,093**	**$ 283,847**

As seen in Table 13 above, Rehab Scope 2 included a scenario in which BVCLT rehabilitated all building system categories listed previously in Table 11. However, this scope was optimistic. It utilized the cost projections listed in the “Low Estimate” column, which resulted in cost estimates of roughly $46,000 - $51,000 per unit for all three properties. Due to its larger size, the 32-unit property at 932 S. Westmoreland benefits from an “efficiency of scale” reduction. Per guidance from LA-based affordable housing developers, buildings over 20 units in size typically have access to reduced pricing when ordering items in bulk.[38]

Additionally, because all building systems were rehabilitated, a general contractor was required to lead the rehab process. This scenario assumed that the hired general contractor charged 20% of the total rehab cost as their fee for profit and overhead. Lastly, the soft cost estimate remained at $0 for this rehab scope. This estimate assumed that BVCLT would pay for the project’s soft costs out of pocket rather than rely on the project itself to do so.

Rehab Scope 2’s total development costs for each property ranged from approximately $1.82 to $9.08 million.

[38] Ceballos, Miguel. Director of Maintenance. (2022, Jan. 26). Personal Interview.

Table 19. Rehab Scope 3 - Low Estimate with Prevailing Wages

	1146 S. Kenmore Ave (6 Units)		201 N. Normandie Ave (16 Units)		932 S. Westmoreland Ave (32 Units)	
	per property	per unit	per property	per unit	per property	per unit
Property Price	$ 1,450,000	$ 241,667	$ 2,850,000	$ 178,125	$ 7,300,000	$ 228,125
Initial Rehab (Low)	$ 307,890	$ 51,315	$ 808,900	$ 50,556	$ 1,485,911	$ 46,435
General Contractor Profit & Overhead	$ 61,578	$ 10,263	$ 161,780	$ 10,111	$ 297,182	$ 9,287
Prevailing Wages	$ 184,734	$ 30,789	$ 485,340	$ 30,334	$ 891,546	$ 27,861
Soft Cost (Low)	$ -	$ -	$ -	$ -	$ -	$ -
Total Dev. Cost	**$ 2,004,202**	**$ 334,034**	**$ 4,306,020**	**$ 269,126**	**$ 9,974,639**	**$ 311,707**

Rehab Scope 3 imagined the same scenario as Rehab Scope 2 with one key difference. This scope assumed that BVCLT received a source of funding from a public agency, which triggered prevailing wage requirements for construction labor. I explain prevailing wages further in the Public Funding Source Conclusion & Notable Limitations section of this report. Prevailing wages increase rehabilitation costs, calculated as the sum of the rehab cost estimate and the general contractor's fee, by 50%.

As seen in the final line item of Table 14 above, Rehab Scope 3's total development costs for each property ranged from approximately $2 to $9.97 million.

Table 20. Rehab Scope 4 - High Estimate without Prevailing Wages

	1146 S. Kenmore Ave (6 Units)		201 N. Normandie Ave (16 Units)		932 S. Westmoreland Ave (32 Units)	
	per property	per unit	per property	per unit	per property	per unit
Property Price	$ 1,450,000	$ 241,667	$ 2,850,000	$ 178,125	$ 7,300,000	$ 228,125
Initial Rehab (High)	$ 420,531	$ 70,089	$ 1,105,634	$ 69,102	$ 2,031,702	$ 63,491
General Contractor Profit & Overhead	$ 84,106	$ 14,018	$ 221,127	$ 13,820	$ 406,340	$ 12,698
Contingency (Structural Repairs)	$ 105,133	$ 17,522	$ 276,409	$ 17,276	$ 507,926	$ 15,873
Soft Cost (High)	$ 84,106	$ 14,018	$ 221,127	$ 13,280	$ 406,340	$ 12,698
Tenant Temp. Relocation Costs	$10,170	$1,695	$ 27,120	$ 1,695	$ 54,420	$ 1,695
Total Dev. Cost	**$ 2,154,046**	**$ 359,008**	**$ 4,701,416**	**$ 293,839**	**$ 10,706,549**	**$ 334,580**

As seen in Table 15 above, Rehab Scope 4 included a scenario in which BVCLT rehabilitated all building system categories. However, this scope was less optimistic than Rehab Scopes 2 and 3. It utilized the cost projections listed in the “High Estimate” column, which resulted in rehab cost estimates of roughly $63,000 - $70,000 per unit across all three properties. Similar to Rehab Scopes 2 and 3, a general contractor was hired to lead the rehab process and charged 20% of the total rehab cost as their fee for profit and overhead.

Since Rehab Scope 4 assumed a more intensive, costly rehabilitation process, it also included a contingency line item for structural repairs, which is calculated as 25% of the initial rehab cost and ranged from approximately $105,000 - $508,000. Additionally, this scope held a high soft cost estimate; it assumed that the project’s financial performance would cover soft costs which were calculated using an industry-standard rate of 20% of the initial rehab costs. It’s important to note that soft costs can include a wide range depending on how extensive the rehabilitation process ends up being, how complicated the project’s financing is and the degree to which BVCLT wishes to be compensated for its acquisition and rehab work.

Lastly, tenants will likely need to be temporarily relocated during a more intensive rehabilitation process. Per the Housing & Tenant Protections requirements from LA County’s Consumer & Business Affairs department, BVCLT will be required to provide financial assistance to existing tenants who qualify as seniors, persons with disabilities,

households with minor children and lower-income tenants.[39] If qualifying tenants are temporarily displaced for less than 30 days, they must be provided a per-diem rate of $207 per night plus an additional $66 per adult for meals and incidentals and $33 per child (12 and under). These rates are updated annually and provided on a county level by the U.S. General Services Administration. This study assumed that two adults were living in each unit and that heavy repairs required relocation for a total of 5 nights.

Rehab Scope 4's total development costs for each property ranged from approximately $2.15 to $10.71 million.

Table 21. Rehab Scope 5 - High Estimate with Prevailing Wages

	1146 S. Kenmore Ave (6 Units)		201 N. Normandie Ave (16 Units)		932 S. Westmoreland Ave (32 Units)	
	per property	per unit	per property	per unit	per property	per unit
Property Price	$ 1,450,000	$ 241,667	$ 2,850,000	$ 178,125	$ 7,300,000	$ 228,125
Initial Rehab (High)	$ 420,531	$ 70,089	$ 1,105,634	$ 69,102	$ 2,031,702	$ 63,491
General Contractor Profit & Overhead	$ 84,106	$ 14,018	$ 221,127	$ 13,820	$ 406,340	$ 12,698
Contingency (Structural Repairs)	$ 105,133	$ 17,522	$ 276,409	$ 17,276	$ 507,926	$ 15,873
Prevailing Wages	$ 304,885	$ 50,814	$ 801,585	$ 50,099	$ 1,472,984	$ 46,031
Soft Cost (High)	$ 84,106	$ 14,018	$ 221,127	$ 13,280	$ 406,340	$ 12,698
Tenant Temp. Relocation Costs	$10,170	$1,695	$ 27,120	$ 1,695	$ 54,420	$ 1,695
Rehab Scope 5 Total Dev. Cost	**$ 2,458,931**	**$ 409,822**	**$ 5,503,001**	**$ 343,938**	**$ 12,179,533**	**$ 280,610**

Finally, Rehab Scope 5, seen in Table 16 above, assumed the same scenario as Rehab Scope 4 with one key difference. Similar to Scope 3, this scope assumed that BVCLT received a source of funding from a public agency, which triggered prevailing wage requirements for construction labor and increased rehabilitation costs by 50%.

[39] "Relocation Assistance FAQs." *Los Angeles County Consumer & Business Affairs.* Accessed 19 Jan. 2022. https://dcba.lacounty.gov/wp-content/uploads/2021/03/Relocation-Assistance-FAQ.pdf

Rehab Scope 5's total development costs for each property ranged from approximately $2.46 to $12.18 million.

D. Cash Flow

Cash flow is the difference between net operating income (NOI), which is rental income less operating expenses, and debt service, which is the cash required for repayment of both interest and principal on a loan for a particular period of time. This project's cash flow analysis rested on the assumptions listed below. The first three items are standards derived from the California Tax Credit Allocation Committee regulations for affordable housing projects receiving Low-Income Housing Tax Credits.[40]

- Annual increase in gross income: 2.5%
- Annual increase in operating expenses: 3.5%
- Vacancy rate: 5%
- Replacement reserve: $500 per unit per year

Additionally, the cash flow analysis assumed BVCLT secured a permanent loan from Genesis LA (GLA), a local Community Development Financial Institution (CDFI). The analysis utilized GLA's Community Investment Fund (GCIF)[41], the terms of which are listed below:

- Interest rate: 6%
- Loan-to-value ratio: 85%
- Term: 30-year amortization due in 10 years

The cash flow analysis assumed a debt coverage ratio of 1.15 in Year 1 per LACDA's requirements for its Pilot CLT Partnership Program. This report only shares the cash flow analysis results conducted for the existing rent scenario for each property. However, the results of the Section 8 rent scenarios' cash flow analysis can be found in the full pro-forma models in Appendix E.

[40] "California Tax Credit Allocation Committee Regulations Implementing the Federal and State Low Income Housing Tax Credit Laws." *California State Treasurer.* Accessed 18 Jan. 2022. https://www.treasurer.ca.gov/ctcac/programreg/2021/20210616/2021-regulations-clean.pdf

[41] "Genesis Community Investment Fund (GCIF)." *GenesisLA.* Accessed 16 Mar. 2022. https://www.genesisla.org/genesis-community-investment-fund

Table 22. Cash Flow Analysis

	1146 S. Kenmore Ave (6 Units)			201 N. Normandie Ave (16 Units)*			932 S. Westmoreland Ave (32 Units)		
	Y1	Y10 (Balloon Payment)	Y11	Y1	Y10 (Balloon Payment)	Y11	Y1	Y10 (Balloon Payment)	Y11
Gross Potential Income	$ 92,628	$ 115,680	$ 118,572	$ 163,716	$ 204,459	$ 209,570	$ 533,316	$ 657,302	$ 682,690
Vacancy Loss (5%)	$ (4,631)	$ (5,784)	$ (5,929)	$ (8,186)	$ (10,223)	$ (10,479)	$ (26,666)	$ (33,302)	$ (34,134)
Effective Gross Income	$ 87,997	$ 109,896	$ 112,643	$ 155,530	$ 194,236	$ 199,092	$ 506,650	$ 632,737	$ 648,555
Operating Expenses	$ (53,375)	$ (72,744)	$ (75,290)	$ (130,285)	$ (177,564)	$ (183,779)	$ (279,529)	$ (380,969)	$ (394,303)
Replacement Reserve	$ (3,000)	$ (3,000)	$ (3,000)	$ (8,000)	$ (8,000)	$ (8,000)	$ (16,000)	$ (16,000)	$ (16,000)
Net Operating Income (NOI) Available for Debt Service	$ 31,622	$ 34,152	$ 34,353	$ 17,246	$ 8,672	$ 7,313	$ 211,121	$ 235,767	$ 238,252
Total Debt Service	$ (27,497)	$ (27,497)	$ -	$ (14,996)	$ (14,996)	$ -	$ (183,584)	$ (183,584)	$ -
Loan Principal	$ (382,196)	$ (319,843)	N/A	$ (208,438)	$ (174,432)	N/A	$ (2,551,684)	$ (2,135,396)	N/A
Net Cash Flow	$4,125	$6,654	N/A	$ 2,249	$ (6,325)	N/A	$ 27,538	$ 52,184	N/A

Debt Coverage Ratio (DCR)	1.15	1.24	N/A	1.15	0.58	N/A	1.15	1.28	N/A

*This particular 16-unit building is somewhat anomalous because the average rent per unit is very low compared to the 6- and 32-unit buildings (see Table 9. Rental Income).

Table 17 above shows the cash flow analyses for the “Existing Rent” scenarios across all three properties. The positive dollar amounts listed in the “Net Cash Flow” row for the hypothetical acquisition-rehabilitation scenarios at 1146 S. Kenmore (+$6,654) and 932 S. Westmoreland (+$52,184) indicated that the gross income generated by each project was sufficient to cover its debt service over a ten year period when utilizing a loan product like the GCIF. Though the GCIF provides organizations like BVCLT vital access to loan products that would otherwise be unavailable to smaller development projects, it is important to note that this loan product’s interest rates (6-7.5%) are higher than what market-rate developers are typically able to access (~4-5%).

However, the negative dollar amount (-$6,325) listed in the “Net Cash Flow” row for 201 N. Normandie indicated that this project would not generate enough cash flow to cover its debt service. As explained previously in the Rental Income section of this report, 201 N. Normandie had the lowest rents of all three properties, generating the lowest rental income and a negative cash flow in Year 10. The only way for the 16-unit property to be financially feasible is if its rents were substantially increased or if BVCLT had access to rental subsidies.

This analysis also assumed that BVCLT was able to access a 30-year amortizing loan that was due in 10 years. A loan amortization schedule includes periodic loan payments until the loan is paid off at the end of its term. Each loan payment is the same over the course of the loan’s term, though the payment amount designated for the interest versus the principal varies each year. The longer the term, the smaller the loan payments. A 30-year amortizing loan due in 10 years is unique in that its longer-term offers the benefit of smaller loan payments. However, the balance of the loan, also known as the “balloon payment,” must be paid off at the end of year 10. As seen in Table 17 above, this balloon payment can be quite large, ranging anywhere from $174,000 to $2.1 million.

The loan product modeled in this analysis is one of the most sought-after in the multifamily development industry due to its favorable terms. However, historically, it has been challenging for small to mid-size projects, especially those involving the acquisition-rehabilitation of NOAH, to secure a loan like this.

Lastly, this project’s proforma studies did not include a line item for a development fee, which is money paid to BVCLT for its work in managing the development process for each acquisition-rehabilitation project.

E. Internal Rate of Return

As discussed later in the Real Estate Investment Trusts (REITs) section of this report, some private social impact funding sources require the existing affordable housing projects that they invest in to meet certain internal rate of return thresholds. For example,

the Housing Partnership Equity Trust (HPET) shared that the private investors it works with expect a leveraged internal rate of return of 8-10%.

The internal rate of return (IRR) is a metric used by the real estate industry to determine the average annual return that a developer can expect to realize from a property investment over time.[42] This return takes into account the time value of money; inflation makes a dollar today worth more than a dollar one year from now. IRR is typically expressed as a percentage.

An IRR analysis was only conducted for Rehab Scope 1 for the 6-unit property at 1146 S Kenmore. This property's total development cost was the least costly of all scenarios modeled in this project. The results of this IRR analysis are in the table below.

Table 23. Internal Rate of Return (IRR) Analysis: 1146 S Kenmore - Rehab Scope 1

	Calculation Method	Amount
Gross Sale Price at End of Year 10*	NOI / Cap Rate of Sale	$470,590
Cost of Sale	Gross Sale Price x % of Sales Cost**	($14,118)
Loan Balance Due at End of Year 10 (Balloon Payment)	See "IRR Analysis (Existing Rents) tab in Appendix E	($319,843)
Net Proceeds of Sale	Gross Sale Price - Cost of Sale - Loan Balance Due	$136,629
Net Cash Flow in Year 10	NOI - Debt Service	$6,654
Cash Flow of Total Development	Net Proceeds of Sale + Net Cash Flow in Year 10	$143,283
Internal Rate of Return (Leveraged)	**See "IRR Analysis (Existing Rents) tab in Appendix E**	**-17.16%**

*assumed Cap Rate of Sale of 7.30%, per RERC Q4 2021 Average Terminal Cap Rate for Third-Tier Apartments in "West Region" (see Appendix G)
**assumed industry standard of 3%

As seen in Table 18 above, BVCLT's *least costly* rehab scope does not meet the minimum IRR thresholds (8-10%) identified by private funders investing in affordable housing preservation. Due to the property's extremely high sale price ($1.45 million) and low net operating income (rental income less operating expenses), the projected return and equity it would generate after being sold in Year 10 would be negative. Since the *least* costly rehab scenario generated negative results, I conclude that all three properties' remaining rehab scenarios would generate negative returns.

[42] "How to Use IRR to Evaluate Real Estate Investments." *Cadre.* Accessed 14 Feb. 2022. https://cadre.com/insights/mastering-irr-in-real-estate-investments/

Considering these negative return projections, I conclude that many private social impact funders would not invest in BVCLT's acquisition-rehabilitation projects. Further, IRR analyses assume a scenario in which BVCLT would sell the property after ten years, an entirely unrealistic considering the organization's mission of permanent community ownership.

F. Funding Gap

I conducted the funding gap analysis for each property's rehab scenarios using two standard financial modeling methods: loan to value ratio (LTV) and debt coverage ratio (DCR). The LTV method resulted in negative net cash flows for each scenario and is not discussed in this report. However, the results are in each proforma included in Appendix E. I calculated each funding gap using the following formula:

Figure 29. Funding Gap Calculation

Funding Gap = Total Development Cost - Maximum Loan

The method used to calculate the total development cost was discussed earlier in the Total Development Cost section of this report. Based on the internal rate of return analysis discussed previously, I conclude that each property would generate zero equity. Thus, the funding gap only considered the difference between the total development cost and the maximum loan.

"Maximum Loan" is the highest loan amount each project can secure. The calculation for this amount depends on the loan's interest rate, amortization period, and the maximum debt payment. Maximum debt payment is calculated by dividing the project's Net Operating Income (NOI) by the Debt Coverage Ratio (DCR). NOI is determined by each project's rental income and operating expenses. As discussed in the Cash Flow section of this report, LACDA required a DCR of 1.15 in Year 1.

Lastly, each funding gap analysis considered one industry-standard static return measure: return on total development cost (TDC). This was calculated by dividing each project's NOI by its TDC. Real estate data analytics sources like RealtyRates and the Real Estate Research Corporation (RERC) reported that investors sought returns ranging from approximately 5-8% in late 2021 (see Appendices G and H).

As shown in the sections that follow, the only return on TDC measure that satisfied the recommendations from RealtyRates and RERC was the Section 8 rent scenario for Rehab Scope 1, indicating that the majority of acquisition-rehabilitation scenarios explored in this report do not result in returns competitive enough to compete with market-rate developers.

Table 24. Funding Gap - Rehab Scope 1 (No Initial Rehab, No Prevailing Wages)

Funding Gap Analysis: Debt Coverage Ratio		1146 S. Kenmore Ave (6 Units)		201 N. Normandie Ave (16 Units)		932 S. Westmoreland Ave (32 Units)	
		Existing Rents	Section 8 Rents	Existing Rents	Section 8 Rents	Existing Rents	Section 8 Rents
Cash Flow	Effective Gross Income per Property	$ 87,997	$ 149,112	$ 155,530	$ 303,878	$ 506,650	$ 590,805
	Effective Gross Income per Unit	$14,666	$24,852	$ 9,721	$18,992	$ 15,833	$18,463
	Total Expenses per Property	$ (53,375)	$ (53,375)	$ (130,285)	$ (130,285)	$ (279,529)	$ (279,529)
	Total Expenses per Unit	$ (8,896)	$ (8,896)	$ (8,143)	$ (8,143)	$ (8,735)	$ (8,735)
	NOI Available for Debt Service	$ 31,622	$ 92,738	$ 17,246	$ 165,594	$ 211,121	$ 295,276
	Maximum Debt Payment	$ (27,497)	$ (80,641)	$ (14,996)	$ (143,995)	$ (183,584)	$ (256,762)
	Cash Flow	$ 4,125	$ 12,096	$ 2,249	$ 21,599	$ 27,538	$ 38,514
Funding Plan	Maximum Loan per Property	$ 382,196	$ 1,120,858	$ 208,438	$ 2,001,426	$ 2,551,684	$ 3,568,809
	Maximum Loan per Unit	$ 63,699	$ 186,810	$ 13,027	$ 125,089	$ 79,740	$ 111,525
Static Return	Return on TDC	2.15%	6.30%	0.59%	5.70%	2.85%	3.98%
Gap Analysis	Equity Generated by Project*	$ (24,034)	N/A	N/A**	N/A	N/A	N/A
	Funding Gap per Project	**$ 1,088,804**	**$ 350,142**	**$ 2,672,562**	**$ 904,574**	**$ 4,860,316**	**$ 3,843,191**
	Funding Gap per Unit	**$ 181,467**	**$ 58,357**	**$ 168,598**	**$ 56,536**	**$ 151,885**	**$ 120,100**

*calculated using the following equation: cash flow / internal rate of return

**IRR only conducted for Existing Rent scenario of Rehab Scope 1 at 1146 S Kenmore (6 Units)

The estimated funding gaps for the 6-unit, 16-unit and 32-unit properties for Rehab Scope 1 are shown in Table 19 above. Across all five rehabilitation scenarios, the dollar amounts listed in the “Cash Flow” categories and the maximum loan and the equity generated by the project remained the same. The only categories that shifted between each rehab scenario were those that were influenced by the total development costs (TDC), which included the equity investments needed, the static returns, and the final funding gaps.

Because Rehab Scope 1 was the least intensive rehabilitation scenario, it generated the lowest total development costs, which resulted in the lowest funding gaps. Without access to rental subsidies, the estimated funding gaps ranged from about $1.1 million to $4.9 million per property, or approximately $152,000 to $182,000 per unit.

Because it generated the lowest funding gaps, this rehab scenario’s returns were the highest of all five scenarios. Only one of the return measures was competitive with market-rate development, the return on TDC for the Section 8 rent scenario at 1146 S Kenmore (6 Units). The return for this scenario was 6.30%, which met the recommended return measures provided by RealtyRates and RERC that were discussed earlier in this report.

Table 25. Funding Gap - Rehab Scope 2 (Low Estimate without Prevailing Wages)

Funding Gap Analysis: Debt Coverage Ratio		1146 S. Kenmore Ave (6 Units)		201 N. Normandie Ave (16 Units)		932 S. Westmoreland Ave (32 Units)	
		Existing Rents	Section 8 Rents	Existing Rents	Section 8 Rents	Existing Rents	Section 8 Rents
Cash Flow	Effective Gross Income per Property	$ 87,997	$ 149,112	$ 155,530	$ 303,878	$ 506,650	$ 590,805
	Effective Gross Income per Unit	$14,666	$24,852	$ 9,721	$18,992	$ 15,833	$18,463
	Total Expenses per Property	$ (53,375)	$ (53,375)	$ (130,285)	$ (130,285)	$ (279,529)	$ (279,529)
	Total Expenses per Unit	$ (8,896)	$ (8,896)	$ (8,143)	$ (8,143)	$ (8,735)	$ (8,735)
	NOI Available for Debt Service	$ 31,622	$ 92,738	$ 17,246	$ 165,594	$ 211,121	$ 295,276
	Maximum Debt Payment	$ (27,497)	$ (80,641)	$ (14,996)	$ (143,995)	$ (183,584)	$ (256,762)
	Cash Flow	$ 4,125	$ 12,096	$ 2,249	$ 21,599	$ 27,538	$ 38,514
Funding Plan	Maximum Loan per Property	$ 382,196	$ 1,120,858	$ 208,438	$ 2,001,426	$ 2,551,684	$ 3,568,809
	Maximum Loan per Unit	$ 63,699	$ 186,810	$ 13,027	$ 125,089	$ 79,740	$ 111,525
Static Return	Return on TDC	1.74%	5.10%	0.45%	4.33%	2.32%	3.25%
Gap Analysis	Funding Gap per Project	**$ 1,437,272**	**$ 698,610**	**$ 3,612,242**	**$ 1,819,254**	**$ 6,531,408**	**$ 5,514,284**
	Funding Gap per Unit	**$ 239,545**	**$ 116,435**	**$ 225,765**	**$ 113,703**	**$ 204,107**	**$ 172,321**

The estimated funding gaps for Rehab Scope 2 are shown in Table 20 above. Because this scope assumed a more costly rehabilitation scenario compared to Rehab Scope 1, the TDCs for each property increased. This resulted in larger funding gaps and lower return thresholds, none of which fell within the recommended ranges provided by RealtyRates or RERC. Without access to rental subsidies, total funding gaps ranged from approximately $1.4 million to $6.5 million per property, or $204,000 to $239,000 per unit.

Table 26. Funding Gap - Rehab Scope 3 (Low Estimate with Prevailing Wages)

Funding Gap Analysis: Debt Coverage Ratio		1146 S. Kenmore Ave (6 Units)		201 N. Normandie Ave (16 Units)		932 S. Westmoreland Ave (32 Units)	
		Existing Rents	Section 8 Rents	Existing Rents	Section 8 Rents	Existing Rents	Section 8 Rents
Cash Flow	Effective Gross Income per Property	$ 87,997	$ 149,112	$ 155,530	$ 303,878	$ 506,650	$ 590,805
	Effective Gross Income per Unit	$14,666	$24,852	$ 9,721	$18,992	$ 15,833	$18,463
	Total Expenses per Property	$ (53,375)	$ (53,375)	$ (130,285)	$ (130,285)	$ (279,529)	$ (279,529)
	Total Expenses per Unit	$ (8,896)	$ (8,896)	$ (8,143)	$ (8,143)	$ (8,735)	$ (8,735)
	NOI Available for Debt Service	$ 31,622	$ 92,738	$ 17,246	$ 165,594	$ 211,121	$ 295,276
	Maximum Debt Payment	$ (27,497)	$ (80,641)	$ (14,996)	$ (143,995)	$ (183,584)	$ (256,762)
	Cash Flow	$ 4,125	$ 12,096	$ 2,249	$ 21,599	$ 27,538	$ 38,514
Funding Plan	Maximum Loan per Property	$ 382,196	$ 1,120,858	$ 208,438	$ 2,001,426	$ 2,551,684	$ 3,568,809
	Maximum Loan per Unit	$ 63,699	$ 186,810	$ 13,027	$ 125,089	$ 79,740	$ 111,525
Static Return	Return on TDC	1.58%	4.63%	0.40%	3.85%	2.12%	2.96%
Gap Analysis	Funding Gap per Project	**$ 1,622,006**	**$ 883,344**	**$ 4,097,582**	**$ 2,304,594**	**$ 7,422,955**	**$ 6,405,831**

	Funding Gap per Unit	**$ 270,334**	**$ 147,224**	**$ 256,099**	**$ 144,037**	**$ 231,967**	**$ 200,182**

Table 21 above shows the funding gaps for Rehab Scope 3. As mentioned previously in the Total Development Cost section of this report, this rehab scenario is the same as Rehab Scope 2 but it assumed that prevailing wages were triggered, which increased the TDCs for each property. This generated even larger funding gaps and lower return thresholds, none of which fell within the recommended ranges provided by RealtyRates or RERC. For the Existing Rent scenarios, total funding gaps ranged from approximately $1.6 million to $7.4 million per property, or $232,000 to $270,000 per unit.

Table 27. Funding Gap - Rehab Scope 4 (High Estimate without Prevailing Wages)

Funding Gap Analysis: Debt Coverage Ratio		1146 S. Kenmore Ave (6 Units)		201 N. Normandie Ave (16 Units)		932 S. Westmoreland Ave (32 Units)	
		Existing Rents	Section 8 Rents	Existing Rents	Section 8 Rents	Existing Rents	Section 8 Rents
Cash Flow	Effective Gross Income per Property	$ 87,997	$ 149,112	$ 155,530	$ 303,878	$ 506,650	$ 590,805
	Effective Gross Income per Unit	$14,666	$24,852	$ 9,721	$18,992	$ 15,833	$18,463
	Total Expenses per Property	$ (53,375)	$ (53,375)	$ (130,285)	$ (130,285)	$ (279,529)	$ (279,529)
	Total Expenses per Unit	$ (8,896)	$ (8,896)	$ (8,143)	$ (8,143)	$ (8,735)	$ (8,735)
	NOI Available for Debt Service	$ 31,622	$ 92,738	$ 17,246	$ 165,594	$ 211,121	$ 295,276
	Maximum Debt Payment	$ (27,497)	$ (80,641)	$ (14,996)	$ (143,995)	$ (183,584)	$ (256,762)
	Cash Flow	$ 4,125	$ 12,096	$ 2,249	$ 21,599	$ 27,538	$ 38,514
Funding Plan	Maximum Loan per Property	$ 382,196	$ 1,120,858	$ 208,438	$ 2,001,426	$ 2,551,684	$ 3,568,809
	Maximum Loan per Unit	$ 63,699	$ 186,810	$ 13,027	$ 125,089	$ 79,740	$ 111,525
Static Return	Return on TDC	1.47%	4.31%	0.37%	3.52%	1.97%	2.76%
Gap Analysis	**Funding Gap per Project**	**$ 1,771,850**	**$ 1,033,188**	**$ 4,492,979**	**$ 2,699,990**	**$ 8,154,864**	**$ 7,137,740**
	Funding Gap per Unit	**$ 295,308**	**$ 172,198**	**$ 280,811**	**$ 168,749**	**$ 254,840**	**$ 223,054**

The estimated funding gaps for Rehab Scope 4 are shown in Table 22 above. Since this scope assumed an even more costly rehabilitation scenario, funding gaps increased and return measures decreased further. Without rental subsidies from Section 8 vouchers, the funding gaps ranged from approximately $1.8 million to $8.2 million per property, or $255,000 to $295,000 per unit.

Table 28. Funding Gap - Rehab Scope 5 (High Estimate with Prevailing Wages)

Funding Gap Analysis: Debt Coverage Ratio		1146 S. Kenmore Ave (6 Units)		201 N. Normandie Ave (16 Units)		932 S. Westmoreland Ave (32 Units)	
		Existing Rents	Section 8 Rents	Existing Rents	Section 8 Rents	Existing Rents	Section 8 Rents
Cash Flow	Effective Gross Income per Property	$ 87,997	$ 149,112	$ 155,530	$ 303,878	$ 506,650	$ 590,805
	Effective Gross Income per Unit	$14,666	$24,852	$ 9,721	$18,992	$ 15,833	$18,463
	Total Expenses per Property	$ (53,375)	$ (53,375)	$ (130,285)	$ (130,285)	$ (279,529)	$ (279,529)
	Total Expenses per Unit	$ (8,896)	$ (8,896)	$ (8,143)	$ (8,143)	$ (8,735)	$ (8,735)
	NOI Available for Debt Service	$ 31,622	$ 92,738	$ 17,246	$ 165,594	$ 211,121	$ 295,276
	Maximum Debt Payment	$ (27,497)	$ (80,641)	$ (14,996)	$ (143,995)	$ (183,584)	$ (256,762)
	Cash Flow	$ 4,125	$ 12,096	$ 2,249	$ 21,599	$ 27,538	$ 38,514
Funding Plan	Maximum Loan per Property	$ 382,196	$ 1,120,858	$ 208,438	$ 2,001,426	$ 2,551,684	$ 3,568,809
	Maximum Loan per Unit	$ 63,699	$ 186,810	$ 13,027	$ 125,089	$ 79,740	$ 111,525
Static Return	Return on TDC	1.29%	3.77%	0.31%	3.01%	1.73%	2.42%
Gap Analysis	**Funding Gap per Project**	**$ 2,076,735**	**$ 1,338,073**	**$ 5,294,563**	**$ 3,501,575**	**$ 9,627,849**	**$ 8,610,724**
	Funding Gap per Unit	**$ 346,123**	**$ 223,012**	**$ 330,910**	**$ 218,848**	**$ 300,870**	**$ 269,085**

Finally, Table 23 above shows Rehab Scope 5's estimated funding gaps. Since this scenario included high estimates for rehab costs and assumed that prevailing wages were triggered, it is the most costly of all five scopes. Rehab Scope 5 generated the highest funding gaps and the lowest return measures. For the Existing Rent scenarios, total funding gaps ranged from approximately $2.1 million to $9.6 million per property, or $301,000 to $346,000 per unit.

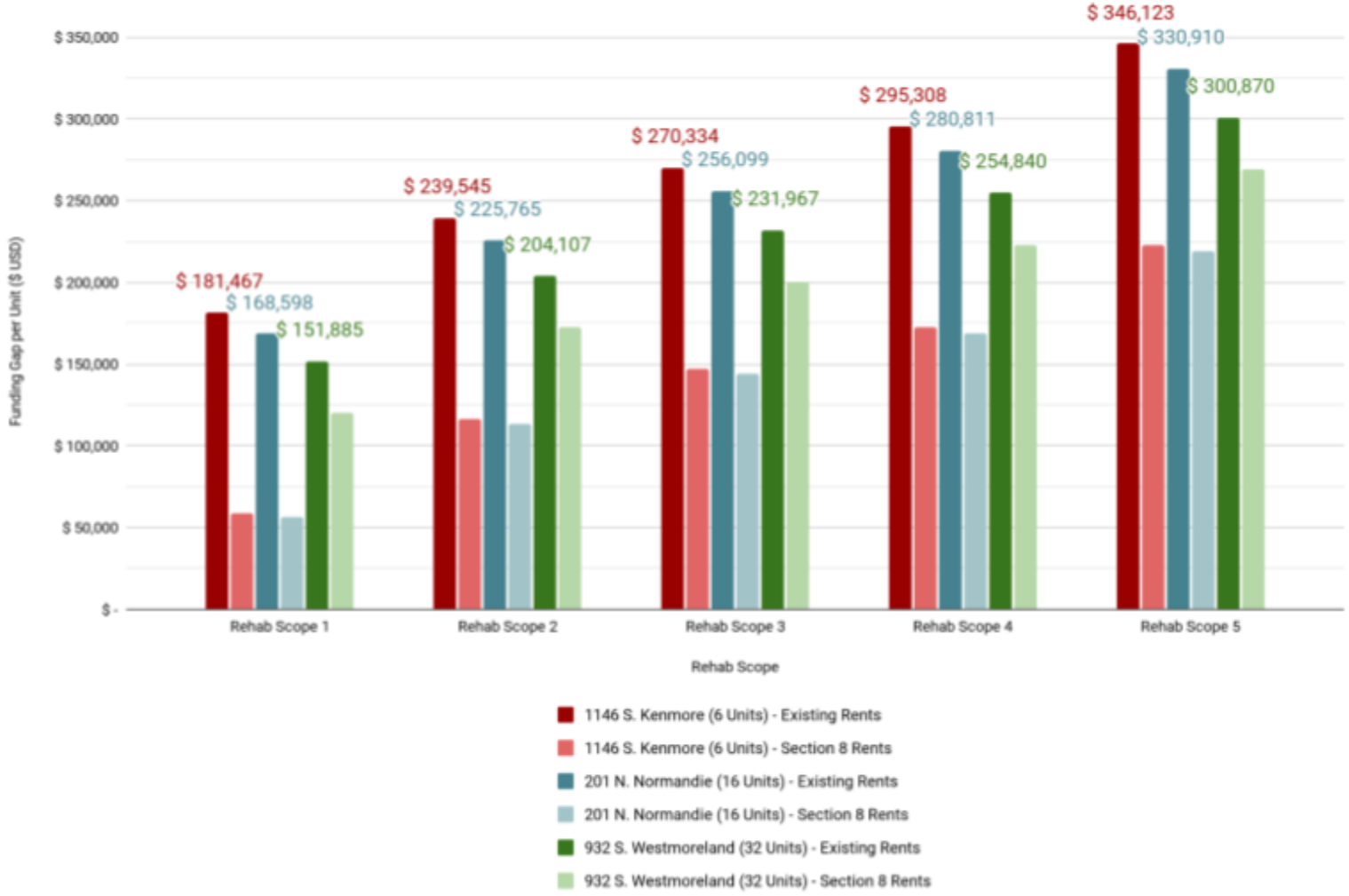
G. Financial Feasibility Analysis Conclusion

Figure 28 below summarizes the funding gaps for each rehab scenario. A different color represents each property; dark shades of each color correspond to the “Existing Rent” scenario and light shades to the “Section 8 Rent” scenario. The rental subsidies provided by the Section 8 Project-based Voucher Program resulted in a higher rent revenue for BVCLT. Access to this subsidy generated a *significantly lower* funding gap for each property, ranging from approximately $739,000 - $1.8 million less than the Existing Rents scenarios. In particular, rental subsidies improved the financial feasibility of the 16 unit property at 201 N. Normandie since its existing rents were the lowest of the three properties.

Figure 30. Funding Gap per Project

Figure 29 below shows the funding gaps for each property's rehab scenario on a *per unit* basis. Though funding gaps on a per project basis increased for larger properties, the funding gaps on a per unit basis decreased for properties with larger unit counts. The 32-unit building at 932 S. Westmoreland generated funding gaps on a per unit basis that were approximately $16,000 - $45,000 lower than the 6-unit and 16-unit buildings. As discussed earlier in this report's Total Development Cost section, this difference can largely be explained by the "efficiency of scale" from which the larger 32-unit property benefits.

Figure 31. Funding Gap per Unit



Assuming that BVCLT aims to continue acquiring NOAH properties and keep existing legacy residents in place by not substantially changing their rents, the organization should anticipate needing to fundraise to cover the following funding gaps:

- 1146 S. Kenmore (6-unit building): $1.1-2.1 million
- 201 N. Normandie (16-unit building): $2.7-5.3 million
- 932 S. Westmoreland (32-unit building): $4.9-9.6 million

As seen in the “Section 8 Rents” in the charts above, expanded tenant subsidies provided by local government would drastically lower these funding gaps.

Findings Part 3: Available Funding Sources

Available funding sources fell into two categories: public and private. I discuss these two categories in greater detail in the sections that follow.

A. Public Funding Sources

Public funding sources were further categorized into four buckets depending on the geographic scale at which they operated: federal, state, county, and city. I then conclude with a discussion regarding emerging sources and notable limitations of public funding.

A.I) Federal Funding Sources

Every five years, the City of Los Angeles Housing Department (LAHD) releases its Consolidated Plan or "Con Plan," which outlines how LAHD will distribute the following four federal grants it receives: Community Development Block Grant (CDBG) Program, HOME Investment Partnerships (HOME) Program, Emergency Solutions Grants (ESG) Program, and Housing Opportunities for Persons with AIDS (HOPWA) Program.[43] The current plan covers the five-year period from 2018 to 2022. Of the four federal grants identified in the Con Plan, the CDBG and HOME Investment Partnerships Programs are the only programs that provide funding to preserve existing affordable housing. I explain these two federal programs in greater detail below. I discuss limitations associated with these two funding sources in the "Public Funding Source Conclusion & Notable Limitations" section of this report.

Community Development Block Grant (CDBG) Program

City of Los Angeles: Community Development Block Grant (CDBG) funding is allocated on an annual basis by the federal government's Department of Housing and Urban Development (HUD) to the Los Angeles Housing Department (LAHD), formerly known as the Housing + Community Investment Department (HCIDLA). According to the City of LA's 2021-2029 Housing Element, the funding is distributed by LAHD to fund the development of multifamily rehabilitation and minor home repairs within the city of Los Angeles boundaries.[44] On page 181 of LAHD's Con Plan, the city's current Con Plan projected an estimated 5-year funding amount of $280,000,000 for the CDBG program.

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[43] "Five-Year Consolidated Plan." *Los Angeles Housing Department.* Accessed 16 Feb. 2022. https://housing.lacity.org/community-resources/five-year-plan

[44] "Appendix 2.2. Analysis of Preservation of At-Risk Units." *Los Angeles City Planning.* Accessed 11 Feb. 2022. https://planning.lacity.org/odocument/4c31e932-63aa-418f-a18f-16599f0d5216/Appendix_2.2_-_Analysis_of_Preservation_of_At-Risk_Units.pdf

The 2021-2029 Housing Element also indicated that LAHD received approximately $54.3 million in CDBG funding for the 2020/2021 Program Year.[45]

County of Los Angeles: CDBG funding is also allocated to the Los Angeles County Development Authority (LACDA) on an annual basis for the preservation of existing affordable housing within the five Supervisorial Districts and 48 participating cities.[46] LACDA's Con Plan projected an estimated 5-year funding amount of $129,000,000 for the CDBG program. The 2021-2022 Annual Action Plan for LACDA's Con Plan indicated that LACDA received approximately $34.5 million in CDBG funding for this calendar year.[47] Each grantee is required to submit a report outlining the progress it has made in meeting Con Plan goals through the Consolidated Annual Performance and Evaluation Report (CAPER).[48] The most recent CAPER available for download from the HUD Exchange portal for both the City and County of Los Angeles was for the year 2019. The 2019 CAPER for the City of Los Angeles indicated that of the 410 rental units the city planned to rehabilitate from 2018-2022, 143 were expected to be renovated in 2019. Using a combination of CDBG and HOME funding (the latter of which is explained further in the next section), The County of Los Angeles indicated that it planned to rehabilitate 1,800 rental units from 2018-2022 and expected 374 to be renovated in 2019. Since the City of Los Angeles receives its own CDBG allocation, projects located in LA city cannot receive funding from this program from both the city and county.

HOME Investment Partnerships Program

City of Los Angeles: According to the City of LA's Con Plan, LAHD projected an estimated 5-year funding amount of approximately $208,000,000 for the HOME program. Page 31 of the Con Plan's Annual Action Plan for 2021-2022 indicated that LAHD would receive $27.5 million in HOME funding for assistance to first-time, low- or middle-income homebuyers. As seen in the chart on page 38 of the City's Annual Action Plan, only CDBG funding will be used to preserve existing affordable housing. The City of Los Angeles's HOME funding is planned to be used solely to construct new affordable rental units and direct assistance to first-time homebuyers.

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[45] "Appendix 2.2. Analysis of Preservation of At-Risk Units." *Los Angeles City Planning.* Accessed 11 Feb. 2022. https://planning.lacity.org/odocument/4c31e932-63aa-418f-a18f-16599f0d5216/Appendix_2.2_-_Analysis_of_Preservation_of_At-Risk_Units.pdf

[46] "Federal Grants to Improve Communities." *Los Angeles County Development Authority.* Accessed 11 Mar. 2022. https://www.lacda.org/community-development/cdbg

[47] "2021-2022 One-Year Action Plan for the Los Angeles Urban County." *Los Angeles County Development Authority.* Accessed 13 Mar. 2022. https://www.lacda.org/docs/librariesprovider25/community-development-programs/cdbg/plans-and-reports/one-year-action-plan/2021-2022-one-year-action-plan---volume-i.pdf?sfvrsn=c7d267bc_2

[48] "CPD Conslidated Plans, Annual Action Plans, and CAPERs." *HUD Exchange.* Accessed 1 Mar. 2022. https://www.hudexchange.info/programs/consolidated-plan/con-plans-aaps-capers/

County of Los Angeles: As with CDBG funding, HOME funding is also allocated to LACDA annually for affordable housing preservation activities and first-time homebuyer assistance to low- and middle-income households. LACDA's Con Plan projected an estimated 5-year funding amount of approximately $53,000,000 for the HOME program. The 2021-2022 Annual Action Plan for LACDA's Con Plan indicated that LACDA received approximately $9 million in HOME funding for this calendar year.[49] As explained above in the CDBG section, the 2019 CAPER for the County of Los Angeles indicated that it planned to utilize a combination of CDBG and HOME funding to rehabilitate 1,800 rental units from 2018-2022. It expected 374 to be renovated in 2019.

A.II) State Funding Sources

As of February 2022, the Grants & Funding portion of the California Department of Housing and Community Development's (HCD) website[50] specifies the sources of funding in the sections that follow as currently available or soon to be available in the next year for the preservation of existing affordable housing.

Low-Income Housing Tax Credits (LIHTC)

The Low-Income Housing Tax Credit (LIHTC) program is administered by the California Tax Credit Allocation Committee (CTCAC). It facilitates private capital investments for affordable rental housing development for low-income households. CTCAC provides federal and state tax credits to successful applications from affordable housing developers. Developers then provide these tax credits to investors in return for equity.[51]

LIHTCs can be used for the preservation of existing affordable housing projects under CTCAC's "At-Risk" category.[52] Generally, projects are "At-Risk" if, within the past five years, they have had one of the following:

- Federal mortgage insurance
- Federal loan guarantee
- Federal project-based rental assistance
- Mortgage held by federal agency

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[49] "2021-2022 One-Year Action Plan for the Los Angeles Urban County." *Los Angeles County Development Authority.* Accessed 13 Mar. 2022. https://www.lacda.org/docs/librariesprovider25/community-development-programs/cdbg/plans-and-reports/one-year-action-plan/2021-2022-one-year-action-plan---volume-i.pdf?sfvrsn=c7d267bc_2

[50] "Programs: Active." *California Department of Housing and Community Development.* Accessed 22 Feb. 2022. https://www.hcd.ca.gov/grants-funding/active-funding/index.shtml

[51] "Low-Income Housing Tax Credit Programs." *California State Treasurer.* Accessed 12 Feb. 2022. https://www.treasurer.ca.gov/ctcac/tax.asp

[52] "California Tax Credit Allocation Committee Regulations Implementing the Federal and State Low Income Housing Tax Credit Laws." *California State Treasurer.* Accessed 18 Jan. 2022. https://www.treasurer.ca.gov/ctcac/programreg/2021/20210616/2021-regulations-clean.pdf

- Subject to LIHTC rent restrictions with an expiring compliance period that places at least 50% of units at risk for losing affordability

Due to increased demand, the LIHTC application process has become incredibly competitive in California. Successful applicants will nearly always need to score perfectly on CTCAC's scoring system to move on to the final round of judging. Projects are then selected based on their final "tie-breaker" score, calculated using the formula shown in Figure 30 below:

Figure 32. CTCAC LIHTC Final Tie-Breaker Score Formula

$$\frac{\text{Committed Permanent Leveraged Soft Financing defraying Residential Costs X Size Factor}}{\text{Total Residential Project Development Costs}} + \left(\left(1 - \frac{\text{Requested Unadjusted Eligible Basis}}{\text{Total Residential Project Development Costs}}\right)/2\right)$$

Several assumptions drive the final tie-breaker formula structure. Projects that have committed more permanent leveraged soft financing to defray residential costs and are larger are looked upon more favorably since this results in a larger numerator on the left side of the equation.[53] Additionally, according to CTCAC's 2021 tax credit estimates, "At-Risk" projects only received approximately $17.6 million or 15% of allocated tax credits in the state.[54]

In the City of Los Angeles, successful LIHTC applicants must be entered into LAHD's Affordable Housing Managed Pipeline (AHMP) before they are awarded tax credits.[55] According to the 2022 Tax Credit Estimates from CTCAC, the City of Los Angeles will receive an estimated $25 million in tax credits, and Los Angeles County will receive approximately $24 million in tax credits.[56] However, according to the 2021 list of approved LIHTC applications, no acquisition-rehabilitation projects were awarded tax credits in either the City or County of Los Angeles.[57]

Affordable Housing and Sustainable Communities (AHSC) Program

The Affordable Housing and Sustainable Communities (AHSC) Program funds projects that support infill and compact development that reduce greenhouse gas emissions. The notice of funding availability (NOFA) for funding to be awarded in 2022 (Round 6)

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[53] Ling, Joan. (2021, October 6). UP280: Affordable Housing Development Studio. Class Lecture.
[54] "CTCAC Allocation and Process for Set Asides and Geographic Regions." *California State Treasurer.* Accessed 3 Feb. 2022. https://www.treasurer.ca.gov/ctcac/2021/2021-credit-estimates.pdf
[55] "Affordable Housing Managed Pipeline." *Los Angeles Housing Department.* Accessed 12 Feb. 2022. https://housing.lacity.org/partners/affordable-housing-managed-pipeline
[56] "CTCAC Allocation and Process for Set Asides and Geographic Regions." *California State Treasurer.* Accessed 3 Feb. 2022. https://www.treasurer.ca.gov/ctcac/2021/2021-credit-estimates.pdf
[57] "2021 First Round Final Approved Recommendations for the Geographic Regions." *California State Treasurer.* Accessed 20 Feb. 2022. https://www.treasurer.ca.gov/ctcac/2021/firstround/recommendations/geographic-final.pdf

announced the availability of $785 million statewide,[58] half of which is set aside for affordable housing developments, which includes acquisition and substantial rehabilitation for the preservation of existing affordable housing.[59] Eligible projects must identify strategies to link residential areas to accessible, reliable, and affordable transit options. Typically, both the City of Los Angeles and LA County will seek developers to partner with for AHSC NOFA applications.[60] Under the Round 5 AHSC Program in 2020, approximately $131 million was awarded to the City of Los Angeles[61] and $24 million to the County of Los Angeles.[62] However, all Round 5 AHSC funding for affordable housing was for new construction projects.

Multifamily Housing Program (MHP)

The Multifamily Housing Program (MHP) includes funding for the rehabilitation and preservation of permanent and transitional rental housing for lower-income households. HCD specifies that 45% of MHP funding is set aside each year for projects in Southern California.[63] Eligible rehabilitation project types include Large Family, Special Needs, Senior, At High Risk, and Supportive Housing. MHP funding is provided for post-construction permanent loans with 55-year terms and 3% interest rates on the unpaid principal balance. Applicants must have successfully developed at least one affordable housing project and meet TCAC's "At-risk" project qualifications. Non-profits can apply individually or through a joint venture or partnership with other entities. The July 2021 NOFA indicated that approximately $220 million in MHP funding was available statewide.[64] According to the 2020 MHP Awardee List, Los Angeles County received a

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[58] "Affordable Housing and Sustainable Communities Program Amended Notice of Funding Availability - Round 6." *California Department of Housing and Community Development.* https://www.hcd.ca.gov/grants-funding/active-funding/ahsc/docs/final-ahsc-round-6-nofa-amendment-memo.pdf

[59] "Affordable Housing and Sustainable Communities Program (AHSC)." *California Department of Housing and Community Development.* Accessed 14 Feb. 2022. https://www.hcd.ca.gov/grants-funding/active-funding/ahsc.shtml

[60] "Affordable Housing and Sustainable Communities Program (AHSC)." *County of Los Angeles California.* Accessed 14 Feb. 2022. https://ahsc.lacounty.gov/

[61] "Affordable Housing and Sustainable Communities Program Overview." *Los Angeles Housing Department.* Accessed 12 Feb. 2022. https://housing.lacity.org/policy-data/affordable-housing-and-sustainable-communities-program

[62] "Round 5 Affordable Housing and Sustainable Communities Program: FY 2018-2019 Recommended Awards." *California Strategic Growth Council.* Accessed 20 Feb. 2022. https://sgc.ca.gov/meetings/council/2020/docs/20200625-Item6c_AHSC_Staff_Report.pdf

[63] "Multifamily Housing Program (MHP)." *California Department of Housing and Community Development.* Accessed 12 Jan. 2022. https://www.hcd.ca.gov/grants-funding/active-funding/mhp.shtml

[64] "Multifamily Housing Program July 2021 Notice of Funding Availability." *California Department of Housing and Community Development."* Accessed 3 Feb. 2022. https://www.hcd.ca.gov/grants-funding/active-funding/mhp/docs/2.mhp_nofa_round_4.pdf

total of approximately $68 million in funding.[65] However, the list did not specify if acquisition-rehabilitation projects were awarded funding.

Permanent Local Housing Allocation (PLHA)

The Permanent Local Housing Allocation (PLHA) is a source of funding that HCD provides to all local governments to help them increase and preserve their affordable housing stock. This program was created through SB 2 (the Building Homes and Jobs Act) and generates state revenue by imposing a $75 recording fee on all real estate transactions. This revenue is then allocated by HCD to local jurisdictions. Grants are provided based on the CDBG allocation formula. The predevelopment, acquisition, rehabilitation and preservation of affordable rental housing for extremely low-, very low-, low- or middle-income households are all listed as eligible activities.[66] Per PLHA requirements, any preservation projects receiving funding will be required to have a minimum 55-year term affordability covenant. In a January 2022 transmittal from LAHD to the Mayor's Office, the LAHD General Manager requested that the PLHA funding for the preservation of affordable rental housing in the City of Los Angeles allocate $5.7 million for the preservation of 53 units from 2021-2022 and $8.9 million for the preservation of 83 units from 2022-2023.[67] The 2021-2022 Annual Budget for the Los Angeles County Development Authority (LACDA) indicated that $5.7 million would be available through the PLHA program.[68]

Golden State Acquisition Fund (GSAF)

The Golden State Acquisition Fund (GSAF) is a $93 million flexible and low-cost financing program for the acquisition of vacant land or improved affordable housing properties in California.[69] This fund was initially established through $23 million in seed funding from the California Department of Housing and Community Development (HCD). HCD leveraged the seed funding with additional capital from the following Community Development Financial Institutions (CDFIs): Low Income Investment Fund, Century Housing, Corporation for Supportive Housing, Enterprise Community Loan Fund, Local

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[65] "Department of Housing & Community Development Multifamily Housing Program (MHP), Round 3 Final Point Score and Awardee List." *California Department of Housing and Community Development.* Accessed 12 Jan. 2022. https://www.hcd.ca.gov/grants-funding/active-funding/mhp/docs/mhp_rd_3_final_point_score_and_awardee_list_(final%201.7.2021).pdf

[66] "Permanent Local Housing Allocation (PLHA)." *California Department of Housing and Community Development.* Accessed 12 Jan. 2022. https://www.hcd.ca.gov/grants-funding/active-funding/plha.shtml

[67] "Council Transmittal: Request for Authority for Various Actions Related to Implementation of SB-2 - PLHA." *City of Los Angeles.* Accessed 12 Feb. 2022. https://clkrep.lacity.org/onlinedocs/2019/19-0685-S1_rpt_HCI_01-21-22.pdf

[68] "Annual Budget Fiscal Year 2021-2022." *Los Angeles County Development Authority.* Accessed 11 Feb. 2022. https://www.lacda.org/docs/librariesprovider25/finance-and-budget/annual-budget/2022_budget_in_brief_final.pdf?sfvrsn=957360bc_4

[69] "Golden State Acquisition Fund." *Golden State Acquisition Fund.* Accessed 20 Jan. 2022. https://www.goldenstate-fund.com/

Initiatives Support Corporation, Northern California Community Loan Fund, and Rural Community Assistance Corporation. Non-profit applicants can borrow the lesser of the as-is appraised value or the purchase price of the property. The fund's maximum loan commitment amount is $13,950,000. Additionally, rental units must be restricted to households at or below 60% AMI. Each originating lender determines the terms of each loan.

A.III) County of Los Angeles Funding Sources

LACDA 2021-2022 Annual Budget

The Los Angeles County Development Authority's (LACDA) Annual Budget for Fiscal Year 2021-2022 listed the total available funding as $869.5 million, which is primarily comprised of funding provided by HUD, the State of California, and the County of Los Angeles. County funds are budgeted at $157.5 million, $90.3 million of which "supports the preservation and development of special needs and affordable housing."[70] The document identified LACDA's first major goal as "residential development and preservation throughout Los Angeles County" and specified that activities associated with this goal would be managed by the Housing Investment and Finance (HIF) division.[71]

For 2021-2022, HIF planned to issue approximately $50 million through Round 27 of its Notices of Fund Availability (NOFAs) to support development efforts through loan agreements for 932 housing units located in 20 projects. However, like the majority of affordable housing funding provided by LACDA,[72] this NOFA is reserved entirely for the creation of permanent Special Needs housing units in LA County.[73]

LA County Pilot CLT Partnership Program (CLTP)

As explained previously in the Introduction section of this report, LACDA allocated $14 million in one-time funding from its Affordable Housing Program for the Pilot CLT Partnership Program (CLTP) in November 2020. The CLTP program was a part of HIF's efforts to "mitigate displacement risk generated by the potential loss of naturally

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[70] "Annual Budget Fiscal Year 2021-2022." *Los Angeles County Development Authority.* Accessed 11 Feb. 2022. https://www.lacda.org/docs/librariesprovider25/finance-and-budget/annual-budget/2022_budget_in_brief_final.pdf?sfvrsn=957360bc_4

[71] "Annual Budget Fiscal Year 2021-2022." *Los Angeles County Development Authority.* Accessed 11 Feb. 2022. https://www.lacda.org/docs/librariesprovider25/finance-and-budget/annual-budget/2022_budget_in_brief_final.pdf?sfvrsn=957360bc_4

[72] "About Affordable Housing." *Los Angeles County Development Authority.* Accessed 11 Feb. 2022. https://www.lacda.org/affordable-housing

[73] "Notice of Funding Availability and Program Guidelines." *Los Angeles County Development Authority.* Accessed 11 Feb. 2022. https://www.lacda.org/docs/librariesprovider25/affordable-housing-programs/multifamily-rental-housing---nofa/round-27-documents/nofa-27-guidelines.pdf?sfvrsn=208262bc_0

occurring affordable housing."[74] Funding was provided for CLTs in the LA CLT Coalition to acquire and rehabilitate existing affordable housing and maintain the property as long-term affordable housing for 99 years. LACDA's most recent Annual Budget explained that this program would carry over into Fiscal Year 2021-2022, but did not indicate any additional funding allocation beyond the initial $14 million.[75]

A.IV) City of Los Angeles Funding Sources

The 2021-2029 Housing Element for the City of Los Angeles indicated the following five financial resources it has made available for the preservation of affordable housing: Community Development Block Grant (CDBG), HOME Investment Partnerships Program, Affordable Housing Linkage Fee (AHLF), New Generation Fund (NGF), and SB2 Permanent Local Housing Allocation (PLHA) Grants. Four of these five sources are discussed in other sections of this report; both CDBG and HOME funding were discussed earlier in the Federal Funding Sources section, SB2 Permanent Local Housing Allocation (PLHA) earlier in the State Funding Sources section, and New Generation Fund later in the Below-market Debt Funds section. I explain the fifth City of Los Angeles funding source, Affordable Housing Linkage Fee (AHLF), below:

Affordable Housing Linkage Fee (AHLF)

The City of Los Angeles adopted the Affordable Housing Linkage Fee Ordinace (No. 185342) in December 2017, which places a fee on newly constructed market-rate commercial and residential developments to generate a source of local funding for the production and preservation of affordable housing.[76] According to the 2021 Affordable Housing Linkage Fee Oversight Committee Report, approximately $5.8 million was set aside in the AHLF Expenditure Plan for "projects proposing to extend affordability covenants and undertake necessary rehabilitation work."[77] Both Low Income Housing Tax Credit (LIHTC) preservation project applicants in the City's Affordable Housing Managed Pipeline (AHMP) and non-LIHTC preservation project applicants have access to AHLF funding. As of May 2021, LAHD stated that it is in the process of crafting

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[74] "Annual Budget Fiscal Year 2021-2022." *Los Angeles County Development Authority.* Accessed 11 Feb. 2022. https://www.lacda.org/docs/librariesprovider25/finance-and-budget/annual-budget/2022_budget_in_brief_final.pdf?sfvrsn=957360bc_4

[75] "Annual Budget Fiscal Year 2021-2022." *Los Angeles County Development Authority.* Accessed 11 Feb. 2022. https://www.lacda.org/docs/librariesprovider25/finance-and-budget/annual-budget/2022_budget_in_brief_final.pdf?sfvrsn=957360bc_4

[76] "Ordinance No. 185342." *City of Los Angeles.* Accessed 2 Feb. 2022. http://clkrep.lacity.org/onlinedocs/2017/17-0274_ORD_185342_1-18-17.pdf

[77] "Approval of Expenditure Plan and Program Guidelines for FY 2020-2021 Affordable Housing Linkage Fee." *Los Angeles Housing Department.* Accessed 21 Jan. 2022. https://housing.lacity.org/wp-content/uploads/2021/05/2020-21-Affordable-Housing-Linkage-Fee.pdf

additional program guidelines for the AHLF Rental Preservation Program for projects that are not seeking LIHTC or AHMP funding.[78]

A.V) Emerging Public Funding Programs

In the sections that follow, I outline two emerging programs in the City of Los Angeles: United to House LA and future streamlining efforts to be conducted by the City of Los Angeles Housing Department (LAHD) for its funding programs.

United to House LA - Los Angeles Program to Prevent Homeless and Fund Affordable Housing

United to House LA is a citizen-led ballot measure to create the Los Angeles Program to Prevent Homelessness and Fund Affordable Housing. The measure is primarily focused on supporting individuals experiencing homelessness and individuals with incomes less than 30% AMI and at risk of becoming homeless. It aims to create a new funding source in three areas: protection of existing affordable housing, creation of new affordable housing, and supportive services for low-income renters. If passed in November 2022, the measure would generate approximately $875 million each year by increasing the local real estate transfer assessment on the sale of properties valued at over $5 million in Los Angeles. Properties valued from $5,000,001 to $10,000,000 would be taxed a single time at 4%, and properties valued at more than $10,000,001 would be subject to a one-time tax at 5.5%.[79]

Future LAHD Program Streamlining

According to the 2021-2029 Housing Element for the City of Los Angeles, LAHD intends to streamline its affordable housing production and preservation efforts into three primary programs: Preservation, New Production, and Pre-development and Acquisition Financing. The Preservation Program aims to preserve 300 existing affordable rental units annually by renewing and/or re-restructuring Project-based Section 8 contracts and re-capitalizing existing affordable housing projects while mandating that their affordability restrictions be increased.

A.VI) Public Funding Source Conclusion & Notable Limitations

Table 24 below summarizes the public funding sources discussed previously. The table is followed by a discussion regarding notable limitations affecting the financial feasibility of NOAH preservation projects.

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[78] “Approval of Expenditure Plan and Program Guidelines for FY 2020-2021 Affordable Housing Linkage Fee.” *Los Angeles Housing Department.* Accessed 21 Jan. 2022. https://housing.lacity.org/wp-content/uploads/2021/05/2020-21-Affordable-Housing-Linkage-Fee.pdf

[79] “Initiative Overview: Key Details.” *United to House LA.* Accessed 21 Feb. 2022. https://www.unitedtohousela.com/intiativeoverview

Table 29. Available Public Funding Sources for Preservation of Existing Affordable Housing

Funding Source	Type	Year Est.	Geographic Scale	Recent Estimates of Annual Funding	Limitations*
Community Development Block Grant (CDBG)	Public	1975	National (distributed at both City and County levels)	City of LA: $54.3 million County of LA: $34.5 million	-8+ unit buildings trigger prevailing wage requirements
HOME Investment Partnership	Public	1990	National (distributed at both City and County levels)	City of LA: $27.5 million County of LA: $9 million	-12+ unit buildings trigger prevailing wage requirements
Low-Income Housing Tax Credit (LIHTC)	Public/ Private	1986	State (distributed at both City and County levels)	City of LA: $25 million (estimate based on $250 million granted over 10 year period) County of LA: $24 million (estimate based on $240 million granted over 10 year period)	-Subject to TCAC "At-Risk" eligibility requirements.[80] -No acq-rehab projects awarded credits in 2021 in either City or County of LA.
Affordable Housing and Sustainable Communities (AHSC)	Public	2014	State (distributed at both City and County levels)	City of LA: $131 million County of LA: $24 million	No acq-rehab projects awarded funding in 2020 in either City or County of LA.
Multifamily Housing Program (MHP)	Public	2018	State	County of LA: $68 million	-Subject to TCAC "At-Risk" eligibility requirements.[81] -Applicants must have successfully developed at least 1 affordable housing project.
Permanent Local Housing Allocation	Public	2017	State (distributed at both City	City of LA: $9 million	None listed

[80] "California Tax Credit Allocation Committee Regulations Implementing the Federal and State Low Income Housing Tax Credit Laws." *California State Treasurer.* Accessed 18 Jan. 2022. https://www.treasurer.ca.gov/ctcac/programreg/2021/20210616/2021-regulations-clean.pdf

[81] "California Tax Credit Allocation Committee Regulations Implementing the Federal and State Low Income Housing Tax Credit Laws." *California State Treasurer.* Accessed 18 Jan. 2022. https://www.treasurer.ca.gov/ctcac/programreg/2021/20210616/2021-regulations-clean.pdf

(PLHA)			and County levels)	County of LA: $5.7 million	
Golden State Acquisition Fund (GSAF)	Public/ Private	2006	State (distributed by 8 originating lenders)	State of California: $93 million	Maximum loan available: $13.95 million
Los Angeles County Development Authority (LACDA) Funding	Public	2019	County	$90 million	-2021-2022 Notice of Fund Availability (NOFA) reserved only for creation of Permanent Supportive Housing
LA County Pilot CLT Partnership Program (CLTP)	Public	2020	County	$14 million	-CLTs must partner with an existing Community Development Corporation (CDC) and comply with County monitoring requirements
Affordable Housing Linkage Fee (AHLF)	Public/ Private	2017	City	$5.8 million	-None listed, updated Rental Preservation Program requirements to be released in early 2022

*Accessibility requirements listed in Section 504 of the Rehabilitation Act of 1973 pertain to all publicly-funded projects, see Compliance with the Americans with Disabilities Act (ADA) below for more information.

Prevailing Wage Triggers

Prevailing wages are defined as the "basic hourly rate of wages and benefits paid to a number of similarly employed workers in a given geography."[82] These wage levels set floors for labor compensation in a specific locality. They typically offer the following benefits: ensure that government dollars do not engage in wage rate competition by preventing a "race to the bottom" approach among contractors, support laborers with a livable pay, and promote higher quality construction work.

Policymakers have set prevailing wage laws for work that receives the following forms of government support: direct contracts, grants, loans, and tax incentives. On a federal level, the Davis-Bacon and Related Acts (DBRA) require contractors and subcontractors involved in contracts receiving federal funding or assistance to provide any labor involved with prevailing wages and benefits. This requirement only applies to contracts over $2,000.[83]

[82] "Davis-Bacon and Related Acts." *U.S. Department of Labor.* Accessed 12 Feb. 2022. https://www.americanprogress.org/article/prevailing-wages-frequently-asked-questions/
[83] "Davis-Bacon and Related Acts." *U.S. Department of Labor.* Accessed 12 Feb. 2022. https://www.dol.gov/agencies/whd/government-contracts/construction#:~:text=The%20Davis%2DBacon%20and%20Related,public%20buildings%20or%20public%20works

The DBRA defines a residential project as consisting of single-family homes and apartments up to and including four stories tall. Rates are organized by type of construction labor (ex. Carpenter, plumber, tile layer, etc.) and, as of March 2022, generally ranged from $21.00 to $62.00 per hour.[84]

This report analyzed two primary sources of federal funding for affordable housing preservation: the Community Development Block Grant (CDBG) and HOME Investment Partnership programs. As explained in the "Limitations" column of Table 24 above, each program has its own unit threshold, which triggers prevailing wage requirements. For any residential project that contains eight or more units and receives CDBG funding, prevailing wages are required. For any residential project that contains 12 or more units and receives HOME funding, prevailing wages are required. These unit thresholds present an exemption from Davis-Bacon wages for smaller multifamily buildings receiving federal support from either of these two programs.[85]

California has its own prevailing wage requirements for projects receiving assistance from state funding sources. These wages are determined by the state's Department of Industrial Relations (DIR) and apply to publicly funded projects if they are higher than DBRA rates. According to the state's Labor Code, state prevailing wages apply to any residential project (single-family home or multifamily building up to four stories) that is paid for either in whole or in part out of public funds.[86] As of March 2022, the California DIR Prevailing Wage Determinations for Los Angeles County generally ranged from $18.00 to $47.00.[87]

Compliance with Accessibility Regulations
Any property that receives assistance from public funding sources is subject to the following accessibility regulations:

- Section 504 of the Rehabilitation Act of 1973: Section 504 holds that "no otherwise qualified individual with a disability in the United States … shall, solely by reason of his or her disability, be excluded from the participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal financial assistance…"[88] Generally, at least five percent of the

[84] "Davis-Bacon Act WD # CA20220017." *U.S. General Services Adminstration.* Accessed 20 Feb. 2022. https://sam.gov/wage-determination/CA20220017/7
[85] "Davis-Bacon & HOME." *HUD Exchange.* Accessed 21 Feb. 2022. https://files.hudexchange.info/resources/documents/Davis-BaconandHOME_TrainingManual.pdf
[86] "Frequently Asked Questions - Prevailing Wage." *California Department of Industrial Relations.* Accessed 17 Feb. 2022. https://www.dir.ca.gov/OPRL/FAQ_PrevailingWage.html
[87] "Prevailing Wage Determination Made by the Director of Industrial Relations Pursuant to California Labor Code." *California Department of Industrial Relations.* Accessed 12 Feb. 2022. https://www.dir.ca.gov/OPRL/Residential/los_angeles.pdf
[88] "Section 504, Rehabilitation Act of 1973." *U.S. Department of Labor.* Accessed 12 Jan. 2022. https://www.dol.gov/agencies/oasam/centers-offices/civil-rights-center/statutes/section-504-rehabilitation-act-of-1973

total dwelling units, or a minimum of one unit (whichever is greater), in a multifamily development is required to be made accessible for persons with mobility impairments. Additionally, a minimum of two percent, or at least one unit (whichever is greater), must be made accessible for individuals with hearing or visual impairments.[89]

- Americans with Disabilities (ADA) Act: Passed in 1990, the ADA is a civil rights law that prohibits discrimination against people with disabilities, which are defined as "physical or mental impairments that substantially limit one or more major life activities."[90] The Act pertains to nearly all housing construction through its Standards for Accessible Design, which set enforceable standards under Titles II (housing provided by state and local government regulations) and III (public and common use areas at residential development owned by private businesses or non-profits) for any new development or alterations to any existing development. These standards were later revised in 2010 and any project beginning on or after March 15, 2012 was required to comply with these revisions.[91]

Generally, Section 504 applies only to properties receiving public funding assistance, whereas ADA applies to publicly accessible portions of all residential construction projects, such as a building lobby.[92] Common accessibility requirements defined by Section 504 and the ADA include lowered heights and knee clearances for sinks, clear width of 36" for walking surfaces, five-foot turning radii in bathrooms, and the installation of grab bars.[93] Such alterations, particularly those involving the removal and relocation of walls to provide for minimum access widths, can be extremely cost-intensive endeavors.[94] For example, making a single unit entirely wheelchair accessible can add anywhere from $2,000 - $60,000 to that individual unit's renovation costs.[95]

The Los Angeles Housing Department (LAHD) currently requires any construction project receiving public funding to submit a report from a Certified Accessibility Specialist

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[89] "Accessibility Requirements for Buildings." *U.S. Department of Housing and Urban Development.* Accessed 3 Mar. 2022. https://www.hud.gov/program_offices/fair_housing_equal_opp/disabilities/accessibilityR
[90] "Introduction to the ADA." *United States Department of Justice Civil Rights Division.* Accessed 4 Mar. 2022. https://www.ada.gov/ada_intro.htm
[91] "ADA Standards for Accessible Design." *United States Department of Justice Civil Rights Division.* Accessed 4 Mar. 2022. https://www.ada.gov/2010ADAstandards_index.htm
[92] "Disability." *U.S. Department of Housing and Urban Development.* Accessed 3 Mar. 2022. https://www.hud.gov/program_offices/fair_housing_equal_opp/disability_main
[93] "2010 ADA Standards for Accessible Design." *United States Department of Justice Civil Rights Division.* Accessed 4 Mar. 2022. https://www.ada.gov/regs2010/2010ADAStandards/2010ADAStandards_prt.pdf
[94] "Disability Accommodation Cost Guides." *HomeAdvisor.* Accessed 10 Mar. 2022. https://www.homeadvisor.com/cost/disability-accommodation/
[95] "How Much Does It Cost to Remodel for Disability Accommodation?" *HomeAdvisor.* Accessed 10 Mar. 2022. https://www.homeadvisor.com/cost/environmental-safety/remodel-for-disability-accommodation/

(CASp) verifying that it complies with Section 504 and ADA standards.[96] Property owners of rehabilitation projects are provided some leeway with these requirements. Part 8, Section 8.23 “Alterations of existing housing facilities” of the Title 24 Code of Federal Regulations states the following: “alterations to dwelling units in a multifamily housing project shall, to the maximum extent feasible, be made to be readily accessible and usable by individuals with handicaps…‘to the maximum extent feasible’ shall not be interpreted as requiring that a recipient make a dwelling unit, common area, facility or element thereof accessible if doing so would impose undue financial and administrative burdens on the operation of the multifamily housing operation.”[97]

However, acq-rehab projects that receive public funding and qualify for an accessibility retrofit exemption are still required, at a minimum, to conduct a CASp inspection and submit the accompanying report that identifies the technical and/or financial infeasibility of performing such a retrofit.[98]

B. Private Funding Sources

Efforts to preserve naturally occurring affordable housing stock are currently underserved by conventional institutional capital sources. However, a growing number of private financing options have emerged in recent years, as detailed by a 2015 report written by the Urban Land Institute’s (ULI) Terwilliger Center for Housing titled “Preserving Multifamily Workforce and Affordable Housing: New Approaches for Investing in a Vital National Asset.”[99] The report grouped the private financing approaches it covered into three categories:

- Below-market Debt Funds
- Private Equity Vehicles
- Real Estate Investment Trusts (REITs)

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[96] “Accessibility (ADA) Compliance Requirements.” *Los Angeles Housing Department.* Accessed 10 Mar. 2022. https://housing.lacity.org/housing/accessibility-ada-compliance-requirements

[97] “Code of Federal Regulations.” *govinfo.* Accessed 12 Mar. 2022. https://www.govinfo.gov/content/pkg/CFR-2012-title24-vol1/xml/CFR-2012-title24-vol1-part8.xml#seqnum8.23

[98] “Accessibility Regulations Matrix & Overview.” *Los Angeles Housing Department.* Accessed 11 Mar. 2022. https://housing.lacity.org/wp-content/uploads/2020/05/Accessibility%20Regs%20Matrix%20%26%20Overview.pdf?download=1

[99] “Preserving Multifamily Workforce and Affordable Housing.” *Urban Land Institute.* Accessed 23 Feb. 2022. https://uli.org/wp-content/uploads/ULI-Documents/Preserving-Multifamily-Workforce-and-Affordable-Housing.pdf

Additionally, as seen below in Figure 31,[100] the report included the following summary chart of the three financing vehicles.

Figure 33. Private Financing Categories for Preservation of Existing Affordable Housing

Financing vehicle	Primary purpose(s)	Demonstrated strengths	Potential limitations	Capital sources and financial returns
Below-market debt funds	Acquisition of land and existing subsidized affordable properties and new development; often not limited to housing	As revolving funds, provider of a continuing source of capital Facilitator for affordability-focused developers to compete in hot markets	Complex administration; significant startup costs General dependency on availability of permanent "takeout" financing	Local public agencies, foundations, CDFIs, financial institutions Interest rates to senior lenders generally range from 2 percent to 6 percent, depending on capital source and fund structure
Private equity vehicles	Acquisition of existing subsidized and/or "naturally occurring" affordable properties	Ability to act at market speed Scale of capital	Varying degrees of commitment to long-term affordability Less transparency in structure, returns	Financial institutions, pension funds, university endowments, high-net-worth individuals, foundations Cash-on-cash returns to investors from 6 percent to 12 percent
Real estate investment trusts	Acquisition of existing subsidized and/or "naturally occurring" affordable properties	Strong focus on preserving affordability Facilitator for affordability-focused developers to compete in hot markets	Considerable technical expertise required to manage (only two exist that focus solely on workforce-affordability sector)	Foundations, financial institutions, CDFIs Total returns to investors generally from 4.5 percent to 8 percent

I summarize the approaches associated with these three categories in greater detail below and describe four additional emerging private funding sources in Los Angeles not covered in the ULI report. The private funding sources discussed in this section do not represent all available options.

B.I) Below-market Debt Funds

Below-market Debt Funds are created through partnerships that include public, private, and philanthropic institutions seeking to offer affordable housing developers low-interest loans or grants. These funds originate through Community Development Financial Institutions (CDFIs) and can be used for the costs associated with acquisition and

[100] "Preserving Multifamily Workforce and Affordable Housing." *Urban Land Institute.* Accessed 23 Feb. 2022. https://uli.org/wp-content/uploads/ULI-Documents/Preserving-Multifamily-Workforce-and-Affordable-Housing.pdf

early-stage rehabilitation efforts. Because Below-market Debt Funds typically blend money from the government, foundations, banks, and insurance companies, they enable loan products that can enable loan products that support higher-risk activities. Additionally, these loans are typically "revolving" and provide a continuous funding source; new loans are created as prior loans are paid off. Lastly, the ULI report found that Below-market Debt Funds are most successful in larger cities with well-staffed -development efforts and that these funds rely on other sources to provide construction and permanent financing.[101] An example of a Below-market Debt Fund specific to Los Angeles, the New Generation Fund, is explained below.

New Generation Fund LLC

The New Generation Fund (NGF) was created in 2008 and offers flexible acquisition, predevelopment, and rehabilitation financing for the production and preservation of affordable housing in Los Angeles. This fund is a partnership between the City of Los Angeles Housing Department (LAHD), Enterprise Community Partners, Inc., Citibank, and the following underwriting lenders: Century Housing, Corporation for Supportive Housing, Enterprise Community Partners, Inc., Genesis LA, Low Income Investment Fund, and LISC LA.[102] This fund is capitalized with approximately $68.5 million in lendable dollars. The loan amount listed on the NGF's Affordable Housing Preservation Loan Term Sheet indicated a maximum amount of $10,000,000 with higher amounts permitted "on an exception basis."[103]

B.II) Private Equity Vehicles

Private Equity Vehicles are "entities that use private capital to acquire and rehabilitate multifamily workforce and affordable housing properties, delivering a range of returns to equity investors, while maintaining the properties as affordable for lower- and middle-income renters."[104] These vehicles target both subsidized and unsubsidized existing affordable housing properties and typically operate in one of the following ways:

- Develop and own
- Joint-venture with other developers

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[101] "Preserving Multifamily Workforce and Affordable Housing." *Urban Land Institute.* Accessed 23 Feb. 2022. https://uli.org/wp-content/uploads/ULI-Documents/Preserving-Multifamily-Workforce-and-Affordable-Housing.pdf

[102] "New Generation Fund LLC." *New Generation Fund.* Accessed 23 Feb. 2022. https://www.newgenerationfund.com/

[103] "Affordable Housing Preservation Loan Term Sheet (Updated 10.24.18)." *New Generation Fund.* Accessed 23 Feb. 2022. https://static1.squarespace.com/static/5140e3b6e4b089f4051fb2c1/t/5d8d2f24824b1c61e60dfb0a/1569533732148/NGF+Term+Sheets_2019.pdf

[104] "Preserving Multifamily Workforce and Affordable Housing." *Urban Land Institute.* Accessed 23 Feb. 2022. https://uli.org/wp-content/uploads/ULI-Documents/Preserving-Multifamily-Workforce-and-Affordable-Housing.pdf

- Sell to mission-driven developers upon exiting from the deal

These vehicles work to attract real estate equity investors such as financial institutions, pension funds, university endowments, philanthropic individuals, and foundations willing to take lower returns. The report mentioned that some private equity vehicles expect a cash-on-cash return, or the amount of cash flow earned on the cash invested in a property[105], of 6-12%. Since ULI wrote this report in 2015, the expected return measures are likely different.

Though private equity vehicles may represent an important source of funding to preserve existing affordable housing, they are likely not as applicable to community land trusts' (CLTs) development model. At this time, CLTs are considered to be atypical real estate investments because they prioritize community ownership in perpetuity. Because CLTs will not sell the property, they will not provide back-end profit at sale to investors, thereby limiting the internal rate of return potential. CLT acquisition-rehabilitation projects will likely be unattractive to private equity vehicles.

Four examples of private equity vehicles, all of which operate on a national scale, are listed below.

Avanath Capital Management, LLC - Affordable Housing IV Fund
Avanath is a private firm that manages real estate investments in multifamily housing in the following three rental sectors: rent-restricted affordable housing (ex. LIHTC, tax-exempt bonds, or project-based Section 8 properties), workforce housing, and naturally occurring affordable housing. The firm defines NOAH as "older 'C' properties that require upgrades to serve the needs of existing residents."[106] Avanath's mission is to maintain long-term affordability for residents with incomes between $30,000 and $80,000. Thus far, it has funded 13 properties in Southern California.

In January 2021, Avanath announced its fourth discretionary fund, "Avanath Affordable Housing IV," which totaled $760 million in equity commitments "dedicated to affordable and workforce housing in the U.S., with an emphasis on underserved markets, including communities of color."[107] Return requirements were not listed for this current fund. However, Avanath's second discretionary fund, "Avanath Affordable Housing II," expected "overall returns of 15-18%" and cash-on-cash returns of 6-10%.[108]

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[105] Kenton, Will. "Cash-on-Cash Return." *Investopedia.* Accessed 10 Mar. 2022. https://www.investopedia.com/terms/c/cashoncashreturn.asp
[106] "Overview." *avanath.* Accessed 22 Feb. 2022. https://www.avanath.com/about/overview/
[107] "Final Closing of 'Avanath Affordable Housing IV' Totaling $760 Million." *Accord Group.* Accessed 20 Feb. 2022. https://www.accord-group.net/single-post/final-closing-of-avanath-affordable-housing-iv-totaling-760-million
[108] "Avanath Affordable Housing II, LLC" *California Department of Insurance.* Accessed 20 Feb. 2022. https://www.insurance.ca.gov/0250-insurers/0700-coin/upload/AvanathBulletinFlyer.pdf

Enterprise Multifamily Opportunity Fund & Preservation Equity
Enterprise Community Investment, "Enterprise," is a national community development financial services firm that offers two sources of private equity to preserve existing affordable and workforce rental homes. The first is its Multifamily Opportunity Fund, which is a joint-venture partnership model that targets 10% returns to the following investors: financial institutions, philanthropic individuals, and private investors. The fund provides up to 90% of the required equity financing for a maximum of seven years while leveraging traditional debt.[109] As of May 2018, the fund was valued at approximately $106 million.[110]

The second fund Enterprise offers is Preservation Equity, which is focused on implementing energy-efficient retrofits, services and wealth-building opportunities for residents, and partnerships with BIPOC housing providers. Like the Multifamily Opportunity Fund, this fund is a joint-venture partnership between Enterprise and developers seeking to preserve existing affordable housing. Preservation Equity can be used for costs associated with acquisition, immediate capital improvements, reserves, and financing costs. As of June 2021, the fund was valued at approximately $229 million.[111]

According to the most recently available term sheet, the Preservation Equity fund's minimum investment is $3 million per project, the maximum investment is $20 million per project, the developer is required to invest a minimum of 10-20% of the total equity required, and the "preferred return is a minimum of 10%."[112]

PNC Real Estate - Affordable Housing Preservation Investments Program
PNC Real Estate provides banking, financing, and servicing support for commercial real estate clients in the U.S. One of the programs it offers is the Affordable Housing Preservation Investments Program. This program provides acquisition financing for existing LIHTC properties nearing the end of their compliance period and at risk of being acquired by for-profit developers planning to convert the units to market-rate rents. PNC

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[109] "Preserving Multifamily Workforce and Affordable Housing." *Urban Land Institute.* Accessed 23 Feb. 2022. https://uli.org/wp-content/uploads/ULI-Documents/Preserving-Multifamily-Workforce-and-Affordable-Housing.pdf
[110] "Enterprise Multifamily Opportunity Fund II / Dashboard." *Docoh.* Accessed 21 Feb. 2022. https://docoh.com/company/1693404/enterprise-multifamily-opportunity-fund-ii-llc
[111] "Enterprise Closes Its Largest-Ever Impact Investing Fund." *Enterprise Community Partners.* Accessed 22 Feb. 2022. https://www.enterprisecommunity.org/news-releases/2021-06_enterprise-closes-its-largest-ever-impact-investing-fund
[112] "Conventional Equity to Support the Acquisition & Rehabilitation of Multifamily Properties." *Enterprise Community Partners.* Accessed 20 Feb. 2022. https://www.enterprisecommunity.org/sites/default/files/2021-10/Enterprise_Conventional_Equity_External_03162021.pdf

Real Estate partners with state allocating agencies and developers to redevelop the properties utilizing new low-income housing tax credits after a three- to a five-year hold period.[113] As of January 2019, the fund was estimated to be a total of $200 million.[114] Though this program is not specifically focused on NOAH acquisition, it offers an opportunity for BVCLT to participate in the acquisition and rehabilitation of existing affordable housing properties previously financed by LIHTC.

Turner Impact Capital - Multifamily Impact Funds

Turner Impact Capital is a social impact investment management firm focused on underserved areas, including Los Angeles. One of its main investment strategies, the Turner Multifamily Impact Funds, is a collaboration of Turner Impact Capital, Citi Community Capital, the University of Michigan's endowment, and the Rockefeller Brothers Fund. It is focused on preserving naturally occurring affordable for working individuals and families in urban communities throughout the U.S.[115] The funds provide for retrofit and maintenance projects and needs-based enrichment services for existing residents such as academic support, health education, and community watch programs.

The fund targets financial returns that range between 10-12%. The firm's first fund invested approximately $700 million to acquire and preserve over 7,800 existing affordable housing units. In December 2020, Turner Impact Captial closed on its second fund, which will invest $1.25 billion in workforce housing communities across the U.S. for residents unable to access homeownership and high-end rental units or encountering difficulty qualifying for subsidized housing.[116]

B.III) Real Estate Investment Trusts (REITs)

In 1960, the U.S. Congress created real estate investment trusts (REITs) as an investment vehicle for small-scale investors to buy shares in commercial real estate portfolios.[117] Generally, REITs pool the capital of multiple investors to make it possible for

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[113] "Preserving Multifamily Workforce and Affordable Housing." *Urban Land Institute.* Accessed 23 Feb. 2022. https://uli.org/wp-content/uploads/ULI-Documents/Preserving-Multifamily-Workforce-and-Affordable-Housing.pdf

[114] "PNC Preservation Fund." *Arlington Department of Community Planning Housing & Development Housing Division.* Accessed 12 Feb. 2022. https://arlingtonva.s3.amazonaws.com/wp-content/uploads/sites/15/2019/01/PNC-Preservation-Fund-January-2019.pdf

[115] "The Turner Multifamily Impact Funds." *Turner Impact.* Accessed 20 Feb. 2022. https://turnerimpact.com/housing/

[116] Serlin, Christine. "Turner Impact Capital Prioritizes Profits and Purpose." *Multifamily Executive.* Accessed 15 Feb. 2022. https://www.multifamilyexecutive.com/business-finance/turner-impact-capital-prioritizes-profits-and-purpose_o

[117] "Preserving Multifamily Workforce and Affordable Housing." *Urban Land Institute.* Accessed 23 Feb. 2022.

many individuals to invest without having to buy, manage or finance a property themselves. Two examples of REITs are listed below, which focus exclusively on investments in affordable multifamily developments on a national scale.

Community Development Trust (CDT)
The Community Development Trust (CDT) is a Community Development Financial Institution (CDFI) that also functions as a mission-oriented REIT. Through partnerships with local and regional developers, CDT provides both equity and permanent mortgage financing to preserve affordable multifamily communities.

As of June 2019, CDT had raised $85.5 million in funding through its "Series D" capital raise.[118] Through its equity program, CDT provides capital to developers that ranges from $1-20 million for acquisition costs, capital needs, building system replacements, amenity additions, and restructuring of a property's ownership model. This program typically targets properties with more than 100 units. However, CDT will consider smaller properties in high-cost markets. The terms for each investment vary depending on the context of each deal. Generally, CDT seeks to hold properties on a long-term basis but will consider short-term investments or bridge equity.[119] Through its debt program, CDT also originates and purchases long-term mortgages that support the preservation of affordable housing for low- to middle-income households.

Housing Partnership Equity Trust (HPET)
The Housing Partnership Equity Trust (HPET) is a social-purpose REIT that raises and deploys capital from both financial institutions and private investors to enable nonprofit developers to purchase and preserve existing affordable housing.[120] The trust was launched with a $100 million investment in 2013 and has since deployed capital to 14 properties and a total of approximately 2,900 units.[121] HPET is focused on neighborhoods that are becoming unaffordable to lower-income households.[122] After becoming member organizations of HPET, nonprofit affordable housing developers and community development corporations (CDCs) partner with the REIT to access necessary

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https://uli.org/wp-content/uploads/ULI-Documents/Preserving-Multifamily-Workforce-and-Affordable-Housing.pdf

[118] "CDT Two-Year Capital Strategy Generates $118.5 Million to Create, Preserve Affordable Housing Communities." *Global Newswire.* Accessed 21 Feb. 2022. https://www.globenewswire.com/news-release/2019/06/17/1869714/0/en/CDT-Two-Year-Capital-Strategy-Generates-118-5-Million-to-Create-Preserve-Affordable-Housing-Communities.html

[119] "Financing Solutions for Affordable Housing." *The Community Development Trust.* Accessed 18 Feb. 2022. https://cdt.biz/equity-program/

[120] "What do we mean when we say we want our investments to make a social impact?" *Housing Equity Partnership Trust.* Accessed 3 Mar. 2022. https://www.hpequitytrust.com/

[121] "Overview." *Housing Partnership Network.* Accessed 13 Mar. 2022. https://housingpartnership.net/hpet

[122] Thakur et. al. "Funding to Purchase Naturally Occurring Affordable Housing." *Shelterforce.* Accessed 15 Mar. 2022. https://shelterforce.org/2020/07/30/funding-to-purchase-naturally-occurring-affordable-housing/

acquisition funding quickly. Lastly, because HPET operates on a national scale, its portfolio includes investments throughout the country, reducing its risk and making investment more attractive to investors. In late 2021, HPET was acquired by Lincoln Avenue Capital, a Santa Monica-based affordable housing developer and investor.[123] These two organizations will work to create an investment fund focused specifically on NOAH preservation. Generally, the private investors that HPET works with expect a leveraged internal rate of return ranging from 8-10%.

B.VI) Other Emerging Private Fundings Sources

In recent years, there has been growing interest from private investors in social impact investing that "aims to generate specific beneficial social or environmental effects in addition to financial gains."[124] Additionally, a rise in "crowdfunding" strategies has taken place, which aim to lower the barrier to entry for investors. Private individuals can donate or invest as little as $100 in some instances. I discuss these recent trends in the sections that follow.

Impact Investments - SDS Capital Group's Supportive Housing Fund

SDS Capital Group is a Los Angeles-based impact investment firm. Impact investing is a means of utilizing investment capital to generate financial gains and positive social results.[125] SDS Capital Group manages a $1 billion portfolio of impact investments in six different products. As of October 2021, the firm had raised $150 million for its Supportive Housing Fund, the first private real estate impact fund to build housing for homeless individuals in the Los Angeles region.[126] With its development partner, RMG Housing, SDS Capital Group is developing over 1,800 permanent supportive housing units in 30 projects throughout Los Angeles without any government funding. Through their development model, the team projects an average cost per unit of $200,000 and a project timeline nearly three times quicker than deals involving government subsidies.

During a talk at UCLA's Ziman Center for Real Estate in February 2022, founder Deborah La Franchi explained that the Supportive Housing Fund provided approximately 94% of all necessary funding for the supportive housing projects in the form of equity,

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[123] Kimura, Donna. "Lincoln Avenue Capital to Acquire Majority Stake in HPET." *Affordable Housing Finance.* Accessed 12 Mar. 2022. https://www.housingfinance.com/finance/lincoln-avenue-capital-to-acquire-majority-stake-in-hpet_o#:~:text=Lincoln%20Avenue%20Capital%2C%20a%20leading,purpose%20real%20estate%20investment%20fund.

[124] Chen, James. "Impact Investing." *Investopedia.* Accessed 12 Mar. 2022. https://www.investopedia.com/terms/i/impact-investing.asp

[125] Chen, James. "Impact Investing." *Investopedia.* Accessed 12 Mar. 2022. https://www.investopedia.com/terms/i/impact-investing.asp

[126] Bach, Trevor. "Private equity looks to leverage $150M fund for supportive housing for homeless." *The Real Deal.* Accessed 8 Mar. 2022. https://therealdeal.com/la/2021/10/13/private-equity-looks-to-leverage-150m-fund-for-supportive-housing-for-homeless/

decreasing a project's development timeline by removing the necessity for the developer to seek out loan options.[127] La Franchi shared that this fund targeted market rates of return. Return rates vary by product type; less risky projects are expected to generate leveraged internal rates of return (IRR)[128] between 7-10%, while more risky projects are expected to generate an IRR of 14-19%.

Though this funding source is solely focused on permanent supportive housing projects owned by RMG Housing, La Franchi predicted "a dramatic uptick in social impact investments" in the coming years, suggesting a growing interest from private investors seeking to fund projects that provide social benefits for the public good.

Social Impact Bonds - Citi Community Capital's Affordable Housing Bond

Social Impact Bonds (SIBs) are a relatively recent, outcome-based financing model where private investors contribute debt capital to fund projects that produce a social outcome. Investors receive a payment if the project achieves certain program targets.[129] Bonds can be issued by either a government entity or through the private sector. In late 2020, Citigroup, Inc. issued its first "Affordable Housing Bond," a $2.5 billion funding source for the construction, rehabilitation, and preservation of affordable housing for low- and middle-income populations. Through Citi Community Capital, the firm partners with developers and non-profit organizations to support affordable housing preservation projects with a range of financing options: construction and permanent loans, equity, and mortgage banking.[130]

Rental Relief Grants - Local Rental Owners Collaborative (LROC)

The Los Angeles Local Rental Owners Collaborative (LROC) is a pilot program that offers qualifying NOAH property owners short-term rental relief grants and long-term financial consulting services, technology tools, and property management resources.[131] Launched in April 2021, LROC is a partnership between the Chan Zuckerberg Initiative, Coalition for Responsible Community Development (CRCD), Roy + Patricia Disney Family Foundation, Avail, and Enterprise Community Partners.

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[127] LaFranchi, D. (2022, Feb. 24). UCLA Ziman Center, "Tapping & Engaging the Private Sector: Using Private Equity in the Battle Against Poverty" [Public Lecture]

[128] Fernando, Jason. "Internal Rate of Return (IRR)." *Investopedia.* Accessed 6 Mar. 2022. https://www.investopedia.com/terms/i/irr.asp#:~:text=The%20internal%20rate%20of%20return,same%20formula%20as%20NPV%20does

[129] "Social Impact Housing Investing." *Housing Innovation.* Accessed 4 Mar. 2022. https://housinginnovation.co/innovation/socialimpact/

[130] "Citi Announces Inaugural $2.5 Billion Affordable Housing Bond Issuance and Largest-Ever Social Bond." *Citi Group.* Accessed 11 Mar. 2022. https://www.citigroup.com/citi/news/2020/201030a.htm

[131] "Local Rental Owners Collaborative Launches in South Los Angeles to Preserve Housing and Prevent Tenant Displacement." *Chan Zuckerberg Initiative.* Accessed 2 Mar. 2022. https://chanzuckerberg.com/newsroom/local-rental-owners-collaborative-launches-in-south-los-angeles-to-preserve-housing-and-prevent-tenant-displacement/

LROC's primary administrator is CRCD, an LA-based nonprofit. The collaborative's technology partner, Avail, hosts the application, which was limited to property owners in the 90011 zip code for its initial pilot phase.[132] The initiative has since expanded to neighborhoods in Wilshire, San Fernando Valley, East Los Angeles and Long Beach.[133] LROC supports participating landlords by paying up to 80% of overdue rent payments occurring after March 1, 2020. Its long-term goal is to facilitate wealth-building for Black, Indigenous, and People of Color (BIPOC) landlords and aid the low- and middle-income renters inhabiting their properties.

Neighborhood REITs - Neighborhood Investment Company (Nico), Inc.
The Neighborhood Investment Company, Inc. (Nico) operates Nico Echo Park, the first "Neighborhood REIT."[134] As discussed earlier in this report, a REIT is a Real Estate Investment Trust or an investment vehicle for small-scale investors to buy shares in commercial real estate portfolios. All properties in the Nico Echo Park portfolio are multifamily buildings located in the Echo Park neighborhood of Los Angeles. Nico Echo Park's mission is to provide neighborhood residents an opportunity to build a long-term financial stake in their community through local real estate investment. Nico makes it easier for more residents to invest by offering shares in its portfolio starting at $100. BVCLT, or the LA CLT Coalition, could consider the framework of a Neighborhood REIT as a potential fundraising strategy to support its ongoing acquisition-rehabilitation work.

Crowdfunding - Small Change
Small Change is a crowdfunding platform that matches investors with real estate developers raising funds for "transformative real estate projects."[135] Small Change provides the following assistance to organizations interested in listing their offering through Small Change's platform: completing due diligence to ensure compliance, creating an online campaign page, setting up a bank account to receive investor funds, and providing legal templates and marketing materials to promote the listing. On an annual basis, each listing can raise up to $5 million from a single accredited investor and $107,000 from an unaccredited investor. Each listing specifies its minimum investment amount. Small Change's fee structure is as follows:

- $2,500 onboarding fee and
- 5% of first $1 million raised
- 4% of second $1 million raised

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[132] "About Local Rental Owners Collaborative." *Avail.* Accessed 4 Mar. 2022. https://info.avail.co/info/local-rental-owners-collaborative
[133] "Los Angeles Based Pilot Stabilizes Small Landlords in Vulnerable Neighborhoods." *LROC.* Accessed 3 Mar. 2022. https://lalroc.com/los-angeles-based-pilot-stabilizes-small-landlords-in-vulnerable-neighborhoods/
[134] "About us." *nico.* Accessed 6 Mar. 2022. https://mynico.com/about/
[135] "How we work (for developers)." *Small Change.* Accessed 12 Mar. 2022. https://learn.smallchange.co/about-small-change/

- 3% of anything raised thereafter

In October 2021, Restore Neighborhoods, LA, completed the development of Bungalow Gardens, an 8-unit supportive housing development in South LA. Bungalow Gardens is the city's first bungalow court project constructed in 70 years and the nation's first crowdfunded homeless housing project.[136] Through the Small Change platform, Restore Neighborhoods, LA raised $100,000 from 57 different investors.[137]

B.VII) Private Funding Sources Conclusion

Table 25 below summarizes the 12 private funding sources for affordable housing preservation discussed in the previous sections. The limitations associated with each source are listed in the rightmost column and discussed further in this report's Recommendations for Private Funders section.

Table 30. Available Private Funding Sources for Preservation of Existing Affordable Housing

Funding Source	Type	Year Est.	Geographic Scale	Recent Estimates of Annual Funding	Limitations
New Generation Fund (NGF)	Public/ Private	2008	City	$68.5 million	-Origination fee required -Maximum loan amount of $10 million
Avanath Affordable Houing Fund IV	Private	2021	National	$760 million	-Joint ownership likely required during early stages
Enterprise Multifamily Opportunity Fund	Private	2012	National	$106 million	-Targets 10% returns to private investors
Enterprise Preservation Equity	Private	2021	National	$229 million	-Participating developers must be "financially strong," min. $5 million in net worth -Eligible projects must contain min. 100 units
PNC Affordable Housing Preservation Investments Program	Private	2016	National	~$200 million	-Funding only available for existing LIHTC properties
Community Development Trust	Private	1999	National	$85.5 million	-Typically targets 100+ unit properties and hold them on

[136] "Coming Home to Bungalow Gardens." *Small Change.* Accessed 8 Mar. 2022. https://learn.smallchange.co/2021/11/05/coming-home-to-bungalow-gardens/#more-14341
[137] "Bungalow Gardens." *Small Change.* Accessed 12 Mar. 2022. https://www.smallchange.co/projects/Bungalow-gardens

(CDT)					long-term basis
Housing Partnership Equity Trust (HPET)	Private	2012	National	$100 million	-Targets 100+ unit properties through joint venture partnerships with participating non-profits -Seeks 8-10% internal rates of return (IRRs)
SDS Capital Group Supportive Housing Fund	Private	2019	City	City of Los Angeles: $150 million	-Only supportive housing projects are eligible -RMG Housing Developer owns any funded projects
Citi Community Capital's Affordable Housing Bond	Private	2020	National	$2.5 billion	-Equity financing options include joint partnership and/or ownership interest
Local Rental Owners Collaborative (LROC) Rent Relief	Private	2021	City	$640,000	-Limited to neighborhoods in Wilshire, San Fernando Valley, East Los Angeles, South Central Los Angeles and Long Beach
Neighborhood Investment Company (Nico), Inc.	Private	2020	Echo Park Neighborhood	$31 million	-Limited to Echo Park neighborhood
Small Change Crowd Funding	Private	2012	National	Varies	-Required fee structure includes $2,500 onboarding, 5% of first $1 million, 4% of second $1 million, and 3% of anything raised thereafter

Policy & Planning Recommendations

This report's final recommendations are informed by the project findings and organized into three categories: Recommendations for Future BVCLT NOAH Acquisition-Rehabilitation Projects, Recommendations for Public Agencies and Recommendations for Private Funders. I explain each category in further detail in the sections that follow.

A. Recommendations for Future BVCLT NOAH Acquisition-Rehabilitation Projects

In the sections that follow, I outline three recommendations for BVCLT to consider in its future work concerning the acquisition-rehabilitation of NOAH.

A.I) NOAH Properties to Target

Based on the findings discussed in the Koreatown Housing Stock and Characteristics of Multifamily Apartment Buildings in Koreatown sections of this report, I recommend that BVCLT keep the following considerations in mind as it continues to identify, acquire and rehabilitate NOAH units in Koreatown:

1. **Year Structure Built:** The greatest share of Koreatown's households were renter-occupied and located in structures built in 1939 or earlier (34%), followed by 1960-1969 (13%) and 1970-1979 (11%).
2. **Unit Count:** The unit count categories which held the greatest share of Koreatown's housing were 20-49 Units (34%), 50+ Units (31%), and 10-19 Units (14%).
3. **Tenure by Unit Type:** The greatest share of Koreatown's households were renter-occupied and resided in one-bedrooms (38%), followed by studios (33%) and two-bedrooms (20%).
4. **NOAH Unit Count Estimation:** Of the existing units with sitting rents that meet BVCLT's current definition for NOAH, the majority of them were studios (41%), followed by one-bedrooms (38%) and two-bedrooms (19%).
5. **NOAH Sale Prices:**
    - CoStar has previously defined NOAH as a building constructed before 1980 with either a 1- or 2-Star rating through its Building Rating System. In late 2021, the sale price per unit categories for 1- & 2-Star properties with the greatest share of units in Koreatown were "$210,000-$280,000" and "280,000-$350,000."
    - Generally, the more recently a building was constructed, the higher its sale price. However, based on sale listings for early 2022, the lowest sale prices on a *per unit basis* were found in buildings constructed in the 1940s, 1960s, and 1980s.

The considerations listed above do not provide a comprehensive overview of real estate dynamics in Koreatown. Further, very few sources were intentional about tracking NOAH stock specifically. However, based on available information, BVCLT's acquisition strategy should target apartment buildings constructed in the 1940s, 1960s or 1980s. Additionally, it should expect to pay anywhere from $210,000 to $350,000 per unit when acquiring properties. Lastly, it should anticipate that most units it will acquire will be predominantly studio or one-bedroom apartments.

A.II) CDBG & HOME: Unit Thresholds Triggering Prevailing Wages

To build on the recommendations listed above, BVCLT should also consider the unit thresholds that trigger prevailing wage requirements for funding provided by both the Community Development Block Grant (CDBG) and HOME Investment Partnership programs. Prevailing wages will be required for any acquisition-rehabilitation project with a total unit count of eight or more units that receives CDBG funding for any portion of the project's scope. Prevailing wages will be required for any project with a total unit count of twelve or more units that receives HOME funding for any portion of its scope. As discussed earlier in this report's Total Development Cost section, prevailing wages can increase the rehabilitation cost by upwards of 50%, drastically impacting the project's overall financial feasibility.

A.III) Definition of Affordable Housing

Lastly, BVCLT should revisit the rent limits it qualifies as "affordable housing." BVCLT currently uses the 60% AMI rent limits defined by the California Tax Credit Allocation Committee (CTCAC). Using this metric, just over half of the neighborhood's existing rental units qualified as NOAH. However, it's important to contextualize this information with the earlier finding that approximately 59% of Koreatown's renters are rent-burdened and 31% are severely rent-burdened. BVCLT could consider utilizing a different housing affordability metric, the 60% AMI rent limits defined by California's Density Bonus Law, which are much lower than CTCAC's rent limits. Using this metric, the total rental units in the neighborhood that qualified as NOAH fell from 50% to 26%.

B. Recommendations for Public Agencies

In the sections that follow, I outline six recommendations for public agencies to consider as they seek to support organizations like BVCLT to permanently preserve existing unsubsidized affordable housing.

B.I) Los Angeles Rent Registry

A rent registry is typically an online tool that tracks information about rental housing. It may include data regarding monthly rental prices, subsidies attached to either tenants or buildings, the treatment of tenants, and landlord information. As explained in a

December 2020 Shelterforce article, “We Need Rental Registries Now More Than Ever,” rent registries offer the potential to “add much-needed transparency to the landlord-tenant relationship, keeping landlords accountable and helping renters stay safe and stable in their homes.”[138]

Currently, the City and County of Los Angeles do not provide a rent registry available for public viewing. As explained in the Research Design & Methodology section of Appendix B, the absence of a rent registry makes it difficult to quantify the existence and location of naturally occurring affordable housing (NOAH). This is particularly true for organizations like BVCLT that are seeking to acquire, rehabilitate and preserve this type of housing stock before it is lost to speculative real estate developers intent on flipping properties for profit.

The City of Los Angeles passed Ordinance No. 184529[139] in 2016, requiring landlords to upload the rental amounts and tenancy information for every Rent Stabilization Ordinance (RSO) unit on their property.[140] Similarly, the County of Los Angeles operates a rent registry[141] in connection with its Rent Stabilization and Tenant Protections programs.[142] However, no portion of these datasets is made available for public use. A precedent that both the City and County of Los Angeles should consider is the California Tax Credit Allocation Committee’s (CTCAC) “Project Mapping” portal, which geolocates and provides information about every Low-Income Housing Tax Credit (LIHTC) project in the state, including if the property is “At Risk” of losing its affordability covenant.[143]

B.II) Project-Based Rental Subsidies

Project-based voucher programs attach rental subsidies to specific housing units rather than tenants. Both the County and City of Los Angeles should expand these subsidies and make them available to CLT-owned properties. By prioritizing project-based over tenant-based vouchers, government funding would directly serve mission-driven entities like BVCLT that steward land for the benefit of low-income communities of color rather than private landlords.

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[138] Phillips, Shane. “We Need Rental Registries Now More Than Ever.” *Shelterforce.* Accessed 10 Mar. 2022.https://shelterforce.org/2020/12/18/we-need-a-rental-registry-now-more-than-ever/
[139] “Ordinance No. 184529.” *Los Angeles Housing Department.* Accessed 20 Feb. 2022.https://housing.lacity.org/wp-content/uploads/2020/05/ordinance_184529_rent_registry.pdf?download=1
[140] “Rent Registry.” *Los Angeles Housing Department.* Accessed 20 Feb. 2022. https://housing.lacity.org/rental-property-owners/rent-registry
[141] “County of Los Angeles Rent Program Online Rent Registry 1.0.” *Los Angeles County Consumer & Business Affairs.* Accessed 20 Feb. 2022. https://www.rentregistry.dcba.lacounty.gov/#/homepage
[142] “Rent Stabilization and Tenant Protections.” *County of Los Angeles.* Accessed 20 Feb. 2022. https://library.municode.com/ca/los_angeles_county/codes/code_of_ordinances?nodeId=TIT8COPRBUWARE_DIV3HO_CH8.52RESTTEPR
[143] “California Tax Credit Allocation Committee Project Mapping.” *California State Treasurer.* Accessed Oct. 21, 2021. https://www.treasurer.ca.gov/ctcac/projects.asp

According to the Annual Plan for Fiscal Year 2022 - 2023 for the Los Angeles County Development Authority (LACDA), the organization manages a total of 1,745 Project-Based Section 8 Vouchers (PBVs) across 48 properties, with 1,733 additional PBVs in the pipeline.[144] The PBV program of the Housing Authority of the City of Los Angeles (HACLA) falls under its Asset Management portfolio. In total, the portfolio includes nearly 2,640 units across 99 properties. However, the number of PBV units in HACLA's Asset Management portfolio is not publicly available.[145] The majority of existing PBVs are set aside for supportive housing developments.

This program, which the federal government funds, should be greatly expanded. The benefits of this would be two-fold. First, rental subsidy expansion would ease the rent burden experienced by existing low-income renters. Second, vouchers would increase BVCLT's rental income at each of its properties and the overall financial feasibility of its future acquisition-rehabilitation work.

B.III) Funding & Technical Support for CLT NOAH Acquisition-Rehabilitation Projects

After decades of LA-based CLTs and tenants-rights advocates fighting for community land ownership, local government has only very recently supported this movement with substantial funding. BVCLT's recent acquisitions would not be financially feasible without the grant money it received through the County's CLT Pilot Program. LA County should expand its support of this work through additional grants and loans with favorable terms for organizations like BVCLT.

Additionally, the City of Los Angeles should start providing funding for this type of work. Its current funding sources for preserving existing affordable housing largely favor LIHTC projects rather than existing unsubsidized rental housing stock. The city should consider the following two precedents as potential routes to creating new sources of funding for CLTs conducting NOAH preservation:

- **Washington D.C.'s Affordable Housing Preservation Fund (AHPF):** The AHPF is a public-private, $40 million revolving loan fund that supports developers seeking to preserve affordable rental properties of five or more units. Repaid loans are returned to the fund and eventually reinvested into future preservation

[144] "FY 2022 Proposed Annual Plan Public Comment." *Los Angeles County Development Authority.* Accessed 20 Feb. 2022.https://www.lacda.org/docs/librariesprovider25/public-documents/annual-plan-for-fiscal-year-2022-2023.pdf?sfvrsn=8a9462bc_2

[145] "About Asset Management." *Housing Authority of the City of Los Angeles.* Accessed 20 Feb. 2022. https://www.hacla.org/en/asset-management/about-asset-management#:~:text=Project%2DBased%20Voucher%20(PBV),required%20to%20hold%20a%20voucher

projects. The city initially provided $10 million in seed funding, which was eventually matched by philanthropic investments. AHPF defines eligible projects by rent levels, rather than existing restrictions like LIHTCs, to preserve both deed-restricted and unsubsidized units. Eligible uses for funding include acquisition, pre-development, critical repairs, and environmental remediation efforts. Loans have three to four-year terms and are intended to provide short-term bridge financing as applicants work to secure longer-term financing from other sources.[146]

- **Chicago's Transient Occupancy Tax:** In 2018, the City of Chicago increased the amount it taxed shared housing and vacation rentals from 4.0% to 6.0%. This increase was applied to an existing 17.4% tax on hotels and resulted in a total tax rate of 23.4% on home sharing. The intention for this increased tax rate was to generate additional funding for supportive housing development in the city. In 2017, the existing 4.0% surcharge generated approximately $3 million in revenue and the 2.0% increase was expected to generate an additional $1.3 million.[147]

Increased funding support from public agencies would enable organizations like BVCLT to pursue the preservation of larger NOAH properties. As discussed in the Financial Feasibility Analysis Conclusion section of this report, larger properties typically generate lower funding gaps on a per unit basis, resulting in a more efficient use of public funding.

Lastly, both the County and City of Los Angeles should formalize separate Affordable Housing Preservation Programs that provide technical assistance to organizations like BVCLT as they conduct their acquisition-rehabilitation work. These programs should be solely focused on preservation efforts and adequately staffed to support non-profit developers as they encounter issues with site selection, pre-development, acquisition, rehabilitation, temporary relocation of tenants, and securing financing.

B.IV) Los Angeles Land Bank

Local government in Los Angeles should consider starting a land bank program similar to the Houston Land Bank, where vacant, foreclosed, or tax delinquent properties are acquired by the land bank and either donated to a CLT or held by the land bank until a CLT has gathered the necessary funding sources.[148] This prevents market-rate

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[146] "Mayor Bowser Celebrates the Preservation of Over 1,000 Affordable Homes through the Housing Preservation Fund." *Department of Housing and Community Development.* Accessed 12 Feb. 2022. https://dhcd.dc.gov/release/mayor-bowser-celebrates-preservation-over-1000-affordable-homes-through-housing-preservation

[147] "City of Chicago Passes Additional 2.0% Tax on Home Sharing." *The Civic Federation.* Accessed 20 Feb. 2022. https://www.civicfed.org/civic-federation/blog/city-chicago-passes-additional-20-tax-home-sharing

[148] Zehner, Emma. "Opening Doors: Land Banks and Community Land Trusts Partner to Unlock Affordable Housing Opportunities." Accessed 10 Mar. 2022.

developers, which can move much more quickly because of the increased capital at their disposal, from acquiring NOAH properties before an organization like BVCLT is able to secure the financing to do so. The partnership between the Houston Land Bank and the Houston CLT (HCLT) partnership is part of a coordinated effort to address systemic racism within housing markets and expand access to affordable housing for marginalized communities. As of October 2020, 96% of HCLT homeowners are Black, and 4% are Hispanic.

B.V) Exceptions for Accessibility Requirements

As explained previously in the Compliance with Accessibility Regulations section of this report, accessibility retrofits for existing multifamily properties can substantially increase the total development cost of a NOAH acquisition-rehabitliation project. While accessibility retrofits are an important means of expanding housing opportunity to a larger range of ability statuses, this practice hinders the financial feasibility of NOAH preservation by a CLT, a development practice that provides deep affordability to renters and already has minimal access to existing funding sources. Until public and private funding sources relax their eligibility requirements to expand funding access so accessibility retrofits are financially feasible for BVCLT, public agencies should put stronger exceptions in place for CLTs regarding this requirement.

B.VI) Exceptions for Prevailing Wage Requirements

As detailed earlier in the Prevailing Wage Triggers section of this report, prevailing wage requirements can significantly increase development costs for NOAH acquisition-rehabilitation, similar to accessibility retrofit requirements. Certain sources of federal funding provide exceptions to smaller multifamily buildings (ex. Prevailing wages are not required for CDBG-funded projects seven units or smaller). However, most other public funding sources do not allow for this flexibility. While prevailing wages certainly provide many societal benefits, namely construction labor, a more livable compensation in an expensive city like Los Angeles, this requirement currently makes NOAH preservation projects less feasible. Until funding sources are made more readily available for BVCLT's work, public agencies should loosen prevailing wage requirements for acquisition-rehabilitation of existing unsubsidized affordable rental housing.

C. Recommendations for Private Funders

In the sections that follow, I outline three recommendations for private funders to consider as they seek to support organizations like BVCLT in its efforts to permanently preserve NOAH properties in the LA region.

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https://www.lincolninst.edu/publications/articles/2020-10-opening-doors-land-banks-community-land-trusts-partner-affordable-housing

C.1) Eligible Projects

Most private funding sources mentioned in this report's Private Funding Sources section have strict eligibility qualifications for the affordable housing preservation projects they will support. The primary qualifications that hinder BVCLT's eligibility are listed in the following sections.

Unit Count Thresholds: Of the 12 private funding sources identified, three shared that they will only consider properties that contain a minimum of 100 units. This presents a significant barrier to an organization like BVCLT that currently does not have the capacity or financial resources in place to purchase and operate such large properties. To date, BVCLT's properties are in the 5-9 unit range. Private funders should offer grant and loan products for smaller-scale properties, particularly those that fall in the "missing middle" category,[149] to expand access to under-resourced applicants that are seeking to scale up their NOAH preservation efforts.

Real Estate Product Type: Some private funding sources prioritize specific product types for their investments, namely Low-Income Housing Tax Credit (LIHTC) and supportive housing projects. These sources should consider expanding their grant and loan products to support the product type BVCLT is focused on, NOAH preservation in the LA region. As discussed in this report's Literature Review (see Appendix A), this product type is most prevalent in Los Angeles. Of all major cities in the U.S., Los Angeles holds the largest share of the country's NOAH units at roughly 18%.

C.II) Ownership Models

Private funders should consider changing their financial models to recognize the importance that an organization like BVCLT places on community ownership. Access to a portion of the private funding sources is stipulated on the investor's ownership interest, which varies from part-time joint ownership to sole long-term ownership. One of the main tenets of BVCLT's mission is that property is permanently removed from the speculative real estate market and held in ownership by Koreatown residents committed to permanent affordability and anti-displacement of low-income communities of color. If private funders wish to support BVCLT's work fully, the funding they provide should allow the organization to retain full ownership of the properties it stewards.

C.III) Loan Terms

Some of the private funding sources analyzed in this report require a minimum investment size (ex. $3 million), which can be a barrier to small-scale development conducted by BVCLT that may not meet the minimum. For example, the 6-unit property at 1146 S Kenmore, discussed in the Findings Part 2: Financial Feasibility Analysis

[149] "What is Missing Middle Housing?" *Opticos Design.* Accessed 8 Mar. 2022. https://missingmiddlehousing.com/about

section of this report, was listed for sale at approximately $1.4 million. Its projected funding gaps were all below $3 million. This “missing middle” property would be ineligible for a funding source that requires a minimum investment size of $3+ million. Additionally, high return requirements can make it difficult for an organization like BVCLT to stay true to its original motivation for NOAH preservation, preventing the displacement of low-income communities of color by not raising their rents.

Conclusion

This research project sought to understand the following topics concerning Koreatown: current market dynamics, the financial feasibility of acquiring and rehabilitating naturally occurring affordable housing (NOAH), and the funding sources available for the preservation of existing unsubsidized affordable housing.

Overall, the findings reveal that Koreatown is a neighborhood in transition; as rents rise, existing NOAH stock will continue to disappear, increasing the displacement risk for low-income renters of color. Thus, BVCLT's work to decommodify housing and preserve NOAH to prevent the displacement of Koreatown's low-income communities of color is more vital than ever.

However, barriers to accessing existing funding sources for this work make the organization's commitment to permanent affordability a challenging endeavor. If these barriers are not removed, or new funding sources are not created specifically for CLT acquisition-rehabilitation projects, it will be extremely challenging for BVCLT to continue scaling its work to remove more housing from the speculative real estate market. This report's proforma studies resulted in a funding gap per unit that ranged from approximately $152,000 to $346,000. If BVCLT aims to scale up and acquire and rehabilitate 50 units per year, it will need annual funding support ranging from $7.6 to $17.3 million.

BVCLT's development model provides a hopeful future for Los Angeles, one in which low-income renters of color have access to stable, affordable housing, are protected from the risk of displacement, and are involved in decision-making processes concerning the places they call home. Public and private funders should recognize this model as the new standard for housing affordability in the LA region through increased funding sources that allow BVCLT to scale up and serve more of Koreatown's legacy residents.

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