**Title**

# Naturally Occurring Affordable Housing Preservation: A Financial Feasibility Analysis



**Author**
Keibler, Nathan

**Publication Date**
2022-08-09

UCLA Lewis Center for Regional Policy Studies

# Naturally Occurring Affordable Housing Preservation: A Financial Feasibility Analysis

Nathan Keibler, MURP • 2022

## Issue

Los Angeles' housing affordability crisis has been acutely felt by low-income renters of color. In the Los Angeles neighborhood of Koreatown, located west of downtown, residents are particularly strained. Most residents are renters of color and about 60% of residents reported an annual household income of less than $50,000.

One option for affordable housing in Koreatown is what's known as naturally occurring affordable housing, or NOAH, which is privately owned, unsubsidized housing. NOAH typically attributes its affordability to a number of factors, such as the older age or distressed physical condition of the buildings. However, Koreatown is a neighborhood in transition in which NOAH properties are being demolished or changing ownership. New residential construction is entirely limited to luxury apartment rentals.

This research project considered the work of the Beverly-Vermont Community Land Trust (BVCLT) in Koreatown, which focuses on anti-displacement and permanent housing affordability for low-income renters of color. Currently, BVCLT is acquiring NOAH properties and rehabilitating them to provide existing renters with a safe and permanently affordable living environment. Though this form of housing stock represents "the largest and most at-risk share of affordable housing" in the United States,[1] there are few funding sources for NOAH preservation, particularly compared to funding available for other forms of affordable housing development.

## Study Approach

This project first examined the current state of Koreatown's renters and multifamily housing stock through a market analysis that considered census data and real estate market analytics. Next, the researcher identified three comparable multifamily NOAH properties in Koreatown and conducted a financial feasibility study for hypothetical scenarios whereby BVCLT acquired and rehabilitated the three properties. Finally, the researcher summarized existing public and private funding sources available to preserve existing affordable housing.

## Key Findings

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 for Los Angeles County (See Table 1). Approximately half of the rents of occupied units in Koreatown met BVCLT's NOAH definition but less than 5% of the apartments available for rent in January 2022 met the NOAH rent limits.

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 less than $1,250 per month decreased by 26%, while the share paying more than this amount increased by 26%, suggesting that the neighborhood's existing affordable housing stock is disappearing.

The 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. 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

**Table 1.**

NOAH California Tax Allocation Committee (CTAC) 60% AMI Rent Limits

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

**Figure 1.**

NOAH property located on S. Kenmore Avenue in Koreatown acquired by BVCLT in summer 2021.

basis were in buildings constructed in the 1940s, 1960s, and 1980s. The hypothetical acquisition-rehabilitation of small- (6 units), medium- (16 units) and large-sized (32 units) Koreatown properties would include significant funding gaps for BVCLT. If BVCLT acquires NOAH properties and keeps 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 public and private funding sources available to preserve existing affordable housing; however, limitations with each effectively prevent organizations 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.

## Recommendations

The project identified recommendations intended for three different parties: BVCLT, public agencies, and private funders.

**Beverly-Vermont Community Land Trust**

BVCLT should 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. Additionally, considering the prevalence of rent burden in Koreatown, BVCLT should consider lowering the rent limits it currently uses to define "affordable housing."

**Public Agencies**

To better support the work of BVCLT, public agencies should create a publicly accessible rent registry platform that provides current rent prices at properties throughout the Los Angeles region. 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 community land trusts. 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 they've acquired sufficient funding. Finally, until existing funding sources relax their eligibility requirements so that CLTs can qualify, public agencies should establish exceptions for accessibility retrofit and prevailing wage requirements for CLTs.

**Private Funders**

Private funders should lower their unit count threshold requirements and consider unsubsidized affordable housing properties. 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.

## For More Information

Keibler, N. (2022). Anti-Displacement & Community Ownership in Koreatown: Acquisition-Rehabilitation of Naturally Occurring Affordable Housing (Master's capstone, UCLA). Retrieved from: https://escholarship.org/uc/item/01v5907t.

## References

[1] https://www.mckinsey.com/industries/public-and-social-sector/our-insights/preserving-the-largest-and-most-at-risk-supply-of-affordable-housing