

Normandie Lofts & LA County NOAH Impact Investment Fund

04.05.2019



The Team



Héctor Aréchiga de León
MRED '19

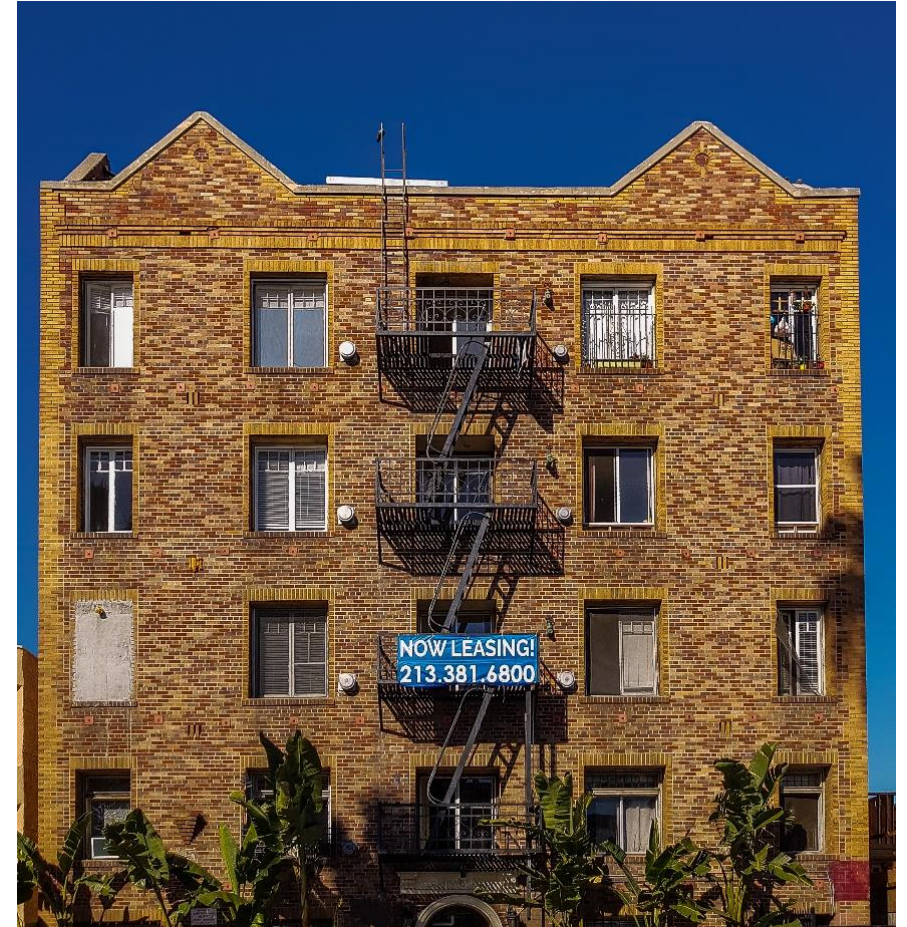


Jonathan Bates
MPP '19

LA County Housing Market Analysis

Normandie Lofts - Case Study

LA NOAH - Opportunities and Conclusions



LA County NOAH Impact Investment Fund (the “Fund”)



Fund's Framework

Socially and **environmentally responsible** multifamily investments, focusing on **housing preservation** in the county of **Los Angeles**.

Impact the lives of the Los Angeles **low-income** and **workforce** socioeconomic segments, for a **safe, healthy, and stable living environment**.

- 8% Preferred Return
- Non recourse loans

LA County NOAH Impact Investment Fund



Homelessness in LA County



50,000+
homeless in
LA County

46% Increase
since 2012
75% Unsheltered

Vulnerable
Populations

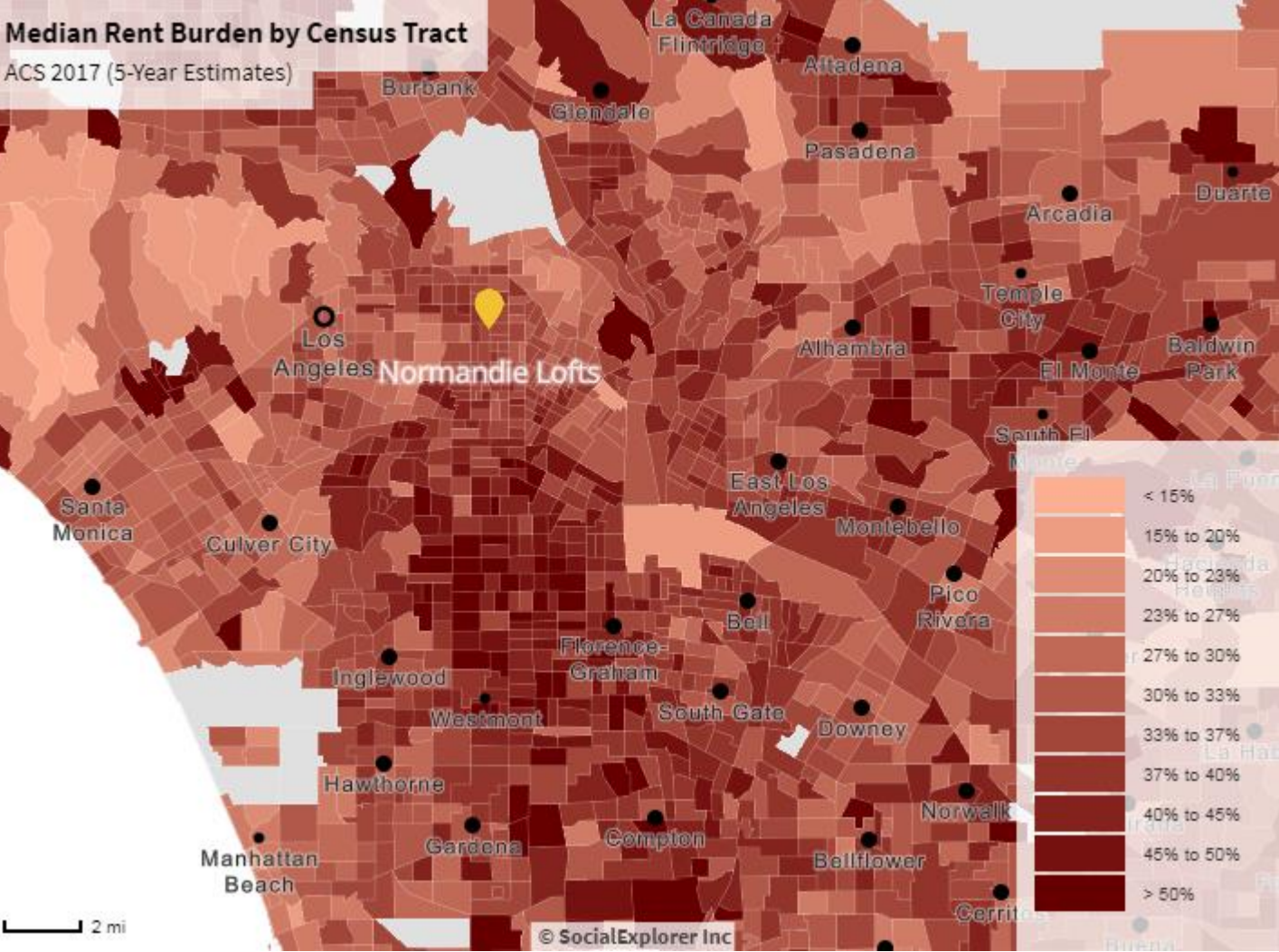
Increased
first-time
homelessness

Source: Los Angeles Homeless Services Authority, LA Times

LA County NOAH Impact Investment Fund



Rent Burden



**1,000,000+
Rent-Burdened
Households**

**536,000 Severe
Rent Burdens**

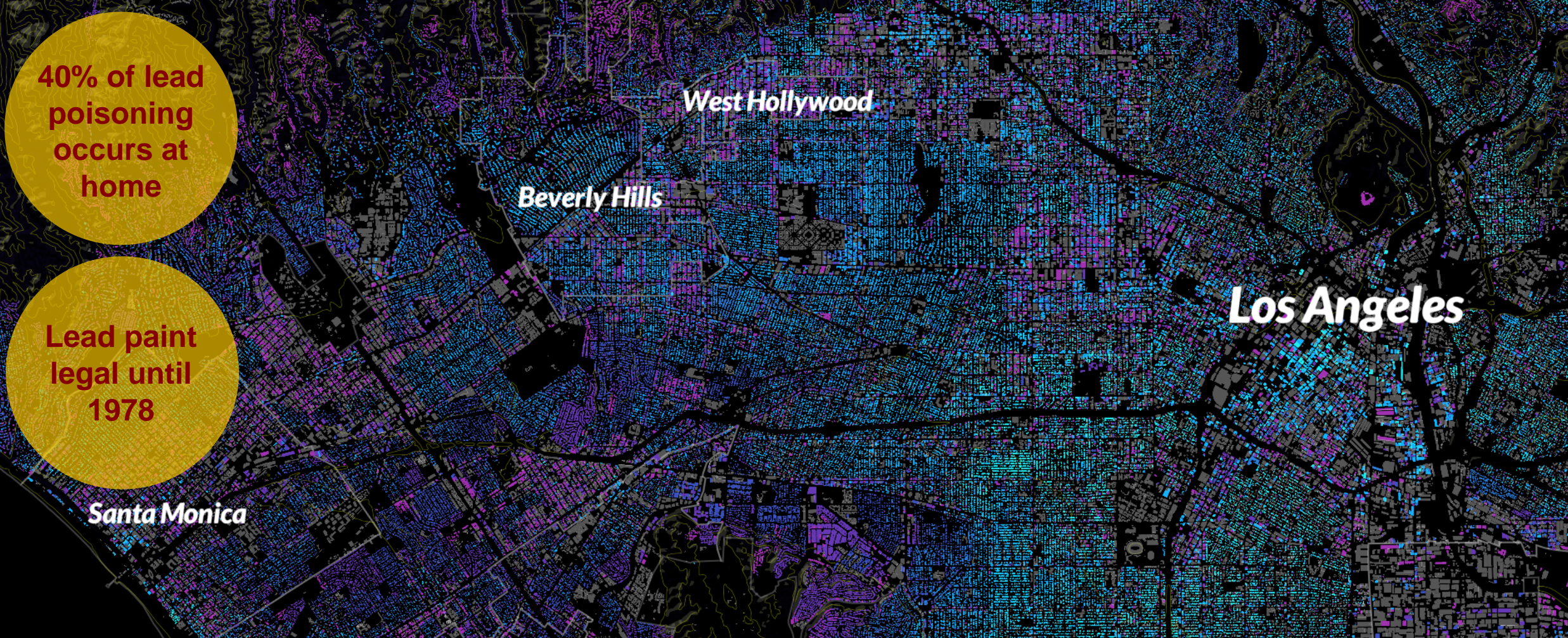
**Public Opinion:
Affordability &
Homelessness
Need Policy
Solutions**

Source: 2017 American Community Survey, Social Explorer

LA County NOAH Impact Investment Fund

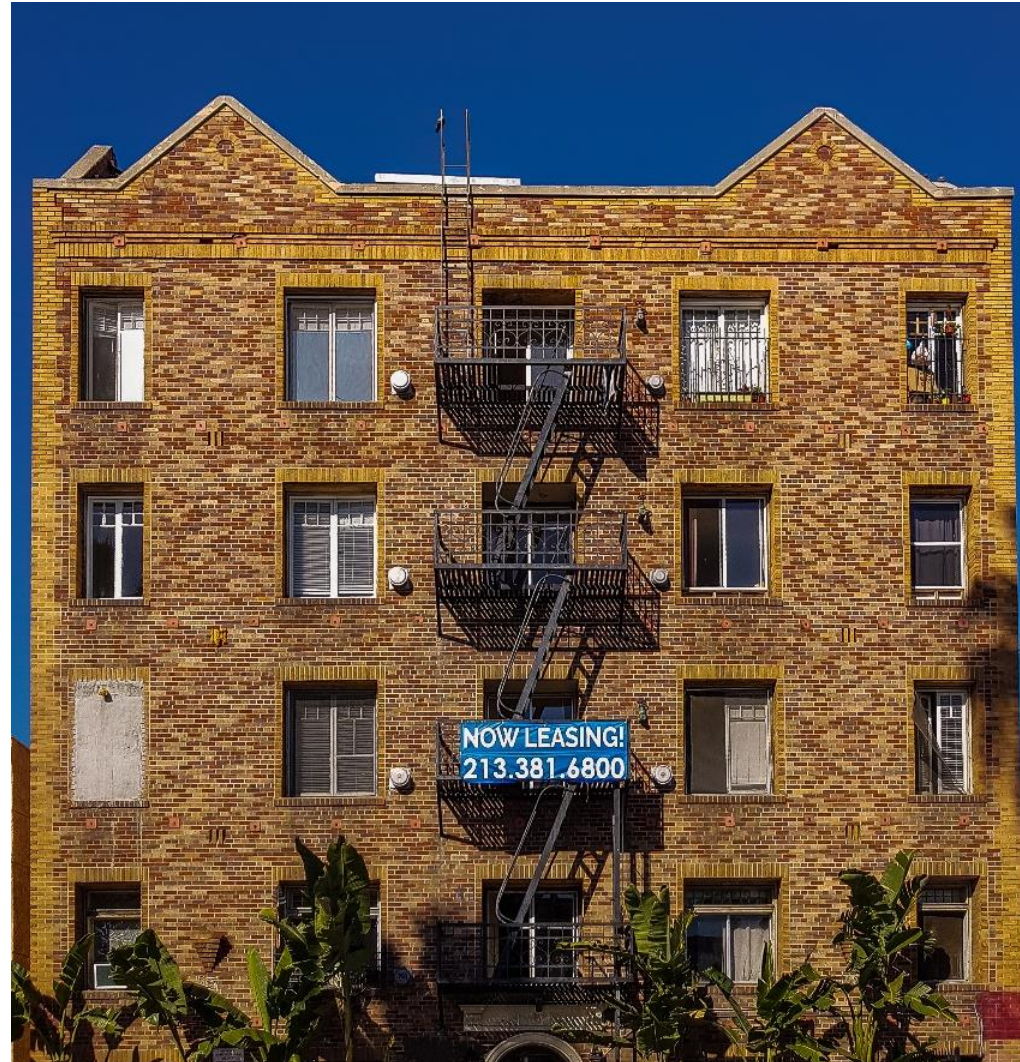


Structures built before 1960 - Opportunity

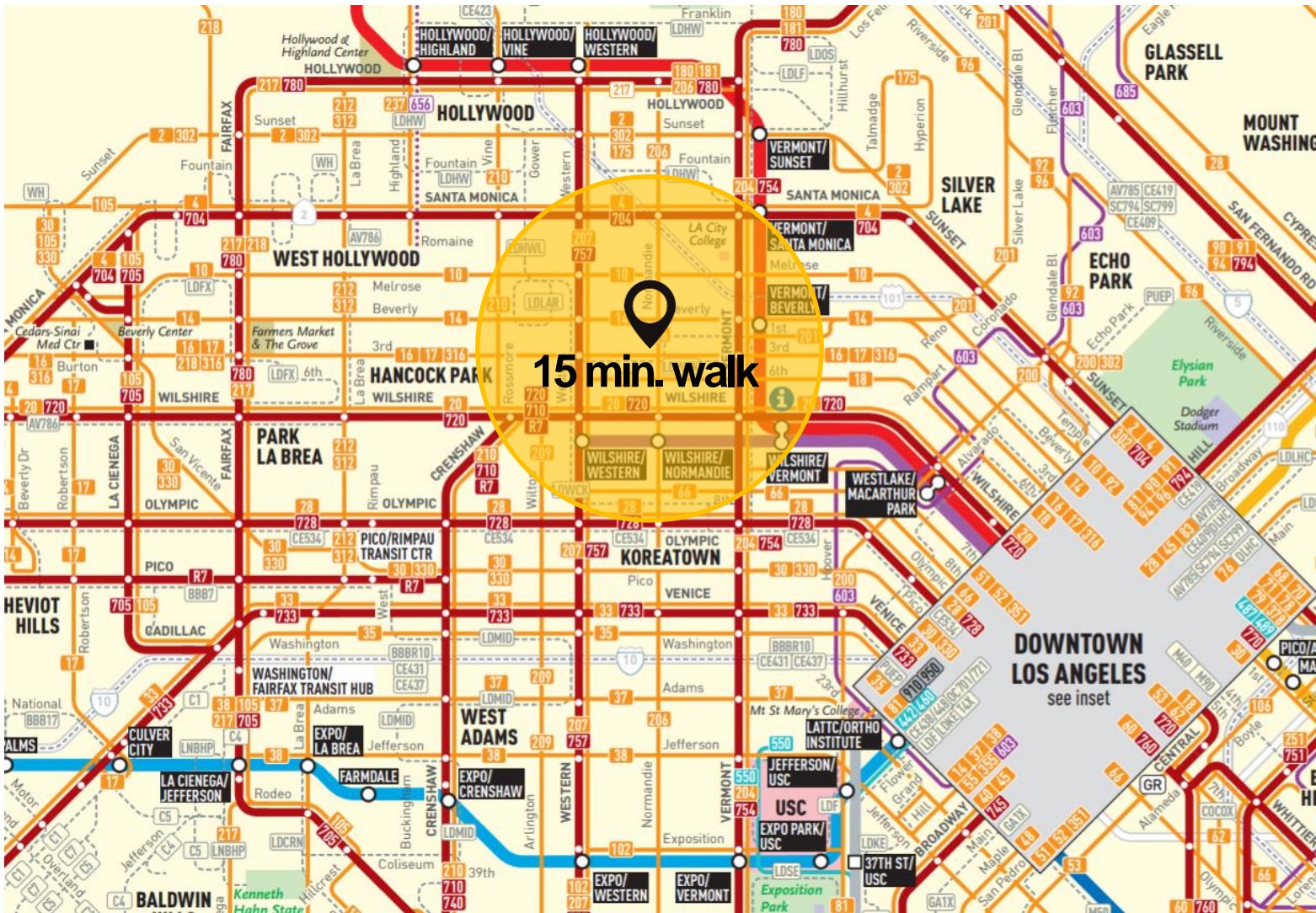


Source: CityHub LA

Normandie Lofts – Case Study



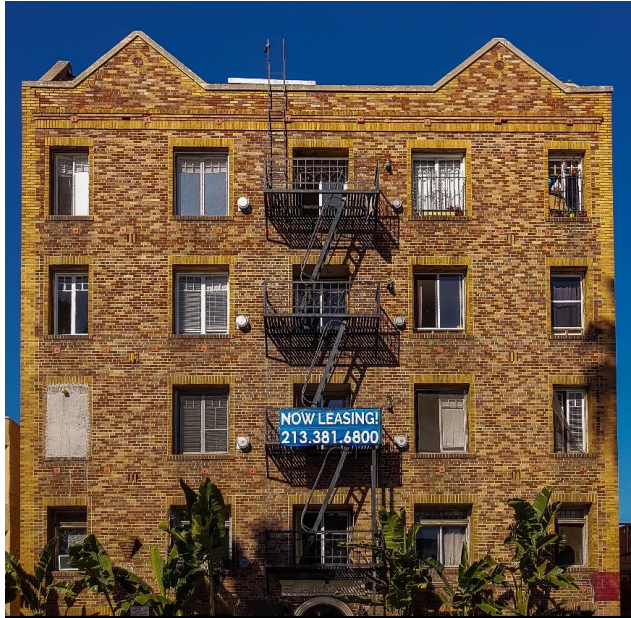
Normandie Lofts – Location



Access to:

- 13 bus lines
- 2 Metro Lines

Normandie Lofts as a Case Study – Property Overview



Location (Submarket)	Koreatown, LA
Unit Count	50
GLA (SF)	21,315
Mo Average Rent / SF	\$ 2.83
Occupancy	98%
Purchase Price	\$ 9,000,000
Year Built	1927
Address	167 Normandie Ave Los Angeles, CA 90004
Rent Control Units	100%



Normandie Lofts as a Case Study – Property Overview



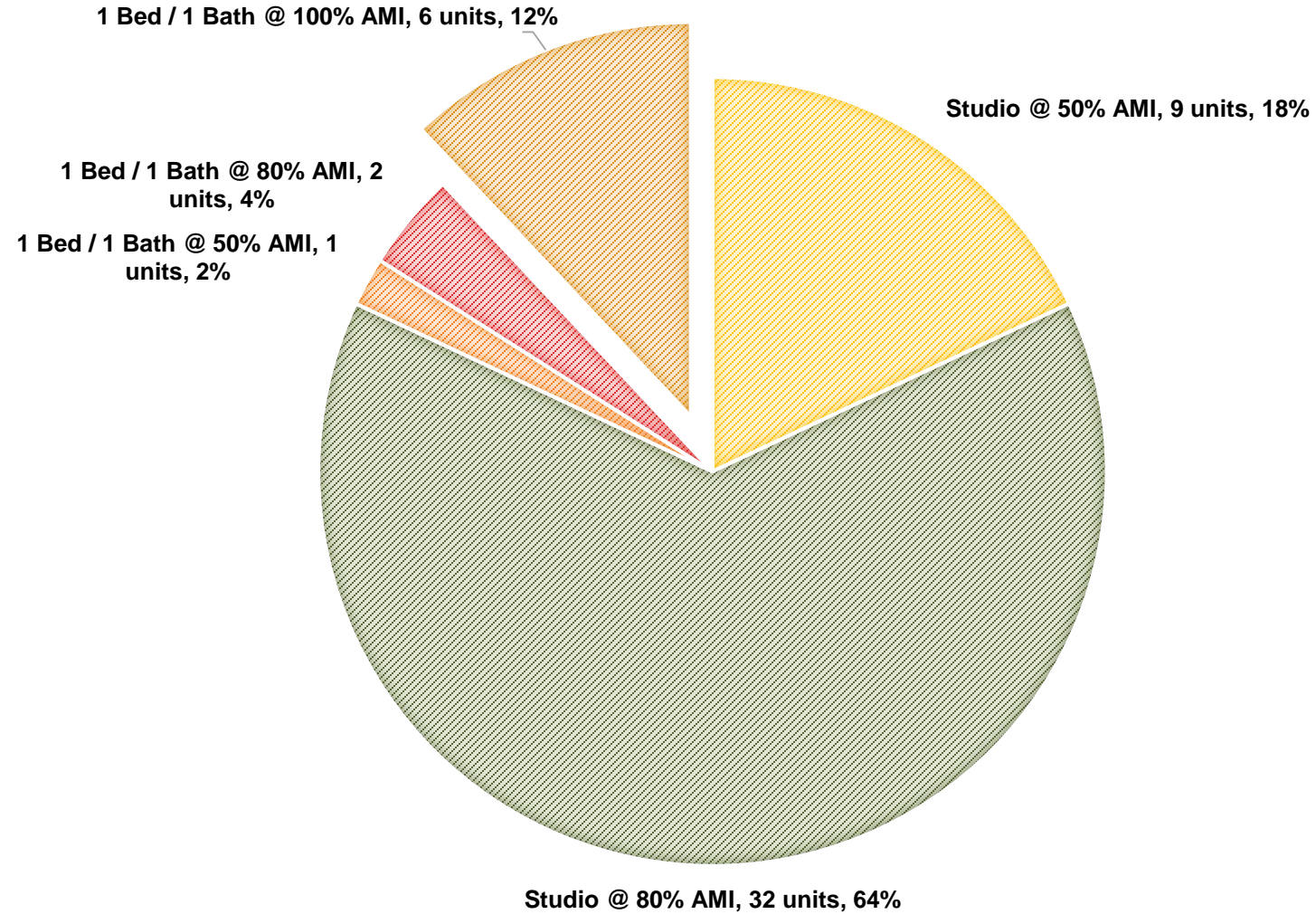
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**Rent
burden
on the
rise**

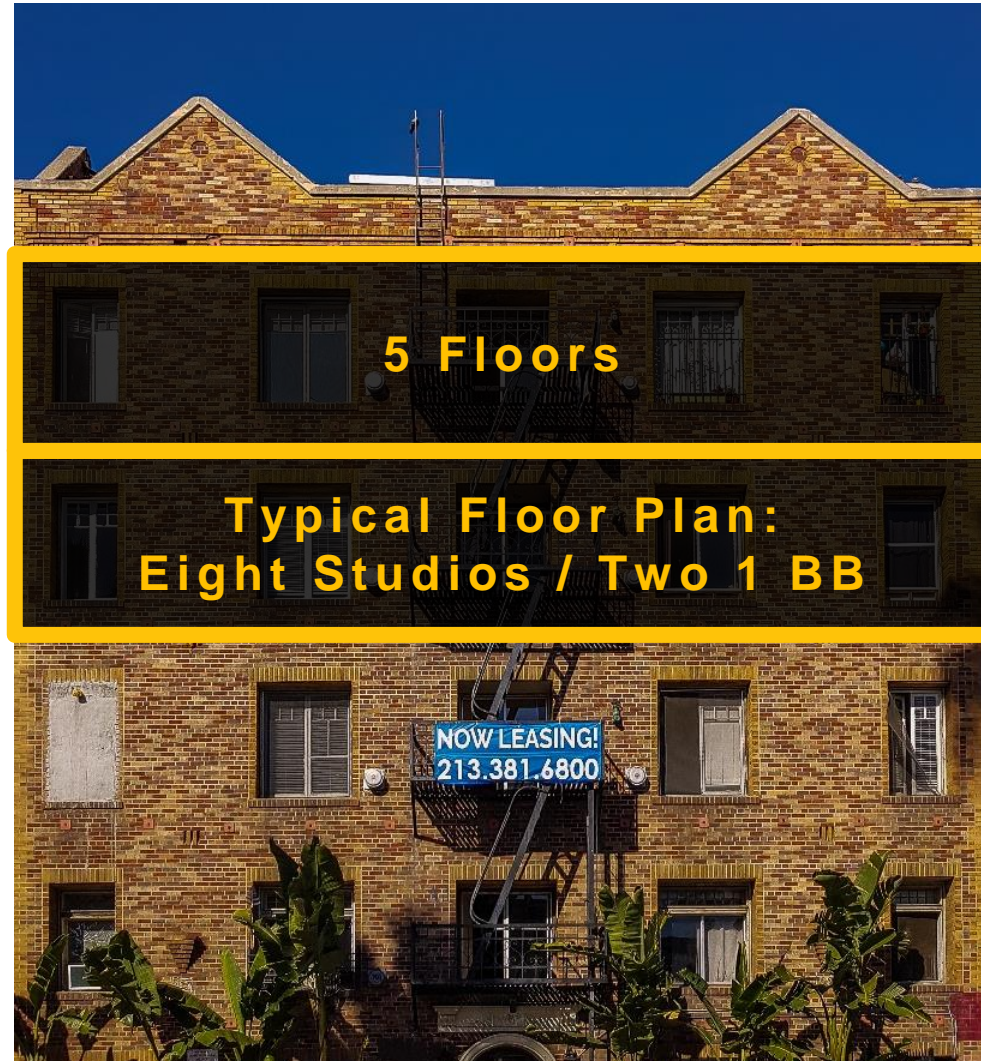
**Gap of
500K
affordable
units in
LA county**

**33K
Market
rate units
Pipeline
(next 5
years)**

Normandie Lofts – Unit Mix



Normandie Lofts – Unit Mix

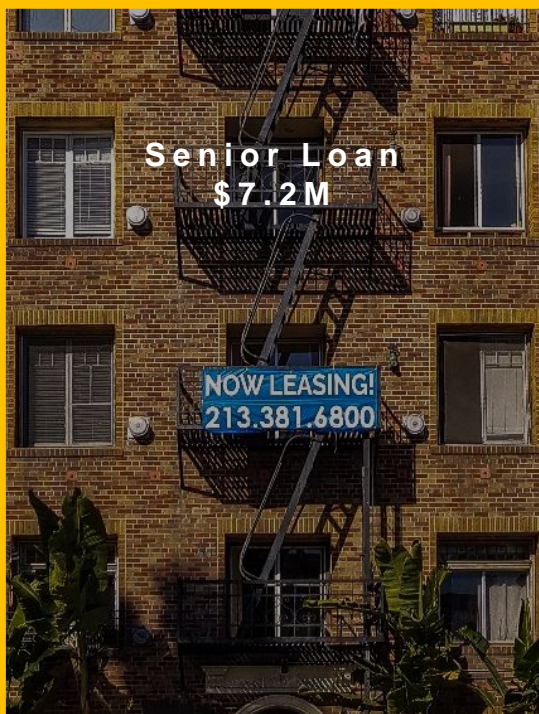


Normandie Lofts – Capital Stack

Equity
\$1.3M

Mezzanine Loan
\$2M

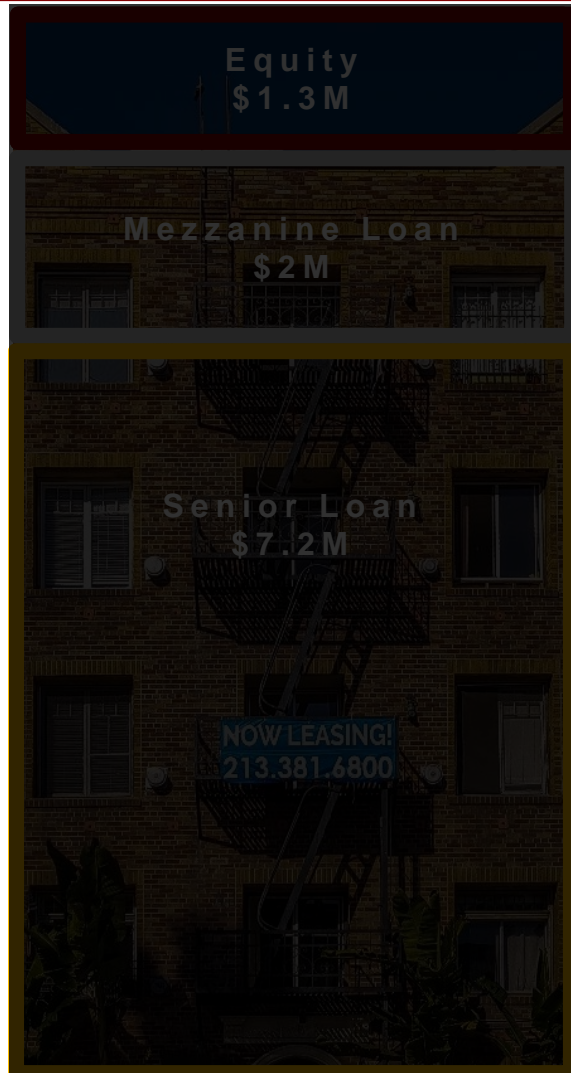
Senior Loan
\$7.2M



NOW LEASING!
213.381.6800

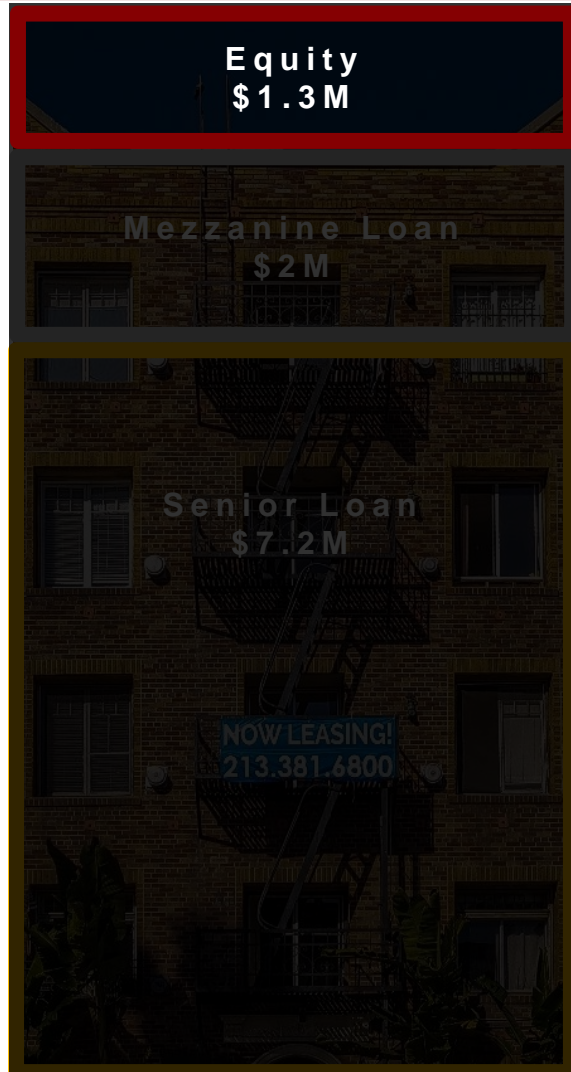
TDC: \$10.5M

Normandie Lofts – Capital Stack



TDC: \$10.5M

Normandie Lofts – Capital Stack



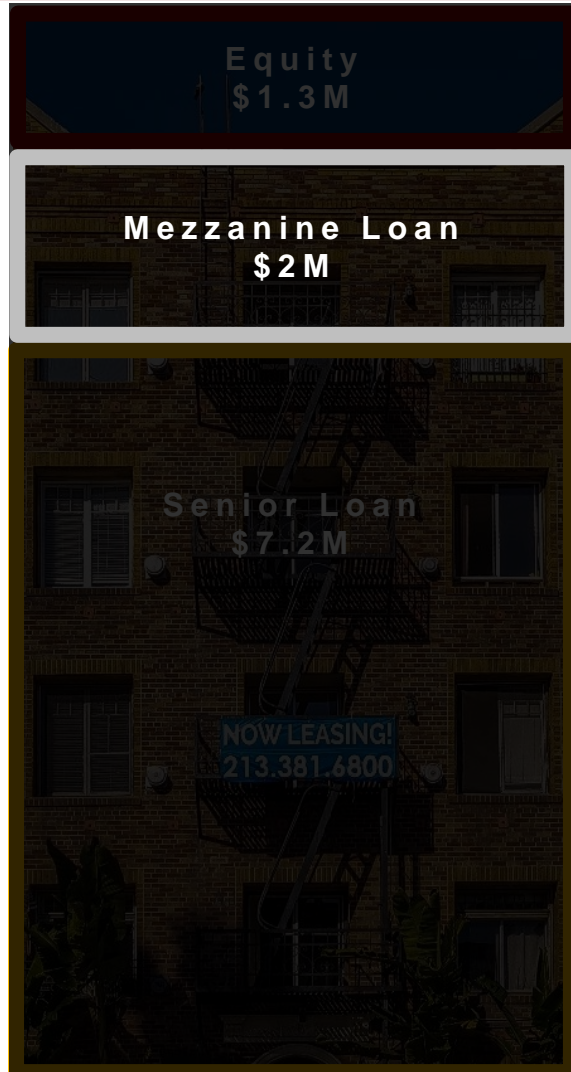
**70/30
Investment
Structure**

**8%
Preferred
Return to
all
members**

**60/40 Split
after the
Pref. is met**

**Non for
Profit
Member:
HAPI
Foundation**

Normandie Lofts – Capital Stack



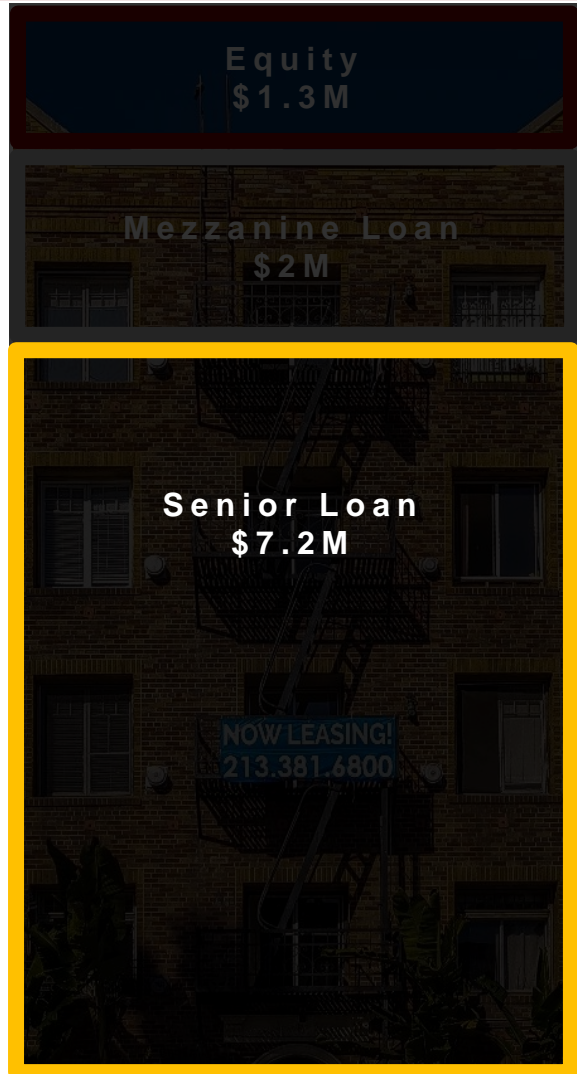
**Low
Interest
Rate:
2.50%**

**Interest
Only**

**Non
Recourse**

**High Net
Worth
Individual**

Normandie Lofts – Capital Stack



**LIBOR* +
290 bps
(~5.40%)**

**Fully
Amortizing**

**40 year
Period**

69% LTC

* 04.02.2019 LIBOR 1M @ 2.48%

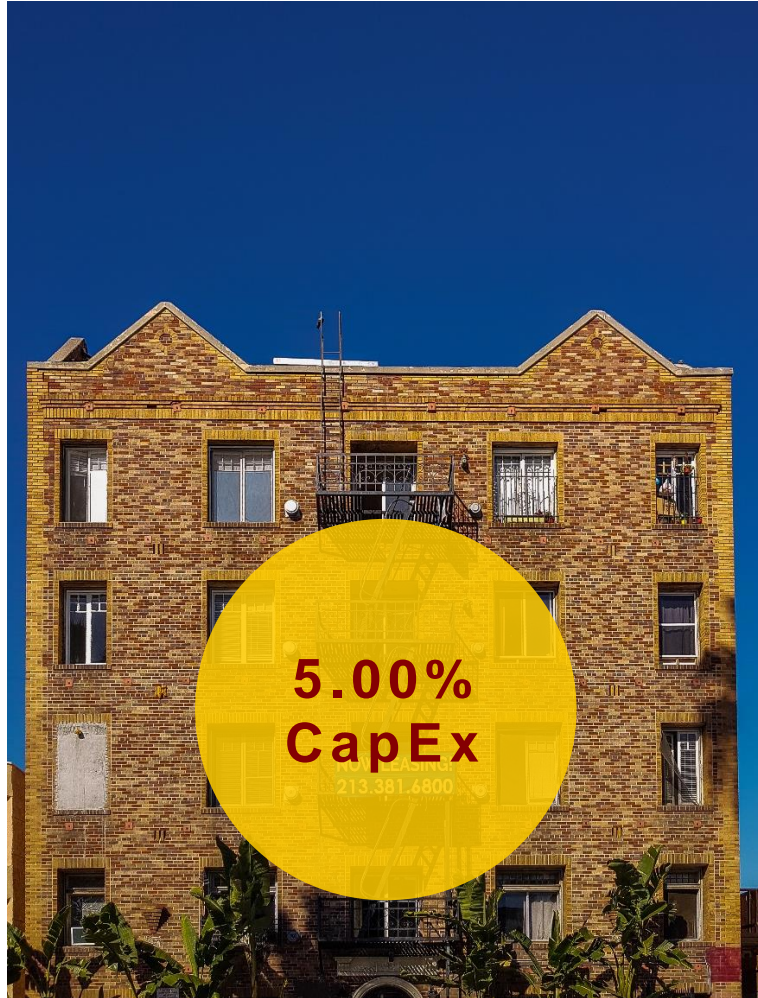
Normandie Lofts – 7 year proforma



Year	Untrended	Totals
Rent Income - Tenants		
POTENTIAL GROSS INCOME	723,540	5,486,146
Vacancy & Bad Debt		
Subtotal	(36,177)	(274,307)
Subtotal	687,363	5,211,838
Concessions & Bad Debt		
Subtotal	(2,388)	(18,104)
Subtotal	684,975	5,193,734
Other Income		
Subtotal	-	263,345
Supplementary Voucher - Income		
EXTRA INCOME	-	-
EFFECTIVE GROSS INCOME	684,975	5,457,079
Expenses		
Subtotal	(284,248)	(1,430,520)
NET OPERATING INCOME	400,728	4,026,559
Sales Proceeds		
Total Net Sale Proceeds		12,039,562
Total Net Revenues - Unlevered		16,066,121
Acquisition & Closing Costs		
Subtotal		(10,103,410)
Capital Expenditures		
Subtotal		(474,704)
Total Development Costs - Unlevered		(10,578,114)
Net Cash Flow - Unlevered	IRR = 7.20%	5,488,007
Senior & Junior Loan		
FINANCING CASH FLOW		(2,960,982)
Net Cash Flow - Levered	IRR = 18.58%	2,527,025
Capital Account Balance		
Net Profit		

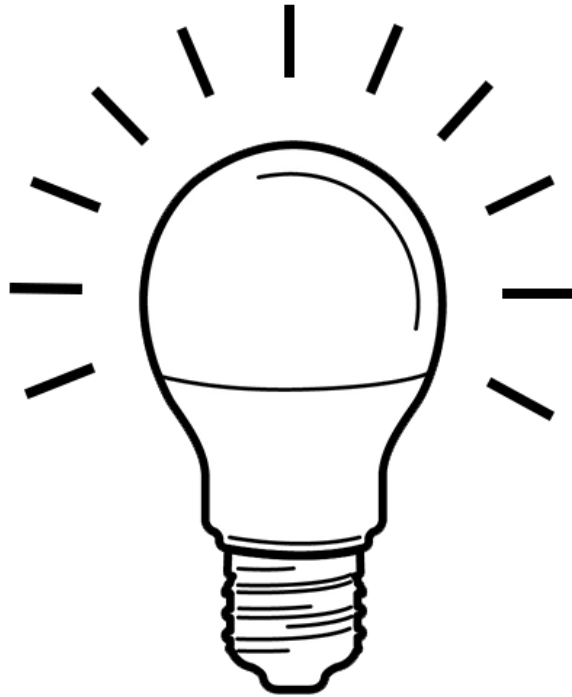
0	1	2	3	4	5	6	7
-	723,540	742,622	762,276	782,520	803,371	824,848	846,969
-	(36,177)	(37,131)	(38,114)	(39,126)	(40,169)	(41,242)	(42,348)
-	687,363	705,491	724,162	743,394	763,203	783,605	804,620
-	(2,388)	(2,451)	(2,516)	(2,582)	(2,651)	(2,722)	(2,795)
-	684,975	703,040	721,647	740,812	760,551	780,883	801,825
-	34,368	35,399	36,461	37,555	38,682	39,842	41,037
-	-	-	-	-	-	-	-
-	719,343	738,439	758,108	778,367	799,233	820,726	842,863
-	(187,300)	(192,713)	(198,285)	(204,021)	(209,927)	(216,007)	(222,267)
-	532,043	545,727	559,823	574,345	589,306	604,718	620,596
-	-	-	-	-	-	-	12,039,562
-	532,043	545,727	559,823	574,345	589,306	604,718	12,660,158
(10,103,410)	-	-	-	-	-	-	-
-	(313,336)	(161,368)	-	-	-	-	-
(10,103,410)	(313,336)	(161,368)	-	-	-	-	-
(10,103,410)	218,707	384,359	559,823	574,345	589,306	604,718	12,660,158
9,200,000	(484,762)	(484,762)	(484,762)	(484,762)	(484,762)	(484,762)	(9,252,410)
(903,410)	(266,055)	(100,403)	75,061	89,584	104,544	119,957	3,407,748
							(955,579)
							2,452,170

Normandie Lofts – Exit Strategy



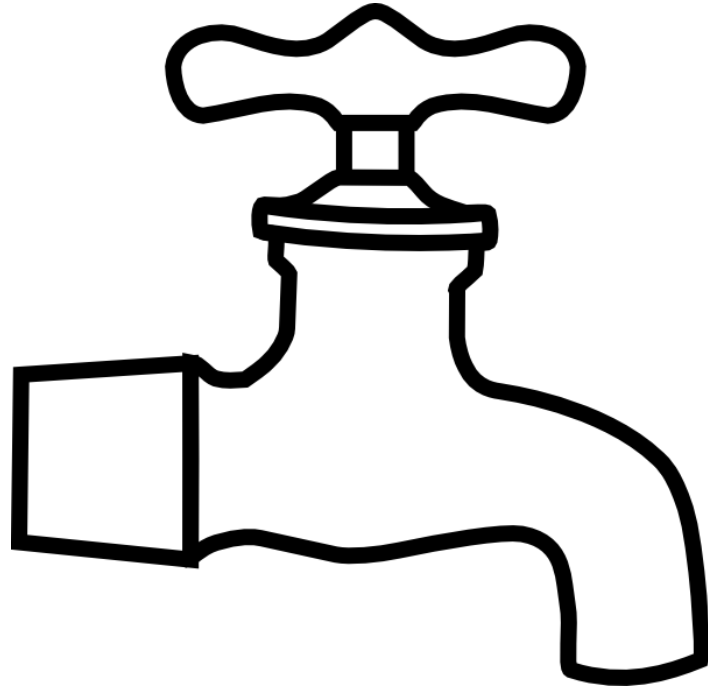
Year 7 (Exit) CF

<i>Year</i>	<i>7</i>
NET OPERATING INCOME	620,596
Sales Proceeds	
Total Net Sale Proceeds	12,039,562
Total Net Revenues - Unlevered	12,660,158
Net Cash Flow - Unlevered	12,660,158
Senior & Junior Loan	
FINANCING CASH FLOW	(9,252,410)
Net Cash Flow - Levered	3,407,748
Capital Account Balance	(955,579)
Net Profit	2,452,170



Energy Efficient Modern Lighting

- ↓ LEDs use 75% less energy
- ↑ Bulb life lasts 25 times longer
- ↓ Annual cost-savings \$84 / unit / year
\$24,000 project-wide over 7 years



Low-Flow Toilets Conserve Water

↓ 164,250 gallons of water saved annually

↓ Annual cost-savings \$28 / unit / year
\$8,000 project-wide over 7 years



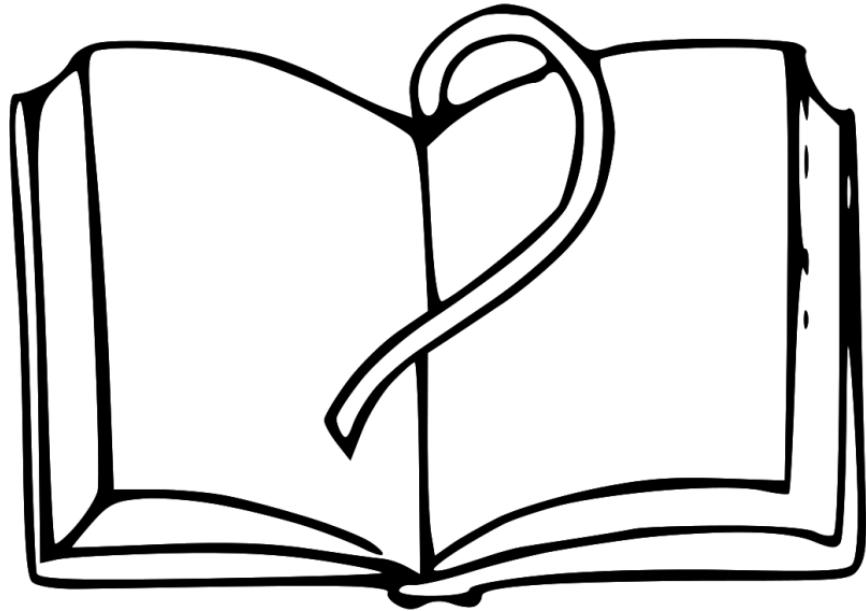
Reduced Rent Burdens, Avoided Homelessness

- ↓ Rent burdens 5-14% lower than HUD FMRs
- ↓ Some tenants previously homeless
- ↑ Reduced rent burdens enable increased healthcare, education, retirement spending

Normandie Lofts – Social Impact Analysis



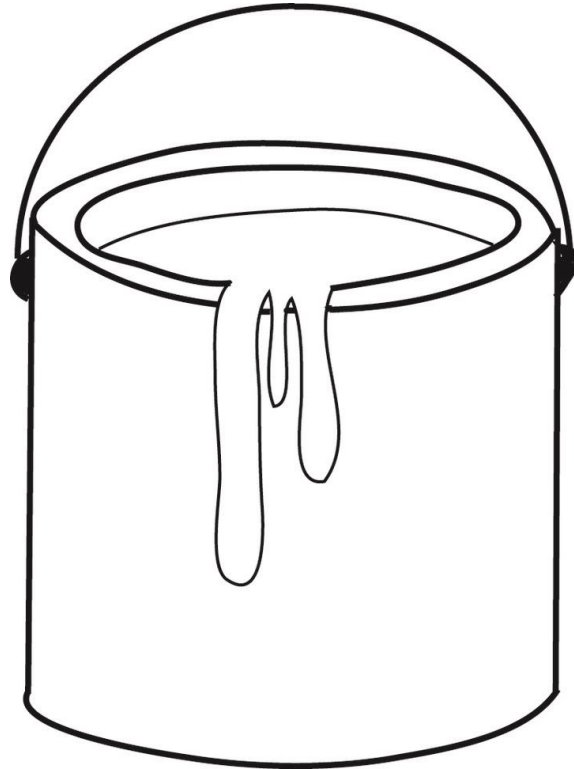
Cognitive Development & Educational Attainment



↑ Rent burden reductions lead to improved reading and math test scores



Source: Mary Cunningham & Graham MacDonald, Urban Institute



Lead Paint Removal & Public Health

- ↓ Reductions in future criminality, welfare use, healthcare and special education costs
- ↑ Increases in IQ scores, graduation rates, quality of life and lifetime earnings
- ↑ **\$3,706,291** net impact in social cost savings, higher lifetime earnings for 5 youth tenants

Normandie Lofts – Triple Bottom Line Returns



Financial Returns

Financial Return Summary	Profit	IRR	Equity Multiple	Return On	
				Costs	Cash on Cash
Net Cash Flow - Unlevered	5,488,007	7.20%		5.72%	
Net Cash Flow - Levered	2,452,170	18.58%			9.22%
Investor's Returns	1,593,652	17.39%	2.75x		
Sponsor's Returns	933,373	21.10%	3.39x		

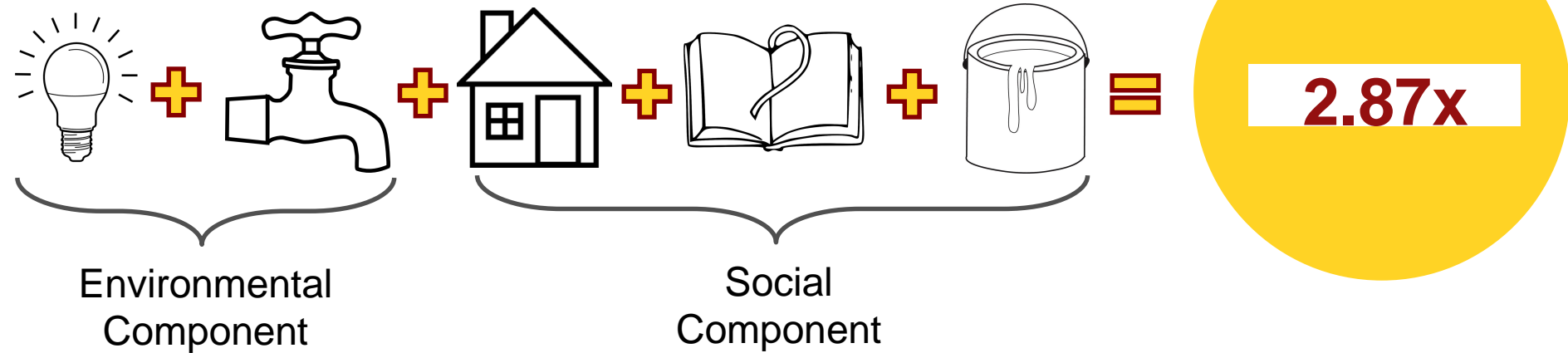
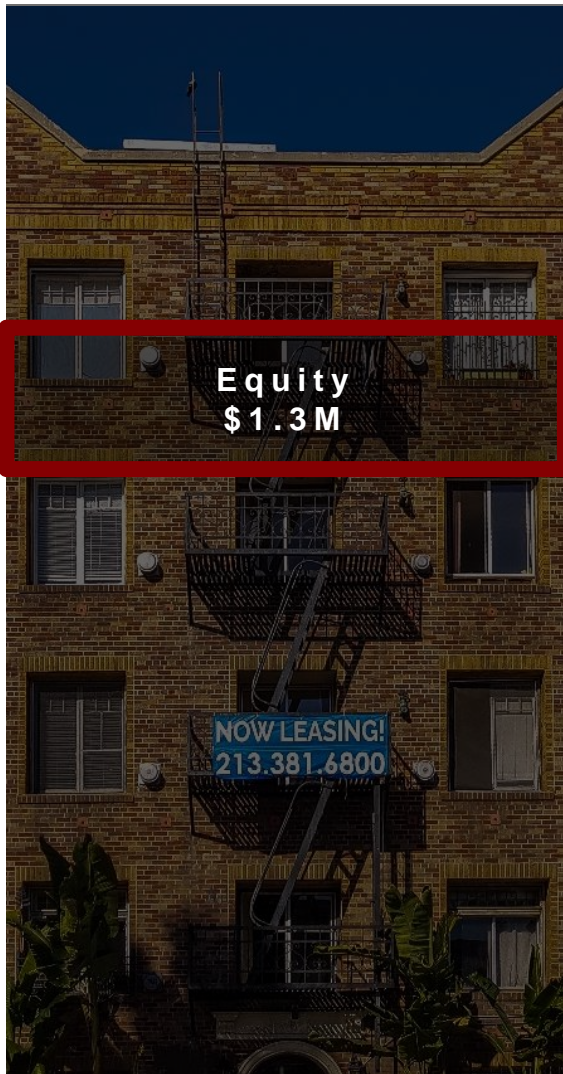
Social and Environmental Returns (Impact Multiple of Money*)

	Impact Source	Impact Value per Unit	Normandie Population	First Year Impact Value	Impact Value over 7-Year Life of Project
1	Incandescent Lightbulb Replacement	\$11.40	370	\$4,218.00	\$24,007.34
2	Low-Flow Toilet Installation	\$27.92	50	\$1,395.90	\$7,944.95
3	Saved Special Education Costs	\$14,317.00	1	\$14,317.00	\$39,306.25
4	Reduced Medical Treatment Costs	\$684.00	5	\$3,420.00	\$19,465.41
5	Reduced Social Costs of Crime	\$399.00	5	\$1,995.00	\$11,354.82
6	Reduced Welfare Costs	\$691.00	5	\$3,455.00	\$19,664.62
7	Increased Productivity, Lifetime Earnings	\$723,300.00	5	\$3,616,500.00	\$3,616,500.00
Total					\$3,738,243.39



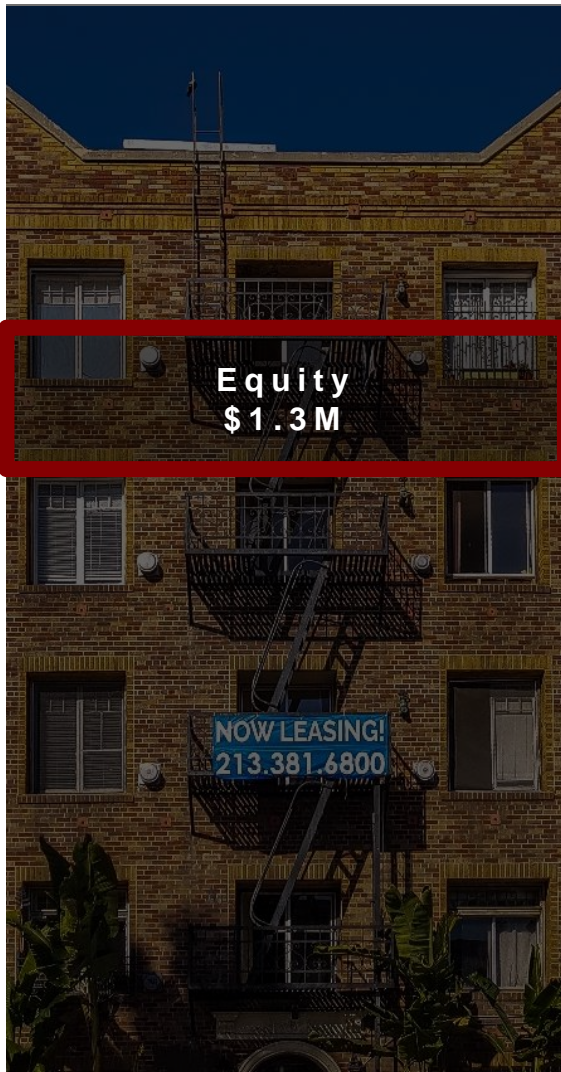
* IMM - Impact evaluation method implemented by Bridgespan Group and TPG Growth. Addy, Chris. Chorenge, M. Collins, M. Etzel. M. January-February 2019. "Calculating the Value of Impact Investing" Harvard Business Review from <https://hbr.org/2019/01/calculating-the-value-of-impact-investing>

Normandie Lofts – Impact Multiple of Money (IMM*)



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Normandie Lofts – Triple Bottom Line Returns



2.87x IMM

Social Returns

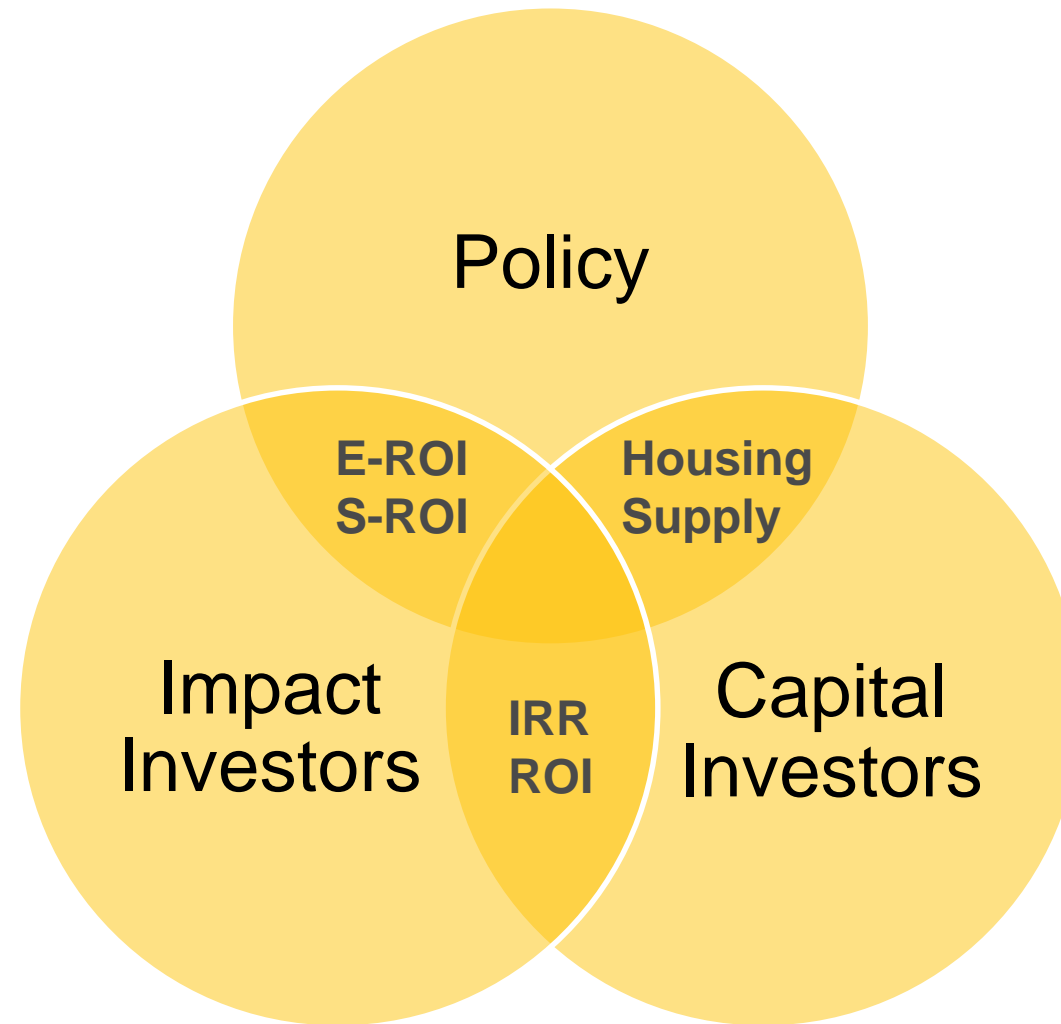
**Environmental
Returns**

**17.39%
IRR**

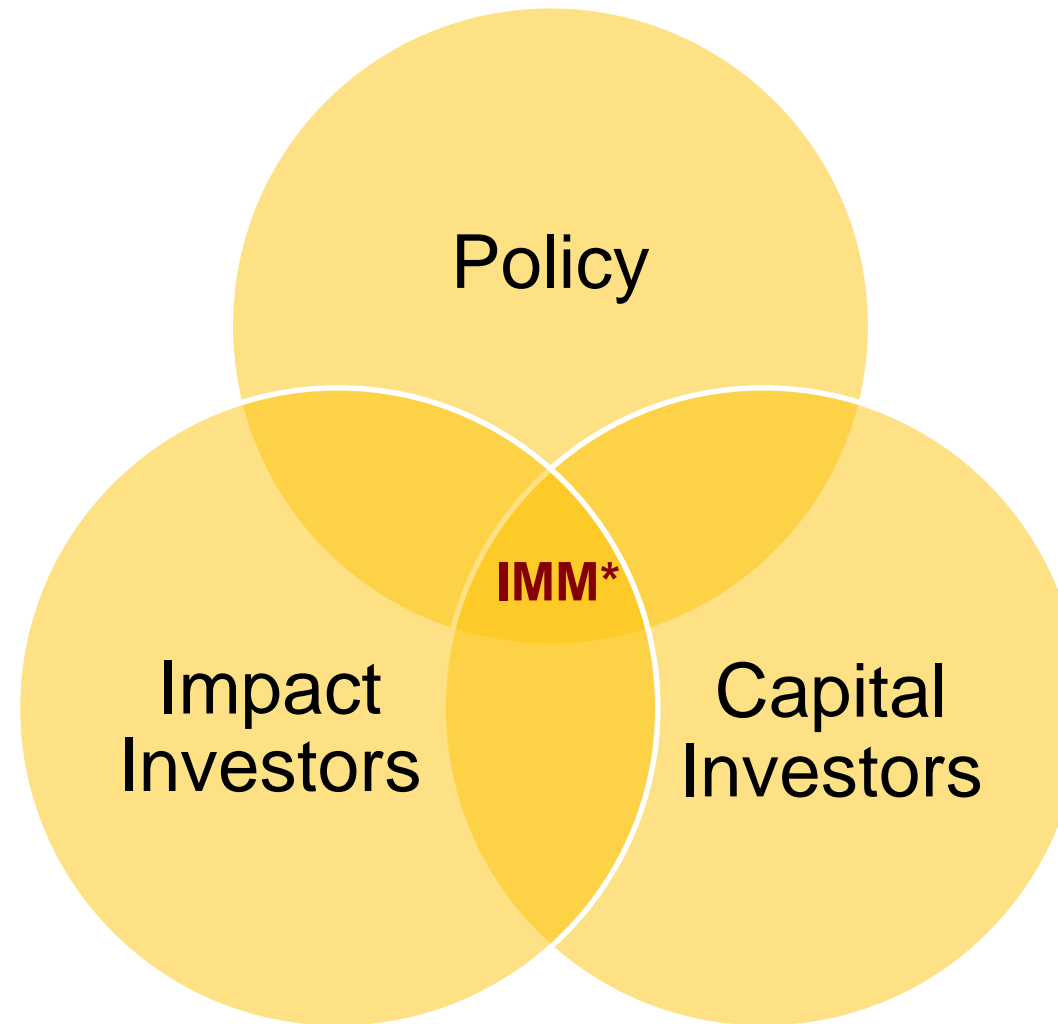
2.75x EM

**Financial
Returns**

Alignment of Interests

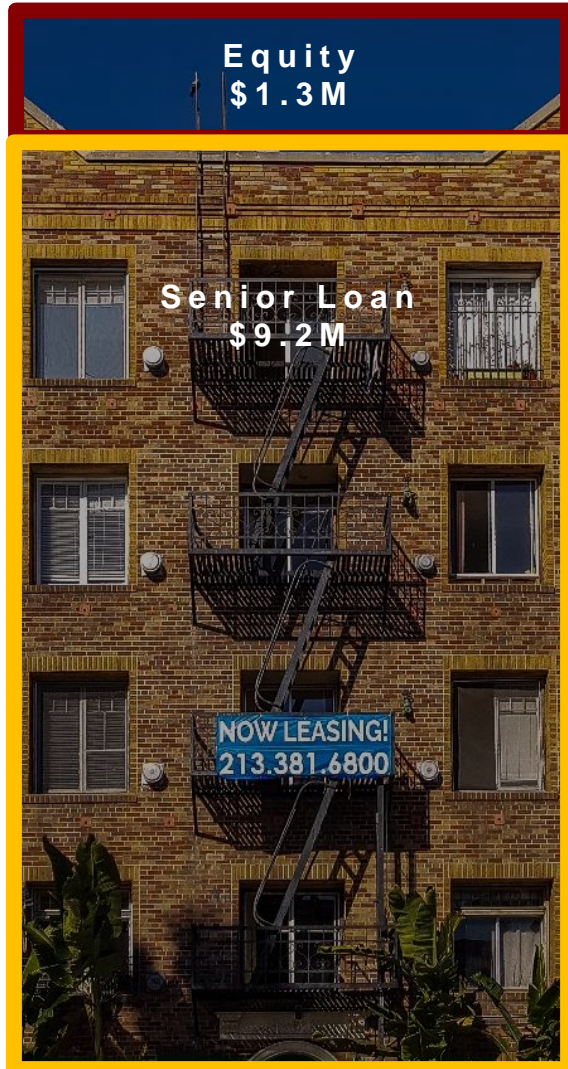


Alignment of Interests – Impact Multiple of Money



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Normandie Lofts – Without “Soft Money”

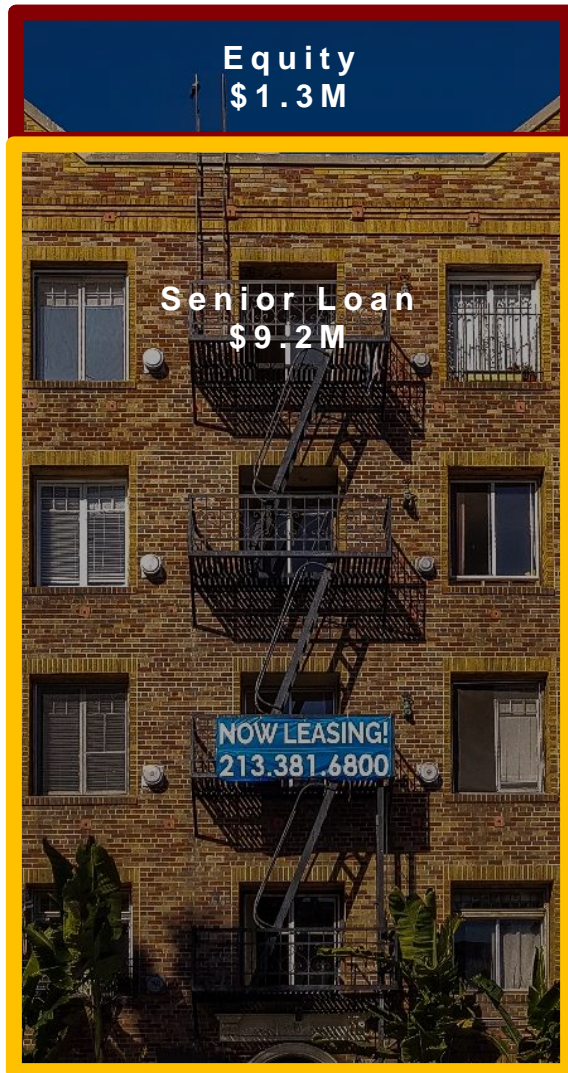


**Negative
Leverage**



**No
Financial
Returns**

Normandie Lofts – Without Tax Abatement



Forced to
increase
rents to
Market Rate

or

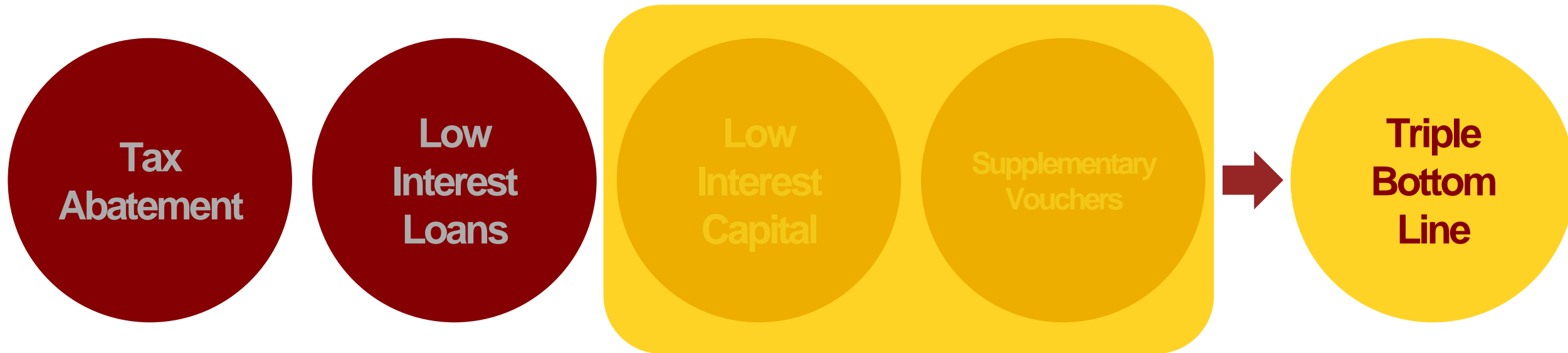
Neglected
Property



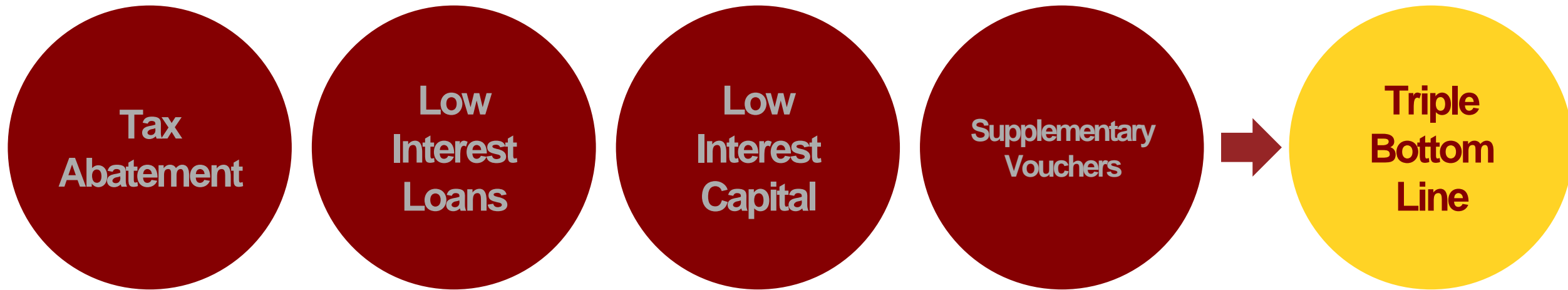
No housing
Preservation
...
displacement

Unsuitable
Housing

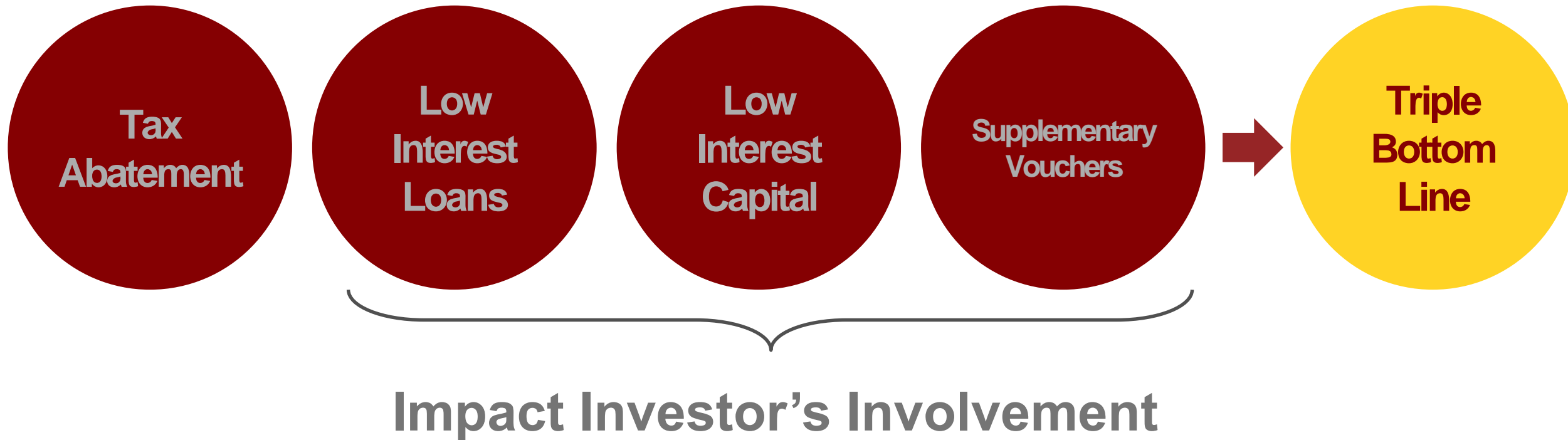
Normandie Lofts – Unusual example



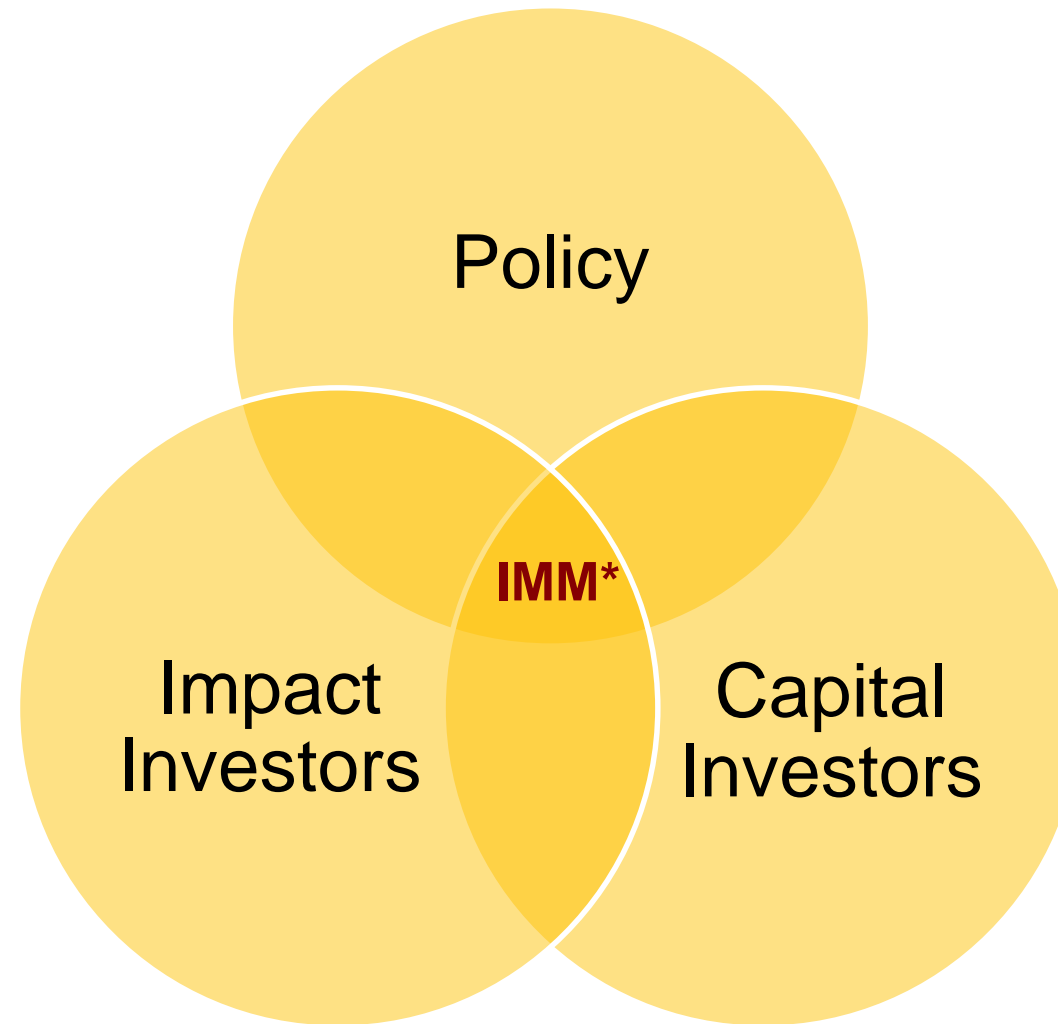
LA County NOAH Impact Investment Fund



LA County NOAH Impact Investment Fund



Alignment of Interests – Impact Multiple of Money



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Appendices



Acknowledgements



Normandie Lofts Tenants

Alliant Strategic Investments – Eddie Lorin

Gary Painter

Caroline Bhalla

Erika Van Sickel

Sean Agnst

Regina Guerrero

Normandie Lofts – 7 yr proforma



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Net Profit		

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							(955,579)
							2,452,170

Normandie Lofts – Cap Rate Sensitivity



	Unlevered Cash Flows			Levered Cash Flows			Comments
	IRR	Profit	Return on Costs*	IRR	Profit	Cash on cash**	
4.00% Exit Cap Rate /renovations during 18 months/stepped absorption							The Exit Cap Rate is 80bps lower than the entry cap rate. This is an ideal scenario where the project renovations create additional value. The project's location is also expected to push for lower Cap Rates.
Base Case	6.15%	4,837,597	4.70%	8.49%	1,360,760	0.00%	Having an unlevered Return on Costs lower than the interest rate of the Senior Loan (4.7% vs 5.7%) creates the a negative leverage created by the Senior Loan generates the only positive cash flow upon exit, therefore generating a projected positive IRR.
(A) Tax Abatement	9.64%	8,205,908	5.72%	22.49%	4,729,071	3.37%	The tax abatement is central to the project's profitability, since the unlevered Return on Costs is slightly higher than the Senior Loan interest rate.
(A) Tax Abatement + (C) Low Interest Mezzanine	9.64%	8,205,908	5.72%	25.28%	5,170,071	7.53%	While the unlevered returns remain constant due to the Tax Abatement, the low interest mezzanine has a positive impact on the levered cash flow and returns.
(A) Tax Abatement + (C) Low Interest Mezzanine + (D) Supplementary Vouchers	11.07%	9,330,606	7.66%	33.12%	6,294,769	23.27%	This ideal scenario is to what the NOAH fund is picturing, being benefited by Supplementary Rent Vouchers that are tied per unit to a Class B market rate while providing tenants with low exposure to rent burdened situations, and all it's social benefits.

	Unlevered Cash Flows			Levered Cash Flows			Comments
	IRR	Profit	Return on Costs*	IRR	Profit	Cash on cash**	
5.00% Exit Cap Rate /renovations during 18 months/stepped absorption							The Exit Cap Rate is 20bps higher than the entry cap rate. Though this approach might be counter intuitive in an urban Infill Value Add project located in a high barrier of entry market, there is an ubiquitous late-cycle sense. The project's location is expected to push for lower Cap Rates.
Base Case	3.29%	2,357,222	4.70%	0.00%	(1,119,615)	0.00%	Having an unlevered Return on Costs lower than the interest rate of the Senior Loan (4.7% vs 5.7%) creates the a negative leverage created by the Senior Loan generates the only positive cash flow upon exit, therefore generating a projected positive IRR.
(A) Tax Abatement	6.72%	5,196,018	5.72%	11.62%	1,719,180	3.37%	The tax abatement is central to the project's profitability, since the unlevered Return on Costs is slightly higher than the Senior Loan interest rate.
(A) Tax Abatement + (C) Low Interest Mezzanine	6.72%	5,196,018	5.72%	14.89%	2,160,180	7.53%	While the unlevered returns remain constant due to the Tax Abatement, the low interest mezzanine has a positive impact on the levered cash flow and returns.
(A) Tax Abatement + (C) Low Interest Mezzanine + (D) Supplementary Vouchers	8.28%	6,352,547	7.66%	24.27%	3,316,709	23.27%	This ideal scenario is to what the NOAH fund is picturing, being benefited by Supplementary Rent Vouchers that are tied per unit to a Class B market rate while providing tenants with low exposure to rent burdened situations, and all it's social benefits.

Notes

* Return on Costs upon stabilization: Total Development Costs / Unlevered NOI

** Cash on cash upon stabilization: Invested Equity / Equity CF

Normandie Lofts – Alternative financing options



Expenses		Yearly Expense	PSF	% of EGI
RE Taxes	13,220 Per Year	13,220	0.62	1.7%
Insurance	275 Per Unit Per Year	13,750	0.65	1.8%
Utilities	900 Per Unit Per Year	45,000	2.11	5.9%
R&M	500 Per Unit Per Year	25,000	1.17	3.3%
Payroll	525 Per Unit Per Year	26,250	1.23	3.5%
General & Administrative	150 Per Unit Per Year	7,500	0.35	1.0%
Management Fee	3.0% EGI			0.0%
Advertising	50 Per Unit Per Year	2,500	0.12	0.3%
Replacement Reserves	500 Per Unit Per Year	25,000	1.17	3.3%
Monitoring Fee	7,500 Per Year	7,500	0.35	1.0%
Total				22%

CapEx Summary	Cost/Unit	# Of Units	Total	PSF
Exterior Paint	500	50	25,000	1.17
Interior Upgrades	3,000	50	150,000	7.04
Gates/Security	300		15,000	0.70
Roofs/Gutters/Windows/Façade	1,000		50,000	2.35
Landscaping/Common Areas/Exterior General	200		10,000	0.47
Clubhouse/Common Areas/Hallways	300		15,000	0.70
Recreational Amenity Upgrades	400		20,000	0.94
Hvacs/Water Heaters/Plumbing/Mechanical	500		25,000	1.17
Signage Upgrades	500		25,000	1.17
Miscellaneous/Contingency	2,168		108,400	5.09
Construction Management Fee	6% of total costs		26,604	1.25
Total			470,004	22.05

Normandie Lofts – Site Survey



Survey

Hypothesis

- NOAHs as a **Homeless prevention program**. Incentivize housing preservation of dense projects.
- By providing dignified units, the **tenant stickiness** and **punctual rent payments** increase, especially in affordable units.
- By natural *filtering* of available units, due to a continuance on market rate development, the overall units available for rental will increase in the area, therefore a general increase on NOAH units will also be seen, providing **additional investment opportunities** for the fund's thesis.

Goals

- To further understand the tenant profile of Naturally Occurring Affordable Housing, specifically the current tenants of Normandie Lofts.

Participants

- Age range 20 – 35:
 - Professionals
 - Construction workers
 - Freelance
 - Service workers
- Age range 40 – 70:
 - Undocumented Immigrants
 - Construction, Restaurants, Hotels, *Invisible* jobs/industries

Psychographic Targets

- A. Young Professional
 - Education: GED or higher
 - Industry: Health Care, Marketing,
 - Age range: 20 – 35
- B. Young Freelance
 - Education: Highschool or higher
 - Industry: Art, Marketing, social media management
 - Age range: 20 – 35
- C. Young Construction Worker
 - Education: Highschool or higher
 - Industry: Construction
 - Age range: 20 – 35
- D. Young Service Worker
 - Education: Highschool or higher
 - Industry: Restaurants, Hotels
 - Age range: 20 – 35
- E. Undocumented/documentated Immigrant
 - Education: Elementary School or higher
 - Industry: Construction, Restaurants, Hotels, Shadow industries
 - Age range: 40 – 70

Normandie Lofts – Site Survey



Common grounds of psychographic groups

General Industries: Freelance, Service Clerk, Barista and Shadow jobs. – Workforce –

General Rent Burden: paying over 40% of monthly income towards rent

Rent Controlled Units: 20 units

Age range of house hold: 20 to 70 years old

Possible previous homelessness: 1/3 of surveyed HH had people with previous Homelessness situations

Housing expectations: affordable rent, clean, convenient infill location.

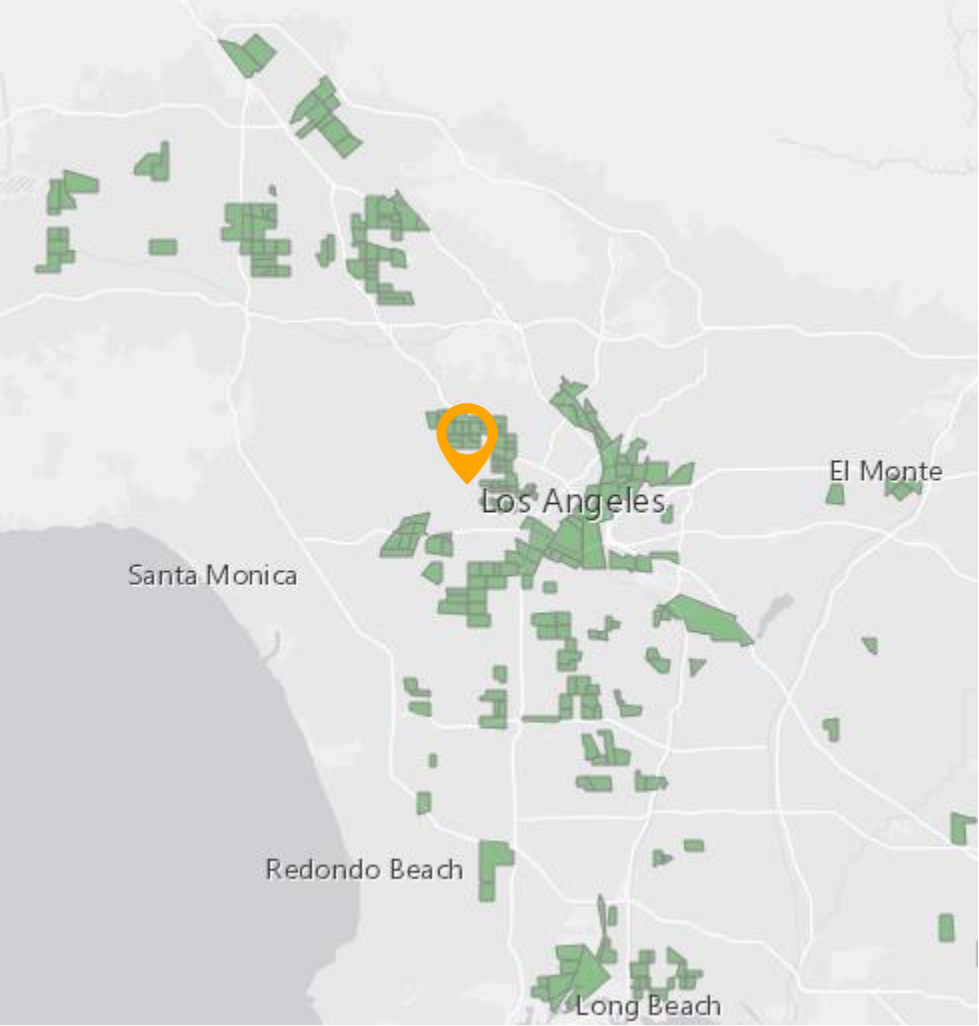
Unexpected Findings

- 66% of tenants thought the rent to be **fair**, even if they are technically rent burdened. They compare the rent level to a regional LA area, reinforcing the stickiness of the project.
- One third of the surveyed households had members that were in a situation of homelessness in the last 2 years.
- There were more undocumented immigrants as tenants than expected (1/11)

LA County NOAH Impact Investment Fund



Opportunity Zones



**274 across
LA County**

**Deferred tax
incentives on
capital
investments**

**Threat:
Gentrification &
Displacement**

**Mitigation:
NOAH
Developments**

Source: California Department of Finance