NALCAB

Naturally-Occurring Affordable Housing Preservation Plan

Los Angeles, California

Developed in partnership with

NEW

New Economics for Women®

Mission

The mission of New Economics for Women is to improve generational economic mobility for families through wealth creation, entrepreneurship and housing.

Naturally-Occurring Affordable Housing Preservation Plan

Table of Contents

01 | Introduction 4

02 | Background to Concept Development 6

03 | About the Neighborhood 10

04 | Vision for the Neighborhood 16

05 | Action Plan Goals, Strategies, and Actions 18

06 | Metrics of Success 22

01 | Introduction

Overview of planning process, neighborhood, vision, and goals

New Economics for Women is not your traditional community and economic development organization. Founded in 1985, NEW is the first Latina-operated community and economic development organization in the United States. NEW exists to create beautiful spaces and spark economic mobility for women and their families, especially immigrant families.

NEW's investment in people, places and policy has resulted in over a quarter of a billion dollars in public and private investment. These investments have resulted in NEW being known for creating safe environments, building high quality award-winning developments, charter schools, a business development center, and community health clinic/wellness center.

NEW's wealth and asset building service model has distinguished itself by its departure from traditional poverty-based community development models because its work begins with understanding a neighborhood from a perspective of women, especially immigrant women. NEW's multi-generational approach, entire families are empowered to connect their values to their goals, which over time, transforms their view of what they need to invest in order to prosper.

02 | Background to Concept Development

Background in Community Engagement to Inform Our Plan

NEW has been serving the Pico Union/Westlake community for over 25 years, and is headquartered within walking distance from five (5) of its affordable multifamily projects. NEW is intimately familiar with this community, its rich history, its changing character, and its needs. NEW belongs to a larger infrastructure and programing network which provides highly-individualized community-based bilingual services to this low-income neighborhood.

In fulfillment of NEW's mission-driven work to spark economic mobility for families, NEW engages in local community development planning through programs and services designed to intake information from our users to make informed neighborhood-based community development decisions in each area of growth for the organization.[1]

The subsequent maps illustrate the location of each of NEW's five housing developments and one commercial development in the Westlake area of Los Angeles, all walking distance from one another and from Downtown Los Angeles.

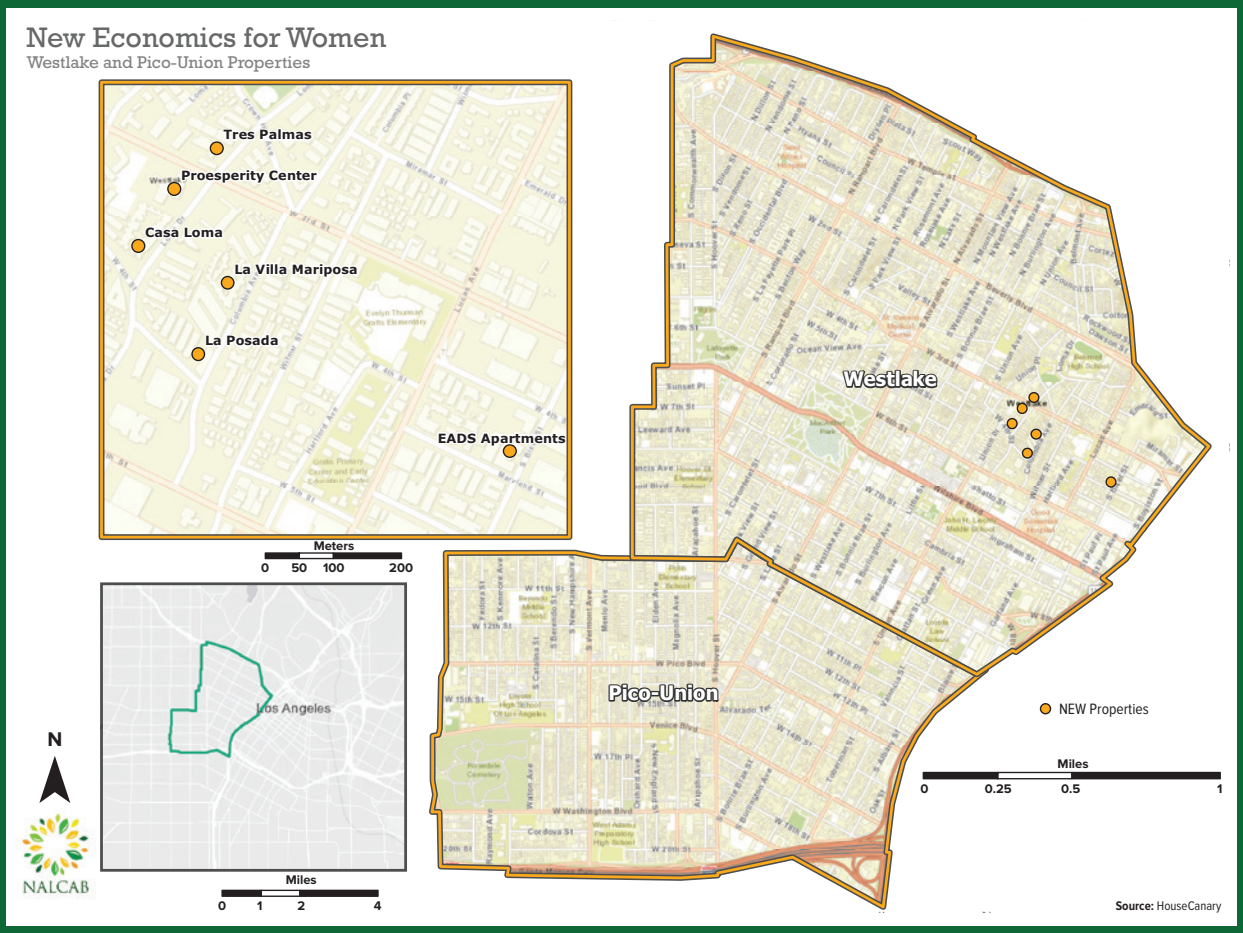
NEW has, since its inception, engaged in working with its local community to inform its real estate development strategy. In order to facilitate the renovation of NEW's 25,000 square foot Prosperity Center commercial real estate development, in 2017, NEW led a coalition of nine nonprofit and governmental partners to receive technical assistance in the creation of a Community Action Plan. NEW spearheaded this group's participation in the U.S. Environmental Protection Agency's Healthy Places for Healthy People Program.[2]

[1] See Appendix 1 for more information regarding New Economics for Women's Affordable Housing Experience and Real Estate Development Portfolio, and for the organizations history as an economic development nonprofit in Southern California.

See www.epa.gov/smartgrowth/healthy-places-healthy-people

[2] See www.epa.gov/smartgrowth/healthy-places-healthy-people

NEW Properties



After significant input from over 1,000 community members and businesses regarding Pico-Union/Westlake's most urgent needs, a broad Community Action Plan was created with four major goals:[3]

1. **Create more affordable housing;**
2. **Create safer streets;**
3. **Improve access to health care and preventative services, and;**
4. **Improve communication among community stakeholders.**

The plan's most daunting task was to "create more affordable housing" in a high-cost, highly-gentrified community. This goal sought to avoid displacement of current low-income renters, and to increase options for families in poverty who are in overcrowded and substandard housing conditions.

To achieve this Community Action Plan goal, NEW must better equip itself, led by its Real Estate Department, to increase its ability to create more affordable housing in our target area by preservation of existing affordable housing resources, naturally occurring affordable housing, and acquisition of these sites in order to build new construction affordable housing.

Tenets of our Naturally-Occurring Affordable Housing Preservation Plan

To that end, the goal of this Naturally-Occurring Affordable Housing Preservation Plan is to: strengthen our internal capacity around the creation/preservation of affordable housing and advocacy for housing policy changes to benefit low-income community members.

Why this goal?

- Although NEW maintains a portfolio of 303 multi-family affordable housing units at 5 properties in Pico-Union/Westlake, we average a 6-month wait list for each property, and the growing need for affordable housing far outweighs our current ability to develop properties.
- While multi-family properties frequently come on the market for sale, investors snatch them up before we can identify the listing, much less secure financing. Speculators, simply, possess insider real estate and demographic data that is currently beyond our reach; allowing them to stay a step ahead of our efforts and leaving us outflanked and the community with one less affordable housing option.

[3] See Appendix 2 for summary information from our Community Action Plan and for action items and descriptions of activities to follow to support each of the four major goals of the Plan.

- A frustrating recent example of well-capitalized investors being able to purchase properties that would be ripe for affordable housing preservation work in Pico-Union/Westlake is the property at 372 Loma Drive, located directly across the street from NEW's offices in Pico-Union. An apartment building with 23 rent-controlled units, the parcel was listed and sold before we could react. It will now be demolished and rebuilt with up to 75 market-rate units; representing a significant net affordable housing loss for the community. Most disappointingly, the final sale price of the building from its long-time owner to a developer-purchaser came out to $170/sq ft, well within our financial means, but listed and purchased more quickly than NEW's Real Estate Department or Administration Department can move its resources to purchase real estate as a nonprofit developer.

To counteract the growing loss of affordability and dislodgment of local Latino and immigrant families, NEW seeks to implement activities that result in:

1. **Creation of new internal and external systems that enhance our capacity to identify potential real estate targets, approach and engage owners, engage with tenants, and, ultimately acquire assets.**

This includes:

- Greater advocacy with the Los Angeles Housing Department around code violations;
- Increase knowledge of GIS mapping tools and land use(s); and
- Improved community surveying techniques.

2. **Creation of processes and partnerships that can expedite acquisition of properties by more effectively understanding relative market values, estimating potential rehab costs, and securing adequate financing.**

In particular, we seek to:

- Gain access to valuable online real estate data and new listings;
- Develop best practices for assessing comparative real estate values/return on investment and predetermining potential rehab and predevelopment costs, and;
- Develop new approaches and/or relationships that lead to prequalification and lines of credit from private or semi-private equity lenders; and
- Receive community-based specialized financial institution certifications that provides a range of financial services that leads to equity investments and loans.

Quality affordable, multi-family properties are extremely scarce and units are often overpriced in relation to their condition and amenities.

03 | About the Neighborhood

In the Pico-Union/Westlake area, we are engaged in difficult battle against displacement and economic shock due to advancing gentrification, lack of quality, affordable housing and the rise in cost of living in our home community—an area of approximately 100,000 predominantly low-income Latino and immigrant families. There are no single-family options in this area. Quality affordable, multi-family properties are extremely scarce and units are often overpriced in relation to their condition and amenities. Most recently, local news has reported a group of tenants less than ¼ mile from NEW's Pico-Union headquarters who are being displaced by the condition of their apartments—with leaks and cockroach infestations forcing renters to live in tents outside of their apartment buildings in protest of substandard conditions.

The area is one of significant poverty for most of its residents[4]—the median household income was $26,424, which is very low for the City and County of Los Angeles. Further, the area is overwhelmingly Latino (85.4%), and its density is over 38,000 people per square mile, one of the highest densities for the City of Los Angeles (trailing only the Koreatown area of the City of Los Angeles in density with 42,611 people per square mile), and among the highest densities for the County.

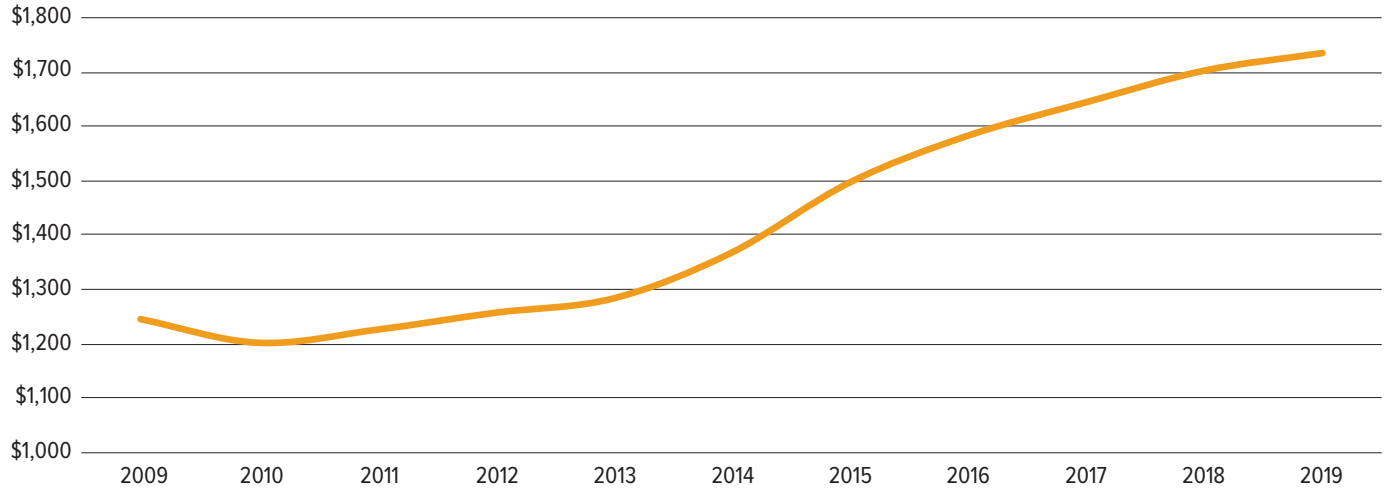
A new report from the University of Southern California's Lusk Center for Real Estate forecasts that renters in the City of Los Angeles will pay an average rent of $2,369 in 2021, a $139 increase from the current average rent of $2,230.[5] This makes the City itself one of the top three costliest rental markets in the country.

[4] See http://maps.latimes.com/neighborhoods/neighborhood/westlake/ and http://maps.latimes.com/neighborhoods/neighborhood/pico-union/ as of 10/28/2019.

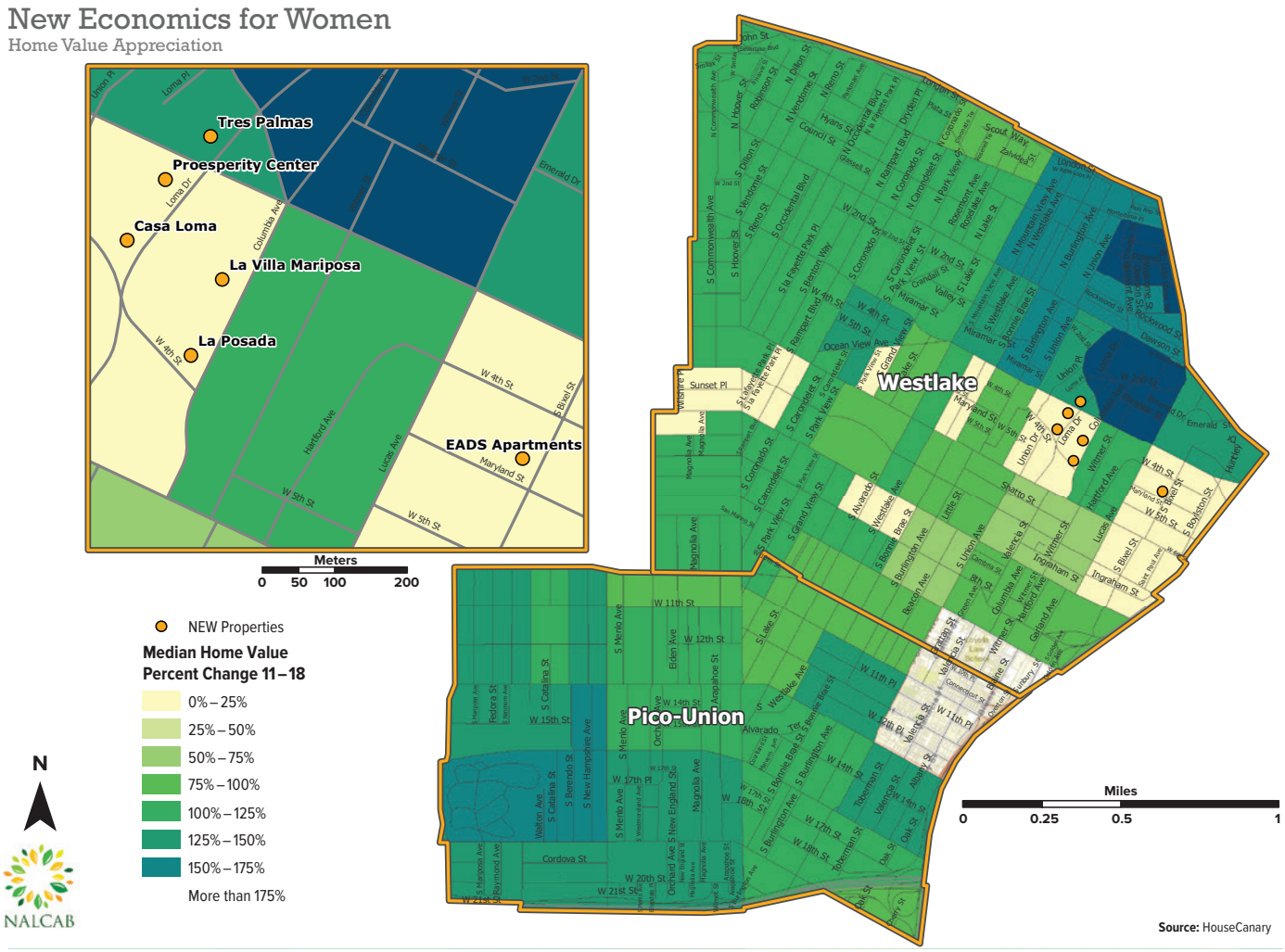
[5] See https://www.bisnow.com/los-angeles/news/multifamily/new-usc-report-expects-los-angeles-orange-county-rent-to-increase-by-triple-digits-101494

Indicating significant gentrification in the Westlake/Pico-Union area of Los Angeles, the following graph illustrates the significant growth in apartment rental costs over the past ten years. The graph illustrates the price increase in the asking rent for a two-bedroom apartment and the forecast shows a continued increase. This is a significant hurdle for low-income families and could lead to widespread displacement of community members over the next several years.

Pico Union & Westlake — Effective Rent



Home Value Appreciation



This change in rental costs is further reflected in the change in the value of local properties. The illustration above demonstrates significant change in the value of real estate from 2011 to 2018, while also mapping the location of NEW's local real estate developments against these areas of changes.

The darkest-blue areas, immediately across the street and north of NEW's properties, represent a change in value of more than 175% from 2011-2018. Other areas in blue and dark green demonstrate the significant escalation of value for the vast majority of the Westlake and Pico-Union areas. These large swaths of price escalation in real estate values have led to the displacement of low-income residents or reflects their endurance.

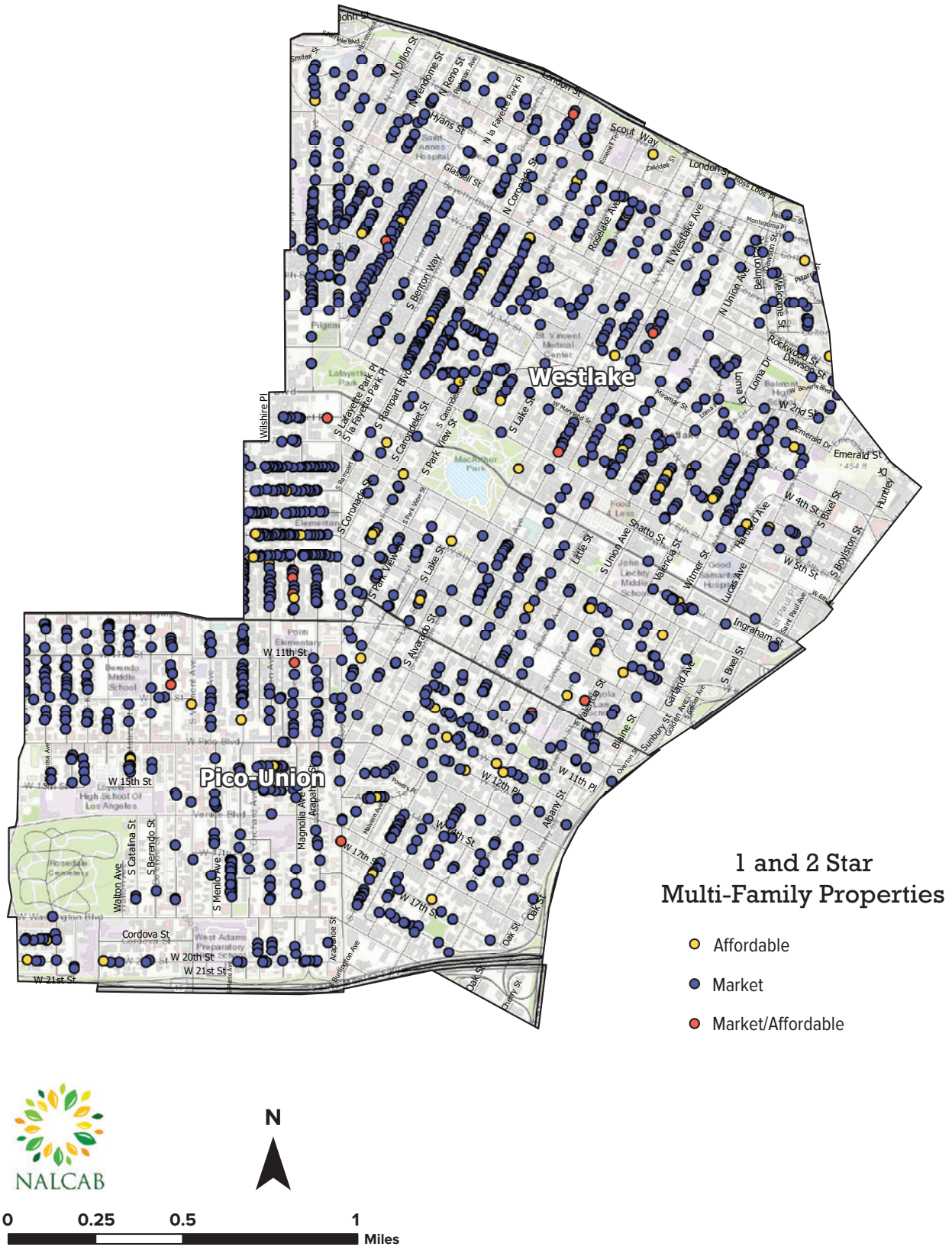
Further, the chart below demonstrates property ratings of the quality, or lack thereof, of local housing stocks. It describes expected traits and characteristics regarding "1 and 2 Star Multi-Family Properties" in both the Westlake and Pico-Union areas.

The information is from the commercial building data aggregator Co-Star and they utilize these "stars" as part of their CoStar Building Rating System—a national rating for commercial buildings on a universally recognized 5-Star scale to describe and classify buildings based upon their rents, location, offerings, and maintenance.

One Star Properties	Practically uncompetitive with respect to typical multi-family investors
	May require significant renovation
	Possibly functionally obsolete.

Two Star Properties	**Architectural Design**	Exterior Materials/Façade	Brick, stucco, EIFS, precast concrete, siding with noticeable aging.
		Fenestration/Glazing/Views	Small, seemingly inadequate windows.
		Overall Aesthetics	Average, functional.
	Structure/Systems	Purely functional.	
	Amenities	Unit Amenities/Design.	Below average finishes, inefficient use of space.
		Site Amenities	Likely one or no on-site shared facilities.
	Site/Landscaping	Minimal or no landscaping, no exterior spaces.	
	Certifications	Unlikely a certified/labeled green and energy efficient building.	

1 & 2 Star Multi-Family Properties



Source: CoStar

1 and 2 Star properties represent the least desirable properties offered in any market, and, as demonstrated, properties of those rates represent as a substantial percentage of the rental housing stock in our service area.

Blue dots indicate the lowest quality of market-rate rental housing and demonstrates the density and squalor of the area's housing offerings. Based on CoStar rating, NEW's local community contains, primarily, the least-maintained and "possibly functionally obsolete" properties of any type of rental housing.

04 | Vision for the Neighborhood

Equitable Development *is an approach for meeting the needs of underserved communities through policies and programs that reduce disparities while fostering places that are healthy and vibrant. It is increasingly considered an effective placed-based action strategy and community development approach for performing real estate development and creating strong and livable communities.*

NEW's desire to engage in Equitable Development requires an understanding of the needs of underserved communities before any plan can be created. Our community development work is informed by long-term commitment to improve the quality of life in the community and has led to the development of NEW's Community Outreach and Engagement Strategy.

For any real estate development project or new program implementation in areas where we perform our work, NEW utilizes a *Community Outreach and Engagement Strategy.*

This Community Outreach and Engagement Strategy has developed over time and highlights our meaningful ties to local residents, businesses, community-based organization and other neighborhood institutions. We have utilized Best Practices as well as community development research to develop an approach to any community engagement that seeks to involve community in the following ways:

1. A Community Invitation to the Table: We focus our work in communities in which we are invited by stakeholders (local residents, business owners, job centers, elected representatives, labor representatives, etc.) to join them in engagement around a particular pressing issue in their community.
2. Facilitate and Engage genuine collaborations and seek additional Community Input to identify the key individual and community stakeholders of the area. This is done through design workshops and includes direct mailings of flyers.
3. Establish Stakeholder Expectations during public design meetings to identify Community Needs.
4. Identify Gaps in our Community Development Desires.
5. Refine Our Development through group meetings.
6. Re-presentation of our Changes to our Development during the Predevelopment Process to elicit community input.
7. Implementation with Community Meetings and Focus Groups.
8. Monitor and Measure Success and Obstacles.

Through this work, we are able to draw from the voices of the community to design our programs and shape our real estate development activities.

The performance of our Community Outreach and Engagement Strategy in Pico-Union/Westlake has led to the following planned goals, strategies, actions and outcomes for NEW's Naturally-Occurring Affordable Housing Preservation Action Plan:

05 | Action Plan Goals, Strategies, and Actions

Goal #1

Creation of new internal and external systems that enhance our capacity to identify potential real estate targets, approach and engage owners, engage with tenants, and, ultimately acquire assets.

STRATEGY 1: Develop new approaches and/or relationships that lead to prequalification and lines of credit from private or semi-private equity lenders

WHY?

- We are often late in our timing to present offers for the purchase of properties and perform affordable housing preservation activity because our Balance Sheet and Financials are not already vetted by potential lenders and we lack letters of prequalification to improve our ability to present offers and close on commercial real estate transactions.

ACTIONS:

- We have reached out to 5 private banks for prequalification.
- We have reached out to 2 intermediaries for predevelopment lines of credit.
- NEW will identify what lines of credit it needs in order to operate before we can identify what real estate lending activities we can finance.

TIMELINE: We have performed this work and continue to build our Balance Sheet's ability to find predevelopment funding and seed/equity money towards these purchases. In the next six to eighteen months, we seek a predevelopment line of credit and/or a loan guarantee to enable our Naturally-Occurring Affordable Housing Preservation Action Plan.

STRATEGY 2: Greater advocacy with the Los Angeles Housing Department around code violations

WHY?

- These are blighted, often One-Star properties that we would like to purchase before other market-rate developers make off-market offers to purchase.

ACTIONS:

- We are engaging with an advocate to better understand systematic code enforcement program (SCEP) and rent escrow account program (REAP) violations and how we can utilize this information to make offers on local properties that are in violation.
- We have contacted the City and County to become a qualified bidder on property tax defaulted properties.
- We have engaged with local elected officials to highlight our need for this information as an affordable housing preservation strategy.

TIMELINE: We need the City's help to identify local properties that are in violation. We have reached out to our City representatives to increase access to this information. Once we can gain access to these lists, we can understand how our strategy needs to change to respond to the ability to purchase these properties effectively. We expect this to happen within three months.

STRATEGY 3: Increase knowledge of Geographic Information Systems (GIS) mapping tools and land use(s)

WHY?

- This knowledge would enable us to develop more sophisticated, targeted maps for where we want to purchase real estate, given zoning by right and the ability to utilize Transit Adjacent dollars for development.

ACTIONS:

- We acquired an intern who was trained in this regard and NALCAB has provided technical assistance by utilizing online resources.

- We will develop greater relationships with the local academic institutions to locate GIS practitioners.

TIMELINE: Q4 2019 and Q1 2020 for relationship development for an intern who can assist with these projects.

STRATEGY 4: Improved community surveying techniques

WHY?

- We have developed some of our best community surveying techniques through the creation of the Community Action Plan, however, we need to designate a person who will be our community liaison for this kind of engagement.

ACTIONS:

- We will apply for community development grants in order to continue the implementation of our Community Action Plan and this Affordable Housing Preservation Action Plan.
- Hire a Community Liaison, pending funding, within 6-12 months.

TIMELINE: Q1 2020 for a Community Liaison hire if we can utilize this plan for funding for this position.

Goal #2

Creation of processes and partnerships that can expedite acquisition of properties by more effectively understanding relative market values, estimating potential rehab costs, and securing adequate financing.

STRATEGY 1: Gain access to valuable online real estate data and new listings

WHY?

- This access will enable us to review properties that might be off-market, but suitable for a purchase offer.

ACTIONS:

- We have met with Costar, but pricing provides a fiscal hurdle.

TIMELINE: Potentially engage with Costar to acquire a trial of product for one year.

STRATEGY 2: Develop best practices for assessing comparative real estate values/return on investment and predetermining potential rehab and predevelopment costs

WHY?

- We need better ability to estimate acquisition, rehabilitation, and holding costs for potential real estate development deals that do not involve new construction, but present more as acquisition/rehabilitation deals.
- As these may incorporate mixed-income households, traditional nonprofit pro formas do not accommodate the sophistication required of these deal analyses.
- We need modernization of our computer systems to access software and analysis regarding affordable housing acquisitions.

ACTIONS:

- We have modernized and upgraded our Real Estate Development computer systems.
- We have met with the Mission Economic Development Agency (MEDA) of San Francisco to understand their processes relating to their San Francisco Housing Accelerator program—also in conjunction with the City of San Francisco—to learn how we can utilize their analyses for local replication.
- We are in receipt of their pro forma for small sites acquisition and will utilize in two cases we have for small site developments.
- We have a Real Estate consultant being trained on pro forma development so that we can become more competitive and able to perform analysis on potential purchases.

TIMELINE: Our consultant is prepared to develop pro formas to understand whether we should position any given asset for purchase. These were developed in Q3 2019 and continue to be refined.

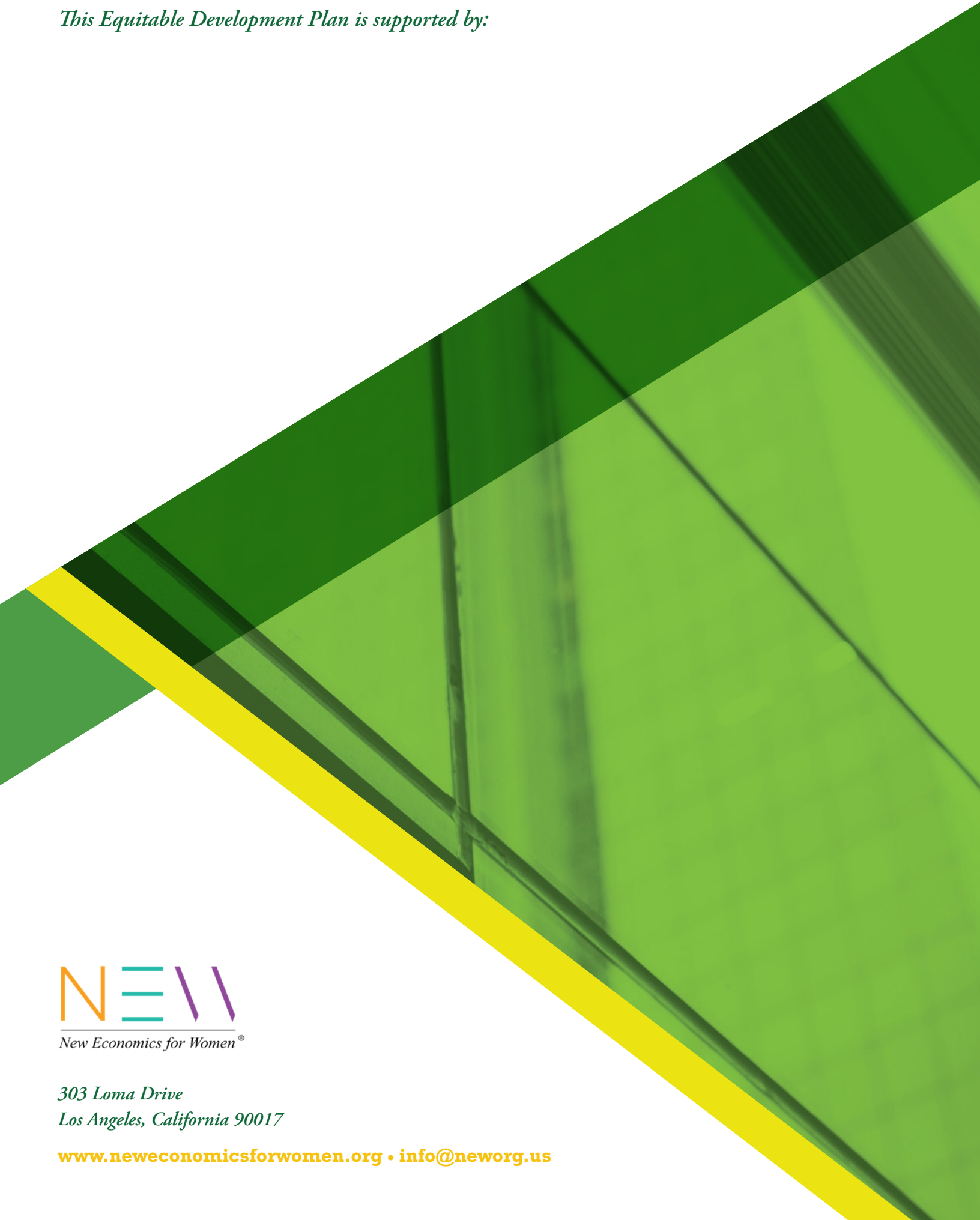
06 | Metrics of Success

Goals 1 & 2 and each Strategy identified to support these goals lead to the potential to measure the following ***Metrics of Success:***

OUTCOME	GOALS DEFINED
INCREASE in the NUMBER OF PROPERTIES ADDED TO THE REAL ESTATE PIPELINE	Goal to add twenty (20) units to our local development pipeline for naturally-occurring affordable housing preservation activities in the next 12 months.
NEW REAL ESTATE TOOLS ADOPTED	Goal of development of real estate financing and a base proforma in order to be able to establish whether or not NEW should move forward on LOIs and closing locally, within the next six months.
	Goal of being able to develop and enact a viable financing plan for these preservation acquisitions.
	Goal of building capacity to be financially fit for predevelopment lending opportunities. In the next 6-18 months, we seek a predevelopment line of credit and/or a loan guarantee to enable our Naturally-Occurring Affordable Housing Preservation Action Plan.
	Goal of Development of a loan guaranty for NEW's real estate acquisition strategy within 12-18 months.
	Goal of submitting CDFI certification application to attract private sector capital, credit and financial services.

OUTCOME	GOALS DEFINED
INCREASE in the NUMBER OF INDIVIDUALS PREVENTED FROM DISPLACEMENT	Goal for communicating locally our advocacy strategy for naturally-occurring affordable housing preservation activities in the next 12 months which could avoid 50-100 individuals from being displaced.
INCREASE in the number of engagements with community members and public officials	Goal of 5 engagements each month to ensure NEW's responsiveness and engagement is maintained at a superior level.
INCREASE in REAL ESTATE DEVELOPMENT STAFF CAPACITY	Goal of at least a proforma training for all RE staff in the next 6 months.

This Equitable Development Plan is supported by:



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