The Problem
Los Angeles County, like urban regions nationwide, is going through a housing crisis that is largely the product of rising rents and insufficient housing supply. In Los Angeles County, 57% of renters—over 1 million households—pay more than 30% of their income toward rent, including 544,000 severely rent-burdened households paying more than 50% of their income toward rent.\(^1\) Further, rent burden affects communities across the entire county, as evidenced by Figure 1. Approximately 800,000 renter households would be eligible for affordable housing if there was enough supply, but there are currently only 300,000 affordable housing units in the County.\(^2\)

This leaves a gap of approximately half a million households unable to find affordable rents. The large number of units needed, paired with increasing rents, stagnating wages, and slow development, intensifies the need for quick development or preservation. However, the current model of affordable housing development is insufficient. Expanded investment in Naturally Occurring Affordable Housing (NOAH), provides a promising model for urban regions to quickly and efficiently increase their housing supply.\(^3\)

The Solution
The Price Center recently produced a case study of one NOAH project, the Normandie Lofts building in Los Angeles’s Koreatown neighborhood. This project is funded through an impact-investing fund model, which enables businesses to attain financial returns while also contributing to the affordable housing supply. The ownership structure of the development utilizes a mix of investor capital with a standard rate of return and equity investors willing to accept a lower rate of return on their investment. The NOAH fund’s approach in generating dignified affordable housing through an impact investing structure provides a promising new model to increase housing supply in urban communities.

What is Naturally Occurring Affordable Housing (NOAH)?
NOAH refers to aging residential units that are currently affordable due to age or other factors. NOAH can be renovated and upgraded to generate affordable housing through a process that is both quicker and cheaper than constructing new housing units. NOAH developments rely much less on government subsidies that tend to lengthen the development process, and allow for rehabilitation of housing units with minimal displacement.

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CASE STUDY RESULTS

- The innovative financing structure of the Normandie Lofts allowed rents to remain affordable for vulnerable residents. Compared to the U.S. Department of Housing and Urban Development’s fair market rents (FMR) in Los Angeles County, an affordable unit at Normandie Lofts represents a 15% reduction in rent, or a 5.3% reduction in rent burden, for someone earning 80% AMI. In a survey of Normandie Lofts residents, 70% of tenants said that their affordable rents had helped them avoid homelessness.

- NOAH projects can provide tenants with additional savings through building improvements, such as switching to LED lights and low-flush toilets. Combined, these modest alterations save $112.30 per unit per year, approximately $32,000 over the full life of the project, and contribute to a more environmentally conscious residence and neighborhood.

- NOAH rehabilitation projects also present an opportunity to ameliorate incidences of lead poisoning, which can have implications for future education, criminality, and lifetime earnings. This is a significant opportunity, as many Los Angeles County buildings still contain lead paint. The estimated return on the investment of lead paint removal totals $16,091 per child annually by preventing costly medical and social conditions that result from lead paint poisoning.

- Lead paint removal, paired with increased housing stability, has life-long benefits for children and their families. The estimated return on investment of these combined factors totals $723,000 per child in increased productivity and lifetime earnings.

RECOMMENDATIONS

- There are over 1,000 census tracts in Los Angeles County that have high rates of rent burden as well as buildings that are 50 years or older. Figure 2, for example, illustrates the aging stock of residential structures in Central Los Angeles – a community marked by high rates of rent burden. Such communities present ripe opportunities for expanded NOAH developments.

- Federally designated opportunity zones could further incentivize NOAH projects if regulations were changed to include projects that rehabilitate existing buildings.

- Philanthropy should explore creative ways to support NOAH projects in regions with high rates of rent burden and aging residential structures.

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