The Team

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MRED '19

Jonathan Bates
MPP '19
Agenda

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

Source: 2017 American Community Survey, Social Explorer

1,000,000+ Rent-Burdened Households
536,000 Severe Rent Burdens
Public Opinion: Affordability & Homelessness Need Policy Solutions

Median Rent Burden by Census Tract
ACS 2017 (5-Year Estimates)

Source: 2017 American Community Survey, Social Explorer
40% of lead poisoning occurs at home

Lead paint legal until 1978

Source: CityHub LA
Normandie Lofts – Case Study
Normandie Lofts – Location

Source: https://snazzymaps.com
Normandie Lofts – Location

Access to:
• 13 bus lines
• 2 Metro Lines

Source: https://media.metro.net/
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

Rent burden on the rise

Gap of 500K affordable units in LA county

33K Market rate units Pipeline (next 5 years)

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 – Unit Mix

- Studio @ 50% AMI, 9 units, 18%
- Studio @ 80% AMI, 32 units, 64%
- 1 Bed / 1 Bath @ 50% AMI, 1 unit, 2%
- 1 Bed / 1 Bath @ 80% AMI, 2 units, 4%
- 1 Bed / 1 Bath @ 100% AMI, 6 units, 12%
Typical Floor Plan: Eight Studios / Two 1 BB

5 Floors
Normandie Lofts – Capital Stack

- **Senior Loan**: $7.2M
- **Mezzanine Loan**: $2M
- **Equity**: $1.3M

**TDC**: $10.5M
Normandie Lofts – Capital Stack

- **Mezzanine Loan**: $2M
- **Senior Loan**: $7.2M
- **Equity**: $1.3M
- **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

Equity $1.3M
Mezzanine Loan $2M
Senior Loan $7.2M
Equity $1.3M
Normandie Lofts – Capital Stack

- **Low Interest Rate:** 2.50%
- **Interest Only**
- **Non Recourse**
- **High Net Worth Individual**

**Equity** $1.3M

**Senior Loan** $7.2M

**Mezzanine Loan** $2M
Normandie Lofts – Capital Stack

- **Mezzanine Loan**: $2M
  - **Equity**: $1.3M
  - **Senior Loan**: $7.2M
    - LIBOR* + 290 bps (~5.40%)
    - Fully Amortizing
    - 40 year Period
    - 69% LTC

* 04.02.2019 LIBOR 1M @ 2.48%
### Normandie Lofts – 7 year proforma

<table>
<thead>
<tr>
<th>Year</th>
<th>Rent Income - Tenants</th>
<th>POTENTIAL GROSS INCOME</th>
<th>Vacancy &amp; Bad Debt</th>
<th>Concessions &amp; Bad Debt</th>
<th>Other Income</th>
<th>Supplementary Voucher - Income</th>
<th>EFFECTIVE GROSS INCOME</th>
<th>Expenses</th>
<th>NET OPERATING INCOME</th>
<th>Sales Proceeds</th>
<th>Total Net Sale Proceeds</th>
<th>Total Net Revenues - Unlevered</th>
<th>Acquisition &amp; Closing Costs</th>
<th>Capital Expenditures</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Untrended</td>
<td>Totals</td>
<td>Subtotal</td>
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<td>(36,177)</td>
<td>687,363</td>
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<td>684,975</td>
<td>684,975</td>
<td>(284,248)</td>
<td>(1,430,520)</td>
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<td>12,039,562</td>
<td>16,066,121</td>
<td>(10,103,410)</td>
<td>(474,704)</td>
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<td>742,622</td>
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<td>782,520</td>
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<td>740,812</td>
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<td>763,203</td>
<td>(2,651)</td>
<td>760,551</td>
<td>778,367</td>
<td>(209,927)</td>
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<td>824,848</td>
<td>(41,242)</td>
<td>783,605</td>
<td>(2,722)</td>
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<td>6</td>
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<td>846,969</td>
<td>(42,348)</td>
<td>804,620</td>
<td>(2,795)</td>
<td>801,825</td>
<td>820,726</td>
<td>(222,267)</td>
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<td>(10,103,410)</td>
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**Net Cash Flow - Unlevered**

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<tr>
<th>Year</th>
<th>Capital Account Balance</th>
<th>Net Profit</th>
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<td>2,452,170</td>
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<td>2,527,025</td>
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<tr>
<td>2</td>
<td>3,053,909</td>
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<tr>
<td>3</td>
<td>3,591,613</td>
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<td>4</td>
<td>4,158,698</td>
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<td>5</td>
<td>4,764,688</td>
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<td>5,407,692</td>
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<td>7</td>
<td>6,094,290</td>
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**IRR**

- Unlevered: 7.20%
- Levered: 18.58%
Normandie Lofts – Exit Strategy

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

5.00% CapEx
Normandie Lofts – Environmental Impact Analysis

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
Normandie Lofts – Social Impact Analysis

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

Source: Mary Cunningham & Graham MacDonald, Urban Institute
Normandie Lofts – Social Impact Analysis

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

$5,037,910 net impact in social cost savings, higher lifetime earnings for 5 youth tenants
Normandie Lofts – Triple Bottom Line Returns

Financial Returns

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

Social and Environmental Returns (Impact Multiple of Money*)

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

| Total                                |                       |                      |                         | $3,738,243.39                          |

Normandie Lofts – Impact Multiple of Money (IMM*)

Environmental Component + Social Component = 2.87x

Normandie Lofts – Triple Bottom Line Returns

2.87x IMM
17.39% IRR
2.75x EM

Equity $1.3M
Social Returns
Environmental Returns

Financial Returns
Alignment of Interests
Alignment of Interests – Impact Multiple of Money

Normandie Lofts – Without “Soft Money”

- **Equity**: $1.3 M
- **Senior Loan**: $9.2 M
- **Negative Leverage**
- **No Financial Returns**
Normandie Lofts – Without Tax Abatement

- **Equity**: $1.3 M
- **Senior Loan**: $9.2 M

Forced to increase rents to Market Rate or

- Unsuitable Housing
- No housing Preservation...
  - displacement

or

- Neglected Property
Normandie Lofts – Unusual example

- Tax Abatement
- Low Interest Loans
- Low Interest Capital
- Supplementary Vouchers
- Triple Bottom Line
LA County NOAH Impact Investment Fund

- Tax Abatement
- Low Interest Loans
- Low Interest Capital
- Supplementary Vouchers

Triple Bottom Line
LA County NOAH Impact Investment Fund

Impact Investor’s Involvement

- Tax Abatement
- Low Interest Loans
- Low Interest Capital
- Supplementary Vouchers

Triple Bottom Line
Alignment of Interests – Impact Multiple of Money

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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<td>Rent Income - Tenants</td>
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</tr>
<tr>
<td>POTENTIAL GROSS INCOME</td>
<td>723,540</td>
<td>5,486,146</td>
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<tr>
<td>Vacancy &amp; Bad Debt</td>
<td>-</td>
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<tr>
<td>Subtotal</td>
<td>(36,177)</td>
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<td>Subtotal</td>
<td>687,363</td>
<td>5,211,838</td>
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<tr>
<td>Concessions &amp; Bad Debt</td>
<td>-</td>
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<tr>
<td>Subtotal</td>
<td>(2,388)</td>
<td>(18,104)</td>
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<td>Supplementary Voucher - Income</td>
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<td>EXTRA INCOME</td>
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<td>EFFECTIVE GROSS INCOME</td>
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<td>5,457,079</td>
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<td>Expenses</td>
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<td>NET OPERATING INCOME</td>
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<td>5,125,531</td>
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<td>Sales Proceeds</td>
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<td>400,728</td>
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<td>Total Net Sale Proceeds</td>
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<td>Total Net Revenues - Unlevered</td>
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<td>12,039,562</td>
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<td>Capital Expenditures</td>
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<td>Total Development Costs - Unlevered</td>
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<td>(10,578,114)</td>
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<td>Net Cash Flow - Unlevered</td>
<td>IRR = 7.20%</td>
<td>5,488,007</td>
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<tr>
<td>Senior &amp; Junior Loan</td>
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<td>2,527,025</td>
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<td>(955,579)</td>
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<tr>
<td>Net Profit</td>
<td></td>
<td>2,452,170</td>
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### Normandie Lofts – Cap Rate Sensitivity

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<th>Unlevered Cash Flows</th>
<th>Levered Cash Flows</th>
<th>Comments</th>
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<td><strong>4.00% Exit Cap Rate/renovations during 18 months/stepped absorption</strong></td>
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<tr>
<td></td>
<td>IRR</td>
<td>Profit</td>
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<tr>
<td>Base Case</td>
<td>6.15%</td>
<td>4,837,597</td>
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<td>(A) Tax Abatement</td>
<td>9.64%</td>
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<tr>
<td>(A) Tax Abatement + (C) Low Interest Mezzanine</td>
<td>9.64%</td>
<td>8,205,908</td>
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<tr>
<td>(A) Tax Abatement + (C) Low Interest Mezzanine + (D) Supplementary Vouchers</td>
<td>11.07%</td>
<td>9,330,606</td>
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<table>
<thead>
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<th>Unlevered Cash Flows</th>
<th>Levered Cash Flows</th>
<th>Comments</th>
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<td><strong>5.00% Exit Cap Rate/renovations during 18 months/stepped absorption</strong></td>
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<tr>
<td></td>
<td>IRR</td>
<td>Profit</td>
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<td>Base Case</td>
<td>3.29%</td>
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<td>6.72%</td>
<td>5,196,018</td>
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<td>(A) Tax Abatement + (C) Low Interest Mezzanine + (D) Supplementary Vouchers</td>
<td>8.28%</td>
<td>6,352,547</td>
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**Notes**

* Return on Costs upon stabilization: Total Development Costs / Unlevered NOI
** Cash on cash upon stabilization: Invested Equity / Equity CF
### CapEx Summary

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<tr>
<th>Cost/Unit</th>
<th># Of Units</th>
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<th>PSF</th>
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<td>Interior Upgrades</td>
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<td>Gates/Security</td>
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<td>15,000</td>
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<tr>
<td>Roofs/Gutters/Windows/Façade</td>
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<td>50,000</td>
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<td>Landscaping/Common Areas/Exterior General</td>
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<td>10,000</td>
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<tr>
<td>Clubhouse/Common Areas/Hallways</td>
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<td>15,000</td>
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<tr>
<td>Recreational Amenity Upgrades</td>
<td>400</td>
<td></td>
<td>20,000</td>
</tr>
<tr>
<td>Hvacs/Water Heaters/Plumbing/Mechanical</td>
<td>500</td>
<td></td>
<td>25,000</td>
</tr>
<tr>
<td>Signage Upgrades</td>
<td>500</td>
<td></td>
<td>25,000</td>
</tr>
<tr>
<td>Miscellaneous/Contingency</td>
<td>2,168</td>
<td></td>
<td>108,400</td>
</tr>
<tr>
<td>Construction Management Fee</td>
<td>6% of total costs</td>
<td></td>
<td>26,604</td>
</tr>
<tr>
<td>Total</td>
<td>470,004</td>
<td>22.05</td>
<td></td>
</tr>
</tbody>
</table>
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/documented Immigrant**
   - Education: Elementary School or higher
   - Industry: Construction, Restaurants, Hotels, Shadow industries
   - Age range: 40 – 70
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 household: 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

Source: California Department of Finance

274 across LA County

Deferred tax incentives on capital investments

Threat: Gentrification & Displacement

Mitigation: NOAH Developments

Source: California Department of Finance