



Creating Permanent Community Assets in the Face of Rapid Gentrification

Tom De Simone, Genesis LA
Tuesday, November 10, 2015



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Capital. Capacity. Community.

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Our Mission

GENESIS LA delivers financial **solutions**
that **advance** economic and social
opportunities in underserved communities.

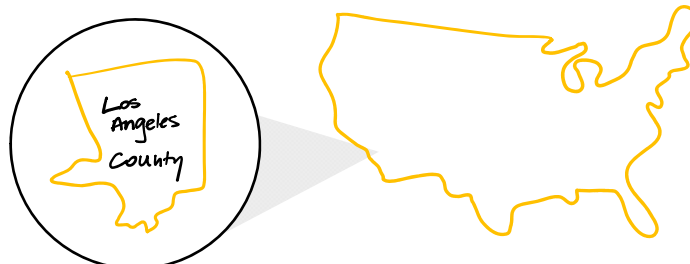
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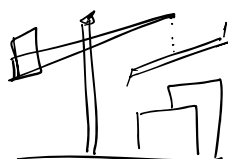


Our Service Area



- Over 10 million people
- Would be the 8th largest state
- Bigger than New York City
- Twice the size of Cook County, IL

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Economic Development



Community Services



Housing



Working Capital & Bridge Loans

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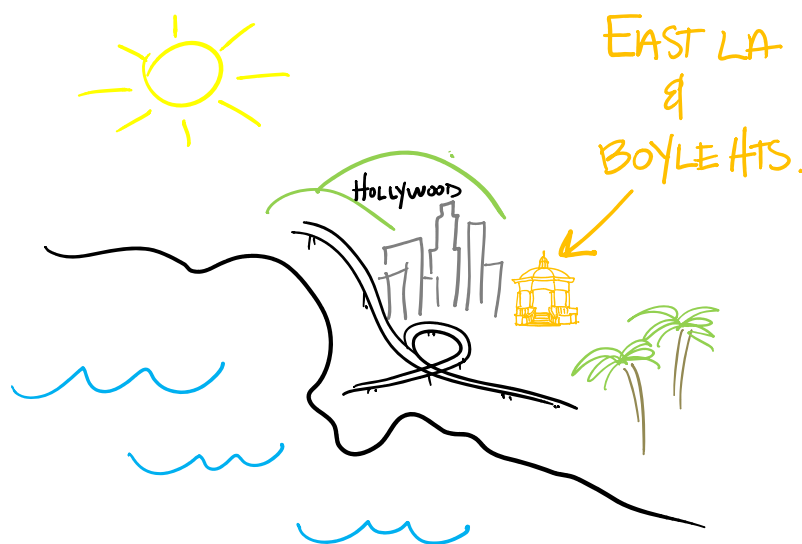


Two Responses to Gentrification

Boyle Heights & East L.A.

- **Residential:** My Home, Mi Casa
- **Commercial:** City Labs Boyle Heights

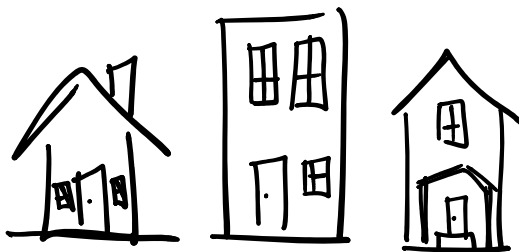
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Gentrification Pressures



Housing price increase since market bottom:

- **Boyle Heights** increased **83%**
- **L.A. County** overall increased **41%** (*Zillow*)

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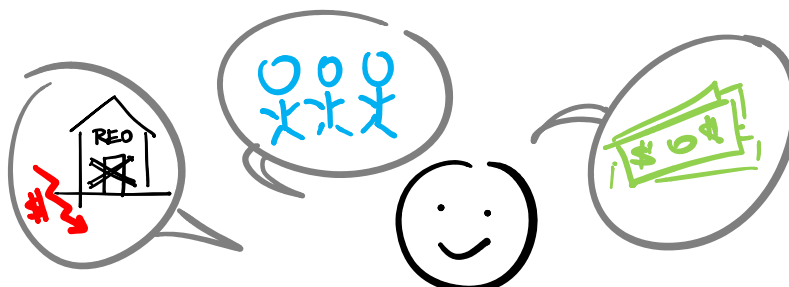
My Home, Mi Casa

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Vision & Planning Together



Relationship developed through conversations:

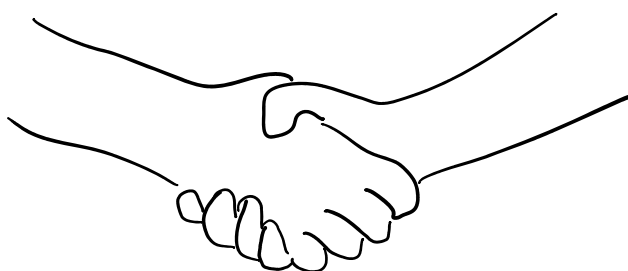
- **Housing prices:** down w/ foreclosure crisis
- **Jovenes:** youth clients who needed housing
- **Genesis LA:** capital & real estate experience

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Partnership

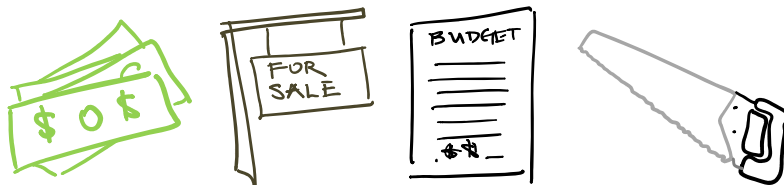


Together, we formed a joint venture partnership between **Genesis LA** and **Jovenes**, called **My Home, Mi Casa, LLC**.

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Development Services



- Genesis LA Development Services:
 - Raising capital
 - Reviewing potential properties
 - Developing rehab budgets
 - Engaging and overseeing contractors
- Jovenes:
 - Identifying tenants; assisting with property operations

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Customize Capital Products

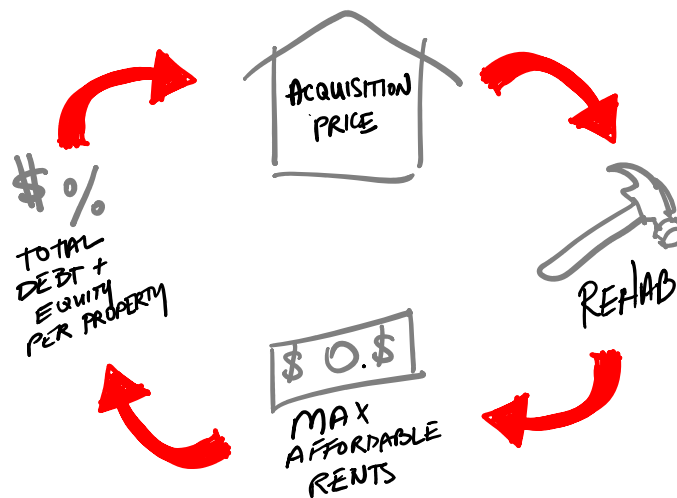


- Genesis LA raised 100% of capital for project
 - 75% standard debt product + 25% new equity product
 - Patient capital: 10 year debt (5.5%) & equity (4.0%)
 - No public subsidy

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Design a Model; Set Parameters



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Approve Model



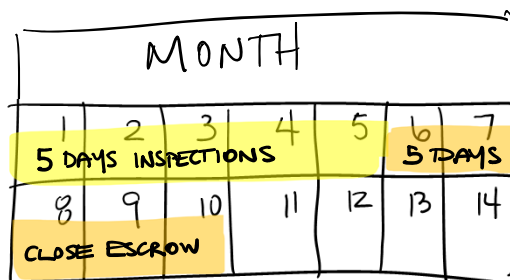
Genesis LA obtained **Board approval** of the project model, giving authority to move into acquisition mode quickly.

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Move Fast!



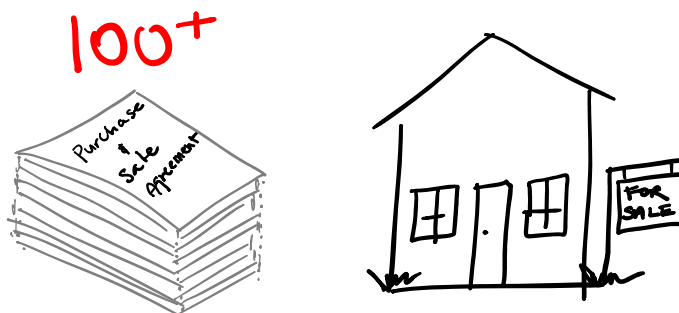
- Our model was designed to **move quickly**:
 - "All cash" offers (no loan contingencies)
 - **Compete** with "speculators" & "flippers"
 - Closed acquisition financing within **7-10 days**

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Compete Within Market



- To compete in market, we:
 - Submitted offers on **over 100 properties**
 - Ultimately, secured **6 properties** for the project

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Cost Effective Rehab



- With no subsidy, **controlling cost** was key:
 - Rehab kept to new **kitchens, bathrooms, and critical repairs**
 - No a gut/rehab similar to LIHTC projects

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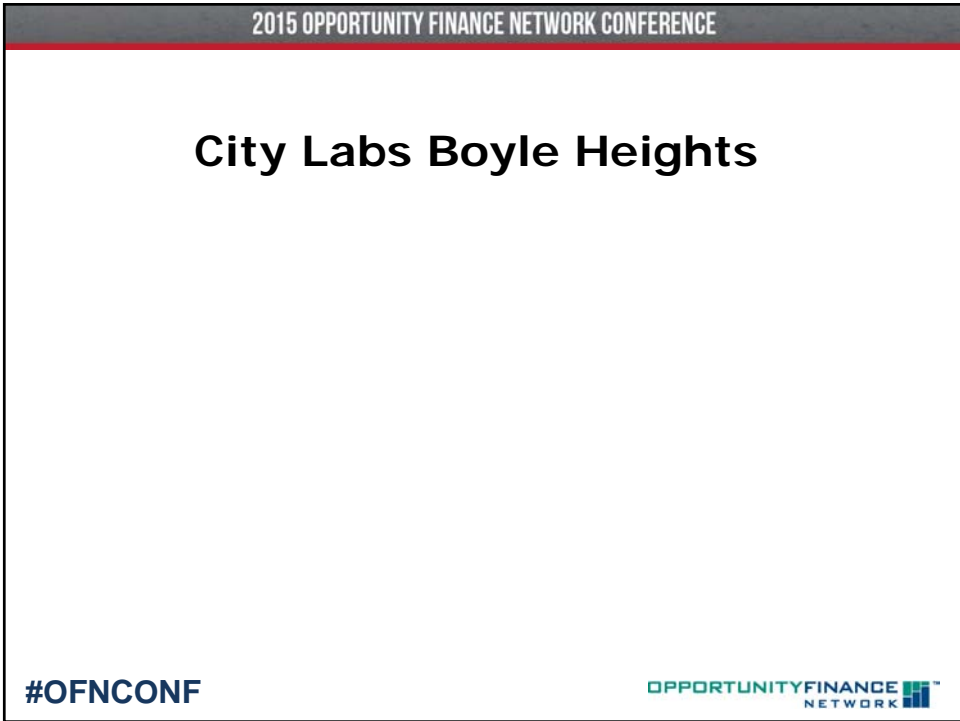
Create Assets for Community



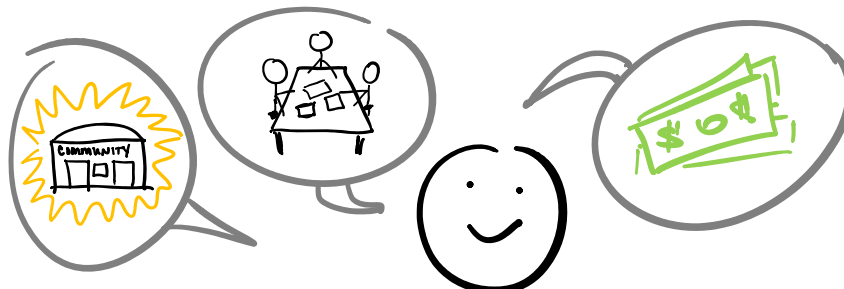
- Model allows some youth to earn a “**Youth Equity Share**” from project income
- Jovenes has option to **acquire 100%** of properties within 10 years

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Vision & Planning Together



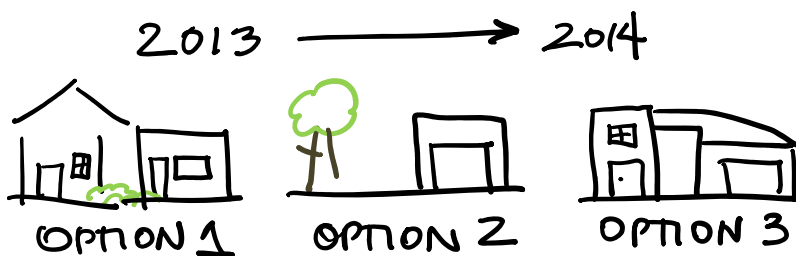
Relationship developed through conversations:

- **Local investor:** committed to the community
- **Idea:** collaborative workspace for local firms
- **Genesis LA:** capital & real estate experience

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Development Services

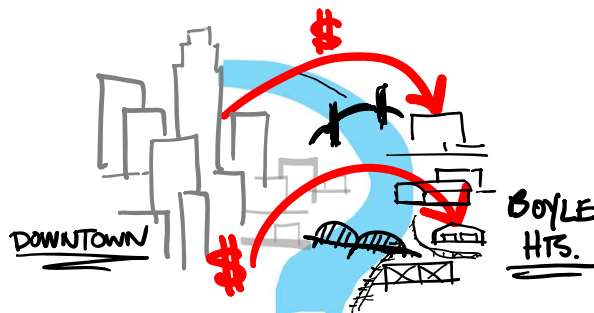


- Genesis LA provided development services:
 - Reviewing various properties between 2013-2014
 - Providing advice on market and pricing
 - Structuring flexible financing

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Compete Within Market

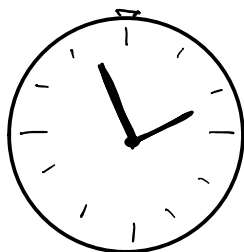


- Rapid gentrification in Downtown Arts District crossing LA River to the Eastside
- Speculators, all-cash offers, hold & flip investors dominate area

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Move Fast & Consider Risks

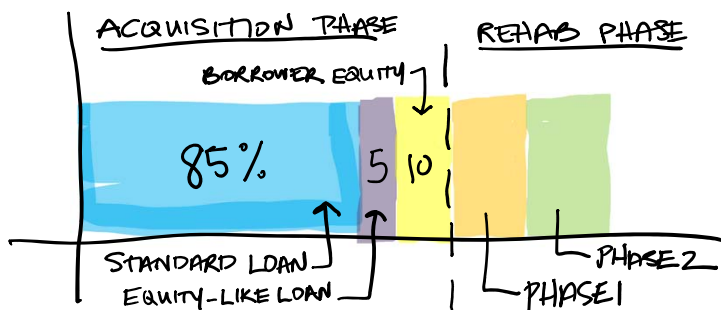


- Our platform is designed to **move quickly**:
 - Need to compete on pricing, terms, speed
 - Closed in 60 days from PSA
 - No comparable projects in Boyle Heights and no pre-leasing; need to understand market opportunity fast
 - Borrower's limited liquidity at time required we create financing structure and phased development plan quickly

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Customize Capital Products

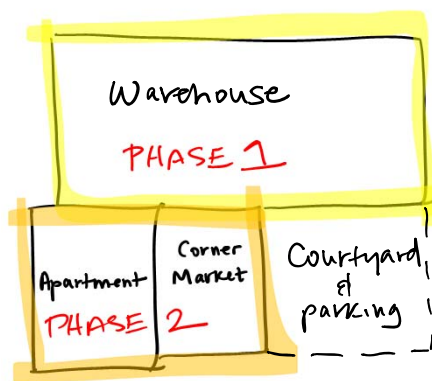


- Borrower's limited liquidity at closing required creative financing
- Standard 85% loan + 5% equity-like loan
- 10% borrower equity; self-finance rehab

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Development Plan



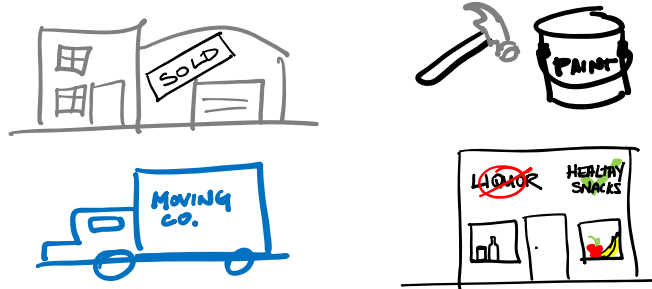
- Phase 1:
 - Rehab warehouse into 6 co-working suites, shared space
- Phase 2:
 - Rehab apartment and corner market for healthy foods

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Phasing



- Not all pieces can be in place at closing. Phasing key in fast-paced gentrifying mkts:
 - 1) acquire property
 - 2) rehab phase 1, adding value to asset
 - 3) lease co-working spaces
 - 4) rehab and re-tenant corner market phase 2

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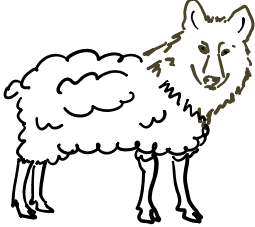




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Lessons / Considerations

 <p>MUST BE FLEXIBLE</p>	 <p>FORM UNIQUE PARTNERSHIPS</p>	 <p>NEED FOR SPEED</p>
 <p>BE A "SHEEP IN WOLF'S CLOTHING"</p>	 <p>CREATE INNOVATIVE FINANCIAL PRODUCTS</p>	 <p>WON'T KNOW EVERYTHING UPFRONT; PHASING REDUCES RISK</p>

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