Creating Permanent Community Assets in the Face of Rapid Gentrification

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Our Mission

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

Economic Development
Community Services
Housing
Working Capital & Bridge Loans
Two Responses to Gentrification

Boyle Heights & East L.A.

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

Partnership

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

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
Design a Model; Set Parameters

- Acquisition Price
- Rehabilitation
- Maximum Affordable Rents
- Total Debt + Equity per Property

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

Compete Within Market

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

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
City Labs Boyle Heights
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

Development Services

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

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

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
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

Development Plan

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

- MUST BE FLEXIBLE
- FORM UNIQUE PARTNERSHIPS
- NEED FOR SPEED
- BE A “SHEEP IN WOLF’S CLOTHING”
- CREATE INNOVATIVE FINANCIAL PRODUCTS
- WON’T KNOW EVERYTHING UPFRONT; PHASING REDUCES RISK

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