



# **NAVIGATING IMPACT:**

## **UNDERSTANDING REAL ESTATE MODELS FOR WEALTH BUILDING**

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### UNDERSTANDING REAL ESTATE MODELS FOR WEALTH BUILDING

Across the country, communities are seeking new ways to take control of their assets and expanding collaborative ownership beyond the green spaces and housing cooperatives that have existed for generations. Community organizations and developers are asking: *what if we owned and could benefit from all the real estate in our neighborhood?* They are seeking to buy and transform the commercial and mixed-use corridors that anchor their communities, creating new pathways to holding wealth and power for the future of their neighborhoods. These real estate models may seem to be a new approach but their work is grounded in what works and is vital in building wealth in communities suffering from a mix of long-term disinvestment and potential gentrification. A community is made up of more than just the houses or apartments found there but expands to include the small businesses, services, and overall spirit of community. Anchoring the key businesses and people of a community can help stabilize neighborhood character and ensure existing residents can benefit from and be built into any anticipated neighborhood improvements. It also serves as a way for existing residents and business owners to directly, and financially benefit from neighborhood investments and growth.

Unlike affordable housing development, there exist few financing programs to ensure commercial and mixed-use development is affordable and responsive to neighborhood needs. Projects in this space are navigating a complicated landscape of rules, regulations, and funding options and their responding mix of programs, legal structures, and financing do not make them attractive or “easy fits” to the types of investors they need for success. Affordable housing projects (stand-alone housing, apartment rentals) have a variety of federal and local funding mechanisms to leverage, along with local philanthropic investors or grantmakers, to meet their affordability goals. However, these same programs can prove problematic or unuseful for those focused on holistic neighborhood needs including commercial and mixed-use real estate. Even if mixed-use projects

## SOME OF THE IMPACT BENEFITS OF INVESTING IN REAL ESTATE:

- Increase in economic stability as a community changes over time
- Immediate reduction in displacement of existing businesses and some residents who live or do business in the proposed building
- Medium-term ability to stabilize a neighborhood, by taking a building off the speculative real estate market and creating a community asset. Community anchors can provide signal value to residents who are feeling pushed or pulled to leave a community.
- Long-term ability for participating residents to grow and manage an asset, building access to stable capital and returns.

manage to leverage these sources, they do not provide subsidies or other affordability measures for the commercial part of the real estate. If the wealth-building model seeks to move ownership of the building to a land trust or even the tenants of the building, existing affordable housing capital can be prohibitive due to regulations. These hurdles make patient equity and low-interest debt capital from alternative sources a must for these projects, not just a nice-to-have. Impact and institutional investors can play a significant role in this space.

A recent set of papers by [Inclusive Capital Collective](#) provides detailed definitions of some common [community ownership terms and models](#) as well as [systemic capital issues encountered by BIPOC developers](#) such as lack of friends and family capital, devaluation of BIPOC but especially Black-owned properties, and lack of inexpensive capital to finance projects as a result of systemic racism in banking and credit approval. An additional toolkit from the [Small Business Anti Displacement Network](#) provides guides on the types of mechanisms that small businesses can push for and build to create a more stable operating environment. We recommend also reading their papers as a complement to this document.

When looking to invest in real estate projects beyond affordable housing it is important to understand the potential impacts and wealth-building BIPOC communities, the following suite of components can provide a checklist to understand if the project is up to the task:

- Affordable commercial spaces
- Creative capital stacks
- Embedding autonomy
- Resources beyond the building

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“At Common Future, we’ve invested in several innovative small business lending products to support BIPOC businesses. **But we knew we couldn’t stop there,** because community wealth-building is so much more. We felt that investing in community-owned real estate was a natural augmentation of our strategy, given how crucial place and physical space are to the built environment our communities live and thrive in.”

Eric Horvath, Director,

**Former Director of Impact Investments, *Common Future***

## WHO SHOULD INVEST IN REAL ESTATE PROJECTS?

- Institutional and individual impact investors looking for projects with potential for wealth building and long-term positive impact.
- Those looking to increase economic stability as a community changes over time
- Those seeking a reduction in the displacement of existing businesses and residents in a specific neighborhood or area
- Those seeking to stabilize a neighborhood, by taking a building off the speculative real estate market and creating a community asset. Community anchors can provide signal value to residents who are feeling pushed or pulled to leave a community.
- Looking for impactful ways to diversify their mission-aligned/ impact investing portfolios

## WHAT IS SLOWING THE FIELD & WHAT CAN INVESTORS DO?

In addition to the numerous systemic and financial issues encountered by BIPOC developers as covered in the [ICC Black Paper](#), developers and organizations focused on affordable ownership of commercial and mixed-use spaces face an additional set of challenges that slow their work, often adding to cost and impeding success.

### PROBLEM

#### **Managing Multiple Potential Investors:**

For community-owned real estate investment funds or projects, the due diligence process often takes longer than usual because of the newer and potentially more complex approach of investment structures. Each investor may require their own process or set of questions to get to the decision of whether or not to invest. Thus far fund managers have not seen a trend in investors sharing due diligence, but are looking for this to help cut down time in the fundraising process.

### SOLUTION

**Meet the Terms:** The small-scale developers and community groups working on community-owned real estate projects know what investments work for their communities and what other funding they can access through government and local banks. Meet or beat their terms, don't try to negotiate higher rates of returns or smaller deals. Most investments will require long-term windows (10+ years), low interest rates, and even delayed payback. This is what is required for real estate deals so be prepared and adjust your portfolio as needed to ensure you feel confident in adding real estate to your work.

**Invest at Scale:** The scope of this problem is big, and so is the scale of the solution. Make substantial investments to keep the organizations leading these projects from having to manage multiple small investors. If your portfolio of investments and general budget size can offer it, we suggest a total of \$500,000 or more in capital and other assistance. If you can do more or your local real estate market is above the national average, adjust your investment to meet the need.



## PROBLEM

### **Real Estate Market Speed:**

The real estate market continues to be fast-paced in most communities that are facing rapid gentrification; however the process for securing the type of capital needed to preserve affordability and community ownership is much slower. This mismatch creates missed opportunities for community-owned real estate developers and fund managers who seek to move fast and secure properties before commercial owners take over.

### **High Overhead Costs:**

Groups and fund managers developing real estate for wealth building aim to not only bring in the voices of the local community but also ensure that the community members have access to ownership opportunities with projects. This work takes time and is costly, without access to grants and donated knowledge and labor, the investment deals will not pencil out.

## SOLUTION

**Standardize Diligencing:** Diligencing should be easy for your team AND for those organizations leading these projects. For your team, using a more standard diligencing process saves time and resources, saving your staff valuable hours. Sharing a similar diligence process with other funders investing in the project allows you to build deeper relationships with other funders, ones that can go beyond this project. For investees, managing multiple diligence processes or too many versions of documents across multiple funders uses up already stretched staff time that could go towards raising more money or deepening impact. It can also lead to costly mistakes in things like budgets or estimates - reduce the burden and the mistakes by using what others have used. To this end, we are open-sourcing some high-level takeaways and strategies we used to diligence and invest in these projects in the hopes that they become standard practice.

**Consider a Blended Offer:** For philanthropic investors, meet investments with general operations grant support. These projects are more than just a building, they are a resource for the community, and operating the community engagement and services takes startup funding. Amplify your investment with additional support to ensure the impact is front and center.

## PROBLEM

### Finding the Right Investors:

Many institutional investors and governments do not know how to fit these types of investments and structures into their existing investing/funding frameworks and internal departmental silos. As a result, funding and interest slow down when they don't know who should be handling reviewing diligence or how to categorize where the funding should come from.

**Non-Traditional Structures:** As covered in the [ICC report](#) many groups approaching community ownership are working with nascent legal structures such as Neighborhood Trusts. Many investors and funders are inexperienced with navigating these structures, therefore taking additional time to learn about them, diligence the project, and wait for additional "market validation" from other funders before granting or investing.

## SOLUTION

**Leverage What You Know:** Don't let a lack of real estate knowledge be the reason diligence slows and you don't meet the moment. These are social enterprises that are using real estate as their tool for social change. Social enterprise investing isn't new and many foundations already make program-related or impact investments. Concentrate on the long-term impact of the investment on the community. You can read more about how the impact of these projects works in our toolkit.

**Be incorporation agnostic:** Investors in this space should show flexibility in the type of organization they are willing to engage with and fund in the community-owned real estate space and instead look at the structures and binding agreements proposed real estate projects have with the local community. A variety of nonprofits, impact-focused for profits, and hybrid groups are doing this work and the local conditions and funding sources often dictate what type of entity is leading the work.

While this list may be comprehensive, it is not exhaustive. Funders can combat these issues by being generally quicker and more flexible in their funding approach. The enclosed information is meant to help would-be investors better understand how these projects make an impact in communities and why many of these issues are actually necessary elements to make these projects not only affordable but transformative for their communities.

## HOW TO SPOT WEALTH-BUILDING POTENTIAL IN REAL ESTATE PROJECTS

We have identified four key elements that can ensure real estate projects are maximizing wealth-building potential for communities. When an investor cares about the potential long-term social impact of the project, wealth building is a key way to ensure the project advances the economic potential of the neighborhood while minimizing displacement and long-term disruption to the community fabric. There is no single “fix” to creating impact using real estate, but instead, we identified a set of four key elements that can weave together to center wealth building in real estate projects. These may not be comprehensive but instead represent a snapshot of the field at a point and time.



## AFFORDABLE COMMERCIAL SPACES: FOCUS ON HOLISTIC ECONOMIC NEEDS OF EXISTING COMMUNITY

### Why?

Wealth building in real estate focuses on a broader range of community needs beyond affordable housing. These projects dig deep to build an affordable space for the businesses and services residents need to thrive, often designing the project to meet the needs of the long-term or legacy groups that already call the neighborhood home. This may include families currently living or operating businesses in the area or may expand to include those who have left the community over time, building pathways for their return to the area. Rather than inviting only or the majority of new businesses into the neighborhood, many of which may be led by or catering to white or higher-spending customers, or being agnostic on who takes advantage of new or improved rental space, developers work with existing businesses and residents to lease the spaces. For-profit commercial developers often anchor developments with big box stores or larger and financially backed businesses as those are easier to leverage for development financing and bank loans. In wealth-building projects, we see a lot of design elements meant to attract and support businesses that are economically and culturally relevant to the community no matter their financial situation or ability to meet creditworthiness.

### What to look for:

Projects whose strategies enable affordability in the commercial elements of their buildings and that carefully are designed to meet the needs of smaller or legacy community businesses that may face barriers such as access to affordable capital, good credit scores, or even cultural and language requirements that prevent them from easily

accessing available resources. The definition of affordability will vary from market to market but may show up as below-market rates or creative leasing schedules that act to keep the overhead for small businesses lower and more aligned with the pricing their clientele can afford.

### EXAMPLES:

- *Buying a commercial building with an existing owner/tenant and providing technical assistance, buildout or necessary upgrades to infrastructure, or generous lease terms to ensure the tenant can successfully continue operations.*
- *Working with area residents to turn their unused space into micro-businesses that tie into the main development (urban farms, short-term rentals) and produce income "off campus".*
- *Outreach and financing or technical assistance for businesses previously in or started by community members to relocate at the project.*
- *Heavy subsidies or below-average rents for the majority of commercial spaces.*

## CREATIVE CAPITAL STACKS: REDUCING HARM CAUSED BY NEIGHBORHOOD CHANGES WHILE IMPROVING OPPORTUNITIES TO BENEFIT

### Why?

In traditional real estate and investment, investors are centered on taking the most risk and therefore being first in line for reward. Projects seeking long-term wealth-building potential recognize that this accepted adage does not represent how real estate investments play out in communities. Communities themselves are at risk of harm with each new development. Successful investment can rapidly raise property taxes and rents, causing displacement of local businesses and residents and destabilizing a community. Unsuccessful investments can result in blight and flight from a community when a space becomes vacant or under-resourced, also putting the neighborhood at risk of destabilization. Projects leveraging real estate to build wealth are centering structures and strategies that help community members gain prosperity with success, but also shield them from harm if the development fails which reverses what is usually found in real estate deals.

### What to look for:

Projects often look “complicated” in their legal structures and investors may encounter multiple legal entities or a change in entities over time. Successful projects also pay careful attention to the funding for their projects and may appear “slow” to move on opportunities as they navigate the narrow types of funding that work for wealth building. They usually seek heavy subsidies through philanthropic support and below-market-rate debt or

equity. They also have an exit plan in mind, moving the building to community ownership through a type of trust, co-ownership, or community investment shares - the key is to give community members a way to benefit financially from the project over time. Community investments or transfers of ownership are likely part of a multi-year strategy as project leads wait for the buildings to stabilize. Strongest projects will have these elements codified in writing such as a strategic plan or bylaws and not just verbally or in advertising.

### EXAMPLES:

- *A developer has an investment vehicle for community members, complete with an “investment boot camp” and counseling service.*
- *Buildings are owned by separate LLCs or other corporations and debt and equity are not applied directly to the assets, limiting the risk of losing the asset if something goes wrong.*

## EMBEDDING AUTONOMY: INCREASING COMMUNITY SAY OVER THE CURRENT DESIGN AND FUTURE USE OF THE PROJECT

### Why?

In most developments - from affordable housing to for-profit commercial - community members have limited influence in the project. Local laws may require some initial input, a public comment period, or even approval of the design, but the focus and funding of the projects are on generating financial returns to investors with little regard for the life of the project beyond the next few years. Community members gaining decision-making power is really what sets community wealth-building-centered projects apart and makes them different from what is otherwise available in the market. While community land trusts have a long history of moving properties off-market and preserving affordability, wealth building does not always mean keeping an asset off-market forever. Community members having decision-making power over the asset, including if and when to sell it or increase rents, allows them to build wealth on their own terms. It is important that strategies to give community members governance and ownership abilities are well codified into structures or other binding agreements.

### What to look for:

Projects vest power and decision-making sovereignty in the community by creating clear and binding pathways for community members (neighborhood members, tenants, business owners) to guide the

design, use, and end-use of the buildings in the project. Strong projects should include things like governance boards with majority community membership, direct community investment opportunities, and may see “exit” strategies that move the building to direct community ownership either collectively (a land trust or similar) or as individual owners (a REIT).

### EXAMPLES:

- *In working to meet community members where they are, organizations may take creative strategies to move small amounts of community money into a project. An organization may leverage small savings funds or “round-up at the register” promotions at local businesses as a way to help community members meet investor minimums over time.*
- *Community members are engaged in community meetings to decide which buildings to purchase or what businesses should operate in acquired buildings.*
- *Bylaws of the organization or project include community governance structure.*

## RESOURCES BEYOND THE BUILDING: ENSURING STRONGER PARTICIPATION AND OUTCOMES

### Why?

The communities where these projects are operating share one thing in common: a history of disinvestment and systemic exclusion from many resources. Groups looking to leverage real estate for wealth building are often filling multiple local gaps like lack of affordable and quality housing or business spaces or lack of quality startup help and capital for new local businesses. They are combining real estate with a suite of wrap-around services for the people who are “on campus” at the building, but also often extending to work with the community at large to ensure the real estate project is a stabilizing rather than displacing event for the neighborhood. They are using real estate and services to create an anchor for the surrounding community.

### What to look for:

Services may span from community organizing to small business startup workshops and other resources such as small business loan funds, micro business grants, and credit building programs. Services and resources that ensure community members can successfully leverage a real estate asset and benefit from opportunities like direct investment or owning their own business represent a likely wealth-building outcome over services seen at many affordable housing or other

developments that may focus on family needs such as early childhood education or community green space. While these types of services are important to communities, they may not indicate the wealth-building potential of a project.

### EXAMPLES:

- *The project includes a small business incubator program for businesses across the community, not just in the building. The incubator includes a below-market rate startup loan fund.*
- *Inclusion of partnerships for on-site services such as health clinics, affordable grocery stores, or childcare centers.*
- *Classes or workshops are hosted to inform community members about real estate ownership, cooperative management, or direct investing.*

There are groups across the U.S. taking on the hard work of designing and deploying community ownership models to meet the needs of communities. Every day a new group hears the call of community elders frustrated by fast-moving gentrification pushing out the businesses they rely on or the next generation who sees an abandoned block and sees the potential future it could offer. For this project we read countless articles about the creative approaches, funding hurdles, and general hopes of these groups. We also had the opportunity to work with a smaller cohort to dig deep on understanding the work.

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