New Models for Community Shareholding

Equity Investing in Neighborhood Real Estate Investment Trusts and Cooperatives

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The United States has long been a wealthy nation. But today, that wealth is held less widely than it was in previous generations. When US families are ranked by their wealth, the bottom 50 percent have 1 percent of the nation's total wealth, while the top 10 percent have 77 percent.[1] This disparity manifests itself by race and, given segregation, by place. Because of centuries of disinvestment, Black and Latinx households have, on average, considerably less wealth than Asian and white households (Aliprantis and Carroll 2019). They are also less likely to have savings accounts and to own small businesses, stocks, or real estate.[2] Furthermore, when investments are made in historically underresourced areas, new amenities can fail to benefit longtime residents. Although disinvested communities have a clear need for economic growth, communities must consider that major development projects may displace lower-income residents if the investment increases housing costs. Additionally, new commercial developments may not be viewed as welcoming to longtime residents.[3]

A set of emerging approaches seeks to use economic development to close the racial wealth gap through community equity investments. Sometimes referred to as neighborhood real estate investment trusts, community investment trusts, or investment cooperatives, these models offer residents the opportunity to purchase equity shares in a project and benefit financially from new development in their neighborhood. Community equity ownership, while not guaranteeing long-term tenure, would at least provide a new source of passive income and wealth building to longtime residents.

We begin this brief by defining the term "community equity investment" and the related commercial and residential community ownership models. We then highlight five examples of community equity investment in cities across several US states. We conclude with a discussion of how to implement a community equity investment and what steps are needed to build this field.

The Conceptual Building Blocks of Community Equity Investment

Community equity investment offers residents the ability to buy shares in local commercial real estate and to profit from the development. These models, unlike other types of community ownership, do not require residents to live or work in the development. While new, community equity investment has emerged conceptually and structurally from other models, including real estate investment trusts (REITs), cooperatives, community benefits agreements (CBAs), and community land trusts.

Community equity investment borrows from the larger fields of real estate investment and cooperative ownership. A **real estate investment trust** is a company that owns and typically operates income-producing real estate, allowing people to invest in large-scale, income-producing real estate or related assets.[4] According to a trade association for REITs, REITs own more than 520,000 properties across the US with a total property value of $1.6 trillion.[5] Neighborhood REITs use this investment approach but focus on buying parcels locally and enabling residents to buy shares in the portfolio as nonaccredited investors.[6] **Cooperative ownership** is more diverse than real estate investing and includes collectively owned businesses and utilities like credit unions, farm purchasing arrangements, manufacturing businesses, mutual insurance, rural electric providers, and others (Theodos, Scally, and Edmonds 2018). Cooperatives are also used for commercial real estate and offer community equity investment an ideological framework for democratic governance. Whether they are worker, housing, or agricultural-processing cooperatives, all cooperatives are member-owned, democratically controlled business enterprises. Several community equity investment initiatives draw on this model by empowering resident investors in the governance of the initiative (and some directly use the cooperative structure).

Community equity investment has also emerged from the thinking behind **community benefits agreements**. CBAs are contracts between community groups and a real estate developer that require the developer to provide specific amenities or benefits to a neighborhood such as investment in a community center, contributions to an affordable housing fund, or local hiring.[7] CBAs have been criticized as poorly enforced (Marantz 2015); community equity investment could emerge as a valuable complement or supplement to CBAs.

Affordable housing models also offer approaches from which community equity investment draws. For example, **community land trusts** are private, nonprofit organizations that have committed to providing affordable housing. In some cases, members of a community come together to buy land that is then owned by a resident-governed nonprofit. The land is leased to homeowners who own the units on the community land trust land, and the homeowners must agree to sell their homes at a restricted price to preserve the affordability (Greenstein and Sungu-Eryilmaz 2005). Similarly**, limited equity cooperatives** are typically affordable multihousehold developments in which occupants buy shares in the cooperatives and do not own units outright. A cooperative's bylaws determine the share prices, which can be structured to include affordability restrictions (PolicyLink 2001). These are models for democratic control and local decisionmaking.

Unlike community equity investment for commercial real estate, housing models frequently stipulate that investors live or work in the buildings they collectively own. Similarly, cooperatives as traditionally structured are for consumers, employees, or producers who frequent, work at, or run a business, not for members of a broader community. Meanwhile, REITs rarely provide opportunities for nearby investing or venues for democratic control and local decisionmaking. These dynamics illustrate key distinctions between community equity investing and these other models, each of which has value in a particular context.

Defining Community Equity Investment

Interest in community equity investment is growing, but so far, we have only a handful of examples that fall into a few categories. In **neighborhood real estate investment trusts,** social and mission-related investors as well as local residents use the REIT structure to pool money and create a special entity to buy one or more contiguous or proximate properties. **Real estate investment cooperatives** are for-profit cooperatives that allow residents to collectively buy, rehabilitate, and manage commercial and residential property. In several states, the laws that govern cooperatives (such as chapter 308B in Minnesota) allow for both member-owners and outside equity investment in a cooperative. This policy enables the formation of investment cooperatives (Hensley and Swanson 2003). Cooperatives are democratically governed by their members, and each investor-member gets one vote in decisionmaking. **Hybrid models** also exist and can bring together different elements for investing. In some cases, these models might rely on particular statutes or security law exemptions to enable their projects. In other cases, they can borrow from a microloan or crowdfunding approach, in which investors decide which businesses to invest in after pooling their money. These models can be undergirded by a nonprofit that anchors the initiative as well as local financial institutions and philanthropy.

In community equity investment, organizers often provide geographic boundaries, either de facto through targeted outreach or de jure. In some examples, the catchment area is as large as a city or state. In other cases, the initiative stipulates particular zip codes as the eligible investment catchment area. Another eligibility element that a community equity investment initiative can specify is residents' financial profiles. In some initiatives, this means creating specific financial eligibility criteria, such as prioritizing shares for residents with earnings below a certain percentage of the area median income. Other initiatives adhere to a central tenet of keeping the purchase price low and thus enable lower-income residents to participate without excluding higher-income investors.

Case Studies

To understand how community equity investments can work, it is useful to explore the existing models. In this section, we provide overviews of five mature examples of community equity investment, including the similarities and differences in their design (table 1). We also discuss implementation differences related to those design choices as well as local market conditions. The five cases we review are Market Creek Plaza in San Diego, Nico in Los Angeles, Northeast Investment Cooperative in Minneapolis, Community Investment Trust in Portland, Oregon, and the Boston Ujima Project. (Additional models are being developed in other cities.)

TABLE 1

Key Design Elements for Five Community Equity Investment Initiatives

Organization/ project	Location	Purchase price minimum	Exiting the investment	Ongoing buy-in options?	Geographic requirement for investors
Market Creek Plaza	San Diego	$200	Undefined at outset, but in practice, exit has happened at any point an investor has requested it	No; onetime only	Designated zip codes
Nico	Los Angeles	$100	Local investors may request exit after six months, subject to the redemption plan's terms	Yes	None
Northeast Investment Cooperative	Minneapolis	$1,000	Investors may request to exit, and the board must grant approval	Yes	State of Minnesota
Community Investment Trust	Portland, Oregon	$10 (monthly)	Anytime	Yes	Designated zip codes
Boston Ujima Project	Boston	$50	Investors may request to exit, and the fund must grant approval	Yes	City of Boston

Source: Authors' analysis of community equity investment projects.

Market Creek Plaza: San Diego

Market Creek Plaza in San Diego is structured to allow residents to own shares of a commercial real estate development. The Jacobs Center for Neighborhood Innovation, part of the Jacobs Foundation, invested $20 million to acquire and develop Market Creek Plaza in the late 1990s. The project, on the site of a previously abandoned 20-acre factory, was completed in 2004 and was the first development to offer residents an opportunity to become shareholders in local commercial real estate in this way. The development includes a full-service grocery store in an area that had been a food desert and the community's first sit-down restaurant, a bank, and other retail.[8]

ELIGIBILITY

People who lived or worked within the four zip codes that surround the development were eligible to buy equity in it. Project sponsors targeted for outreach residents whose incomes were less than

$35,000, but there was no income limit. A total of 415 people who lived or worked in the area bought shares.

PURCHASE AND OWNERSHIP

Residents could invest $200 to $10,000. The opportunity to buy in was onetime only. The share of the project that was community-owned was decided at the outset; individual investors owned 20 percent, residents owned 30 percent, and the Jacobs Center, the nonprofit funding anchor, owned 50 percent and took a first-loss position.

RETURNS

The original plan envisioned that investors would receive an annual dividend based on the profits from the development, but the development has not yet generated profits. To ensure that residents do not lose money, the Jacobs Foundation has paid shareholders a 10 percent return on their initial investment.

EXIT

No plan was in place at the outset for investors to exit their investment, but in practice, if residents asked to cash out their equity, the Jacobs Foundation bought their shares. As established at the beginning, the entire development is required to be sold in 2025, with proceeds distributed to investors.

COMMUNITY ENGAGEMENT

The Jacobs Center hired community members to do outreach for one year ahead of the project's launch. These efforts engaged 3,000 residents and people who worked in the area. However, very few residents signed up until a few days before closing. To help residents understand the investment and agree to buy in took multiple conversations and engagements.[9]

Nico Echo Park, Benefit Corp: Los Angeles

Nico Echo Park, Benefit Corp, Inc. is a neighborhood REIT sponsored by Nico. The neighborhood REIT owns a portfolio of rent-stabilized, income-producing properties in the Echo Park neighborhood of Los Angeles that allows local residents and other investors to become shareholders. Nico Echo Park launched in late March 2020 and owns three residential and mixed-use properties (84 units total) that represent approximately $30 million in total asset value. The company plans to acquire additional properties on an ongoing basis. The neighborhood REIT is structured as a benefit corporation, meaning the company measures success by balancing financial returns to shareholders with the social and environmental impact of the business on community stakeholders.

ELIGIBILITY

Nico Echo Park, Benefit Corp has two classes of shareholders: local and nonlocal. Local is defined as a current resident of the 10 zip codes around the Echo Park neighborhood. The pricing is the same for both shareholder classes, although the terms for redeeming shares are more favorable for local shareholders.

PURCHASE AND OWNERSHIP

The minimum investment is $100. Investments can be made only once or monthly and can happen through Nico's digital app. Nico Echo Park, Benefit Corp is a public company and can raise up to $50 million a year though a tier 2 Regulation A+ securities offering from qualified investors. The neighborhood REIT can also raise capital from traditional sources of real estate investment such as pension funds and endowments, and Fannie Mae is the lender on two of the neighborhood REIT's three properties.

RETURNS

As a relatively new public company, Nico is prohibited from issuing guidance on prospective returns. However, the investment strategy is a core plus investment (low to moderate risk) profile, with the unique geographic focus on a neighborhood and on measuring social and environmental performance. The share price will be updated quarterly (after the first year of the offering) to reflect the market value of the portfolio.

EXIT

Nico informs prospective shareholders that this is an illiquid investment with a redemption plan through which investors can ask to be redeemed at current net asset value per share on a quarterly basis. The minimum hold period for nonlocal investors is two years; for local investors, it is six months.

COMMUNITY ENGAGEMENT

Nico began community engagement by requesting feedback and input from residents in the buildings the neighborhood REIT bought and from various stakeholders within Echo Park. From there, Nico became more visible by sharing information (in English and Spanish) at events like flea markets. In addition, Nico used social media, advertising, and press placements.

Northeast Investment Cooperative: Minneapolis

The Northeast Investment Cooperative (NEIC) is a for-profit cooperative that enables residents to pool their capital to buy commercial real estate in northeast Minneapolis. Similar cooperative examples exist in Oakland, California, the East Bay Permanent Real Estate Cooperative,[10] and New York, the NYC Real Estate Investment Cooperative.[11] The NEIC model relies on volunteerism by members and benefits from the unique cooperative laws in Minnesota that allow for an intra-state securities exemption. The first building NEIC purchased was a former discount mattress warehouse; today, that parcel includes a bike repair shop, a cooperatively owned craft beer brewery, and a bakery.

ELIGIBILITY

Investors must be Minnesota residents.

PURCHASE AND OWNERSHIP

An "A-share" costs $1,000 and entitles the buyer to one vote on key decisions such as electing board members or changing bylaws. Members can buy additional, nonvoting, interest-bearing "C-shares" for

$500 each or “D-shares” for $5,000 each when new projects are in progress. By 2012, 286 investors had bought shares in NEIC.

RETURNS

Profits are distributed as a percentage to A-share investors in noncash capital allocation credits. For the past five years, this has amounted to about $40 a year. Members with C or D shares have been paid 4 percent interest at the discretion of the board based on the profitability of those shares when allowed by NEIC’s bank. The first property NEIC bought has been successful and is producing about $20,000 in profits annually. The second investment took longer than planned to lease; however, it is now occupied by a home remodeling company and is making about $4,000 annually.

EXIT

NEIC’s bylaws specify a method for member-owners to request that NEIC buy out their shares in advance of a formal call for redemption by the board of directors. NEIC reserves the right not to redeem shares if it would compromise NEIC’s financial stability. Investors are not required to participate for a minimum amount of time, and since NEIC began, five requests for redemption have been made.

COMMUNITY ENGAGEMENT

NEIC emerged from discussions among 50 northeast Minneapolis residents who were members of a neighborhood food co-op. Seeing their community challenged by absentee landlords and buildings in disrepair, the neighbors wanted to buy properties by pooling money via a cooperative model. The initial members’ goal was to revitalize the neighborhood, and they built the investment cooperative’s membership from their personal networks. The membership has not expanded much beyond those networks. Five years after NEIC’s inception, traditional developers began investing in the neighborhood. Now, NEIC struggles with being outbid for properties.

Community Investment Trust: Portland, Oregon

Mercy Corps, a nonprofit that provides loans and financial education to people with low incomes, formed Community Investment Trust (CIT) to buy the Plaza 122 shopping plaza in Portland, Oregon, for $1.2 million in 2014. Using the Securities Act of 1933, the nonprofit formed the trust to allow East Portland families to invest in a commercial retail development. By special agreement, CIT investors were exempt from registering with the Securities and Exchange Commission and the State of Oregon.

ELIGIBILITY

Individuals or families who live in the four zip codes around Plaza 122 can invest in the project. Investors must be at least 18 years old and must first take Mercy Corps’ financial literacy curriculum, which is offered in five languages. Investors are not required to have lived in the community for a minimum amount of time.

PURCHASE AND OWNERSHIP

Investors make monthly payments of $10, $25, $50, or $100 and have an opportunity to renew every year. People can invest until all 45,000 shares are bought. After this period, people who want to buy in must wait for someone to sell shares.

Using Section 3(a)(2) of the Securities Act of 1933, Mercy Corps secured a letter of credit from a bank, which provides investors with both liquidity and loss protection against any decline in their principal investment over time. The Section 3(a)(2) exemption with the letter of credit backstop provides "do no harm" protection for investors. Collectively, residents can purchase up to $450,000 in initial equity, which was provided to the project as debt by Mercy Corps and two impact investors. The project is structured with the bank lender in the first-loss position, for which it is receiving Community Reinvestment Act credit. To date, 200 households have invested, and that number can grow to 400 investors.

RETURNS

CIT guarantees a minimum 2 percent return (required for approval from the Securities and Exchange Commission). To date, it has averaged 9 percent annually. Every year, the share price is adjusted after a third-party appraisal. The share price changes in proportion to the appraised value: 50 percent goes to the share price, and the rest is allocated for a reserve for property improvements, a liquidity fund for investor cash-outs, and a reserve fund to support CIT's direct pay letter of credit. The current share price is $15.87.

EXIT

Shareholders can sell all or some of their shares back to the trust at their current value. Residents who move out of the area do not have to liquidate their investment, although they cannot buy additional shares. Since launching in 2017, only four residents have sold shares. In each case, the precipitating circumstances were a medical emergency, a job loss, or a similar event.

COMMUNITY ENGAGEMENT

The development of CIT began when Mercy Corps fielded a survey about what resources affordable housing tenants and farmers' market participants wanted in their community and found that the majority of survey takers desired ways to invest and benefit from development in their neighborhood. Since this catalyzing survey, Mercy Corps has surveyed the Plaza 122 investors annually and has found an increase in voting, volunteerism, and pride in the community. The survey has also found that investors are more likely to use the shops at Plaza 122 because they are owners. Before the COVID-19 pandemic, Plaza 122 hosted community arts events and helped raise money for the local homeless shelter during the holidays. Today, the board of directors has three members: a community leader, a real estate expert, and the executive director. In the next year (2021–22), the trust plans to expand the board by adding two members from the community.

Boston Ujima Project: Boston

The Boston Ujima Project, an economic development and community-organizing collective, began a democratic investment fund pilot in 2016. During the pilot, the fund's founders used a crowdfunding platform called Kiva to raise $10,000 from community members in three days. The Boston Impact Initiative, the Working World, and Local Initiatives Support Corporation Boston matched the funds, and the pilot loaned $20,000 to five Black- and immigrant-owned businesses. Today, the Ujima fund is working to raise $5 million in community investment by 2021 to finance small businesses owned by working-class Black people, Indigenous people, and other people of color, as well as real estate and infrastructure projects in Boston neighborhoods.

ELIGIBILITY

The Boston Ujima Project has two groups of members: voting members are current or displaced working-class Boston residents, grassroots partner organizations, and community business owners and their employees, and solidarity members are nonvoting members who live outside Boston, both in the US and abroad. Voting members must identify as working class or a person of color.

PURCHASE AND OWNERSHIP

Ujima has three tiers of noteholders (similar to shareholders) with differing levels of investment. The first tier focuses on working class people or people of color in Boston who can invest as nonaccredited investors in Massachusetts. This group can purchase notes of $50 to $10,000. The second tier is open to accredited investors from across the country and nonaccredited investors in Connecticut, Maine, Massachusetts, New York, and Rhode Island. They can invest $1,000 to $250,000. The final tier is for philanthropic investors who can invest $5,000 or more.

RETURNS

Although the Ujima fund is still raising capital, it expects first-tier investors to receive average returns of 3 percent annually after a three-year term, although returns are not guaranteed. The second tier can expect a return target of 2 to 3 percent at maturity and a term of three to seven years. The final tier for philanthropic investors has a return target of 1.5 percent annually and a seven-year term.

EXIT

Although noteholders have no right to early redemption of their investments, the fund may make exceptions for first- and second-tier noteholders in extraordinary situations. Investors in those tiers may submit a written request to the fund with a brief explanation. The fund then determines whether to grant the request. The Ujima fund is in the process of establishing a loan loss reserve supported by philanthropy to mitigate risk for first-tier investors and to guard against losses.

COMMUNITY ENGAGEMENT

Ujima hosts neighborhood and citywide planning assemblies with residents, local businesses, and employees to set investment priorities and to vote on investments that help achieve shared community goals. Ujima voting members, business alliance members, and grassroots partners make up the community standards committee, which conducts an initial screen of investment candidates based on nonnegotiable social justice standards derived from community members. Local finance professionals and Ujima members make up the fund's investment committee, which conducts due diligence and makes recommendations to members before all investments come to a vote.

Building a New Sector

Above, we highlight five case studies that illustrate different approaches to community equity investment in different markets and with different outcomes. Each has promising elements and offers lessons we can learn from. We conclude with a discussion that looks ahead. How can these emerging models replicate, multiply, and develop into a community equity investment sector?

We identify key considerations in creating a new community equity investment initiative (box 1). These design features prioritize access for residents with low incomes and low wealth and offer easier access to wealth building for communities of color.

BOX 1

Promising Community Equity Investment Design Features

- **Low purchase prices:** High up-front costs for share purchases exclude investors with limited financial resources. Monthly installments of $5 to $10 or low up-front costs (under $50) can ensure residents with low incomes and little wealth are able to buy shares.
- **Easy exits:** Residents can quickly pull out their investment and not accrue significant fines. This ensures residents who need access to financial resources can easily obtain their profits and not incur debt through investing.
- **Ongoing buy-in options:** Ideally, shares can be bought at multiple intervals or through an ongoing process. This allows residents to enter the process when they are ready. More limited buy-in windows favor residents with greater economic security or financial expertise over lower-income or historically excluded community members.
- **Strong community engagement and decisionmaking:** Longtime residents should help shape the design of the development, sit on a board that oversees the investment, or have elevated roles as shareholders. Project sponsors should have a robust, multipronged, and ongoing community engagement strategy. Requiring up-front financial education can help ensure that residents understand the upsides and downsides of investing.
- **Profitable:** Investing, especially equity investing, comes with risks. But community equity investments that are set up with sufficient due diligence, a sponsor with a strong project track record, and a compelling investment project and location can reduce risks. In other words, community equity investments should be well-designed to generate profits.
- **Secure:** The COVID-19 pandemic has highlighted risks inherent to commercial real estate investing. Community equity investments should seek to protect economically vulnerable investors. For example, entities such as philanthropic entities or financial institutions can take first-loss positions to protect community equity stakes.

The number of community equity investment initiatives is currently limited, and the model's durability is just beginning to be tested. For it to emerge as a sector, several developments are needed.[12]

First, we need more initiatives testing models in different markets across the country. Replicating and iterating off the highlighted case studies and other emerging examples can increase what we know about the efficacy and reliability of this new form of investing.

Second, local community equity investment sponsors need an ecosystem of intermediaries to support implementation. This includes technology and finance providers that can accept and track small-dollar investments. This also includes technical assistance providers that can develop template investment terms, standard financing arrangements, governance structures, financial education curriculum, and engagement strategies. And those groups or others will need to coach local efforts in adapting these materials to their context.

Third, projects need more philanthropic support. This includes funding to run the initiatives (although some will support themselves via investment proceeds). Capital could come in a mix of grants, program-related investments, and other concessionary capital. These will be needed both to raise returns for local investors and to reduce the risk of investments. Philanthropic support can come from traditional sources, but also from donor-advised funds and other impact investors, community development financial institutions, corporations, and government. Philanthropic or concessionary capital may allow projects to access market-rate equity investments to the extent that those funds are also needed—that is, for larger projects.

Fourth, local government must encourage new developments to use these models and support them with program dollars. Cities and counties could require or encourage the use of these tools when they dispose of public land, add subsidy for the use of the model, or make meaningful concessions. Community equity investment, like CBAs, could become a standard practice with large developments.

Finally, for these models to succeed, state and federal governments must increase their financial support. Governments could provide seed capital for intermediaries, funds, and projects. They could also create a refundable tax credit that residents could use when investing in these initiatives. This local equity tax credit could subsidize residents who make equity investments of up to $1,000 in an initiative (Theodos et al. 2020). We expect that a refundable tax credit, in particular, would jump-start the sector and catalyze residents' awareness of and interest in these models.

Community equity investment is relatively new, but it has the potential to become a path for greater economic opportunity for people historically excluded from wealth building. Although no one solution exists for overcoming the nation's growing wealth inequality, especially the racial wealth gap, community equity investment could be one piece in the puzzle. By providing residents with an affordable means to gain an economic stake in their neighborhoods, community equity investment can bring together economic benefit and community building.

Notes

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