Collective Community Real Estate Investment

A Research Paper

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I. Introduction

The purpose of this research paper is to explore various models of Collective Community Real Estate investment and analyze what could work for low-income neighborhoods, like the Lower 9th Ward in New Orleans. The information compiled in this research paper can be used by residents and community groups to strategize pooling resources for much-needed community development.

A. Defining Collective Community Real Estate Investment

What is Collective Community Real Estate Investment? There are three main concepts encompassed in the term:

“Collective” encompasses all things done in or by a group of people. There is a Kenyan proverb that says “Sticks in a bundle are unbreakable.” The idea is that when we do things collectively, we are stronger. People have been doing things collectively for millennia. From clearing land to harvesting wood to building homes, real estate is nothing if not a collective effort. For this paper, the word “collective” will also imply that the participants are also the beneficiaries.

“Community” has a broad meaning and should be defined by the group. Sometimes it means the geographic community (i.e. the Lower 9th Ward community, which is bounded by the Industrial Canal, Bayou Bienvenue, the St. Bernard Parish line and the Mississippi River); sometimes the community is defined by shared background or

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interests/goals (i.e. the Black community in New Orleans, which might join together to counter the various racist practices which have resulted over time in land loss and economic disinvestment).

“Real Estate Investment” involves the purchase, ownership, management, rental and/or sale of real estate for profit. It can include residential or commercial properties and involve the entire spectrum of uses.

Tying these terms all together, Collective Community Real Estate Investment involves a group of people from a defined community pooling resources to invest in real estate within a defined geographic area and profiting from the investment together. As with the term “community development”, the implication is that the investment supports low-income people. To differentiate between Community Development and Collective Community Real Estate Investment, the latter involves the beneficiary community of low-income people being both the drivers of the development and the recipients of monetary profit.

B. Context and Value of Collective Community Real Estate Investment

“Strong, stable neighborhoods are critical for building and maintaining family financial security.” Angela Glover Blackwell, President and CEO of PolicyLink, stated this in a piece she wrote about creating equitable communities of opportunity. In the article, she explained how “…community assets form ladders to opportunity, allowing people to move up against formidable odds”\(^2\) By definition, low-income households individually

lack the funds to build and sustain many such community assets in the built
environment of their neighborhoods. Instead, these places are often categorized by the
glaring lack of public and private investment and general neglect that often results in
areas of high crime, widespread blight, and few choices for healthy food, healthcare and
quality education.

Additionally, overt racist policies and practices of the past have established a clear
present-day caste system in the United States, subjugating people of African descent to
the lowest rung of society and people of European descent to the highest. This impact is
evident in most urban centers of the country, where the low-income neighborhoods are
usually populated by a majority of Blacks and other people of color and high-income
neighborhoods are usually populated by a majority of Whites. Exceptions are certainly
present, but this pattern is relatively consistent.³

This means that many Black communities around the country do not have the basic
amenities needed to support a good standard of living – thriving businesses, such as
grocery stores and banks, good schools, and quality transportation. This feeds a vicious
cycle - less economic activity in the neighborhood, the less investment in infrastructure
maintenance and improvement, creating a disincentive for the establishment of these
amenities.

A possible solution is the injection of capital into such neighborhoods by the residents
themselves. How is this possible when lack of money defines a low-income community?

This paper presents the idea that if low-income households pool their resources, they

can generate a large enough amount of money to make a difference. This money, combined with funds from other sources, could provide gap financing for a much-needed community development project (for example, a grocery store in a “food desert”). Financial investment in the neighborhood and controlling the development means that the long-time residents will be able to benefit, both from return on investment and development that serves them.

If avenues for communities to control development in their neighborhoods and increase their income are created, these communities will have the opportunity to live in strong, stable neighborhoods which will then provide strong, stable foundations for raising healthy children. These healthy children will then grow into healthy adults who will be more likely to contribute positively to the neighborhood and beyond.

II. HISTORICAL EXAMPLES

Collective investment funds have historically existed to combine the assets of individuals or organizations to create a larger, well-diversified portfolio. The primary advantages of investing alongside other investors in this type of fund were the reduced costs achieved through economies of scale and the ability to spread risk by investing in a portfolio of assets. Both the wealthy and lower net worth individuals have participated in various forms of collective investment over time.

A. Progress Plaza

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In 1962, a Philadelphia minister named Leon Sullivan delivered a sermon to his congregation announcing an “unprecedented community investment strategy.” That Sunday morning, Reverend Sullivan introduced his 10-36 plan, imploring his congregation to set aside $10 per month for 36 months in order to raise funds for community development. In today’s dollars, this would be the equivalent of saving $75 monthly, for a total of $2700 after 3 years. That year, 250 people became investors. The plan took time to gain traction in the community. Two years later, the reverend had enrolled 450 investors. By 1968, there were 3300 investors involved and Sullivan, having convinced the Redevelopment Authority to donate the land, was able to build Progress Plaza - a 65,000 square foot shopping center. In 2009, the site was redeveloped into an 84,000 square foot shopping center anchored with a grocery store. It remains the oldest African-American owned shopping center in the country.

B. Cooperatives

Particularly for low-income and vulnerable communities in the United States, a popular form of collective investment historically has been cooperatives. Specifically, they have been a means for Black people to secure and gain dollars and “a promising antidote to persistent racial economic inequality”, according to W.E.B. Du Bois. In fact, cooperation was a means of survival for Black communities in America:

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Blacks pooled money in order to help each other buy themselves out of enslavement. In addition, runaway slaves formed their own communities, often isolated Maroons, where they eluded and/or fought off bounty hunters, and lived collective existence in relative isolation. Immediately after the Civil War, some Blacks organized themselves (or were organized) into intentional communities and communes, where they could live and develop under their own leadership, creating their own economy (Pease and Pease 1963; DeFilippis 2004).

Du Bois explains that Blacks have pooled resources through churches, mutual aid societies, fraternal organizations, and jointly owned businesses. Du Bois (1907) documented hundreds of mutual aid societies and cooperative projects through religious and benevolence institutions, beneficial and insurance societies, secret societies, schools, and financial institutions. Mutual Aid Societies and Beneficial Societies provided joint purchasing and marketing, revolving loan funds, and sickness, widow and orphan, and death benefits. They often operated informally through Black religious organizations and Black independent schools. Many were founded and headed by Black women. These were the precursors to the African American owned cooperatives.

A comprehensive listing of Black cooperatives from 1865 through 2009 can be found in “Black Cooperatives in the United States: An Excerpted History from Research” by Jessica Gordon Nembhard.

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8 Nembhard, J.
The Federation of Southern Cooperatives is perhaps the most well-known of organizations supporting Black cooperatives. Founded in 1967 as a non-profit organization of state associations to support predominately Black cooperatives in southern states, the Federation of Southern Cooperatives established rural training and research centers. Still in existence today, the organization also "engages in state and federal policy advocacy and provides technical assistance to protect Black land and maintain Black land ownership."  

C. Community Land Trusts

At its core, a land trust is a legal agreement where a trustee is appointed to maintain ownership of a piece of real property for the benefit of another party, specifically the beneficiary of the trust.  

Although land trusts date back to the late 1800’s with the establishment of the Trustees for Reservations in Boston, Community Land Trusts emerged in the mid-20th century as a way to protect community assets and preserve affordable housing. The first CLT in the United States was formed by Bob Swann and Slater King, a cousin of Dr. Martin Luther King, Jr., in 1969 out of concern that Blacks were being excluded from owning land in the South.  

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9 Nembhard, J.  
As of July 2015, there were 243 community land trusts in the country\textsuperscript{13}. Community Land Trusts based in New Orleans include the Crescent City Community Land Trust (CCCLT), the Lower 9\textsuperscript{th} Ward Neighborhood Empowerment Network Association (NENA), and the Jane Place Neighborhood Sustainability Initiative (JPNSI).

**D. Social Aid and Pleasure Clubs**

In New Orleans, Social Aid and Pleasure Clubs are primarily Black organizations that may be best known today for their second line parades. These organizations are descendants of the early benevolent societies that started appearing in America in the eighteenth century. There are records of Black benevolent societies as early as the 1780's, forming among free blacks “to bring some stability to their lives in a hostile environment\textsuperscript{14}.” In New Orleans, these organizations boomed following the Civil War. As most insurance providers would not sell policies to Blacks at the same price as Whites, or at all, Black benevolent societies coalesced to fund health care and burial expenses\textsuperscript{15}. They also served to support their members after Reconstruction when Blacks became once again effectively disenfranchised through Jim Crow laws. Members paid into the fund and drew the benefits when they were in need of care. These societies were well-organized and thought to be “better and more honestly conducted than many of the banking and state institutions.”\textsuperscript{16}


\textsuperscript{14} Harris, Robert L., Jr.. “Early Black Benevolent Societies, 1780-1830.” The Massachusetts Review. Vol. 20, No. 3 (Autumn, 1979), pp. 603-625.


As discriminatory policy against Blacks seceded over time, insurance companies began to take the place of these clubs.

**E. Real Estate Investment Trusts**

Real Estate Investment Trusts (REITs) have historically been a mechanism for the wealthy to invest collectively in real estate development. A REIT is a company that owns or finances income-producing real estate and sells stock in the company to investors. Investors benefit from the diversification of assets (REITs own multiple properties), regular income from the properties, and the long-term appreciation of the property value. Public REITs must be registered with the Securities and Exchange Commission (SEC), are listed on the stock exchange and can be bought by anyone. Private REITs, however, can only be bought by accredited investors, making these types of investments almost exclusive to the wealthy.

The concept of Real Estate Investment Trusts (REITs) can be traced back to the 1880’s. At that time, investors could avoid being “double taxed”, at the corporate and again at the individual level. However, when the laws changed in the 1930’s with the establishment of the Securities and Exchange Commission, that tax benefit disappeared. Additionally, under the new laws, companies not registered with the SEC could only sell securities to “accredited investors”, generally high net worth individuals. Then in 1960, President Dwight Eisenhower signed into law the REIT Act title contained in the Cigar Excise Tax Extension, exempting Real Estate Investment Trusts from corporate taxes and they became popular once again.

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As with any stock, investing in REITs is risky, but they are historically among the best performing asset classes\(^{18}\).

**III. CASE STUDIES**

The case studies in this paper do not represent the totality of Collective Community Real Estate Investment models around the country. They are a sampling of current projects that the author uncovered through research. This type of collective investment is not brand new, but this paper does not extensively cover historical models. Finally, the case studies featured are not all fully Collective Community Real Estate Investment (the Century Partners’ shared equity model, for instance). However, the concepts presented within each model can be used in Collective Community Real Estate Investment and are included to spark ideas and inspiration.

**A. Shared Equity**

Shared equity simply means that individuals or entities other than the property owner have a percentage equity share in the property. Generally, any profits created from the rental or sale of the property are split pro rata among the shareholders or per a specified legal agreement.\(^{19}\)

This concept has historically been employed as a way to make homeownership more affordable for buyers. Shared-equity mortgages, for instance, might allow for a co-

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\(^{18}\) “20 Years of the Best and Worst – a case for diversification. [Chart]” MFS Fund Distributors, Inc., February 2014.

investor to provide a percentage of the down payment, in exchange for a percentage of the profits at resale. The co-investor can be an individual, often a family member, or a government or nonprofit agency. The latter often utilizes community land trusts, deed restrictions or covenants, limited equity cooperatives, and shared appreciation loans.

For buyers, shared equity provides a pathway to homeownership and offers wealth creation opportunities otherwise unavailable to renters. For investors, it can provide a relatively predictable and probably enhanced return.\textsuperscript{20}

\textbf{Century Partners – Detroit, MI}

Created in 2014 by college friends Andrew Colom and David Alade, Century Partners is a Detroit-based small for-profit real estate development company that is using a shared equity model to support the revitalization of two neighborhoods in Detroit.

The city of Detroit was once considered the wealthiest city in America due to the rise of the automobile mass manufacturing industry. Between 1910 and 1950, the population nearly quadrupled with the influx of people looking for employment opportunities. The population peaked in 1950 with approximately 1.8 million residents.\textsuperscript{21} After World War II, the major automobile companies that created the boom began to decline for various reasons and hundreds of thousands of people lost jobs. Simultaneously, rampant de facto and codified racial discrimination caused tensions which resulted in white flight and race riots, dramatically reducing the city’s tax base and fostering crime and blight. Additionally, the construction of freeways cutting through the urban core, primarily


through Black neighborhoods, served to displace residents, disrupt communities, and destroy the urban landscape. Today, the city’s population is roughly 35% of its peak 1950 population. The unemployment rate is 24.8%, the highest among the 50 largest cities in America, according to the Bureau of Labor Statistics.\(^22\) The City of Detroit filed for Chapter 9 bankruptcy in 2015, the largest municipal bankruptcy filing in U.S. history by debt.\(^23\) The Detroit Free Press reported median sale price for homes at $30,000 in the same year, with homes sales between $1 - $1000 not uncommon.\(^24\)

Colom and Alade saw an opportunity to purchase properties in Detroit neighborhoods for a low upfront cost and help to stabilize the market. They raised the initial capital through investments mostly from family and friends. They distributed a “deck” throughout their networks and raised approximately $1 million dollars. Once they began purchasing properties, they employed a shared equity approach to foster greater buy-in in their target neighborhoods. Their approach is unusual in that the company is not supporting individuals to become homeowners, but allowing property owners to share in rental cash flow after selling their properties to Century Partners to be rehabbed and rented. Colom and Alade identified two neighborhoods to begin purchasing, renovating, and renting properties – Boston-Edison and North End.


Boston-Edison is a historically prestigious neighborhood, best known as the home of Henry Ford and his family from 1908 to 1915. The Fords were followed by a slew of automobile magnates. Most of the neighborhood’s homes were built before 1925 and range in size from mansions on large lots to modest two-story houses on forty-foot wide lots. But while Ford built his home in the early 20th century at a rumored cost of $483,253 (over $11M in today’s dollars), a quick internet search of home sales in Boston-Edison will show that most homes are selling today for a fraction of that value. Properties in the area have sold for as low as $1000 in the city’s tax foreclosure auction.

The North End neighborhood was well-known as a hub for jazz and entertainment in the 1950’s and 60’s and home to many Black elite, with such notable residents as Aretha Franklin, Diana Ross and Smokey Robinson. But the decline of the neighborhood actually started following World War II, largely due to job loss, racial discrimination, and the 1959 construction of I-75. Today, the neighborhood has roughly 10% the population it did at its peak in 1950.

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over 30% of housing units in the North End neighborhood were vacant in 2010 (a 15% increase from 2000) and a significant amount of property is owned by the City\textsuperscript{31}.

To help breathe life back into these neighborhoods through real estate development, Century Partners uses a mix of private investment and shared equity. Both the Boston Edison and North End neighborhoods are home to many long-time residents who own some of the vacant properties. Colom and Alade negotiate with the owners one-on-one, offering cash to purchase the property as well as a percentage share in the total fund. Colom offered the following scenario to illustrate their method:

Mr. X bought a property for $500 a few years ago. The current value of Mr. X's property is $15,000. Century Partners offers Mr. X $13,500 in cash and $2,000 worth of equity, which is a .2% equity ownership share in the fund. This is the total money invested into the venture and represents Mr. X's long term value in the assets, not only for the house he sold but the total assets of the fund's portfolio\textsuperscript{32}.

The company retains all voting rights and full discretion on what they do with the property. The previous owner signs a private placement memorandum, a subscription agreement and a fund operating agreement. All investors will receive financial statements and dividends on a quarterly basis. Century Partners handles the management of the fund internally, between Colom and Alade\textsuperscript{33}.


\textsuperscript{33} Alade, David. Interview by Author. Phone Interview. February 19, 2016.
For Century Partners, this model is a way to support community revitalization in a more
wholistic way, making community members vested stakeholders in the project. They
believe that in the long-run it is more profitable to make the community dynamic, rather
than focusing on the short-term monetary profit. Both the North End and Boston Edison
neighborhoods are home to long-time low-income landlords. Nearly 60% of North End
residents earn less than Detroit’s area median income of $26,095\textsuperscript{34}. The area median
income in the Boston Edison neighborhood is $35,370\textsuperscript{35}. “Developers always say they
want to do best by the residents, but there’s always skepticism around developers. This
allays some of that concern and gives a tangible benefit to investors,” says Alade.

Typically, developers make plans and then get community support as required. But
Century Partners believes that the real way to get genuine buy-in is for residents to be
vested, thereby creating allies in the community. People who have a vested interest in
their work, they believe, will feel more in tuned with the development, less
suspicious/skeptical of developers and more open to new development. Their goal is to
diversify and stabilize neighborhoods, create spaces where people want to live, and
create a functional mortgage market\textsuperscript{36}.

Century Partners currently own 31 units in the North End and Boston-Edison
neighborhoods, and have used the shared equity model on approximately half of them
thus far. They enforced a block-out period, where investors could not “cash in” or


http://www.census.gov/quickfacts/table/PST045215/2622000

\textsuperscript{35} “Boston-Edison neighborhood in Detroit, Michigan (MI), 48202, 48206 detailed profile.” City-Data.com. Accessed

\textsuperscript{36} Alade, D.
receive dividends. 2016 ends that initial block-out period for the initial fund investors. It is also the first year that the portfolio will fully stabilize and investors will receive their pro-rata equity allocation.

Colom and Alade believe this model will be successful because the risk is diversified across numerous assets. For instance, if one house burns down, the others will continue producing income. They also see benefit in the close proximity of the properties to one another. That close proximity makes servicing and management easier. Century Partners’ next hurdle is getting lending institutions involved. So far, all their work has been in cash. They would like to begin to use debt, ultimately leveraging the investments to mortgage properties with the rental income paying off the debt.

Ideally, all investors would be repaid within 2 years.

B. Cooperatives

Cooperatives are business organizations owned and operated by a group of individuals for their mutual benefit. The largest sectors include credit unions, agriculture, farm credit banks and associations, electric utilities, grocery and housing. Worker co-ops, telecommunications co-ops and purchasing co-ops are also common.

People generally organize to form cooperatives when “the marketplace fails to provide needed goods or services at affordable prices or of acceptable quality.”

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37 Alade, D.
38 Alade, D.
According to the U.S. Small Business Administration, the benefits of the cooperative structure are:40

- Less taxation. While members of the cooperative are taxed on their income, the cooperative itself is not taxed on surplus earnings.
- Funding Opportunities. Government-sponsored grant programs are available to support the development and sustainability of cooperatives.
- Reduced Costs and Improved Products and Services. Due to economies of scale, cooperatives are better able to obtain materials, supplies and services at a discount. Also due to their size, they are more likely to get better products and services from suppliers.
- Perpetual Existence. Because members can join or leave the business without causing dissolution, the cooperative business structure allows for better continuity and less disruption.
- Democratic Organization. The “one-member, one-vote” philosophy is the cornerstone of the cooperative structure. This means that all members have the same voting power, regardless of the amount of their monetary investment.

Disadvantages of a cooperative include:41

- Obtaining Capital through Investors. A member’s incentive to contribute tends to depend on how much they use the cooperative’s services and products.

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41 U.S. Small Business Administration.
Also the “one-member, one vote” philosophy may be a turn off to larger investors who want their investment to equal greater decision-making power.

- Lack of Membership and Participation. The business may not be able to operate at full capacity if the members do not fully participate, whether through voting or carrying out day-to-day operations.

There are seven internationally recognized principles that cooperatives follow: 1) voluntary and open membership, 2) democratic member control, 3) member economic participation, 4) autonomy and independence, 5) education, training and information-sharing, 6) cooperation among cooperatives, and 7) concern for community.⁴²

**Northeast Investment Cooperative – Minneapolis, MN**

The Northeast Investment Cooperative was formed in 2011 by 39 founding members who wanted to address a long-term pattern of disinvestment, starting with the major but “poorly used” corridor of Central Avenue in Northeast Minneapolis.⁴³

The Northeast Investment Cooperative (NEIC) leverages member-owners’ investments to purchase and rejuvenate stressed and poorly utilized residential and commercial properties in Northeast Minneapolis, with an emphasis on the Central and Lowry Avenue corridors. Consistent with the principles and spirit of the cooperative movement, NEIC makes long-term, stabilizing, and

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transformative investments for the mutual benefit of our members and our community.\textsuperscript{44}

The organization is governed by bylaws adopted by the membership and operates according to a set of three main values:\textsuperscript{45}

1) We rehabilitate, maintain, and lease our properties in a way that enhances their value and contributes to the overall quality of life in Northeast Minneapolis.

2) We create multiple, positive returns on investment for our members and our community.

3) The Rochdale cooperative principles guide our work:

   - Voluntary and Open Membership
   - Democratic Member Control
   - Member Economic Participation
   - Autonomy and Independence
   - Education, Training and Information
   - Cooperation among Cooperatives
   - Concern for Community

The state of Minnesota boasts the most cooperatives in the nation, according to the Cooperative Network (a statewide association committed to building Wisconsin’s and Minnesota’s cooperative businesses)\textsuperscript{46}. According to founding member and current


board member Leslie Watson, the initial steering committee was made up of a small group of people who were already interested in building a cooperative economy, had knowledge or experience in operating cooperatives, and/or were connected with each other socially on multiple levels.47

The Northeast community is not wealthy, but it is not highly distressed. Although the cooperative structure was quite common in Minnesota, Watson recounted that when Northeast Minneapolis residents endeavored in the early 2000’s to form the area’s first food co-op in 25 years (Eastside Food Co-op), they were told by financial institutions that the area did not have the “right demographics” to support a food co-op.48 The population of Northeast Minneapolis has traditionally been working class Eastern European and Lebanese immigrants, more recently populated by a growing number of new immigrants from Somalia and Latin America, African-Americans and university students49.

The members of the NEIC, 90% of whom were residents of Northeast, saw Central Avenue as economically distressed, with “empty and unappealing storefronts, absentee landlords, and a pattern of revolving-door retail in many buildings.”50 One of the founding members of NEIC, Amy Fields, was the manager of Eastside Food Co-op, which opened on Central Avenue in 2003. According to Watson, Fields noticed a lot of

48 Watson, L.
properties being “flipped” on the avenue. She wanted to see people coming together to
own property and occupying it, rather than being absentee landlords.⁵¹

Because of their extensive experience and appreciation for cooperatives, Fields and
others decided to start revitalizing Central Avenue through a real estate investment
cooperative. The existing cooperative culture weighed heavily in their decision to
choose the cooperative structure. Watson noted some of the benefits as: exemption
from securities registration for the initial investment, interest rate exemption at the
federal level, and that decision-making power lies in the hands of the members, not the
government or a large nonprofit organization.

They formed a steering committee to begin shaping the structure of the group, including
deciding on the amount of money that would be required for membership. The ultimate
decision of a $1000 membership fee came out of discussions and informal surveys
about how much the initial group was willing to invest.⁵²

The initial group was made up of 39 people not only from the food co-op community, but
also small business owners, small-scale real estate owners, people interested in
alternative economies, and long-time Northeasters eager to see some fresh, new
energy on the avenue. They recruited these people from their own social networks.
Watson recounted the many information sessions she and other steering committee
members would hold to share the idea and recruit members. Through the info sessions,
they demonstrated that they had “done their homework”, that they had identified and
analyzed potential properties, and that those had been vetted with an attorney. The first

⁵¹ Watson, L.
⁵² Watson, L.
$1000 membership checks were held in escrow. The immediate goal was to get a purchase agreement on their first property within 15 months. Members were promised a full return of their money if the deal fell through. Membership grew and, eventually, the effort attracted the attention of the local press. When a newspaper publisher joined as a member, it raised both the profile and the credibility of the NEIC, according to Watson.53

The initial relationship-based recruiting resulted in a group that was mostly White. Aware that this was not reflective of the neighborhood, they made an effort towards racial diversity by engaging with business owners on the avenue. A group of NEIC members walked the 10-block avenue, going shop to shop to talk with the owners. This resulted in an increase in diversity among the membership.54

The Northeast Investment Cooperative incorporated as a cooperative under Minnesota Statutes Chapter 308A in 2011. They held their first member meeting in March 2012, adopted bylaws and elected a board. The cooperative is still run by a volunteer, owner-elected board today. By July of that year, NEIC had settled upon 2504/2506 Central Avenue as their first project and were actively pursuing its purchase. They had been approached by a local bicycle repair shop to partner on the project. When they realized the project was too large to take on, the two entities agreed that the bike shop would purchase 2504 Central Avenue and NEIC would purchase 2506 Central Avenue. At year’s end, the 90 member-owner cooperative signed a purchase agreement.55

53 Watson, L.
54 Watson, L.
To raise capital for the project, NEIC created Class C & D shares, allowing existing member-owners to invest additional dollars beyond the initial $1000 membership. Over the next year, they hired an architect and contractor, identified tenants, and began demolition, all the while recruiting new members. By the end of 2013, NEIC had 175 member-owners.56

The 2506 Central Avenue project was finished in 2014 and became home to Aki’s Breadhaus and another cooperative, the Fair State Brewing Cooperative.57

The Northeast Investment Cooperative offers four types of stock to Minnesota residents only58:

- **Class A stock:** In order to become an owner-member, this “ownership share” must be purchased and it includes the right to one vote. The value of the share remains the $1000 initial purchase value. Dividends may be paid on this stock if the Board determines that the Cooperative has sufficient net income, working capital and assets. Class A shareholders are also eligible to receive annual credits (or debits) based on changes in net retained earnings in the cooperative, also determined by the Board. When an owner-member’s capital credits total $500, it automatically converts to a Class C share.

- **Class B stock:** This type of stock is non-voting and not eligible for dividends. It can be issued in lieu of patronage refunds to NEIC member-owners who are

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also tenants of an NEIC building. It can also be issued to organizations otherwise not eligible to be members.

- Class C and Class D stock: Both of these stocks are non-voting, preferred stock that can be issued only to current member-owners. Dividends, not capital credits, are paid on these up to 8%, at the discretion of the Board. If the cooperative were to dissolve or go bankrupt, the holders of these shares would be paid before the other types of shares (but not before NEIC’s secured lenders). Through this stock, NEIC is able to raise additional capital among its membership.

The Northeast Investment Cooperative had 225 member-owners by the end of 2015, equaling $225,000 in A-share equity. NEIC member-owners invested an additional $77,000 in C and D shares. As 2015 was NEIC’s first year of a full year’s net income, the cooperative was able to distribute dividends for the first time in April 2016. The 2015 net profit after taxes was over $18,000. The board decided to allocate 50% of net profits to the Capital Credit accounts of all members. A-shares were allocated a 4.17% return in capital credits, which equaled $41.37 for member-owners who joined prior to 2015 and a pro rata allocation based on length of membership for those who joined in 2015 or later. C and D shares were allocated payments of 2% and 4% dividends, respectively.\(^{59}\) NEIC is currently prospecting for its second property and holding information sessions to attract new member-owners.

The Black Land Matters Real Estate Investment Cooperative – New York, NY

Unlike the Northeast Investment Cooperative, The Black Land Matters Real Estate Investment Cooperative (BLM-REIC) is still in its conceptual phase. The idea is being developed by Mark and Cheryl Scott and M’bwebe and Licia Ishangi, two Brooklyn-based couples with strong Caribbean roots and a passion for nature and the environment. It is an outgrowth of their company, Duende Natural, which provides eco-conscious tours that connect with and support local Black communities. The BLM-REIC is built on three main principles – ecology, economics and culture – with a foundation in sustainability and generational asset maintenance and growth. Ecology is attention to the natural environment and preserving healthy, sustainable land for generations to come. Economics focuses on supporting member and partner businesses, and educating members about saving, investing and succession. Culture is about the preservation of the traditional ways of people across the African diaspora.

The purpose of BLM-REIC is to pool money to create a fund that is managed collectively by the members in order to: 1) buy land/property from private owners to stabilize existing businesses and community spaces, and 2) turn vacant properties into sustainable community resources.

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61 Scott, M.
We believe African Diasporic heritage-based communities must come together to pool resources and share our experiences as we reclaim our sacred connection with the Earth.63

We want:

- Returns on our investments to be made locally
- To share our communities together
- To see development without displacement
- To support space for art and culture
- To preserve a business or community space in our neighborhoods

The Black Land Matters Real Estate Investment Cooperative began with a keen awareness of how racist U.S. government policy, particularly the practice known as “redlining”, has shaped the current status of Black communities in America and how the events that led to the eruption of the recent Baltimore and Ferguson riots and subsequently the Black Lives Matter movement were one of the results of that policy.64 Scott noted that the Black Lives Matter Movement does not yet have a tangible goal and that BLM-REIC seeks to channel the energy surrounding that movement towards the goal of collective land control.65

The negative effects of gentrification and the increasing wealth disparity, particularly following the Great Recession, are disproportionately high in Black communities and among Black families. According to a 2011 Pew Research Center study, the median net

64 Ishangi, M.
65 Scott, M.
worth of Black households dropped by more than 50% (from $12,124 to $5,677) from 2005 to 2009. During the same period, the median net worth of White households dropped by less than 20% (from $134,992 to $113,149).\(^{66}\) Non-white borrowers were more likely the Whites to receive subprime loans during the housing boom regardless of credit score, income or loan size. As a result, Black households lost approximately 240,020 homes to foreclosure when the housing bubble burst.\(^{67}\)

In May 2012, before the name “Black Land Matters” was adopted, the group held their first member meeting with a membership of 6 people collectively pooling a fund of $40,000. That same year, they purchased a 10-acre site in Costa Rica. The cooperative is currently looking at potential investment properties in New York City, Philadelphia, the Baltimore/DC area, and Atlanta.\(^{68}\)

BLM-REIC offers two types of membership – voting and non-voting. Full voting membership is afforded to the purchasers of $5000 A-shares. The cooperative follows the standard “one-member, one-vote” philosophy, where no full voting member has more voting power than another regardless of the amount of their monetary investment (beyond the $5000).\(^{69}\) Non-voting members pay an annual fee of $50, which affords them exclusive listings to investments including land and stock, and discounts on Duende Natural/BLM trips, tours and merchandise. All members are required to attend


a minimum of four in-person or cyber meetups per year and must agree to begin personal savings in preparation for investment.\textsuperscript{70}

The cooperative has been developing at a slow pace over the years, mostly due to the small membership and its limited capacity. While volunteering a certain number of hours to help manage the cooperative is a requirement of membership, there are not enough members yet. They have also considered other challenges, the primary one being the very reason the cooperative is forming – investment may seem prohibitive to many Black families due to lack of wealth. As mentioned earlier, the median net worth of Black households in the U.S. is $5,677. A simple, short-term solution that BLM-REIC has incorporated into the structure is payment plans. This allows investors to contribute incrementally at a more affordable pace. A longer-term solution is education to help shift thought patterns about wealth/asset-building and the value beyond the monetary. BLM-REIC is also interested in building the capacity of its membership to grow and sustain businesses. They hope to develop an educational community of members who are constantly developing their knowledge base and skill sets for their individual and the group’s benefit. Toward that goal, members will be able to purchase workshops and training with credits earned by investing in the cooperative with money as well as time. Another potential challenge is the inherent illiquidity of the investment fund. Real investment often relies on patient capital, meaning that investors must be willing to be separated from their money for an extended period of time. This could present a challenge for low-income or low-asset families, for whom emergency situations impact

and disrupt lives in a more extreme way. As a remedy to this problem, BLM-REIC plans to develop a surplus fund from which members can take out low-interest loans to hold them over through tough times. The surplus fund will be comprised of profits from a successful development project or funds not currently being used for a development project.\textsuperscript{71}

A 2014 Bureau of Labor Statistic Consumer Expenditure Survey showed that the average American household that saved $50 per month ($600/yr) was in the lower range of the $59,549 to $75,976 income bracket.\textsuperscript{72} U.S. Census Data show that roughly 18\% of Black households earned that amount, the largest percentage compared to all other income brackets.\textsuperscript{73}

At $25 per month, an investor could become a voting member in roughly 16 years. If voting power is valuable to investors, this could be discouraging. That time period could be shortened to a little over 2 years if the prospective member invested $200 per month. The median annual income of Black households in America was $35,398 as of 2014.\textsuperscript{74} According to a Bureau of Labor Statistics Consumer Expenditure survey, the average American in that income bracket actually lost (rather than saved) $4279 in that year.\textsuperscript{75} The same study showed that the average American who saved $200 per month was in

\begin{flushright}
\textsuperscript{71} Scott, M. \\
\textsuperscript{75} Stoffel, B. 
\end{flushright}
the higher range of the $59,549 to $75,976 income bracket. This indicates that participation at the voting membership level among most Black households may be difficult. It also predicts that voting power may likely be concentrated among the wealthier investors.

The table below illustrates a potential fund-building scenario for the Black Land Matters Real Estate Investment Cooperative:

Table 1

<table>
<thead>
<tr>
<th>Base Fund Growth:</th>
<th>% Total Fund</th>
<th>20%</th>
<th>40%</th>
<th>20%</th>
<th>20%</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td># Investors</td>
<td>$25/mo</td>
<td>$50/mo</td>
<td>$100/mo</td>
<td>$200/mo</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year 1</td>
<td>100</td>
<td>$6,000</td>
<td>$24,000</td>
<td>$24,000</td>
<td>$48,000</td>
<td>$102,000</td>
</tr>
<tr>
<td>Year 2</td>
<td>200</td>
<td>$18,000</td>
<td>$72,000</td>
<td>$72,000</td>
<td>$144,000</td>
<td>$306,000</td>
</tr>
<tr>
<td>Year 3</td>
<td>300</td>
<td>$36,000</td>
<td>$144,000</td>
<td>$144,000</td>
<td>$288,000</td>
<td>$612,000</td>
</tr>
<tr>
<td>Year 4</td>
<td>400</td>
<td>$60,000</td>
<td>$240,000</td>
<td>$240,000</td>
<td>$480,000</td>
<td>$1,020,000</td>
</tr>
<tr>
<td>Year 5</td>
<td>500</td>
<td>$90,000</td>
<td>$360,000</td>
<td>$360,000</td>
<td>$720,000</td>
<td>$1,530,000</td>
</tr>
</tbody>
</table>

**New York Real Estate Investment Cooperative – New York, NY**

Another emerging real estate investment cooperative also based in the City of New York is the New York Real Estate Investment Cooperative (NY REIC). NY REIC is comprised of New Yorkers who are pooling their money and power to secure space for community, small business, and cultural use in New York City. The nascent cooperative, currently being incubated by the nonprofit cultural community development organization SpaceWorks NYC, aims to provide financing to long-term affordable community-controlled development projects that house cooperative enterprise, art, culture and organizing work. They currently have 350 members and an investment fund of $3000 with over $1.3M in pledges. They seek to make “long-term, stabilizing, and
transformative investments for the mutual benefit of our member-owners and our community.”

We, the members of the NYC REIC, believe that a democratic investment mechanism for affordable commercial and cultural spaces will help build the equitable, inclusive, resilient and thriving city that we want. We will do this by combining different methods of fundraising, seeking traditional donations and investment dollars from individuals and social capital providers and supplementing these with loans and other mainstream financing.

Our vision is to build a different type of real estate investment platform.

We will:

- assist communities in raising the capital they need;
- work with community-based organizations to plan and implement their real estate development projects; and
- support local community activism to ensure that the city emphasizes affordable, community-controlled commercial space in its land use decisions.

We are committed to putting our vision into action through an initial pilot project as soon as possible and, within ten years, intend to create a reliable and replicable platform for protecting affordable community and commercial spaces in New York City.

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New York City has been long known for its high rents and is currently second in the nation only to San Francisco.\textsuperscript{77} The New York Real Estate Investment Cooperative is forming to secure a place for “the small and the local” amidst the city’s steadily rising rents. Leverage power to secure and finance the commons. NY-REIC member Oksana Mironova, a native New Yorker who serves on the Steering Committee, joined because she believes that housing is too expensive for the low-income population to afford. She partly blames the subsidized housing policy, which allows for low-income tax credit affordability requirements to expire after 15 years.\textsuperscript{78}

New York also has a long history of housing cooperatives with the first so-named organizing as early as 1876. However, cooperatives did not gain popularity until after World War I.\textsuperscript{79} In 1927, the Limited Dividend Housing Companies Act granted developers property tax abatements in exchange for agreeing to cap their profits at 6% in order to lower rents for tenant; this resulted in the development of 13 cooperative housing units. The 1955 Mitchell-Lama Act spurred the development of 60,000 affordable cooperative housing units in New York.\textsuperscript{80} Today, approximately 30% of all housing in the city is cooperative. according to the National Association of Housing Cooperatives.\textsuperscript{81} The Real Estate Investment Cooperative, however, is a relatively new

\textsuperscript{78} Mironova, Oksana. Interview by the author. Phone interview. March 14, 2016.
concept in New York, though rooted in the same philosophy of shared ownership and shared profits.

Membership to the NY-REIC is only $10 and each member gets one vote, regardless of the amount of any additional investment. While this allows for a diverse voting membership base, it also means that the cooperative will have to employ additional fundraising tactics whether offering additional shares to its membership base or seeking outside funds. NY REIC has received a support from RSF Social Finance in the form of a small grant, and are seeking other charitable contributions, to cover operating expenses. For the future development projects, they plan to seek investments from other cooperatives, pension funds, and program-related investment accounts.  

Because property value is prohibitively high for most, they intend to acquire publicly-owned land. Mironova previously served on the Public Building Inventory working group, whose function was to research the acquisition of city-owned property with the assumption that this property would either be donated or sold below market-rate.

C. Community Investment Trust

Mercy Corps Northwest – Portland, Oregon

A nonprofit organization established Portland, Oregon in 1998, Mercy Corps Northwest believes that “by investing in those without ready access to resources, existing economic disparities will become more equitable and motivated, hard-working individuals and families will have opportunities to break intergenerational cycles of

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83 Mironova, O.
poverty for good.” The organization achieves its mission through various programs that support low-income people to become entrepreneurs, formerly incarcerated people to reenter society, and recent refugees to improve their livelihoods.\footnote{84 “About Mercy Corps Northwest.” MercyCorps Northwest. Accessed May 29, 2016. https://www.mercycorpsnw.org/who-we-are/}


Real estate investment was judged a good option because it would assist in localizing ownership, and because of its imbedded tax advantages and its hedge against inflation. The organization believes that investors will have a “visceral and mutually reinforcing connection” with the investment property and support the tenants' businesses.\footnote{87 “The Community Investment Trust.” MercyCorps Northwest. Unpublished internal document. December 2015.} Tax advantages include deductions of expenses, such as mortgage payments. Real estate is generally seen as a hedge against inflation because it can generate income and its value tends to rise when prices rise.

As mentioned earlier in this paper, Real Estate Investment Trusts (REITs) have historically been the domain of the wealthy. The Securities and Exchange Commission regulations prohibit unaccredited investors from investing in private REITs. For MCNW,
the REIT was a proven, easily replicable and scalable model with transparent legal regulations, capacity to hold a large number of investors, and the potential for outsourced servicing. They developed the Community Investment Trust (CIT) “to turn the REIT on its head and offer it to unaccredited investors.” The CIT was designed for low-income residents in four census tracts in the Hazelwood-Mill Park area of Portland, Oregon, who will be able to invest as little as $10 on a monthly basis.\(^8\) The median income in 2013 in the Hazelwood-Mill Park area was $43,096, 23% lower than the city median income. Median rent was roughly 25% of annual income, whereas it was 18% for the larger city.\(^9\)

Though the CIT structure is still being developed, MCNW has moved forward on the first development project. In December 2014, they purchased a 1.43 acre site with an existing 28,762 square foot commercial space. The property was purchased using $350,000 in equity from an impact investor, along with MCNW’s own dollars. The goal is to sell equity shares to 300-500 neighborhood investors. Once the Community Investment Trust opens to investors, Mercy Corps Northwest expects that 10% of investors will invest at $10 per month, 25% at $25 per month, 25% at $50 per month, and 40% at $100 per month. By Year 6, MCNW expects to have sold enough equity shares to repay the impact investor.\(^9\)

Though the CIT is a private REIT, its securities will be exempt from SEC regulations

because MCNW will get either a government guarantee or a bank-issued letter of credit, eliminating risk of loss for investors.  

The building was previously used as a strip mall and will continue as such, including businesses and nonprofit offices. MCNW has retained and curated 25 tenants including a Latina-owned hair salon, a chimney repair business, a nonprofit training parenting skills to formerly incarcerated people, and a transgender youth support group. As of December 2015, the building was 87% leased.

From MCNW’s Community Investment Trust brief:

Investors will gain both a short-term and long-term return in three ways: 1) Annual dividend based on the taxable income of the property, 2) through their share price increase from the repayment of long-term debt on the property, and 3) through their share price increase from the value increase of the property over time.

How will investors benefit financially? As a brief estimation, after four years, a $10/mo. investor would have invested a total of $480 or .0014 of the total investment equity. They would own approximately 40 sq. ft. of the property and will have received approximately $73 in dividends. Their share price for 48 shares (12 investments/yr. at $10/share for 4 years) may have increased based upon an appraised value of 10% in year one and only 5% annually thereafter (which is conservative based on an appraisal and cap rate of 9.5% that indicated

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a value of $1,430,000 at purchase if leased at 90%) to a total of $1,528,065 after four years.

Estimated value of a $10/month investment ($480), after 4 years:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends over 4 yrs</td>
<td>$73</td>
</tr>
<tr>
<td>Equity earned from debt paid on property after 4 yrs</td>
<td>$167</td>
</tr>
<tr>
<td>Property appreciation after 4 yrs</td>
<td>$460</td>
</tr>
<tr>
<td>Total return (if cashed out, investor would gross $1,180)</td>
<td>$700</td>
</tr>
</tbody>
</table>

Table 2:

<table>
<thead>
<tr>
<th>Year</th>
<th>Investor #</th>
<th>Invested</th>
<th>Property Value</th>
<th>Property Value Change</th>
<th>Debt Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>120-6</td>
<td>$76,440-$4,302</td>
<td>$1,309,000</td>
<td>$130,900</td>
<td>$27,639</td>
</tr>
<tr>
<td></td>
<td>=112 Investors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>112+120-12</td>
<td>$72,138+$8,604+</td>
<td>$1,439,900</td>
<td>$71,995 sum</td>
<td>$28,980 sum</td>
</tr>
<tr>
<td></td>
<td>= 220 Investors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>220+120-17</td>
<td>$139,974-$12,189+</td>
<td>$1,511,895</td>
<td>$75,594 sum</td>
<td>$30,388 sum</td>
</tr>
<tr>
<td></td>
<td>= 323 Investors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>323+120-22</td>
<td>$204,225-$15,774+</td>
<td>$1,587,490</td>
<td>$79,374 sum</td>
<td>$31,862 sum</td>
</tr>
<tr>
<td></td>
<td>= 421 Investors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>421+120-27</td>
<td>$264,489-$20,793+</td>
<td>$1,666,864</td>
<td>$83,343 sum</td>
<td>$33,410 sum</td>
</tr>
<tr>
<td></td>
<td>= 514 Investors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>514+120-32</td>
<td>$320,136-$22,944+</td>
<td>$1,750,207</td>
<td>$87,510 sum</td>
<td>$35,032 sum</td>
</tr>
<tr>
<td></td>
<td>= 602 Investors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Assumptions:

1) Property value of $1,309,000 based on cap rate of 9.5 on projected operating income of $124,384 at 12/31/15. Property tax basis was $1,230,000 on 12/18/14.

2) Property value increase of 10% in year one and 5% thereafter, calculated as compounding

3) 10% invest at $10/mo.; 25% at $25/mo.; 25% at $50/mo.; and 40% at $100/mo.

4) 500 investors at mix and attrition above buy-in of approx. 25% or 120 people for five years & 6 mos.
5) **Investor drop-out at 5% of total investors annually**

6) **Long-term permanent loan of $900K 20 year amortization at 4.75% (terms of existing loan)**

7) **Value of an investor is weight averaged 10x10%+25x25%+50x25%+100x40%= $59.75 (for example 12 liquidated investors totals $59.75 x 12 x 12 mos.= $8,640)**

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**D. NON-PROFIT COMMUNITY INVESTMENT FUNDS**

Several large nonprofit organizations around the country have been employing methods of raising capital that allow impact investors to invest a relatively small amount into a general community investment fund. Generally, these investors care about or want to support the nonprofit’s cause and are, therefore, willing to receive a smaller return on their investment. They invest in the fund similar to the way one invests in a certificate of deposit (CD). The capital raised allows the nonprofit organization to make loans to social enterprises or small business owners or capital improvement projects in communities where access to capital is limited. Unlike the small and startup cooperatives mentioned earlier, these are usually large and established nonprofit organizations who have the capacity to manage many small investors. Blue Sky laws, which are state-level securities laws, regulate how the organizations operate in each state.

**The Reinvestment Fund (Promissory Note) – USA**

The Reinvestment Fund, a Philadelphia-based nonprofit organization established in 1985, offers Promissory Notes, starting at $1000, that fuel a diversified, direct loan fund for “investments to high-impact projects that benefit low-income communities”.

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RSF Social Finance (Investment Note) – USA and Canada

A California-based nonprofit organization established in 1984, RSF Social Finance offers Investment Notes, also at a $1000 minimum investment. The return on the Note is similar to that of a CD or a high-interest savings account. As such, it has the lowest rate of return of the three organizations featured in this section.95

Calvert Foundation (Ours To Own Initiative) – Denver, CO; Baltimore, MD; Twin Cities, MN

Ours To Own, an initiative of the Maryland-based nonprofit organization The Calvert Foundation, is the most accessible and focused of the three funds. The minimum investment is $20 and investor can choose which city they want to invest in. Currently, the Ours To Own target cities are Denver, Baltimore, and the Twin Cities (Minneapolis and St. Paul). The Calvert Foundation partners with local nonprofits and community development organizations in each city, providing loans to support local businesses, build affordable housing, or even strengthen local food systems.96

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Table 3:

<table>
<thead>
<tr>
<th>Name of Organization</th>
<th>Min. Investment</th>
<th>Length of Term</th>
<th>Rate of Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calvert Foundation (Ours To Own Initiative)</td>
<td>$20</td>
<td>1 yr</td>
<td>1%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3 yr</td>
<td>1.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5 yr</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10 yr</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>15 yr</td>
<td>4%</td>
</tr>
<tr>
<td>The Reinvestment Fund</td>
<td>$1000</td>
<td>3-4 yr</td>
<td>1.25%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5-6 yr</td>
<td>2.25%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7-9 yr</td>
<td>2.75%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10-14 yr</td>
<td>3.35%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>15-30 yr</td>
<td>3.75%</td>
</tr>
<tr>
<td>RSF Social Finance</td>
<td>$1000</td>
<td>--</td>
<td>.5%</td>
</tr>
</tbody>
</table>

E. Crowdfunding

With the recent enactment of Title III of the Jumpstart Our Businesses (JOBS) Act, small businesses are now able to solicit investments from the public, including unaccredited investors, to raise capital for their ventures using online crowdfunding portals.\(^97\) Prior to Title III, U.S. securities law prevented companies from advertising an offering or selling to more than a few non-accredited investors without registering with the Securities and Exchange Commission. The registration process was prohibitively expensive for most small companies, as well as lengthy. A 2011 IPO Task Force CEO Survey estimated that the average cost to “go public” was $2.5 million, and the annual cost to stay public was estimated at $1.5 million.\(^98\) Now, issuers can bypass the SEC and register on a qualified portal, which is an SEC-registered online marketplace where


investors can access Title III issuers and offerings. The estimated cost to a company may be about $7500, according to one expert. Limitations include – 1) only $1 million can be raised during a 12-month period using Title III Crowdfunding; 2) there is also a limit on how much investors, even if accredited, can invest; 3) the company must be organized in the U.S. and cannot be a public reporting company, an investment company, a blind pool, or disqualified under the “bad actor” rule; and 4) issuers cannot advertise any details of the offering except at the portal. Additionally, companies that want to raise capital using Title III must use a qualified portal.

**Small Change – Pittsburgh, Pennsylvania**

Since the passing of the JOBS Act in 2012, several real estate investment platforms have arisen, including Fundrise (2012), Realty Mogul (2013) and iFunding (2012). Small Change is a new real estate crowdfunding and investment platform created by urban development pioneer Eve Picker in 2014 to support “transformational” development in urban areas around the country. The company connects investors to developers via its website smallchange.com. As their motto summarizes, “We bring you projects that make cities better. You invest in them. Turn small change into real change.”

In order to be listed on the site, Small Change first measures the potential of the project to add value to cities and neighborhoods using its proprietary Change Index. The Change Index looks at impact in three main areas – mobility, sustainability, and economic vitality. Along with paying a flat fee to Small Change, a developer must also submit a

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99 Mark Roderick is an attorney at Flaster Greenberg P.C., concentrating practice on the representation of entrepreneurs and their businesses. Roderick spearheads the firm’s Crowdfunding practice, maintains the crowdfunding blog, crowdfundingny.com, and speaks regularly at Crowdfunding events.


business plan and undergo an underwriting process for the project. The company wants each project it promotes on the site to have both social impact and a return for investors. If the project has potential, but is not quite yet “bank ready”, Small Change may provide assistance.102

Picker admits that many of the developers who come to small change are often struggling to finance their projects. They may be new ideas or the first of their type in a neighborhood, making comparables hard to produce.103 Small Change’s first project, a tiny house built by Picker’s nonprofit organization cityLAB in the Garfield neighborhood of Pittsburgh, serves as a prime example. No other tiny houses existed on the market, making traditional financing difficult but making it a perfect “guinea pig” for the burgeoning Small Change platform. Picker believed that the area was ready for the emergence of small living spaces as relatively affordable transit-oriented infill development. Because of legal issues with the grant funds received from the Urban Redevelopment Authority, Neighborhood Allies and the Bloomfield Garfield Corporation for the project, Small Change decided that it would be easier to package this deal as a loan, rather than an equity investment opportunity.104 Investors would receive a fixed 7.5% return. The project was introduced on the site in October 2015 to raise $100,000; it was fully funded one month later by 14 accredited investors.

Now that Title III is actionable, Small Change will be able to offer investment opportunities to unaccredited investors as well. The company seeks to democratize opportunity. According to Picker, “There’s a large audience of people looking to create

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103 Picker, Eve. Interview by author. Phone Interview. April 6, 2016.
104 Picker, E.
an impact in their communities, and with the possibility to earn a return on their investment through real estate crowdfunding, Regulation Crowdfunding will expand both that pool of people and the opportunities into which they can invest.”

IV. ANALYSIS

The primary entities researched for this paper each had a different impetus for starting, different sets of problems to solve, and a different set of circumstances within which to work. Comparing and contrasting their unique circumstances and how they approached their goals can help to guide other projects in similar situations.

A. Qualities

Organizational Status

Among the qualities of the entities researched, organizational status seemed to stand out as an indicator of investment structure. The organizations that offer the lowest minimum investment for the highest collective impact are the most well-established and large. All three of the organizations employing investment notes are organizations with a national reach. The investment note program represents a fraction of the overall work that they do. Mercy Corps Northwest has been in existence for over 20 years and has a regional reach, focusing its resources on the Pacific Northwest. The Community Investment Trust is also only one of the programs that they offer. These organizations

already have strong balance sheets and a track record of financial sustainability, so they are better positioned to bear risk. At the same time, they each guard against risk very carefully. RSF Social Finance, the Calvert Foundation (Ours To Own), and The Redevelopment Fund all use the capital raised through the investment notes to provide loans (not equity investment) to social enterprises in tandem with other financial sources. They also offer very low fixed-rate returns to their investors. Mercy Corps Northwest’s Community Investment Trust may be the riskiest of this group because it does offer equity to its investors. Still, the fund is secured by a $350,000 impact investment (not a loan), and will be backed by either a government guarantee or a bank letter of credit.

**Culture**

The existing culture in the area where the entity is based seems to play a part in its organizational structure. Real Estate Investment Cooperatives have emerged in areas that already have a strong history of cooperative culture - Minneapolis with the highest number of cooperatives in the country and New York as the birthplace of the housing cooperative - and a local government that is supportive of cooperatives. This indicates that residents of these places may already be inclined towards forming cooperatives to solve problems and open to experimenting with a new kind of cooperative. In the South, cooperatives were traditionally popular in rural areas and associated with farming and agriculture. In New Orleans, where there are few working cooperatives, projects like the New Orleans Food Cooperative, where prices are prohibitively expensive for many.106

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may damage the reputation of the cooperative model and cause people to be less inclined to start or join one.

**Demographics**

The two majority Black cities, Detroit and Baltimore, did not have (easily found via internet research) collective community real estate investment models. These are also the places with the highest poverty rates, so it could be that people are not investing collectively for community development due to lack of disposable income. Per the Progress Plaza model, another theory is that today’s Black communities could be tithing more than investing and relying on the Church to lead community development. Living Word Christian Center in Chicago is an example of this practice.

The only organization to successfully launch a Real Estate Investment Cooperative, the Northeast Investment Cooperative, is located in a city that is majority White with a high median income and low rent-to-income ratio, compared to the other cities.

The shared equity model is unique in and of itself, as is Detroit in many ways. However, the author wonders if there is a correlation between the demographics of Detroit and the emergence of this particular model. The high poverty rate indicates that investment may not be a common practice, but the relatively high owner-occupancy rate (coupled with the extremely low property values) indicates that many low-income Detroiters may have illiquid assets. Similarly, many homeowners in Lower 9th Ward also own other property in the neighborhood.\textsuperscript{107} Where they may be unable to directly invest in real estate

\textsuperscript{107} Observation by the author. Conversations and oral history over years; author is a Lower 9th Ward native and current resident and community organizer.
development, they can leverage their assets (unused property) to get cash plus a long-term return on investment. The shared equity model employed by Century Partners would probably not work as well in an area where property owners had a high enough income to get a bank loan for construction or where property value was too high for low-income individuals to purchase.

Table 4

<table>
<thead>
<tr>
<th>City</th>
<th>Median Income</th>
<th>Median Gross Rent</th>
<th>Rent as a % of total income</th>
<th>% Owner-Occupied Housing</th>
<th>% Poverty</th>
<th>Race</th>
<th>Avg Construction Costs PSF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portland, OR</td>
<td>$53,230</td>
<td>$945</td>
<td>21.3%</td>
<td>52.8%</td>
<td>18.3%</td>
<td>76% White 7% Asian 6.3% Black</td>
<td>$113</td>
</tr>
<tr>
<td>Minneapolis, MN</td>
<td>$50,767</td>
<td>$854</td>
<td>20.2%</td>
<td>48.6%</td>
<td>22.6%</td>
<td>63.8% White 18.6% Black 5.6% Asian</td>
<td>$115.36</td>
</tr>
<tr>
<td>Detroit, MI</td>
<td>$26,095</td>
<td>$756</td>
<td>34.7%</td>
<td>49.7%</td>
<td>39.8%</td>
<td>82.7% Black 10.6% White 1.1% Asian</td>
<td>$111.24</td>
</tr>
<tr>
<td>New York, NY</td>
<td>$52,737</td>
<td>$1,234</td>
<td>28.1%</td>
<td>31.9%</td>
<td>20.6%</td>
<td>44% White 25.5% Black 12.7% Asian</td>
<td>$141.11</td>
</tr>
<tr>
<td>Baltimore, MD</td>
<td>$41,819</td>
<td>$944</td>
<td>27.1%</td>
<td>47.2%</td>
<td>23.3%</td>
<td>63.7% Black 31.6% White 4.2% Hispanic/Latino</td>
<td>$111.24</td>
</tr>
<tr>
<td>Denver, CO</td>
<td>$51,800</td>
<td>$913</td>
<td>21.2%</td>
<td>49.7%</td>
<td>18.3%</td>
<td>68.9% White 10.2% Black 31.8% Hispanic/Latino</td>
<td>$109.18</td>
</tr>
<tr>
<td>New Orleans, LA</td>
<td>$36,964</td>
<td>$927</td>
<td>30.1%</td>
<td>46.9%</td>
<td>27.7%</td>
<td>60.2% Black 33% White 5.2% Hispanic/Latino</td>
<td>$105.06</td>
</tr>
<tr>
<td>Lower 9th Ward 110</td>
<td>Not available</td>
<td>Not available</td>
<td>Not available</td>
<td>61%</td>
<td>36%</td>
<td>92.4% Black 4.35% White 2.3% Hispanic/Latino</td>
<td>Same as New Orleans average</td>
</tr>
</tbody>
</table>

108 All income, rent, owner-occupancy, poverty and race data from U.S. Census 2010-2014.
B. Considerations

Risk - The inherent risk of investing is loss of the investment if the project is not successful. Securities and Exchange Commission regulations were established in order to protect vulnerable people from schemes that could result in losing the little money they have.

Fund Management Issues - If organizing an investment fund among low-income residents who will invest at a relatively low level, more investors will be required in order to raise necessary capital. Organizing large groups of people to invest collectively can be a lot of work. Then, managing each of the investors’ accounts and communicating effectively with them presents another layer of complexity.

Easier Methods for Community Development – It can be argued that large-scale organizing among low-income people is a waste of time. And that it is actually easier to get funding via grants, low-interest loans, tax credits, and other traditionally used sources for community development. What cannot be achieved with community development that is solely created through outside capital, however, is the vested interest of the beneficiary community.

More Effective Alternatives for Building Equity - Liberty Bank president Alden McDonald believes that a better way to for residents to build equity is through individual homeownership, so organizations should support them in becoming homeowners. In the author’s interview with Mr. McDonald, he pointed out churches that are doing development in neighborhoods.\textsuperscript{111} One such church is Living Word Church in Chicago.

\textsuperscript{111} McDonald, Alden. Interview by the author. Personal interview. New Orleans, LA. April 26, 2016.
Illinois. However, the biggest difference between those models is that the churches are not structured to manage investments, though they are structured to accept donations. Investment means that participants will earn a return, so they are also profiting financially from the development.

C. Best Practices

The following recommendations have emerged from comparing the models researched for this paper and determining the most effective methods of employing collective community real estate investment.

1. Investment fund acts as take-out financing for philanthropic or impact investment source

   Mercy Corps Northwest is starting on its first development project with a $350,000 investment from an impact investor. The money generated through the Community Investment Trust will then pay back the investor. This allows Mercy Corps Northwest to move forward with their project and increases investor confidence in the project’s success. Without the infusion of funds early on, the entity would have to raise all the fund capital prior to starting the development process. In the case of Mercy Corps Northwest, this might take a number of years. According to their own projections, the fund will reach $373,632 by Year 6.

2. Spread the risk by investing in multiple properties, and/or diversifying investments across property type and location
Of the entities researched for this paper, only one type had successfully invested in a diverse range of properties - the large nonprofit organizations who manage an investment fund but do not have a direct hand in development (The Redevelopment Fund, RSF Social Finance, and the Calvert Foundation). The small for-profit developer focused on rental housing, Century Partners, spread risk by investing in multiple properties, albeit of a homogenous asset class – residential multi-family. The properties are located across two distinct neighborhoods, Boston-Edison and North End. They believe that this level of location diversity is beneficial to risk management.\(^{112}\) The community-based organizations researched, such as the Northeast Investment Cooperative, are developing one property. Mercy Corps Northwest falls in the large nonprofit category but is only developing one commercial property at this time. Small Change, the crowd-funding platform which provides access to capital for developers but is not itself a developer, has successfully funded one project as well. For these entities, the model is being tested and the goal is to expand if successful. A new fund would be opened for each new project.

Diversifying investments is a good strategy for spreading risk because it does not rely on the success of one project alone. If the income of one project drops, it does not result in the collapse of the entity because there is income from the other projects.

3. **Diversify investor pool and other financing sources**

\(^{112}\) Alade, D.
One of the greatest challenges with raising capital among low-income investors is that, by definition, these investors generally do not have a large amount of disposable income. The New York Real Estate Investment Cooperative is grappling now with the challenge of wanting to maintain a low barrier of entry so that low-income New Yorkers can participate and raising enough to actually fund a project. At $10 per member, membership would need to grow to 21,400 to reach the $214,000 that the Northeast Investment Cooperative’s membership invested with only 214 fully paid owners. With average construction costs in New York City at $140 per square foot, this would barely put a dent in a construction budget. The Northeast Investment Cooperative also offers preferred equity shares, allowing members (who have already paid the $1000 membership fee) to invest larger amounts in the development project. The New York REIC will likely follow this model or a similar strategy for raising more capital. This would allow for low-income, high net-worth, and all in between to participate.

Mercy Corps Northwest incorporates tiered investment options into its model, with the highest tier at a $100 per month investment. The organization plans for 40% of its investors to invest at that level. Their model actually relies the most on the highest income investors.

For all entities researched, the capital raised through the investment fund was only a portion of the total sources for development. Combinations of debt, other sources of equity, and/or grants were used in each. This is another strategy to spread risk.

4. Include a low-barrier monthly payment structure
As mentioned above, low-income investors often lack disposable income, making seemingly ancillary activities such as investment a low priority. Mercy Corps Northwest was also mentioned above as an entity employing a monthly payment structure. Their model assumes that 10% of investors will invest at $10 per month, 25% at $25 per month, 25% at $50 per month, and 40% at $100 per month. A low-barrier monthly payment structure allows individuals to contribute a relatively small amount on a regular basis over time, building to a larger total investment.

At $5000 per member, the Black Land Matters Real Estate Investment Cooperative has the highest membership fee of the three cooperatives researched. However, the entity plans to incorporate a payment plan into the model.

5. **Utilize a crowdfunding platform to attract a wide array of investors**

Crowdfunding platforms, like Small Change and Fundrise, could provide an easy way for investors (both within and outside of the community) to learn about the project and to invest online. Within communities that do not readily access the Internet, these platforms can still be used as a “holding place” for the collective investment initiative. These platforms also perform their own extensive underwriting process, which could be very helpful in proving the legitimacy and feasibility of the project to the wider community. In addition, Small Change creates a Change Index on each of its projects to measure the greater impact of the project beyond the financial return.
6. **Establish a surplus fund for investors to borrow from when they need emergency funds**

   Emergency situations can often impact low-income individuals, who are less likely to have sufficient emergency funds and are less likely to be able to replenish such funds quickly, in a much greater way than higher-income individuals. A car that breaks down, a sick child or loved one, or an unexpected expense can carry heavy residual penalties – such as reduction in income or even loss of employment -- for individuals who may not be able to immediately afford to repair damage, take time off work, or pay the expense. This reality may make them less likely to invest at all or more likely to “cash in” their investment if they do invest.

   The Black Land Matters Real Estate Investment Cooperative plans to institute a surplus fund in its model. Such a fund could provide an added level of security and stability to the fund in general. The surplus fund would be made up of a portion of profits from the entity’s real estate investment endeavors. It would act as a low-interest loan source for investors in emergency situations. With this cushion in place, the investors would be less likely to cash in. For the Black Land Matters Real Estate Investment Cooperative, this also lends to the cohesiveness of the group – a priority for the cooperative.

7. **Function as both the developer and a financing source**

   None of the entities researched that operated only as funds allowed investors to have any direct control over where the money is invested, beyond selecting a
target city (Ours To Own initiative only). In all cases, the funds are loaned to community development corporations or other nonprofit organizations to carry out development projects in target cities. General financial information is available in the organizations’ prospectuses. However, information about specific projects, completed or impending, is not shared on the organizations’ respective websites.

The entities that functioned as both developer and financing source organize investors around specific projects, rather than a general idea of development in a target area. This gives potential investors the opportunity to make a choice about investing in that project, or not. The exceptions to this are the funds that are not fully established yet – the New York Real Estate Investment Cooperative and the Black Land Matters Real Estate Investment Cooperative. If a community wants to have some level of control over how the money is invested, the group should be both the developer and the fund.

8. Establish and embrace mission-driven goals

Finally, any entity interested in Collective Community Real Estate Investment should establish and embrace mission-driven goals. Organizing and managing this type of investment fund requires a high level of will and dedication. None of the entities researched listed financial gain as a reason to organize a collective investment fund for the benefits of low-income people. Creating a fund adds another layer of responsibility and complexity onto the project. Managing the fund entails not only the tracking of financial activity, but regular communication and accountability to all investors. For a fund that includes low-income investors, this
challenge should not be minimized. The smaller the individual investment, the more investors needed to build capital, and therefore, the more time needed for management. Given this, the desire to do collective investment for reasons other than money is critical.

D. Recommendations for the Lower 9

The Lower 9th Ward is a majority low-income Black community in New Orleans, a city known for its high poverty rate and high cost of living (see Table). The neighborhood’s 36% poverty rate is higher than the city average. The majority of the housing in the neighborhood was destroyed and either demolished or currently vacant. Because more than 60% of the residents of the Lower 9th Ward live below $30,000 annually, it is necessary to incorporate a low-barrier monthly payment so that residents can invest at a level that is financially feasible for them. To attract larger dollars, tiered levels of investment should also be incorporated.

The scenario below illustrates a possible Tiered Community Investment model that could work for the Lower 9:

This scenario is based on the assumption that approximately one-third of the 2101 households in the Lower 9th Ward would be investors, and that the third would be representative of the general neighborhood population. Another assumption is that households making less than $15,000 annually would not invest at all. The remaining

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income ranges are divided into three tiers, based on population – 18.9% of the Lower 9th Ward population earns between $15,000 and $25,000 per year; 17.6% earns between $25,000 and $40,000 per year; and 26.5% earns above $40,000 per year.

With the assumed monthly investment amount for each tier, approximately $288,000 could be raised within a year. Outside investors would also be included, bringing in another $300,000 annually.

A fund management fee of 7% is assumed. The fee would pay for the accounting, record keeping and investor communication for the fund.

If a 36-month block-out period was enforced, where investors could not withdraw funds within that time frame, a total of $1,641,909 could be raised in 3 years. Actual returns would depend on the asset class and the use of the development. If investor return was 5%, investors could expect $50-$135 in dividends. If investor return was 8%, investors could expect $86-$215 in dividends.

<table>
<thead>
<tr>
<th>Lower 9 Neighborhood Investor Pool</th>
</tr>
</thead>
<tbody>
<tr>
<td># Households: 2101</td>
</tr>
<tr>
<td>Estimated # Investors (1/3): 700</td>
</tr>
<tr>
<td>Tier A $15-$25K Annual Income: 18.9%</td>
</tr>
<tr>
<td>Tier B $25-$40K Annual Income: 17.6%</td>
</tr>
<tr>
<td>Tier C &gt;$40K Annual Income: 26.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tiered Community Investment Notes: N'hood</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg Tier A Investment: $30/mo.</td>
</tr>
<tr>
<td>Annual Tier A Total: $47,628</td>
</tr>
<tr>
<td>Avg Tier B Investment: $50/mo.</td>
</tr>
<tr>
<td>Annual Tier B Total: $73,920</td>
</tr>
<tr>
<td>Avg Investment: $75/mo.</td>
</tr>
<tr>
<td>Annual Tier C Total: $166,950</td>
</tr>
<tr>
<td>Investment Total: $288,498</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Community Investment Notes: Outsiders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investor # Goal: 500</td>
</tr>
<tr>
<td>Average Investment: $50/mo.</td>
</tr>
<tr>
<td>Annual Outsider Total: $300,000</td>
</tr>
<tr>
<td>All Notes Total: $588,498</td>
</tr>
<tr>
<td>(7% Mngmt Fee): -41,194.86</td>
</tr>
<tr>
<td>ANNUAL GRAND TOTAL: $547,303.14</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>36-month Development Timeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>36-month Total: $1,641,909.42</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Estimated Rate of Return: 5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier A Dividends: $54</td>
</tr>
<tr>
<td>Tier B Dividends: $90</td>
</tr>
<tr>
<td>Tier C Dividends: $135</td>
</tr>
<tr>
<td>Outsider Dividends: $90</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Estimated Rate of Return: 8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier A Dividends: $86.40</td>
</tr>
<tr>
<td>Tier B Dividends: $144</td>
</tr>
<tr>
<td>Tier C Dividends: $216</td>
</tr>
<tr>
<td>Outsider Dividends: $144</td>
</tr>
</tbody>
</table>

Investors would also benefit from appreciation in the property value if cashing out.
VI. Conclusion

Successful models of collective community real estate investment, as well as ideas that can be used within such a model, exist in various forms around the country. While organizing a large group of people to invest collectively may present a challenge, it can certainly be argued that the work is worth it. Collective Community Real Estate Investment can be an effective strategy for residents and community groups to take charge of the built environment in their neighborhoods.