FINANCIAL SECURITY PROGRAM
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Investing in Inclusively Owned Commercial Real Estate

A Primer from the Aspen Institute Financial Security Program

AUTHORS

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ABOUT THE ASPEN INSTITUTE FINANCIAL SECURITY PROGRAM

The Aspen Institute Financial Security Program's (Aspen FSP) mission is to illuminate and solve the most critical financial challenges facing American households and to make financial security for all a top national priority. We aim for nothing less than a more inclusive economy with reduced wealth inequality and shared prosperity. We believe that transformational change requires innovation, trust, leadership, and entrepreneurial thinking. Aspen FSP galvanizes a diverse set of leaders across the public, private, and nonprofit sectors to solve the most critical financial challenges. We do this through deep, deliberate private and public dialogues and by elevating evidence-based research and solutions that will strengthen the financial health and security of financially vulnerable Americans. To learn more, visit AspenFSP.org, join our mailing list at http://bit.ly/fspnewsletter, and follow @AspenFSP on X and The Aspen Institute Financial Security Program on LinkedIn.

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About the Aspen FSP Wealth Innovators Cohort, this primer, and related case studies

In 2024, Aspen FSP invited leaders who are working at the forefront of inclusive ownership of commercial real estate (CRE) to participate in a Wealth Innovators Cohort. In addition to facilitating peer learning and networking, we have worked together over the past year to more deeply understand and communicate the opportunities this strategy presents for investors. More information about the Cohort is available at https://bit.ly/AspenFSPWealthCohort.

This primer is part of a suite of five publications, along with case studies of Chicago TREND, Community Investment Trust, LocalCode Kansas City and LocalCode, and Partners in Equity. The primer provides an overview of a variety of development strategies and approaches to inclusive ownership; an examination of the legal structures, financing models, strategies to make ownership possible for lower-income and lower-wealth investors; and the governance models developers are creating. It also identifies opportunities to replicate these innovative approaches.

The case studies, which will be published by Aspen FSP in January 2025, provide deeper looks at four examples of how this type of development can work in practice. While each organization has a unique strategy, the Cohort members are united in their goal to change how and to whom capital is allocated to address long-standing racial inequities in real estate development. By expanding residents' ownership stakes in local CRE, they also seek to disrupt practices that neither account for the needs of low- and moderate-income (LMI) residents nor share the benefits of development projects in their neighborhoods. Together, these five publications demonstrate proof of concept: developing commercial property for inclusive ownership benefits developers, accredited investors and non-accredited investors, neighborhood residents, and local economies. What is needed now is greater awareness among investors and more capital to enable growth and replication across the United States.

Introduction

In 2023, Aspen FSP published *The New Wealth Agenda* with the ambitious goal to increase the net worth of households in the bottom half of the wealth distribution and that of households of color by ten-fold by 2050.[1] The report highlighted shared ownership of assets as one of the most promising innovations. We are now more deeply exploring how shared ownership of assets can transform the wealth-building potential of those who have the least, especially Black, Indigenous, and people of color (BIPOC) who have historically been excluded from wealth-building opportunities.

This primer focuses on inclusively owned commercial real estate (CRE) assets. The phrase "shared ownership" is widely recognized when it comes to small businesses and residential real estate. This brief uses the term "inclusively owned CRE" to refer to commercial real estate development that offers ownership opportunities to local, lower-wealth, non-accredited investors (those whose incomes and net worth are below the legal thresholds required to invest in many private firms; see Appendix 2: Glossary of Terms for the full definition). The primer is designed to help stakeholders, particularly investors, understand this emerging space; how these projects democratize ownership of the assets that can deliver long-term wealth creation to individuals and communities; and the opportunities that exist for investors to earn returns while supporting the growth of this strategy.

Who owns real estate in the United States?

Real estate ownership is a critical source of household wealth in the United States. More than half of all households (66.1 percent) own residential real estate, but the opportunities for and benefits of homeownership remain racially inequitable. It is rare for households to own commercial real estate (5.8 percent), but these assets are significant sources of wealth for the minority who do have them.

Residential real estate is property built for people to live in. It can be either single-family or small multi-family buildings of two- to four-units. One recent study estimated the aggregate value of residential real estate in the United States to be $49.6 trillion;[2] with $46.3 trillion held by owner-occupiers.[3] Home equity is the largest source of wealth for most of the 66 percent of Americans who own their homes.

Table 1. Homeownership rates, home equity, and net worth, by race and ethnicity, 2022

Race and ethnicity	Homeownership rate	Median home equity of homeowners	Median net worth of all households
All households	66.1%	$200,000	$192,700
White	73.2%	$205,000	$284,310
Black	46.3%	$123,000	$44,100
Hispanic/Latino	51.2%	$135,000	$62,120
Additional races and ethnicities	51.1%	$217,000	$132,200

Source*: Aspen FSP analysis of 2022 Survey of Consumer Finances. Median home equity calculations only include households that own homes. Median net worth includes both homeowners and non-owners; it reflects the median value of all households' assets minus their debts.*

Commercial real estate (CRE) is primarily property built for private, usually non-residential use. As of the end of 2023, the U.S. commercial real estate market was worth $22.5 trillion.[4] The vast majority of these assets are owned by for-profit companies. The most common forms of commercial real estate are retail, office, industrial, and multifamily spaces. **Multifamily** real estate includes buildings with five or more housing units financed with commercial loans. Another important segment of the CRE market is **mixed-use** real estate, or properties that include space for both commercial activities and residential units,[5] which are also financed with commercial loans.

In 2022, less than six percent of households had equity in commercial real estate, but it was a significant source of wealth for those who did. One reason, which is discussed in depth on pages 13-14, is federal limits on investment opportunities designed to ensure that "unsophisticated" investors did not lose everything in a single unprofitable deal or to fraud.[6]

Table 2. Ownership and median value of net equity in non-residential* real estate, 2022

Race and ethnicity	Net equity in non-residential real estate	Median value
All households	5.8%	$133,200
White	6.9%	$150,000
Black	3.8%	$25,000
Hispanic/Latino	2.1%	$300,000**
Additional races and ethnicities	4.6%	$100,000

Source: *2022 Survey of Consumer Finances*

** The Survey of Consumer Finances (SCF) asks about residential real estate and non-residential real estate. This is substantively the same as commercial real estate.*

*** This value is significantly higher than in previous survey years (e.g. $63,760 in 2019). It may be a statistical anomaly, due to the small number of Hispanic/Latino households that own non-residential real estate, or it may indicate a new trend. Readers should factor this ambiguity into their understanding of this data.*

White households are more likely to own residential real estate and commercial real estate than households of any other racial or ethnic group. They also tend to have more wealth from CRE assets than households of other racial and ethnic groups. This reflects the fact that white households' higher median wealth means they are more likely to be eligible to invest in opportunities with minimum income and net worth requirements, as well as historical and current practices that devalue properties and businesses located in neighborhoods that are home to large populations of color.[7] These systemic injustices have made it challenging for individuals and communities of color to build generational wealth.

Inclusive ownership of commercial real estate is an emerging strategy for equitable economic development and community wealth building

Across the United States, dozens of real estate developers, usually with nonprofit partners, have created opportunities for low-income and low-wealth members of their communities, local small business owners, and BIPOC individuals to have ownership stakes in commercial real estate. These developers have double bottom lines, measuring success not only by the value of profits generated by the development but also by measurable improvements to community well-being and local asset ownership rates.

Although less than one percent of all private real estate developers are Black or Latino,[8] many of those leading the way are people of color who live in the communities where they are working.[9] These leaders understand how entrenched, racially discriminatory patterns of disinvestment and discrimination systematically undervalue property in segregated neighborhoods. In majority-Black ZIP codes today, for example, devaluation of real estate assets amounts to $171 billion in lost value of retail properties and $235 billion in lost wealth of residential properties.[10] Devaluation leads traditional developers to miss good business opportunities, contributing to the cycle of disinvestment in BIPOC neighborhoods.[11]

Inclusive ownership of commercial properties offers a win-win-win scenario for developers, local residents, and large investors. Developers gain community buy-in and a loyal customer base, which strengthens the financial success of their projects. Local residents who invest in the developments become part owners of the properties and receive direct financial benefits, such as dividends and share price appreciation. Everyone living near these developments also benefits, even those who are not invested, as the properties are designed to best serve local residents, not extract wealth from them or neglect them in an effort to attract wealthier residents. Finally, larger investors benefit from strong returns on their investments in projects that succeed. Many also value achievements such as building residents' wealth or preventing gentrification and displacement.

Innovative developers are implementing different models of inclusively owned commercial real estate, focused on a diverse range of properties.[12] For example, some are redeveloping older retail and mixed-use properties located in neighborhoods that have experienced disinvestment over time, while others are focused on building new structures from the ground up. The variety of approaches reflects how projects are tailored to the context and needs of specific communities, but they share a commitment to enabling local community members to have an ownership stake in and financially benefit from the development.[13]

Investors identified five goals that their investments in inclusively owned commercial real estate help them achieve

Eight investors contributed their insights to inform this primer. They represented philanthropic institutions, traditional investment firms, wealth management firms, impact investors, and high net worth individuals. They identified five goals:

- Disrupt how capital is allocated and how risk is assessed in order to allow more people to own appreciating assets;
- Offer a blended rate of return to meet the needs of a variety of investors;
- Help people with little net worth access an on-ramp to investing and wealth building, especially those who have been excluded from economic opportunities due to racial discrimination;
- Revitalize disinvested neighborhoods and main street corridors, particularly in communities of color that have experienced wealth extraction from traditional approaches to real estate and economic development; and
- Ensure that residents and community members are able to influence and share in the returns on development.

Additional insights from these experts are featured throughout the report.

Investor Insight

Most of the investors we interviewed prioritized mission-related goals as well as their returns on investment. The most common was to challenge the racial and class biases that impact how other investors perceive risk. One wealth advisor said, "I've had exposure to real estate in my career and have a broad mandate to figure out how to make it more equitable."

Developers of inclusively owned commercial real estate are ready for significant additional investment

Recent research documents successful developments in every region of the country.[14] Experienced developers have built the capacity to replicate early successes, and they are supporting efforts to recruit and train more developers of color with the skills and cultural competencies necessary to ensure success. Now, greater investment is needed for the next phase of growth.

The market valuation for inclusively owned commercial development nationwide is likely to be at least $5 billion across all types of commercial real estate. This estimate is based on the value of deals completed by Aspen FSP Wealth Innovation Cohort members to date plus the estimated value of projects in their pipelines as well as public information about similar projects.[15] Opportunities may be concentrated in existing retail properties: Their value and current vacancy rates suggest a market valuation of $2.1 billion in this segment alone.[16]

Aspen FSP's Wealth Innovation Cohort members are leading the way on inclusively owned commercial real estate

In early 2024, Aspen FSP established the Wealth Innovation Cohort, bringing together leaders of projects designed to expand who owns commercial real estate to learn from each other and to explore the opportunities to attract significant amounts of new capital.[17] Cohort member organizations include Chicago TREND, Community Investment Trust (CIT), LocalCode Kansas City (LCKC) and its nonprofit affiliate LocalCode, and Partners in Equity (PIE).

Each organization has a different strategy, but they all aim to strengthen disinvested neighborhoods; ensure that residents and local businesses benefit from commercial real estate development; generate economic activity; distribute the wealth generated by the development to local stakeholders; and provide financial returns to investors. Their experiences and expertise have deeply informed this primer. This section briefly describes the members of the Wealth Innovation Cohort and their models. The case studies, which Aspen FSP will publish in January 2025, will provide a greater level of detail and context about their work. The models represent some of the most innovative and successful models in the country and illustrate how inclusively owned CRE can be financed, operated, and replicated. Citations to publicly available information are included where appropriate, but much of the information comes from interviews and conversations with Cohort members throughout 2024.

Chicago TREND (TREND) is a social enterprise limited liability company (LLC) that was founded in the Chicago area in 2016 and expanded to Baltimore in 2021.[18] TREND co-founder Lyneir Richardson had decades of experience in the financial industry and real estate development when he established the firm to redevelop commercial properties, often located in LMI community of color, without causing gentrification or displacement. Richardson also established an affiliated nonprofit community development corporation, TREND CDC, which works with community residents and local nonprofit organizations on community outreach and provides technical assistance to small businesses that lease space in TREND's shopping centers. TREND's projects are designed to earn returns for investors while bringing critical amenities to disinvested, segregated, predominantly Black neighborhoods.

TREND currently owns and operates six shopping centers—four in Chicago, Illinois, and two in Baltimore, Maryland. TREND seeks investment from non-accredited, low-wealth investors through an equity crowdfunding platform. As of October 2024, their developments are partially owned by 385 small investors—primarily Black individuals who have invested through the crowdfunding platform. These investors put in a minimum of $1,000 (and an average of $2,200). So far, annual dividends have averaged about five percent. TREND aims for its developments to be up to 49 percent owned by small investors.[19] More information about how TREND is able to extend these opportunities to non-accredited investors is on pages 13-14.

In addition to equity crowdfunding, Chicago TREND projects are financed with market-rate and catalytic equity and debt. They have worked with impact investors to "de-risk" deals—through loan guarantees and caps on the returns to Program Related Investments (PRIs)—so they are more attractive to mainstream investors. In 2023,

Chicago TREND launched a new investment fund with the goal of raising $20 million they could deploy across multiple development projects. As of September 2024, they had secured more than $11 million.

The Community Investment Trust (CIT) model was piloted in 2017 by John W. Haines, as a project of Mercy Corps, the global nonprofit organization based in Portland, Oregon.[20] The model focuses on building wealth for residents of LMI neighborhoods, especially renters and first-time investors. CIT's first development, Plaza 122 in East Portland, Oregon, is owned by Plaza 122 LLC. East Portland CIT (EPCIT), a state registered corporation in Oregon, owns Plaza 122 LLC. CIT Services provides technical assistance and asset management services to EPCIT's board of directors. Plaza 122 was financed with equity and debt provided by philanthropic and nonprofit institutions, impact investors, and regional banks. EPCIT financed 36 percent of the $1.4 million acquisition and development costs with equity.[21]

CIT's model for attracting small local investors is based in human-centered design principles and includes a peer-led investor education course, "Moving from Owing to Owning." They draw local investors from the ZIP codes surrounding their developments. These non-accredited investors can purchase shares in a specific development through monthly investments of $10 to $100. More information about how CIT is able to extend these opportunities to non-accredited investors is on pages 13-14.

Currently, 330 local families have investments in Plaza 122, with an aggregate value of $730,000. An additional 113 investors have cashed out $270,000 for purposes such as making a down payment on a house, paying for higher education, or coping with financial shocks. Shares were initially offered at $10; their value is updated annually and have appreciated to $19.65. Community investors receive annual dividends, which have averaged 9.6 percent. The benefits are not just financial; investors and their families also report a greater sense of belonging with increases in activities such as voting, volunteering, and relationship building.

From the beginning, CIT Services has focused on ways to facilitate replication, including by creating a feasibility study system, analysis resources, and a community of practice for organizations seeking to replicate their model across the country.[22] The organization is currently exploring replication opportunities in approximately 10 cities across the country.

LocalCode Kansas City (LCKC) is a minority- and women-owned, regenerative development company helping communities build wealth and well-being through ownership of local businesses and real estate. LCKC focuses on Kansas City, Missouri's Eastside, a majority-Black neighborhood shaped by redlining,[23] urban renewal followed by economic disinvestment,[24] and racial discrimination. Over generations, the compounding impacts of these factors have resulted in high vacancy rates, low incomes, little wealth, and significantly lower quality of life than in neighborhoods to the west.[25] Ajia Morris, LCKC's founder, has deep roots in the community and is convinced that real estate development can play a catalytic role in reversing the effects of these long-term structural inequities. With local leadership, control, and ownership built into the business model, LCKC developments not only provide lasting benefit to the community but also represent cutting-edge practices for urban infill and adaptive reuse.

LCKC focuses on large, mixed-use developments along the Eastside's primary commercial corridor. The company's first development, The Ladd Project, will break ground in 2025. It is a $50 million redevelopment of a vacant historic school building and an entire city block located four blocks from Morris's home. Decommissioned in 2010,[26] the school building had become a symbol of disinvestment and exclusion. LCKC acquired the building in 2021, and Morris, in collaboration with her neighbors, developed plans to turn it into a mixed-use property with housing for teachers and essential service providers, as well as for retail and

community gathering space. The Ladd Project's financing includes not only equity and debt capital from traditional and philanthropic investors but also tax credits. Once the compliance period for tax credit financing is complete, these community members will have opportunities to invest in the property.

Their second project, 31st and Prospect, is a $150 million redevelopment of 2.5 city blocks at one of the Eastside's busiest commercial intersections, considered the "epicenter for transit oriented development" in Kansas City.[27] Myeisha Wright, the project lead, is the fourth-generation owner of a house in the center of the site. This project, scheduled to break ground in 2026, addresses her community's need for density and workforce training.

LocalCode Kansas City is supported by LocalCode, a national nonprofit organization founded by Jeff Mendelsohn. LocalCode provides LCKC with mission-aligned equity, philanthropic support, advisory services, access to federal funding, and innovative structures for local ownership and governance. After three years focusing exclusively on Kansas City, LocalCode is building capacity to support additional communities across the country.

Partners in Equity (PIE) is an investment fund based in North Carolina that helps small business owners whose firms are located in LMI neighborhoods to own the property where they do business. It provides down payment assistance to enable established firms that have positive cash flow to purchase the space where they operate. The average down payment requirement of a small business property loan is 20 percent equity. PIE provides flexible subordinate debt and equity to enable business owners to purchase their properties with as little as five percent of their own equity.

Firm owners use the capital infusion from PIE as a down payment to purchase the properties where they operate. They borrow through the Small Business Administration's (SBA) 504 loan program, which provides lenders with a partial guarantee from the federal government.[28] Business owners typically are the sole owners of their property within five to seven years. This model is different from the other Cohort members but founded on the same principles of disrupting how capital is allocated and democratizing ownership of appreciating, wealth-building assets by local stakeholders. PIE holds investments for seven to 10 years, then works with business owners to exit the deals. After that, business owners become the sole owners of their property.[29]

PIE was founded by three entrepreneurs whose careers have focused on creating greater access to opportunity and capital through community development finance, impact investing, and real estate finance for BIPOC and low-wealth entrepreneurs. Talib Graves-Manns, Wilson Lester, and Napoleon Wallace each come from entrepreneurial families, a background that underscores their acute understanding of the value of ownership. Their experiences enable them to provide technical assistance and advisory services to the business owners they invest in, helping to ensure their success.

PIE raises investment capital from a variety of sources, ranging from institutional investors, banks and Community Development Financial Institutions, to high-net-worth individuals, impact investors, and philanthropic institutions. Its first fund focused on North Carolina and took advantage of the tax benefits of investing in Opportunity Zones (OZs), which are IRS-designated low-income communities across the United States.[30] PIE's second fund has a broader geographic focus.

Investors who are interested in supporting the expansion of inclusively owned commercial real estate need to understand how these projects are structured; how they can create ownership opportunities for non-accredited investors; developers' typical sources and uses of capital; and community decision making and governance provisions. This section explores how Cohort members have approached each of these components of their developments.

What potential investors need to know about inclusively owned CRE development

Developers of inclusively owned commercial real estate often have multiple legal entities that can achieve different aspects of their missions

Decisions about a developer's and their individual projects' legal and organizational structure have significant implications for the business model, financing, and operation of a property. Limited liability companies, nonprofit organizations, and cooperatives are the most common legal structures.

Limited liability company (LLC) owners are taxed individually each year on their share of the business's profits.[31] The benefits of LLCs include the fact that investors are familiar with financing them and there are few legal limits on how they can use property they own. For-profit entities are also able to sell securities to non-accredited investors in certain circumstances (see pages 13-14). There are drawbacks, such as taxation of profits. LLCs are also generally not eligible for grant funding.

Nonprofit organizations are eligible for grant funding, and they do not have federal tax obligations. Many states also exempt them from property taxes. Nonprofits cannot, however, offer investment opportunities to non-accredited investors.[32]

All members of the Wealth Innovation Cohort operate LLCs and work with nonprofit organizations to maximize their funding opportunities and ensure alignment with community needs and desires. Chicago TREND, LCKC, and Partners in Equity are all LLCs with affiliated nonprofits.

- Chicago TREND founded the nonprofit TREND community development corporation (CDC).[33] The LLC serves as the developer and provides the investment opportunity to non-accredited investors through an equity crowdfunding platform. The CDC engages with the community and provides technical assistance to small business owners.
- LCKC and LocalCode work closely together on every aspect of LCKC's deals. LocalCode, the national nonprofit, provides philanthropic equity and access to financing tools, as well as technical assistance. For the Ladd Project, LocalCode helped LCKC structure the ownership model, designed to build agency among community members.
- PIE's founders also founded ResilNC, which is focused on supporting the success of Black entrepreneurs in North Carolina.[34] In addition to their for-profit investment funds, ResilNC enables them to serve a wider set of business owners.

CIT's Plaza 122 in East Portland, Oregon, has a unique but replicable legal structure. The property is owned by Plaza 122 LLC, a single-member LLC that is wholly owned by East Portland CIT (EPCIT). EPCIT is a state registered corporation in Oregon owned by CIT Services, which was established as an LLC but is in the process of transitioning to nonprofit status. CIT Services provides technical assistance and asset management services to EPCIT's board of directors and organizations across the country seeking to replicate the CIT model.

Cooperatives enable members to work together for a specific mutual benefit, such as owning and operating a commercial property. The advantages of cooperatives include the ability to prioritize mission-related goals above profits and to sell shares and accept small investments from low-wealth individuals.[35] Cooperatives' profits are taxed on a pass-through basis as they are distributed to individual members.[36] The major drawback is that some investors, including most community banks, avoid cooperatives.

Although none of the Wealth Innovation Cohort members are organized as cooperatives, many of the earliest innovators in the field were. Currently, two of the highest-profile developers in the inclusively owned commercial space, East Bay Permanent Real Estate Cooperative in the San Francisco Bay area and the Ujima Project in Boston, are cooperatives.[37]

Ownership opportunities for local, non-accredited investors require exemptions from the Securities Act of 1933

Choices about who is eligible to invest in an inclusively owned development have critical consequences for regulatory compliance, marketing strategy, and other aspects of operations. These choices also shape the degree to which inclusively owned developments can be a source of appreciating wealth for local, lower-income, and lower-wealth investors. The most direct pathway to sharing the benefits of development with these local stakeholders is to solicit investment from non-accredited investors, but developers must deal with some additional regulatory requirements and will likely need legal advice to ensure compliance.[38]

Wealth Innovation Cohort members use different strategies, but they all comply with the federal law that limits investment by people who are not accredited investors.[39] The Securities Act of 1933 and subsequent legislation hold that private businesses cannot sell securities, including shares in a firm, to non-accredited investors unless they register with the Securities and Exchange Commission (SEC) and comply with the stringent requirements outlined in Section 5 of the Act. This prohibition applies to shares, stocks, bonds, profit-sharing agreements, investment contracts, and options.[40]

Accredited investors may be individuals or businesses. An individual must have net worth over one million dollars and reported income of at least $200,000 in the prior two tax years.[41]

Exemptions under Section 3(a)2 of the Securities Act require a bank to ensure the value of non-accredited investors' equity

Section 3(a)(2) of the Securities Act allows banks to issue securities that are exempt from SEC registration under Section 5 (and some state-level requirements).[42] Eligible banks must be chartered and subject to supervision by a state or national regulatory agency. Investment banks, holding companies, non-bank lenders, and foreign banks are excluded.[43] A qualified bank can also ensure payment of a non-bank's security issued under 3(a)(2), enabling private businesses to take advantage of the exemption. East Portland Community Investment Trust uses this exemption to sell shares in Plaza 122 to non-accredited investors. EPCIT is currently the only inclusive ownership commercial developer using this exemption, which it pioneered with pro-bono legal assistance from Orrick, a global law firm.[44]

For a business to issue exempt securities under Section 3(a)(2), an eligible bank must secure non-accredited investors' equity and ensure that they can withdraw their funds at any time. This provides non-accredited

investors—and the project as a whole—with liquidity and protects these lower-wealth investors from losses. One tool that banks use to achieve this is a "direct pay letter of credit."[45] Direct pay letters of credit are common in traditional real estate development[46] and represent an important innovation for inclusively owned commercial developments. EPCIT secured a direct pay letter of credit from Northwest Bank, which guarantees up to $5,000 per local, non-accredited investor. CIT Services constructed a stock offering that restricted eligibility to residents of the four ZIP Codes surrounding the plaza.

This approach has created hundreds of first-time investors. Since 2017, more than 500 local residents have invested in Plaza 122. The majority have been renters; 61 percent have been low-income, 44 percent have been immigrants, 58 percent have been women, and 66 percent have been people of color.[47] Their contributions have enabled EPCIT to fully pay off impact investors. Presently, 330 community members have $730,000 invested.

The Jumpstart Our Business Startups (JOBS) Act enables non-accredited investors to invest through equity crowdfunding platforms

The 2012 JOBS Act made equity crowdfunding legal for accredited investors and created exemptions for raising funds from non-accredited investors. Businesses can offer investment contracts (which are securities) to non-accredited investors through registered funding portals that are subject to SEC oversight.[48] Chicago TREND uses this strategy to make ownership of the shopping centers they redevelop inclusive to local residents (and other supporters, as there are no geographic limits). Of its 385 crowdfunding investors, nearly 60 percent are renters living in low- to moderate-income areas, with over 50 percent identifying as Black and 40 percent as women. Investments made through the crowdfunding platform are at least $1,000 (and an average of about $2,200). Investors benefit from annual dividends, averaging a five percent return on investment.[49]

There are two tiers of regulation for firms that extend ownership opportunities to non-accredited investors: Regulation Crowdfunding and Regulation A+. Regulation Crowdfunding provides exemptions for small businesses seeking to raise small amounts of capital,[50] with a maximum of $5 million dollars in any 12-month period.[51] Businesses raising capital under Regulation Crowdfunding must disclose information about the firm, its directors, how raised capital will be used, and other aspects of the business to potential investors. Regulation A+ exemptions allow larger fundraising campaigns of up to $20 million or $50 million.[52] Firms submit documentation of eligibility and information about the business and its other investors to SEC for qualification before seeking investment. Both accredited and non-accredited investors are eligible.

Across both Regulation Crowdfunding and Regulation A+, non-accredited investors with an annual income or net worth of less than $107,000 can invest the lesser of $2,200 or five percent of their annual income or net worth in equity crowdfunding. Investors with higher income or net worth can invest up to the lesser of $100,000 or 10 percent of their net worth. This limit applies to all investments made through registered equity crowdfunding platforms over a 12-month period.[53]

The sources and uses of capital in inclusively owned commercial developments are complicated

Inclusively owned commercial developments use multiple sources of capital (called the "capital stack" within the industry). Wealth Innovation Cohort members have raised investment from the sources listed in the table below. Table 3 represents the common components of inclusive development capital stacks. It is intended to provide a high-level, generic overview. Each deal is unique and may include some or all of these sources and uses of capital.

Table 3. Sources and Uses of Capital in Inclusively Owned CRE Development

RISK TO DEVELOPER (HIGHEST → LOWEST)	DESCRIPTION	SOURCES	USES	% OF TOTAL COSTS
EQUITY	Projects typically require at least 20% equity, or cash invested on a long-term basis, in exchange for a negotiated return on investment in the future.	Developer, developer's family and friends, philanthropic institutions, donor advised funds, traditional investment firms, impact investment firms, banks, high net worth individuals and families, family offices, and nonprofit organizations.	Equity provides developers with collateral to take out loans. It is often used to make down payments and to meet capital reserve requirements. Higher equity reduces deals' total interest payments.	20% – 40%
DEBT	Debt capital comes from loans taken out by the developer.	Philanthropic institutions, donor advised funds, traditional investment firms, impact investment firms, banks, CDFIs, high-net-worth individuals and families, and family offices.	Loans finance property acquisition, construction, and repairs and improvements. Debt capital can be used to fund operations before the property is generating sufficient revenues.	50% – 80%
TAX CREDITS	Federal, state, and local governments issue tax credits to support certain types of development, such as investment in LMI areas and historic preservation.	Public institutions	Tax credits are not present in most deals. Depending on the program rules, these funds can be used to finance property acquisition, repairs and improvements, and operations.	10% – 50% (when present)
GRANTS	Grants are charitable contributions and are not repaid.	Public institutions, private entities (firms, high-net-worth individuals and families, and family offices), philanthropic and nonprofit organizations.	Uses include funding to provide technical assistance, outreach to potential non-accredited investors, and operations support.	1% – 10% (when present)

These complex capital stacks enable developers to offer different investors different rates of return. The terms on which different investors provide capital depends on their institutional requirements and the tools at their disposal. One reason that philanthropic and impact investors' capital is catalytic is that they do not have mandates to obtain the highest returns possible, but instead to earn solid financial returns while supporting a mission and bringing additional investors to the table.

Different types of equity and debt are used to finance inclusively owned CRE

Each of the following types of equity come from different sources and have specific benefits and constraints.

- **A developer's own equity** represents to investors that the developer also has financial stakes in the success of a project. It can include capital raised from members of their personal and professional networks. Mission-oriented developers may substitute their own capital with equity provided by philanthropic institutions or nonprofits.
- **Market-rate equity investments** are made on the same terms and with the same typical return on investment (ROI) as traditional, for-profit CRE developments.
- **Concessionary or catalytic equity investments** are less risky or more flexible for developers than market-rate equity investments. Investors may accept a lower ROI or cap their ROI to increase financial returns to other investors. Repayment terms may be more generous to the developer. These funds are often tailored to meet the developer's needs while attracting additional market-rate investors.
- **Secured equity from non-accredited investors** refers to the principal investments made by non-accredited investors that are backed by a bank-issued direct pay letter of credit.
- **Crowdfunded equity** refers to investments made through equity crowdfunding platforms under the JOBS Act.

Likewise, the following types of debt come from different investors and have varying interest rates and repayment terms.

- **Market-rate debt** comes from loans made on the same terms and with the same interest rates as those made to finance traditional, for-profit CRE developments. Lenders include traditional investment firms, financial institutions, impact investment firms, and philanthropic institutions.
- **Concessionary or catalytic debt** has terms that are more generous to the developer in some way. This could include below-market interest rates or greater flexibility in repayment. Lenders are most likely to be philanthropic institutions, Community Development Financial Institutions (CDFIs), impact investment firms, and high-net-worth individuals.
- **Guaranteed debt** will be repaid to lenders, regardless of the financial performance of the development. Philanthropic institutions and impact investment firms may guarantee certain loans to de-risk the deal for other investors. Government loan guarantee programs ensure that lenders will be repaid a certain percentage of their eligible loans' value if the borrower defaults.

- **Senior debt** has priority in repayment. It is paid first and in full before other debts. Lenders that provide senior debt take on less risk.
- **Subordinate (or mezzanine) debt** is paid after senior debt. Lenders that provide subordinate debt can reduce risk for other investors.

Investor Insight

The majority of our interviewees distinguished their support from "concessionary capital," preferring to commit capital to deals that could deliver market-rate returns to mainstream investors. One interviewee who worked for a large philanthropic organization, told us, "My program is impact first. [My Program Related Investments are] not necessarily concessionary but we have a different risk profile. We have to be catalytic," which they described as bringing institutional investors to the table.

Another interviewee, who worked at a different philanthropic institution, said that their PRIs look as close as possible to mainstream market deals because that creates interest and trust among a broader range of investors. Rather than providing concessionary capital, this interviewee focuses on opportunities to de-risk deals or otherwise support the financial success of the inclusively owned CRE.

Provisions for community decision-making power and governance are common

One common goal among developers pursuing inclusively owned CRE projects is to involve community members and low-wealth investors in governance of the property once it is fully operational.[54] This is a critical difference between these ventures and traditional community development initiatives and financing. There are no standard practices—developers and community partners tend to work out the details based on the project's mission, financial context, leaders' and residents' capacities, and other factors. In some cases, projects engage community members up front, through tenant advisory committees or reserved seats on governing boards. LCKC took this approach with the Ladd Project. They worked with the community and then signed a Project Benefits Agreement with the school board and Oak Park Neighborhood Association that ensures that benefits of redevelopment flow to local residents and that they have influence over which businesses and nonprofit organizations operate in the renovated space.[55]

In other cases, developers and community partners plan for the eventual transition of governance responsibilities to local residents and small investors once the property is financially stable, such as Community Investment Trust. EPCIT, for example, restructured Plaza 122's board of directors to include local investors after several years of operation.

Opportunities for growth

Inclusively owned commercial real estate is a niche market segment, but it is poised for growth as individual models demonstrate financial success, inspire replication, and attract more capital to the space. We estimate that the national potential market opportunity is at least $5 billion (further research drawing on proprietary data is necessary to develop an upper bound on the estimate). This section describes opportunities to bring inclusively owned commercial real estate development to the next level of scale by increasing deal flow and awareness of this strategy.

Larger-scale investment funds dedicated to inclusively owned CRE would enable faster property acquisitions and improve project financing

Inclusive CRE developers face a specific set of challenges in raising capital: Investing in disinvested and undervalued communities means that development projects and deals tend to be smaller than large private sector firms are used to pursuing, so the pool of potential investors and capital is smaller, leading to higher costs and foregone opportunities. The lack of capital that is affordable to these developers that can be deployed quickly is a primary barrier to growth. In the traditional, for-profit real estate sector, investment funds (generally partnerships among several major investors that each allocate millions of dollars) help to solve this problem. Investment funds are also emerging as a critical resource to support the replication and growth of inclusively owned CRE. Access to these pools of capital enables developers to more quickly close on property acquisitions and attract additional investors. One interviewee emphasized this point, saying, “The more money in the pool, the better.”

Multiple investors spoke to the need for developers of inclusively owned CRE to “move at the speed of real estate,” as one put it in an interview. Cohort members also shared experiences of opportunities they lost because they could not arrange financing quickly enough once a high-potential property became available for sale.

In response, investors and developers alike have focused on aggregating capital into investment funds that are similar to those raised by mainstream Real Estate Investment Trusts (REITs) but tailored to the needs of developers that provide inclusive ownership opportunities.

PIE and Chicago TREND have successfully raised investment funds. PIE has closed two funds and is planning another. Investors in its funds prioritize helping entrepreneurs build wealth in their businesses and entrust PIE to deploy their funds. TREND is about to close its first fund and is building a capital fund of $20 million.

Greater amounts of equity investment would improve projects’ financial sustainability as well as returns to non-accredited investors

Wealth Innovation Cohort members have identified a need for more impact-first equity investors—those who balance financial returns with the mission of supporting inclusive ownership. These are generally philanthropic

or impact investors. Donor advised funds and family offices could potentially become important sources of this capital. Projects that are financed with more equity have less debt, which means reduced expenses. Equity investors also offer longer time horizons for paying returns compared to lenders. Non-accredited investors can benefit when deals are backed with higher levels of equity because the cost savings can increase their investment returns.

Investor Insight

Cohort members identified the challenge of securing an anchor investor—the first to commit capital to a specific fund or project. Several investor interviewees, especially those with fiduciary responsibility, highlighted their own roles as anchor investors. They noted that peers at other firms view deals that already have an anchor investor as less risky and therefore more appealing. For some interviewees, unlocking other investors' capital is more important to success than themselves accepting below-market returns. One investor at a private equity firm said of their strategy, "You can be a market investor and an impact investor."

Greater access to risk mitigation tools would bring more investors to the table

Some investor interviewees and Cohort members noted that the best way to attract more capital is to make deals as similar to comparable traditional CRE development financing as possible, using philanthropic and impact investor capital to mitigate risk. Financing instruments can include subordinated debt, loan guarantees, and caps on ROI. Cohort members who have been able to access such tools report that they bring more investors to the table.

One important area for exploration is pooled loan guarantee funds. Loan guarantee funds ensure that lenders are protected from loss if a development fails. Many Small Business Administration loans, for example, are partially guaranteed by the federal government; banks are more willing to provide financing because their losses are limited. As with investment funds, pooled loan guarantee funds aggregate capital, in this case primarily from mission-oriented investors and financial institutions with community development mandates. This approach allows multiple investors to each dedicate a relatively small amount of capital that is more powerful when pooled with other investors' funds. This approach is common in affordable housing finance, but has not yet been tried for inclusively owned commercial real estate.

Policy changes could unlock ownership opportunities for millions more low-wealth investors

Throughout the year, Cohort members identified several state and federal policy changes that could support replication of their models and increase the number of low-net-worth investors who can own commercial real estate. Notably high-impact ideas include:

Provide guidance from federal regulators on Community Reinvestment Act (CRA) credit for banks that provide direct pay letters of credit. The Community Reinvestment Act requires banks to meet the credit needs

of people living in the places they operate and to invest in community development. Since its passage in 1977, banks have invested trillions of dollars into LMI communities to meet its requirements. EPCIT's direct pay letter of credit from Northwest Bank is the key to Plaza 122's success as a source of appreciating wealth for local investors, yet the bank has not received CRA credit for issuing it. The Federal Reserve and other agencies responsible for CRA implementation could unlock millions of dollars in capital for inclusively owned CRE development by providing guidance to eligible banks about how to receive credit for issuing direct pay letters of credit to this type of development on their CRA examinations.

Create incentives for investors who provide equity capital to these developments. One option is for the federal government to reauthorize tax preferences for investment in Opportunity Zones, which are currently set to expire at the end of 2026. Reforming the program to explicitly focus on equity investments that benefit current residents of LMI communities could also channel more capital to developers of inclusively owned CRE. Congress and federal agencies could also ensure that the New Markets Tax Credit and Low-Income Housing Tax Credit are channeling capital to these projects. States and local governments can help through tax incentives, grants, and support for replication efforts in their jurisdictions.

Support the success of developers of color. Growing a pipeline of developers of color is important to ensure that real estate development is carried out by people with lived experience related to the communities they are working in. Increasing the number of Black and Latino developers in particular is important for inclusively owned real estate because their connections to neighborhoods that have been harmed by racial discrimination is a source of cultural competence and a contributor to projects' financial success. Federal, state, and local governments can all contribute to meeting this need through programs that facilitate peer networks and provide training, technical assistance, and business certification (to identify minority-owned businesses).

Raising awareness of the potential and power of inclusively owned CRE is essential

A final barrier to growth is the lack of awareness of this approach among investors, developers, policymakers, and community leaders. Proactive education and engagement of a broad range of stakeholders is essential, but there are not yet organizations with mandates or significant funding to lead the way. Investments in the capacity of organizations that provide training and technical assistance to developers of inclusively owned CRE is also critical to scaling and replicating these models.

Wealth Innovation Cohort members have identified an unmet need for partnerships between large, nationally focused investors and networks of experienced developers with proven track records of success. They view this as critical infrastructure, as it creates connections between the primary sources of capital and leaders with deep understanding of specific local and regional communities and real estate markets.

Conclusion

Inclusive ownership of commercial real estate is a promising strategy for equitable economic development and community wealth building that is ready for greater investment. Wealth Innovation Cohort members have proven this can be a win-win-win scenario for developers, local residents, and large investors. Developers gain community buy-in and a loyal customer base. Local residents—particularly those in disinvested and segregated neighborhoods—who invest in the developments not only have a greater say in their neighborhood's growth, but they receive direct financial benefits, presenting an untapped opportunity to close wealth gaps. Finally, this strategy is particularly appealing to impact investors and others with mission-oriented goals because it:

- Disrupts how capital is allocated and how risk is assessed in order to allow more people to own appreciating assets;
- Offers a blended rate of return to meet the needs of a variety of investors;
- Helps people with little net worth access an on-ramp to investing and wealth building, especially those who have been excluded from economic opportunities due to racial discrimination;
- Revitalizes disinvested neighborhoods and main street corridors, particularly in communities of color that have experienced wealth extraction from traditional approaches to real estate and economic development; and
- Ensures that residents and community members can influence and share in the returns to development.

This primer has provided an overview of several variations on the strategy, each with unique characteristics based on the geographic location, leader expertise and experience, and financing options. There are at least a dozen other well-documented examples of inclusively owned commercial developments, many of which are mentioned or cited in this report. More capital (especially equity), risk mitigation tools, new public policies, support for developers of color, and greater awareness of inclusively owned CRE are all needed for this powerful strategy to reach the next level of scale.

Appendices

Appendix 1: Methodology

To produce this report, Aspen FSP engaged in the following activities:

Literature review: We identified and read more than 30 publications about community-owned real estate generally as well as specific projects. Sources included academic reviews and case studies, analyses from think tanks and intermediary organizations, and media outlets.

Cohort peer learning sessions: We hosted quarterly peer learning sessions beginning in January 2024 and continuing through the end of the year. These meetings focused on issues such as securing specific types of financing, overcoming common hurdles to CRE development, and working productively with community partners at different points in the process.

Cohort member interviews: We conducted interviews with the executive directors or leadership teams at each of the four Cohort members' firms to learn more about their missions, strategies, project financing, ownership structures, and governance.

Expert interviews: We interviewed community development experts, philanthropic supporters, wealth advisors, and investors in shared ownership (of both commercial real estate and small businesses) to better understand the process of bringing these developments to fruition and to gain insight into what motivates investors to commit funds.

Vishnu Amir, Director, *Lafayette Square*
Andrew Beldin, individual investor
Erika Price, Investment Officer, *Kresge Foundation*
Allison Clark, Associate Director for Impact Investing, *MacArthur Foundation*
Thaddeus Fair, Managing Director, *Known*
Thomas Knowles, Managing Partner and Co-CEO, *Gratitude Railroad*
Karla Magana Figueroa, Senior Investment Manager, *Candide Group*
Malaika Maphalala, CPWA®, Investment Advisor and Trust Steward, *Natural Investments PBLLC*

Appendix 2: Glossary of Terms

Accredited investor: an individual or business that, according to rules set by the Securities and Exchange Commission, is allowed to invest in securities that are not closely regulated or registered with financial authorities. To qualify, accredited investors must have income of at least $200,000 ($300,000 with a spouse) in each of the previous two years and have net worth of at least $1 million (excluding their primary residence). Investors can also qualify as accredited by meeting criteria that demonstrate professional knowledge of finance and investing.

Blended rate of return: in the context of this report, the average return on investment owed to multiple investors in a fund. It represents the pooled cost of capital in the fund. The blended rate of return can indicate a project's ability to meet the needs of investors who have a range of requirements for expected returns. (In other contexts, such as in debt refinancing, the blended rate of return can reflect an average of interest rates paid across various loans.)

Capital stack: a term of art in real estate finance that describes the structure of different sources of financing needed to cover the total costs of development. Property developers use capital stacks to layer multiple types of investment—such as debt and equity—into a hierarchy ordered by factors such as risk, rate of return, and repayment priority.

Community Development Corporation (CDC): a nonprofit organization that supports community-level well-being and revitalization. CDCs often operate in low- and moderate-income and disinvested (see definitions below) communities and can provide services such as economic development, affordable housing, job training, and educational programs.

Community Development Financial Institution (CDFI): a mission-driven, private sector financial institution certified by the U.S. Department of the Treasury to provide affordable loans, banking services, and other kinds of financial assistance in an underserved community. CDFIs can only make investments in the form of loans, which they provide at favorable terms to borrowers that face barriers to accessing mainstream sources of financing.

Direct pay letter of credit: a guarantee from an issuing bank that investors will receive payment (up to a certain amount) whenever they decide to sell their assets. Under Section 3(a)(2) of the Securities Act of 1933, a direct pay letter of credit enables firms to sell securities without registering them with the Securities and Exchange Commission to non-accredited investors (see definition below). Ensuring that these investors can sell their assets at any time provides liquidity. Direct pay letters of credit are a common tool in real estate financing.

Disinvested neighborhood: a neighborhood that has experienced long-term underinvestment or asset stripping by government entities and financial institutions due to systemic factors such as racial discrimination and perceived financial risk. Often, these neighborhoods are low-income, the majority of residents are people of color, and the communities are vulnerable to gentrification and displacement.

Donor Advised Funds (DAFs): private funds operating on behalf of multiple individual donors or organizations to make philanthropic or impact investments. DAFs offer individual donors large tax deductions on contributions, and investments grow tax-free. While DAF funds must be used for qualified charitable activities, they have restrictions on when investments are made.

Family office: a private firm that provides wealth management services to high-net-worth families. Family offices can facilitate both equity and debt-based investing for mission-driven projects on behalf of an affluent family.

Fiduciary: an individual, institution, or other entity that has a legal and ethical obligation to put the interests of clients whose funds or assets they are managing above their own interests. Fiduciary responsibility is important to making investment decisions in the collective interest and avoiding conflicts of interest between asset managers and their clients.

Low and Moderate Income (LMI): individuals, families, or communities that have incomes below a certain percentage of the area median income, making them likely to face barriers to economic and wealth-building opportunities. The Census Bureau generally defines low-income communities as those with a median income under 50 percent of the area median and moderate-income communities as those between 50 and 80 percent of the area median.

Mission Related Investments (MRI): used by foundations and other mission-driven funders to achieve both social impact and positive financial returns. Unlike program related investments (PRIs, see definition below), MRIs are designed to have market-rate returns, so they are subject to tax requirements governing regular investments rather than charitable giving.

Non-accredited investor: an individual who does not have the assets or income to qualify as an accredited investor (see definition above), prohibiting them from trading in securities that are unregistered with the Securities and Exchange Commission. Because of the high income and wealth requirements to become accredited, most individual investors are non-accredited and cannot invest in relatively risky or non-traditional asset classes.

Program Related Investments (PRIs): investments made by foundations that accomplish the charitable purpose underlying their nonprofit status that are not expected to earn market-rate returns. PRIs are subject to different standards related to risk and returns and they are not subject to the taxes that foundations can incur on investments that are not aligned with charitable, tax-exempt purposes.

Public Benefit Agreement: a variation on a Community Benefit Agreement, which is a contract signed between a real estate developer and community groups. Public Benefit Agreements include public agencies as signatories. Community Benefit Agreements commit developers to providing certain amenities, meeting specific labor standards, and mitigating local challenges. The other signatories commit to support, or at least not oppose, the development(s).

Real estate developer: a person or organization that leads, designs, and coordinates projects that create or improve built structures (homes, offices, warehouses, etc.). A developer may buy and sell land, finance real estate projects, build or oversee construction, and manage properties. They are most often private firms but can also be nonprofits or public institutions.

Real estate investment trust (REIT): a company that owns, manages, or finances income-generating real estate and raises capital from investors to finance its activities. REITs were designed to provide smaller investors with opportunities to finance and earn returns from real estate development; they are required to have at least 100 shareholders and to pay out dividends equal to at least 90 percent of their taxable income. More than $1 trillion is invested in REITs nationwide.

Return on investment (ROI): the value of an investment's net profit divided by its initial cost. This is a popular measure of an investment's financial performance. Many investment firms only commit capital to projects that exceed a minimum expected return on investment.

Securities: financial instruments that confer partial ownership in a business or legal entity, including stocks, bonds, investment contracts, stock options, exchange traded funds, mutual funds, and other products that people can buy and sell. The Securities and Exchange Commission, under the Securities Act of 1933 and subsequent legislation, defines "securities" in the United States.

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