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Resident-Led Real Estate Development in Eastside, Kansas City

The LocalCode Strategy for Inclusively Owned Commercial Real Estate

AUTHORS

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ABOUT THE ASPEN FSP WEALTH INNOVATORS COHORT AND THIS PUBLICATION SERIES

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 case study is part of a suite of five publications, including a primer for investors on inclusively owned commercial real estate and case studies on Community Investment Trust, Chicago TREND, LocalCode Kansas City and LocalCode, and Partners in Equity. The primer[1] provides an overview of a variety of development strategies and approaches to inclusive ownership, including an examination of the legal structures, financing models, and strategies to make ownership possible for lower-income and lower-wealth investors. The case studies provide in-depth 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. Both systemic injustices and real estate development practices that prioritize rapid returns to investors over long-term community benefits have made it challenging for people and families of color to build generational wealth. By expanding residents' ownership stakes in local CRE, Wealth Innovation Cohort members seek to disrupt practices that neither account for the needs of low- and moderate-income (LMI) residents and business owners 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.

LocalCode Kansas City: Facts and Figures

Established: 2022

Location: Kansas City, Missouri

National nonprofit partner: LocalCode

Number of acquisitions: 2

Development type: mixed-use, including subsidized affordable rental housing, market-rate rental housing, retail, office, and event space

Acquisition and development funding: equity from impact investors and philanthropic institutions; traditional and below-market rate debt; New Market Tax Credit, Low-Income Housing Tax Credit, Historic Tax Credit, and state tax credits

Background: A developer's mission to foster agency and build wealth in her formerly redlined, disinvested community

Across the United States, structural factors that create deep income inequality and perpetuate racial wealth gaps have led to a situation in which thousands of communities and households lack the wealth necessary to manage life's ups and downs and invest in their futures. Families in LMI communities with majority Black populations have faced persistent, systemic barriers to wealth building, including redlining, restrictive covenants, credit discrimination, and other forms of bias, contributing significantly to the gap between white households' and Black households' typical wealth.[2] Recent research from the Brookings Institution finds that commercial properties in predominantly Black low- and moderate-income neighborhoods are undervalued by 7 percent, contributing to an aggregate wealth loss of $171 billion.[3] The Eastside neighborhoods of Kansas City, Missouri, reflect this history. Although Eastside has long been a vibrant hub of Black culture and community, it was subject to decades of redlining,[4] followed by urban renewal policies and a lack of ownership opportunities. As a result, local residents have experienced cycles of poverty,[5] and, now that Eastside property values are rising,[6] many households lack the income and wealth needed to invest in the assets in their own community.

In 2020, Eastside resident Ajia Morris decided to change that. Collaborating with social entrepreneur Jeff Mendelsohn, founder of the national nonprofit organization LocalCode, she launched LocalCode Kansas City (LCKC). The company aims to rebuild Eastside in a way that gives local residents influence over development decisions and opportunities to have ownership stake in the area's growth and prosperity. At the heart of LCKC and LocalCode's mission is the goal of addressing wealth inequalities by transforming vacant and underutilized properties into community-owned, mixed-use spaces that build wealth and well-being.[7] They practice regenerative development, an approach to real estate development that creates positive relationships, embraces change, and builds for environmental, social, and economic resilience.[8]

Figure 1. LCKC and LocalCode Core Principles

With an ambitious plan to develop $1 billion in real estate over the next generation, LCKC already has $200 million in projects underway. Its first two developments, the Ladd School project and the 31st and Prospect project, are the largest real estate developments in their respective neighborhoods and are both led by Eastside residents. The Ladd School project, spearheaded by Morris, involves the $48 million redevelopment of a long-vacant historic landmark in the Oak Park neighborhood.[9] LCKC's second project, 31st and Prospect, is a $150 million transit-oriented redevelopment of 2.5 city blocks at a major intersection and near a key transit hub in

Eastside.[10]

LCKC has planned from the outset to ensure that low-wealth community members can be co-owners of its developments but is using federal tax credits that restrict the type of commercial activities that developers can conduct on financed properties. Therefore, it will implement investment opportunities for local residents once the tax credits have matured. In the meantime, both projects are designed such that Eastside residents will materially benefit: They will gain access to nearly 400 new affordable and workforce housing units, nearby social services including workforce development, and local businesses that bring new jobs and meet their needs.

This case study explores how LCKC and LocalCode have married large-scale, mixed-use development with community governance and ownership. Where possible, there are citations to publicly available information, but much of the content is drawn from structured interviews with Aspen FSP and the authors, meetings of the Wealth Innovators Cohort, and additional conversations with LCKC and LocalCode leadership throughout 2024.

Investing in Eastside: The Ladd School and 31st and Prospect projects

Ajia Morris, founder of LCKC, lives four blocks away from the Ladd School, a long-vacant historic building. After being decommissioned in 2010, the school sat empty and deteriorated. Morris worked with the Oak Park Neighborhood Association and other community residents to envision its redevelopment. Now a $48 million project, the Ladd School redevelopment spans 3.6 acres and includes the rehabilitation of a 56,000 square feet historic school building and 30,000 square feet of new construction.[11] Upon completion in late 2026, it will offer 82 units of affordable and workforce housing, a health and wellness center, a restaurant, a café bookstore, and an auditorium and event space for community gatherings and cultural events. With solar power generation and geothermal air conditioning, the historic school building will have low operating costs and function as a resilience hub for the community in the event of power outages or natural disasters.

> **"The activation of the sites reduces crime, invites revenue in, and increases the tax base and property values. The projects will be self-contained and self-sustaining, and as a result of community ownership, the community will be empowered, and a new generation of wealth holders will be created."**
>
> ***–Ajia Morris***

The $150 million 31st and Prospect project is led by co-developer and community resident Myeisha Wright. This redevelopment will bring 340 units of affordable housing to the community and provide workforce training, commuter amenities, and essential services. Located near a key transit corridor and next to one of Kansas City's busiest libraries, the project will serve as a commuter hub and a cornerstone of the community. As of November 2024, LCKC had 75 percent site control, including more than 5 acres, with over 40 lots purchased. The remaining lots are either city-owned or owner-occupied. Both projects are structured to facilitate long-term local ownership, contributing to both the well-being of the community and the local economy.

Organizational structure

LCKC is a minority and woman-owned real estate development firm structured as a limited liability company (LLC), focused on mixed-use real estate developments in Kansas City's Eastside. LCKC partners with other local developers and leverages the support of the national nonprofit LocalCode. LocalCode is a nonprofit organization based in California and fiscally sponsored by The Giving Back Fund (GBF). As it expands its operations to additional cities in the coming year, it will establish its own 501(c)(3) nonprofit status. LocalCode provides human and financial resources in support of LCKC's development projects. The organization works with local and national advisors, including specialists in real estate development, tax credit financing, senior debt structuring, partnership building, community engagement, and architecture. This network of advisors supports LCKC leadership to execute its projects.

LCKC owns the LCKC Development Fund, a real estate investment fund that pools capital from impact investors and others. LCKC forms individual LLCs for each development project; and it partners with other real estate development firms, local nonprofit organizations such as the Oak Park Neighborhood Association, and public agencies, including Kansas City Public Schools.

Sources and uses of capital

LocalCode and its advisory network support LCKC to build blended capital stacks for each project that leverage public incentives, philanthropy, impact investment, and low-interest debt.

Philanthropic funding, sourced through LocalCode, provides early-stage capital for project feasibility studies, site acquisition, and initial project design work. This early infusion of capital, combined with the strategic use of tax credits, makes LCKC's large-scale projects financially viable and maintains the developments' affordability for the local community. For example, the Ladd School project is structured to take on $6.5 million in debt from impact investors under terms more favorable than what is available from traditional institutional lenders.

Public funding is complex and expensive to pursue, particularly for emerging developers. With support from LocalCode, the LCKC team is successfully leveraging most major federal tax incentive programs: the New Markets Tax Credit,[12] Historic Rehabilitation Tax Credit,[13] Investment Tax Credit,[14] and Low-Income Housing Tax Credit.[15] Each tax credit program has specific criteria, such as investing in underserved communities, preserving historic properties, or expanding affordable housing—objectives that align with LCKC's mission. Raising millions of dollars in tax credits enables LCKC to de-risk the project and attract 50 percent of the financing from private sector investors.[16]

Equity investors contribute capital to the LCKC Development Fund, which supports both active projects and can also invest in future LCKC projects. The Fund's terms include a 6 percent maximum appreciation rate, deliberately set below the projected project growth rate. This will ensure that future investment opportunities open to local residents are affordable to them, as it will reduce the cost of buying out investors in the LCKC Development Fund.

LCKC prioritizes affordable debt financing, aiming to secure at least half of borrowed funds at below-market rates. They leverage a wide range of potential lenders: LocalCode philanthropic dollars, which LocalCode can loan to projects at the minimum legal interest rate; Program Related Investment (PRI)[17] loans from nonprofit foundations; Greenhouse Gas Reduction Fund loans;[18] and loan guarantees from allies with large balance sheets, which reduce risk and interest rates accordingly. For some projects, LocalCode may participate as a lender at construction closing to better leverage tax credits that are tied to debt financing. In these cases, the debt will be converted to equity at the completion of the compliance period to reduce the overall debt burden and enhance profitability.

Table 1. Sources and Uses of Capital for the Ladd School Project

Source	Amount Raised	Use	Cost
Senior debt	$8,000,000		
Federal New Markets Tax Credit	$1,638,000		
Federal Low Income Housing Tax Credit	$15,041,466		
Federal Historic Tax Credit	$3,405,392		
Federal Investment Tax Credit	$533,368	Acquisition	$610,000
Missouri Historic Tax Credit	$5,100,346	Site work	$2,696,000
Missouri Low Income Housing Tax Credit	$3,520,000	Construction/ rehabilitation	$31,680,350
Central City Economic Development Funds	$3,000,000	Professional fees	$2,346,702
ReBuildKC grant	$500,000	Financing costs	$3,060,793
Bond interest income	$652,609	Syndication costs	$1,279,684
Philanthropic support	$2,500,000	Contingency	$3,120,000
Mission aligned equity	$3,466,695	Developer fee	$2,141,300
Deferred developer fee	$372,153	Reserves and escrows	$795,200
TOTAL	**$47,730,029**	**TOTAL**	**$47,730,029**

Building agency, wealth, and well-being in the community

LCKC has pledged to create a resident equity shareholding model, allowing residents to purchase stakes in the project as it matures. It plans to make ownership opportunities available six years from the Ladd School project's completion and certificate of occupancy to comply with the requirements of the federal tax credits. One benefit of this timing is that residents who invest in LCKC's developments will be buying into mixed-use properties that are financially stable, as commercial spaces and apartments are leased.

Furthermore, as mentioned above, equity investors in the LCKC Development Fund agree to a maximum appreciation of 6 percent, even if a project has generated higher returns. This cap will make it more affordable for resident investors. LCKC will buy out the initial investors in the Fund at the agreed rate, while inviting community investment through a direct public offering on an equity crowdfunding platform. Using an equity crowdfunding platform will allow the firm to raise investment from non-accredited, low-wealth individuals while complying with federal investor protection laws.

The Aspen FSP primer on inclusively owned commercial real estate[19] provides a deeper discussion of the strategies developers can use to comply with federal laws while offering ownership opportunities to non-accredited, low-wealth investors.[20] Equity crowdfunding is allowed under the 2012 JOBS Act, which allows firms to raise funds from non-accredited investors through registered crowdfunding portals that are subject to oversight from the U.S. Securities and Exchange Commission (SEC).[21] SEC allows non-accredited investors with an annual income or net worth of less than $107,000 to invest the lesser of $2,200 or 5 percent of their annual income or net worth in equity crowdfunding.[22] Investors with higher income or net worth can invest up to the lesser of $100,000 or 10 percent of their net worth.

Residents who invest through the crowdfunding platform will purchase shares with an initial minimum price of $100 per share. This is affordable enough to facilitate broad community participation. For the Ladd School project, the target return will be 12 percent per year. The goal is for thousands of community members to be able to point at their development and say, "I own a piece of that building."

LCKC and LocalCode both plan to transition their ownership stakes in the projects to local residents by granting their equity to a local nonprofit organization selected by the community. This equity will be in the form of a different class of shares that come with governance responsibilities. This will prevent hostile acquisitions, maintain long-term local ownership of the developments, and ensure ongoing alignment between property owners' decisions and the community's needs.

Community engagement and governance

Community engagement and governance are at the heart of LCKC and LocalCode's principles and mission. Morris, Wright, and Mendelsohn deliberately incorporate community input and influence from the beginning of each development. Residents expressed the need for both affordable housing and workforce development services, for example, which have been incorporated into the Ladd School project and 31st and Prospect, respectively. Likewise, LCKC will provide financial education to meet community members' stated needs as well as to prepare residents for future investment opportunities.

For the Ladd School project, LCKC entered into a Project Benefits Agreement (PBA) with Kansas City Public Schools and the Oak Park Neighborhood Association.[23] The PBA outlines LCKC's commitment to ensuring local residents gain an ownership stake in the development. Additionally, the PBA guarantees no-cost and preferred access to public spaces for residents and up to 20 percent of the housing units designated as affordable for local residents and teachers. The agreement establishes the Tenant Planning Advisory Committee, which includes two members from the Neighborhood Association, two local residents, and one LCKC representative. The Tenant Planning Advisory Committee will make recommendations to the development's management regarding the businesses and organizations that lease space in the property. Finally, the Oak Park Neighborhood Association will have explicit governance responsibilities once the redevelopment is complete. These provisions ensure that the community remains at the heart of decision-making throughout the project's lifecycle. Through the Project Benefits Agreement (PBA), the advisory council, and financial educational initiatives, LCKC fosters community agency, ensuring that residents are the direct beneficiaries of the Ladd School project.

Expansion and replication

Over the next generation, LCKC is dedicated to building $1 billion in locally owned real estate in Kansas City's Eastside, with a commitment to generating measurable improvements in community wealth and well-being.

To safeguard the community from speculative investors and prevent displacement from Eastside neighborhoods, LCKC and LocalCode are securing additional capital to acquire properties adjacent to their developments and making them available to purchase by current residents. This strategic acquisition of neighboring properties will ensure long-term stability and local control over the future of the neighborhood.

On a national scale, LocalCode is planning to expand the number of communities where it engages in development partnerships similar to its relationship with LCKC. The organization has set an ambitious goal of bringing community-owned real estate to 25 cities within 25 years, with each city managing over $500 million in local assets. By the end of 2025, LocalCode plans to expand into two additional cities, creating a network of well-supported communities driven by collective real estate ownership and regenerative development.

Conclusion

Working in partnership, LocalCode and LocalCode Kansas City are demonstrating how regenerative development, rooted in local ownership and leadership, can ignite lasting change in disinvested communities. LCKC leaders are harnessing their deep experience in Eastside to ensure that their developments are planned in partnership with community members and can effectively meet residents' needs. As it expands to new cities, LocalCode will replicate its partnership model with emerging developers in those communities and continue building the evidence that, with the right support, low-income and low-wealth communities can shape their neighborhoods according to local values and needs, foster economic empowerment, and build a new legacy of community-based wealth.

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