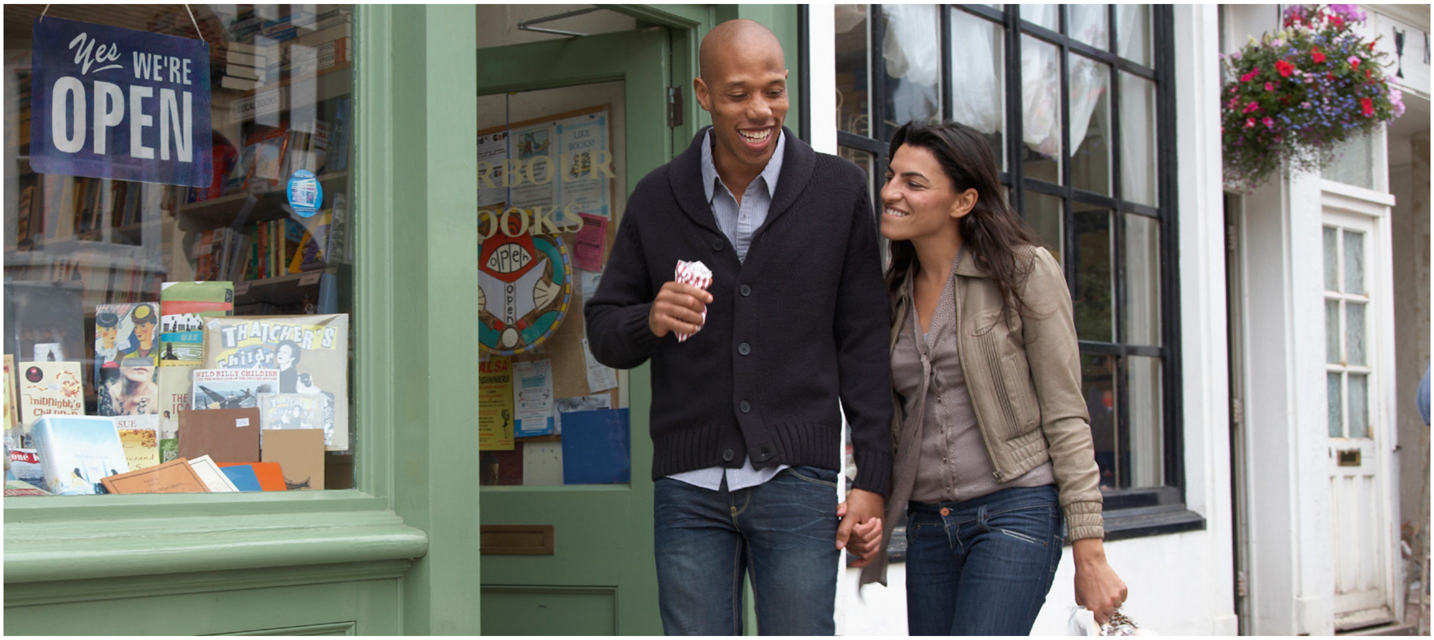
COMMERCIAL REAL ESTATE AND INCLUSIVE OWNERSHIP

PERSPECTIVE FOR FUNDERS



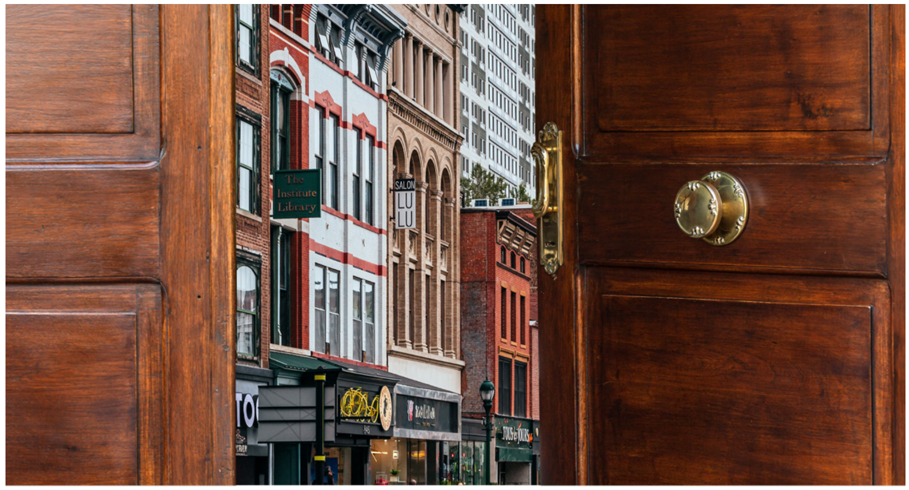
Equitable wealth building urgently requires an expansion of availability and access to a broader range of reimagined investment vehicles.

One promising approach to democratize ownership is inclusively owned commercial real estate (CRE), which has emerged as a tool to help families build wealth and facilitate local ownership of community assets.[1] These efforts are explored in the January 2025 Aspen Institute Financial Security Program (Aspen FSP) primer *Investing in Inclusively Owned Commercial Real Estate*.[2] Aspen FSP has also released case studies of the models implemented by participants in its Wealth Innovation Cohort,[3] including the Chicago TREND Corporation, the Community Investment Trust, LocalCode, LocalCode Kansas City and Partners in Equity.

Philanthropy is critical for making many inclusively owned CRE development and investment opportunities a reality. Advancing equitable wealth building requires both bold and strategic investments in championing solutions for a future of realized opportunity in a robust economy, especially for those in communities marginalized by systemic inequities and injustice. Many funders share these goals and also have the resources to offer an array of tools, such as grants, loans, and loan guarantees, that can support the development, growth, and replication of inclusively owned CRE projects. In response, AFN offers this companion paper to highlight why philanthropy should consider facilitating inclusively owned CRE projects and to explore the ways in which philanthropic funders can engage.

WHY EXPAND ACCESS TO COMMERCIAL REAL ESTATE INVESTMENT

Investing in CRE can be a strong tool for building wealth, but high initial costs have historically limited access to these investment opportunities to primarily some of the wealthiest individuals.



Although CRE returns can vary greatly depending upon the specific market conditions and transactional terms, among many other variables, the projected average return on investment can be upwards of 9% for CRE and 11% for a real estate investment trust (REIT).[4] Considering this asset development potential on what are often multimillion dollar projects, CRE is an opportunity that, paired with other investment approaches and made accessible to a broader group of investors, could help deliver on the promise of shared prosperity.

Inclusively owned CRE is unique because it builds collective economic growth and can also potentially have micro-level impacts by enabling individuals and households to accrue material financial gains over time. Simultaneously, inclusively owned CRE nurtures enhanced retail choice for residents and local stakeholders, increasing the quality of life for residents and producing macro-level economic benefits to neighborhood commercial corridors, thereby strengthening community. In this way, inclusively owned CRE can potentially be an investment that provides multiple benefits, including building individual wealth, preserving and expanding the property tax base,[5] strengthening communities, and improving the local economy.

Historically, investment in CRE has been limited to high-net-worth individuals who qualify as accredited investors.[6] However, with new interest in democratizing investment opportunities, innovators have identified and developed new methods of facilitating entrance of additional investors into the market,[7] advancing the goal of more equitable neighborhood economic development, and potentially increasing household balance sheets. Given that only 13% of American households are qualified as accredited investors, and only 1.3% and 2.8% of accredited investors, respectively, are Black and Latinx,[8] growth of inclusively owned CRE can potentially help address wealth inequality and the racial wealth gap.

Inclusively owned CRE is unique because it not only builds collective economic growth, but it can also potentially enable individuals and households on a micro level to accrue material financial gains over time.

MAKING THE CASE FOR PHILANTHROPIC INVESTMENT IN INCLUSIVELY OWNED CRE

Investing in inclusively owned CRE drives multiple outcomes aligned with foundation priorities and missions, such as addressing the racial wealth gap, democratizing ownership, and prioritizing local control of business assets.

The typically long-term nature of these assets and associated sustainable impact can help establish the business case for adding inclusively owned CRE to an institution's strategy and, ultimately, its investment portfolio. In addition to these benefits, with the mobilization of even a small amount of catalytic philanthropic investment, inclusively owned CRE can infuse potentially significant resources into a household's budget over time, with long-term potential for generational wealth development.[9]

Beyond the financial assets that may be able to accumulate, facilitating access to inclusively owned CRE can build agency and increase political and economic power for participating residents and community members as they become property owners. In certain models that provide for dividend issuance each year or provide repayment over a certain term, inclusively owned CRE can possibly be a source of short-term gains for individuals or families earning low and moderate incomes as well as a potential long-term wealth-building vehicle. Furthermore, the investment strategy for inclusively owned CRE can mitigate some impacts of the racial and gender wealth gaps in the CRE market by promoting ownership among consumers who have historically been excluded from the market.

Investing in inclusively owned CRE can mitigate some impacts of the racial and gender wealth gaps in the CRE market by promoting ownership among consumers who have been historically excluded from equal access to such markets.

INVESTMENT STRATEGIES

Philanthropy's flexible dollars are critical for both catalyzing and completing the financial and funding strategy for inclusively owned CRE projects, particularly as these projects are emerging or expanding.

Philanthropy has numerous options for supporting inclusively owned CRE projects, most of which require more than one type of capital to launch, expand, and withstand shocks. As noted in the Aspen FSP primer, "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."[11] The selected investment types below highlight the ways philanthropy can help provide capital and support to inclusively owned CRE projects.

PRIVATE GRANTS

Foundations can fund or co-fund inclusively owned CRE projects with grants for a variety of purposes. Such dollars are flexible and can fill gaps in a project funding plan. Foundations may be interested in co-funding to increase the dollars available to the project and to share risk. Grants, in amounts from $5,000 to millions, can be made for a variety of purposes, such as predevelopment, property modifications or staffing, and organizational costs. These funds could:

- Pay for architects, engineers, or legal, title, or other research costs ($5,000 to $25,000)[10]
- Facilitate community outreach, including but not limited to the development, purchase, or licensing of educational programs that ensure that prospective buyers of inclusively owned CRE feel confident and knowledgeable about the investment decision they make or have the resources to pose questions to entities or individuals that can provide such information ($5,000 to $50,000)
- Support developers or intermediaries leading their projects' submissions to online crowdfunding portals, which may require SEC-compliant communications and filings to be created for prospective local investors, most of which have associated legal, staffing, and advisory costs, along with crowdfunding portal hosting fees ($5,000 to $50,000)
- Cover the costs of an environmental scan or financial analysis of the costs and benefits, sources and uses of funds, and complete due diligence for the property ($5,000 to $50,000)
- Hire staff members, consultants, and other experts to conduct internal analyses, negotiate and finalize transaction details, or manage the process of securing permits and other approvals necessary for site control of properties of the inclusively owned CRE ($25,000 to $250,000+)
- Purchase or renovate a building ($5,000 to $250,000+)
- Provide conference or convening support ($5,000 to $250,000+)

All dollar amounts listed are estimated ranges.

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>
> **THE ASPEN INSTITUTE FINANCIAL SECURITY PROGRAM**
> *Investing in Inclusively Owned Commercial Real Estate: A Primer*

PROGRAM RELATED INVESTMENTS (PRIs)[12] OR MISSION-RELATED INVESTMENTS (MRIs).[13]

These loans, loan guarantees, or other investment tools are typically made from 1% to market interest rates and generally range from $250,000 to millions of dollars. Uses can include acquiring the land or building or buying down the cost of other capital for a project that also has public funding or has received tax credits.

RECOVERABLE GRANTS

Structured differently than PRIs or MRIs, recoverable grants may also have the potential to spur innovation within the inclusively owned CRE financing space. According to a paper by Local Initiatives Support Coalition (LISC) focused on such capital, "recoverable grants are essentially zero interest loans, and can typically be used for pre-development and other non-construction costs."[14] Further, while CapShift indicates that recoverable grants are usually made to nonprofit entities and without an expectation of a return, exceptions for profit-driven entities can be made "where charitable intent is well documented."[15]

LOAN GUARANTEES

Loan guarantees provided by third parties decrease risk to the lender by promising to cover a percentage of any lender losses. A guarantee can serve as an incentive for lenders to provide access to capital in ways that align with the values and goals of those providing the guarantees. Accordingly, guarantees by philanthropy can allow banks, Community Development Financial Institutions (CDFIs), and other mission-driven lenders to provide debt financing on more favorable terms to facilitate inclusively owned CRE projects. Similarly, public loan guarantees from the U.S. Small Business Administration and the Rural Business Cooperative Service at the U.S. Department of Agriculture may be appropriate tools for CDFIs and other lenders to facilitate their investments in inclusively owned CRE. In that context, philanthropy may be able to support capacity-building initiatives by mission-driven lenders to expand their ability to attain and maintain a public loan guarantee.

These philanthropic investments are often complemented by developer equity, loans, and other support from banks and other financial institutions. For example, letters of credit, through which a bank guarantees that a payment will be on time and for the agreed upon amount, can mitigate an inclusively owned CRE investor's inherent risk of financial loss. According to the Community Investment Trust model, bank letters of credit can enable investors to be "assured that both their investment is liquid (they can get their money out at any time) and their investment is secure from loss."[16]

TECHNICAL ASSISTANCE, RESEARCH, AND SHARING INSIGHTS

Some foundations have found other ways to engage in and amplify this space. Foundation support of technical assistance, peer-sharing groups, convenings, and research can all help advance the field. For example, the Robert Wood Johnson Foundation, Kresge Foundation, and Gund Foundation supported the development of the Brookings Institution publication, *A Playbook to Buy Back the Block: How Community Practitioners Can Foster Inclusive Ownership of Commercial Real Estate*.[17] The goal of this playbook and the associated research, *Helping Community Leaders Buy Back the Block,*[18] is to "assist more people of color in acquiring CRE properties that not only provide annual cash flow but also offer specific income tax benefits and the potential for long-term appreciation in value, which can be realized upon refinancing or selling the property."[19]

Support for broadening awareness of inclusively owned CRE models and bringing other local or national funders to the table for projects is another avenue for foundations to have impact in this space and seek to attract additional capital to practitioners. For example, the Aspen FSP was one of the co-conveners of a meeting in Tulsa, Oklahoma, in 2023 that provided exposure to the inclusively owned CRE concept for national, regional, and local foundation executives. The meeting brought together philanthropists from different sectors, including but not limited to corporate, community, and private foundations, all of which might play a role in developing the infrastructure and capital stacks to seed and expand impacts of inclusively owned CRE projects.

In addition to the Aspen FSP Wealth Innovation Cohort models, all of which have a deep focus on promoting racial equity and facilitating the development of inclusively owned CRE or associated financing, some foundations have supported aligned and place-based efforts that have similar objectives; their investments may help spur replication of similar models elsewhere. Consider the Kataly Foundation's Restorative Economies Fund, which has listed among its grantees the Kensington Corridor Trust (KCT) in Philadelphia and the Guild in Atlanta.[20] Both of these initiatives take an inclusively owned CRE lens and exemplify the Fund's efforts of "seek[ing] to close the racial wealth gap and transform our financial system by strategically reinvesting resources into community-owned and governed projects led by Black and Indigenous people, and all people of color."[21] The Guild's Community Stewardship Trust focuses on catalyzing ownership of commercial and mixed-use properties among residents, employees, and other stakeholders in local zip codes through a Public Benefits Corporation incubated by the Guild but "owned and governed by community investors."[22] KCT is focused on property acquisition and development, as well as preserving local governance and community control mechanisms, through a Perpetual Purpose Trust Stewardship Committee and a 501(c)(3) nonprofit board comprised of community residents and small business owners[23] with the aim of building long-term affordability and community wealth.[24]

RECOMMENDATIONS FOR PHILANTHROPY

Through its various financial, human capital, and other assets, philanthropy is well positioned to support the development of inclusively owned CRE models and the growth and replication of such projects.

1 **DIRECT INVESTMENTS**	Philanthropy can make *direct investments* in inclusively owned CRE. Developers often seek flexible capital to complete or catalyze their funding strategies. In addition to grants or recoverable grants to support due diligence, startup, or administrative costs, philanthropy may consider loans or other investments, especially PRIs, that can make property acquisition and other large drivers of the total project cost more affordable. Finally, philanthropy can consider providing funding from an institution's corpus for such uses.
2 **INDIRECT INVESTMENTS**	Philanthropy can make *indirect investments* that seed or strengthen the funding ecosystem for inclusively owned CRE projects. For example, philanthropy can guarantee loans made by CDFIs or support lender capacity-building initiatives that would allow the lender to use government loan guarantee programs to fund inclusively owned CRE projects. In addition, philanthropic support may be able to incentivize market-rate lenders to participate in a deal by capitalizing loan loss reserve funds or similar vehicles. Such blended capital models can encourage market-rate lenders to participate in more transactions structured as inclusively owned CRE opportunities.
3 **COLLABORATIVE INVESTMENTS**	Philanthropy can make *collaborative investments* with its peers. Co-funding can help smaller foundations participate, providing different forms of capital based on foundations' institutional priorities and funding tools. For example, one foundation may offer PRIs for the acquisition while another can offer grant dollars for due diligence on the same project; together, these investments can expedite a project's market entry. The various forms of capital may serve to mitigate investment risk (or perceived risk) for all funders.
4 **OFFER EXPERTISE**	Foundation staff can *offer expertise* that is relevant to inclusively owned CRE projects, particularly those that are emerging or going through certain transitions. Foundation team members could offer pro bono financial or legal support, perhaps through board membership. Additionally, senior management and program staff can provide strategic advice around a grantee's coalition building, community wealth-building approaches, and complementary local efforts; financial modeling for shared equity; governance; capital flows; and other core elements of an inclusively owned CRE project's rollout or scale up.
5 **STRATEGIC USE OF CONVENING POWER**	Grantmakers can make *strategic use of convening power* among their peer institutions and other relevant stakeholders to encourage the growth and development of the inclusively owned CRE sector. Funders can develop and share case studies and success stories with philanthropic colleagues, through conference sessions or a hosted convening for a larger audience. These sessions can support aggregation or pooling of capital resources.

CONCLUSION

Inclusively owned CRE projects and initiatives can offer various benefits; namely, to spread ownership of potentially valuable asset holdings more diffusely and encourage residents to have a material financial stake (alongside their existing engagement) in commercial development of their communities.

Funders interested in promoting financial health and economic mobility, closing the racial wealth gap, and spurring additional quality neighborhood and retail growth opportunities can play a role in supporting such efforts to achieve these goals, as well as foundation-specific goals aligned with these efforts. Philanthropists' toolkits have a variety of approaches that can have a clear impact and expand access to inclusively owned CRE, whether that is providing capital in its various applicable forms, furnishing much needed expertise, or using convening power.

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Endnotes

1 Many financial innovations utilize shared equity or shared ownership of land or business assets, including various forms of trusts, cooperatives, and land banks within residential and commercial markets. These important interventions and models, including but not exclusively inclusively owned CRE, often combine resources accruing to people and place in an ownership structure that minimizes the upfront capital size requirements of traditional investment offerings. Such interventions often democratize access to long-term wealth-building opportunities that can accrue interest and provide a pathway to passive income strategies without the sunk cost of individuals alone purchasing expensive real estate, an investment that is out of reach for almost all members of society. See also G. Beesing and D Weber, *Exploring Community Land Ownership: An Annotated Bibliography*, Center for Community Investment, 2023, https://centerforcommunityinvestment.org/wp-content/uploads/2023/12/Exploring-Community-Land-Ownership-An-Annotated-Bibliography.pdf.

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3 For a list of the Aspen FSP Wealth Innovation Cohort fellows, see Aspen Institute, What is the Future of Wealth?, https://www.aspeninstitute.org/programs/financial-security-program/future-of-wealth-work/, last visited December 15, 2024. Find the 2024 case studies at *https://www.aspeninstitute.org/publications/inclusively-owned-commercial-real-estate-case-studies*. Fellows' organizations include Chicago TREND, Community Investment Trust, LocalCode/LocalCode Kansas City and Partners in Equity.

4 R. Baldridge and M. Adams, "What Is Real Estate Return On Investment (ROI)?," *Forbes Advisor*, August 21, 2023., https://www.forbes.com/advisor/investing/roi-on-real-estate-investment/.

5 Communities can face economic challenges if their commercial tax base is reduced because commercial tax payments typically fund essential community services such as police, schools, and fire. When commercial tax sources are lost, the burden shifts to homeowners regardless of property value.

6 Accredited investors must have an annual income of at least $200,000 (or $300,000 with spouse) for both of the two years preceding the investment or a net worth of more than $1 million. See Securities and Exchange Commission, "Accredited Investors," September 19, 2024, https://www.sec.gov/resources-small-businesses/capital-raising-building-blocks/accredited-investors.

7 "The most direct pathway to sharing the benefits of development with 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. 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. 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." McKay, McCulloch, and Nabi, *Investing in Inclusively Owned Commercial Real Estate*, p. 13. In addition the Jumpstart Our Business Startups (JOBS) Act of 2012 allowed non-accredited investors to participate in some private offerings, such as certain forms of regulation crowdfunding, which could be applicable to community investing, including but not limited to inclusively owned CRE. See Securities and Exchange Commission, "Jumpstart Our Business Startups (JOBS) Act," October 30, 2024, https://www.sec.gov/rules-regulations/jumpstart-our-business-startups-jobs-act; and Securities and Exchange Commission, "SEC Adopts JOBS Act Amendment to Help Entrepreneurs and Investors," press release, April 6, 2017, https://www.sec.gov/newsroom/press-releases/2017-78. Please note that this paper does not provide or intend to provide any legal or tax advice.

8 *Congressional Record*, 169 Cong. Rec. H2656, May 30, 2023, https://www.congress.gov/118/crec/2023/05/30/169/92/CREC-2023-05-30-pt1-PgH2656.pdf.

9 Consider, "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." McKay, McCulloch, and Nabi, *Investing in Inclusively Owned Commercial Real Estate*, p. 10.

10 Please note that each of the dollar amount ranges referenced in the Investment Strategies section of this paper are intended as estimated ranges only.

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