BLACK PAPER 1.1

Building Community Wealth:

Shifting Power and Capital in Real Estate Finance

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ICC

The Inclusive Capital Collective is a growing network of community fund managers and entrepreneur support organizations who have been designing and developing shared technical and financial infrastructure for aggregating and deploying financial capital and other resources to entrepreneurs and communities of color in the US.

Its purpose is to **overcome systemic racism through equitable access to capital.**

The ICC achieves this purpose by aiding and amplifying capital innovators and service providers who are building wealth in their communities using debt, equity and real estate instruments, and by connecting them in a jointly owned and governed network. With the ICC, capital innovators and service providers centering communities of color have created a novel kind of intermediary infrastructure to help each other accelerate the learning curve required to design, and redesign, for a more equitable future; mobilize capital; and grow their businesses.

ICC capital innovators are exploring alternative types of capital, developing more equitable ownership models, and structuring blended finance offerings that mobilize a range of philanthropic and private capital.

This work was important before the pandemic, and it has only become more urgent as we contemplate how to rebuild an economy and society that creates health and wealth for all.

The **Black Papers** are a series of briefings written by and for practitioners. They illuminate the systemic barriers in financial markets, focusing on specific areas and segments that are ripe for interventions by investors interested in deploying their resources for social justice. Each Black Paper spotlights scalable solutions developed by members of the ICC, and invites the reader to take action.

In this, our first Black Paper, we introduce you to the innovative structures and models developed by Black, Indigenous, and other POC real estate developers whose work not only constitutes a crucial and practical impact investment opportunity, but is also a public policy imperative. This paper contextualizes the current and historical challenges with Black real estate development, highlights the work of innovative, equitable, community-focused Black and other real estate developers of color, and details their untapped potential towards holistic and lasting change in communities of color. This paper primarily serves as a call to action for investors who have sought to promote social justice through grantmaking or other philanthropic endeavors, and are now increasingly seeking investment solutions to accomplish the same goal. What you are about to read draws upon years of sweat, tears, tinkering, and tenacity of brilliant Black and other developers of color across the nation—please enjoy! And join us.

Nikishka Iyengar

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Executive Summary

Few areas of American life and the economy exemplify the structural, institutional, and systemic racism in this country as vividly as real estate; the industry's very roots trace back to colonization and slavery and even today, finance, real estate and public policy continue to work together to reinforce racial capitalism's most egregious outcomes. Real estate is the largest source of asset-based wealth and opportunity for American families, and yet Black and other communities of color are systematically marginalized in renting, owning, and financing real estate. This affects both families who are excluded from home ownership (or don't proportionately benefit from it when compared to White families), and also real estate entrepreneurs—the focus of this Black Paper—who are creating innovative models and ecosystems to build community wealth in their neighborhoods.

Centering racial equity in real estate capital stacks. Part of the solution to these systemic problems is to shift from extractive capital stacks towards equitable ones that help re-balance risk and return in service of holistic community development and ultimately, community self-determination. However, this is made difficult by the fact that Black and other communities of color are not deemed trustworthy and capable of developing their own neighborhoods. While dismantling racial capitalism is beyond the scope of this paper, our hope is that our articulation of the challenges (and opportunities) faced by Black and other real estate entrepreneurs of color creates a sense of urgency for the impact investing ecosystem, as well as illuminates a few key policy imperatives to accompany capital access.

Current community development paradigm prizes outputs over outcomes. Current community development practices and institutions tend to focus on outputs (notably affordable housing units) over outcomes that create structural change. They also privilege community development organizations that tend to design *for*, not *with*, Black and other communities of color. The available impact investment capital embodies the systemic bias of these practices. For neighborhood-scale Black and other developers of color who are focused on creating community wealth building solutions, this means that available capital tends to fall into two categories:

- *loans that, due to perceived risk, tend to be at above market interest rates with underwriting criteria that can be racist in and of themselves, and/or*
- *highly competitive, time and resource-consuming grant and tax credits applications.*

Both of these financing sources are often targeted towards nonprofits, the majority of which focus on affordable housing, and to a lesser extent, main street small businesses.

Reimagining real estate finance as if communities mattered. There is an abundance of innovative Black and other real estate developers of color whose projects and financial structures center their communities and sustainable wealth creation. They are individually and collectively running the gauntlet of acquisition costs and timing; racial bias in appraisals; zoning issues; and development financing—with the latter characterized by challenges to access both equity and debt at non-extractive terms.

The solution these capital innovators have identified is simple: **genuine community-driven commercial real estate development requires flexible, equitable capital stacks** that have the following elements in which values aligned investors can participate:

- **PATIENT EQUITY**: *Provide longer horizon, below-market return (0-5%) preferred and common equity at the project and organizational level, as well as debt-like equity with interest-only options and 12-24 months periods before collecting payments.*

- **FRIENDLY DEBT**: *Provide higher loan-to-value (LTV) senior debt (covering up to 90% or higher) to reduce the equity burden, and/or subordinate debt with interest rates that facilitate long-term affordability (0-8% or at cost). Provide optional interest-only periods to allow projects to stabilize.*

- **LINES OF CREDIT**: *Provide access to lines of credit that enable developers to pay for expenses arising between construction draws, due diligence costs and internal operating expenses.*

- **LOAN GUARANTEES**: *Facilitate access to guarantors for projects that lenders are unwilling to underwrite without one. Loan guarantees are key to unlocking lending resources from CDFIs and Banks that are affordable and flexible to each project's needs.*

In addition to facilitating the creation of more equitable capital stacks, there is **an opportunity to develop policy and programming to enable Black and other BIPOC developers to acquire land bank properties at lower prices**, which would facilitate cost savings throughout the development process.

All of these practical solutions to overcoming systemic racism in access to capital and real estate development are available today, and we are calling on philanthropic and values-aligned investors to join us and become part of the real estate evolution!

The Systemic Problems with Real Estate

Entrepreneurship and real estate have long been defining wealth-building strategies in America, however, systemic racism in housing policy, urban development and access to capital have forced Black communities especially, and other communities of color, to be systematically excluded, and predatorily extracted from. The net worth of a typical white family is nearly 10 times that of a typical Black family, and that racial wealth gap continues to grow.

US CENSUS: MEDIAN VALUE OF ASSETS FOR HOUSEHOLDS, 2017

Characteristic	Net Worth	Checking Accounts	Other Interest Earning Accounts (Savings, CD)	Stocks & Mutual Fund Shares	Equity in Business or Profession	Equity in Own Home	Rental Property Equity	Other Real Estate Equity	Retirement Accounts Total
White alone, not Hispanic	$171,100	$2,002	$6,000	$45,100	$10,000	$125,000	$124,00	$75,000	$85,000
Black alone	$9,567	$800	$1,000	$8,500	$4,000	$72,900	$58,000	$35,000	$20,000

Source: US Census - Wealth, Asset Ownership, & Debt of Households Detailed Tables:2017

In terms of real estate, the industry itself has been responsible for historic and *continued* segregation — in the words of scholar, writer and activist Keeanga-Yamahtta Taylor:

> "The real-estate industry created the idea that Black homeowners posed a ***risk*** to the housing market and then ***profited*** from financial tools promoted as mitigating that risk".[1]

Gentrification, evictions,[2] and the persistent devaluing of Black real estate[3] continue to be urgent symptoms of a root system that was designed for extraction. Existing strategies for funding development in Black and other communities of color have typically been targeted towards delivering key "outputs" (e.g. affordable housing units, number of organizations served, or dollars disbursed) and have stopped short of addressing the underlying structural and systemic issues.

The emergence of the "community development" industry that is designed to address the issues of the traditional real estate market has offered little relief: Despite the best intentions of its proponents and practitioners, it often takes a paternalistic approach to development, and builds for Black and other communities of color rather than with them. One of the largest impediments to real estate becoming a source of wealth for all Americans is that **Black and other communities of color are not deemed trustworthy and capable of developing their own neighborhoods**.

[1] Keeanga Yamatta-Taylor. "How Real Estate Segregated America". Dissent. Fall 2018. available at https://www.dissentmagazine.org/article/how-real-estate-segregated-america-fair-housing-act-race, accessed 19 April 2021

[2] Peter Hepburn et al. "Racial and Gender Disparities among Evicted Americans". Eviction Lab. Winter 2020. Available at https://evictionlab.org/demographics-of-eviction/, accessed 19 April 2021

[3] Andre Perry et al. "Devaluation of Assets in Black Neighborhoods". Brookings Institution. Fall 2018. Available at https://www.brookings.edu/research/devaluation-of-assets-in-black-neighborhoods/, accessed 19 April 2021

Community planning and development processes typically exclude residents and other key stakeholders from the imagining, design, ownership and execution of the developments taking place in their own neighborhoods. As a result, community development institutions and nonprofits who succeed in delivering outputs such as affordable housing units strengthen their influence and power in Black and other communities of color, while those communities don't receive the resources to build for themselves.

For neighborhood-scale Black and other developers of color intent on changing this dynamic, capital solutions tend to fall into two categories: (i) loans that, due to perceived risk, tend to be at above market interest rates with underwriting criteria that can be racist in and of themselves, and/or (ii) highly competitive, time and resource-consuming grant and tax credits applications. Both of these financing sources are often targeted towards nonprofits, the majority of which focus on affordable housing, and to a lesser extent main street small businesses.

While outputs such as affordable housing units are important, the dynamic above perpetuates a power imbalance, with lenders and grantors deciding who gets funded and what gets built in communities of color. Further, what's almost entirely missing in these capital stacks is patient equity and/or "friendly" mezzanine or subordinate debt — equity available for these projects tend to come with market-rate IRRs that eventually translate to increased rents and other downstream impacts that don't align with the initial vision of the project. **The same 'friends and family' gap in initial funding that is well-documented for Black and other entrepreneurs of color, also exists for Black and other developers of color.** Ultimately, the spectrum of capital currently available for development in communities of color does not deliver longer-term, sustainable solutions that communities can take ownership of themselves.

In recent years, foundations and the impact investment community have increased their focus on capitalizing Black and other entrepreneurs of color and businesses, in an effort to address the expanding racial wealth gap.[4] This investment is crucially needed, and must continue, **but is not enough**. There also needs to be a concerted effort and investment into the equitable real estate ecosystem.

There is a troublesome dynamic of local governments incentivizing big developers to "revitalize" Black or other neighborhoods of color to support and retain local successful businesses and increase city and county tax revenue. The key contention of this paper is that:

> **In order for this revitalization to take place without repeating patterns of extraction endemic to the real estate industry, *both equity and decision-making power need to reside with Black and other developers of color* who either live in or are closely representative of these neighborhoods, *and* who take a *community wealth-building* approach to development.**

In the next section we outline the challenges and opportunities faced by innovative real estate entrepreneurs who are doing just that.

[4] Kriston McKintosh et al. "Examining the Black-white wealth gap". Brookings Institution. Winter 2020. Available at https://www.brookings.edu/blog/up-front/2020/02/27/examining-the-black-white-wealth-gap/, accessed 19 April 2021

Reimagining Real Estate Finance as if Communities Mattered

Against this backdrop of a segregated, extractive real estate industry, and a paternalistic community development industry focused on outputs over outcomes, there is a growing group of Black and other real estate entrepreneurs of color who are working on innovative solutions to build community wealth and who are ready to accept capital. They center their communities' interests by, for example:

- **Prioritizing affordable operating space for local Black and other POC owned businesses,** *leading to opportunities for job creation and retention within communities*
- **Involving community organizers, small business owners, and local residents** *in the development process*
- **Providing key community goods**, *such as groceries, community meeting space, and other amenities*
- **Using infill development** *to create or retain affordable rental and for sale housing that stabilizes legacy Black and other residents of color*
- **Creating opportunities for Black and other residents of color** *to have an ownership interest in commercial real estate*
- **Connecting the dots between residents, businesses, and public resources** *such as: technical assistance, financial literacy programming, business grants, etc.*

By making targeted investments (on non-extractive terms) to Black and other developers of color who are focused on pushing beyond the status quo and incorporating community wealth building strategies, capital providers and policymakers can have greater social impact through increased employment, wealth creation, political power, and expanded career pathways for Black and other people of color in an industry where they are highly underrepresented.

But their work is not without challenges and tradeoffs. In this section we detail the major hurdles in their path in terms of access to capital along each stage of the real estate development process.

ACQUISITION: The first and primary step of real estate development involves acquiring property to be occupied by tenants or future owners. The BIPOC developers discussed in this paper typically set out to acquire properties that provide a community benefit such as affordable housing, commercial space for small businesses or community-based organizations, or for communal gathering spaces. These developers often lack the available cash on hand to acquire properties in hot real estate markets, or must go "all in" on one property and jeopardize their ability to scale effectively.

DEVELOPMENT: Upon controlling or acquiring a property, developers must engage investors and lenders and put together a capital stack for construction, rehabilitation, or improvement to prepare the property for operation. Upon engaging with these parties, developers put together a capital stack based on the expected value of the property. One of the first hurdles BIPOC developers are met with when putting together their capital stack is the **appraisal bias**. Because of the historical dynamics of redlining, racially discriminatory housing policy, and the continued perpetuation of white supremacist policy that is embedded across public and private institutions that extract from and exploit Black and other communities of color, the appraised value of properties in these communities tends to be less than that of the general market. Access to both debt and equity are contingent on the appraisal. A lower appraisal value translates to less capital provided to develop properties in these areas, relative to white neighborhoods. This, compounded by the lack of access to equity or "friend and family" capital, leads to many potentially powerful projects for communities being out of reach and plays into the misguided narrative of Black and other communities of color lacking the will to support themselves. The table illustrates how the appraisal bias affects the bottom line of a Black or developer of color.

For an illustrative example, assume a developer finds equity investors and lenders to put together a capital stack to develop an acquired property that they expect to be valued at $2.5M. The lenders and equity investors extend (nonbinding) letters of intent to fund the project ($1.875M debt, $625K equity respectively) upon completing due diligence. One primary step to complete due diligence is to get an appraisal of the property (often by an appraiser selected by the lender). Due to the appraisal bias, the as-built appraisal comes back much lower than comparable properties in adjacent white neighborhoods at $1.875M leaving a ~$469K capital gap. The Black developer must overcome the following challenges:

1. *The project's equity investor may choose to drop out given the lower valuation, capital gap, and perceived increased "risk" of the investment.*

2. *The developer must close the capital gap to retain the prospective lender (which is typically upwards of 65% of the capital stack)*

   Closing the gap with senior debt: If the senior debt lender is unable or unwilling (due to underwriting and risk criteria) to raise the project's LTV ratio, this option is not feasible. In the event that they're willing to raise the LTV

   Closing the gap with mezzanine funds: The developer must identify more expensive mezzanine financing resources to cover the capital gap, creating a change to the pro forma and expected rents

	White Community	Community of Color
Land	Donated	Donated
Construction	$2,000,000	$2,000,000
Soft Costs	$500,000	$500,000
Total Development Costs	$2,500,000	$2,500,000
As-Built Appraised Value	$2,500,000	$1,875,000
Loan Amount at 75%	$1,875,000	$1,406,250
Equity Required	$625,000	$1,093,750
		($468,750)

Source: IFF 2019[5]

In the next section we look at the challenges that Black and other developers of color face in more detail. We'll then look at what capital innovators are doing to overcome these challenges.

[5] Joe Neri. "The Appraisal Bias: How more equitable underwriting can increase capital in communities of color". IFF blog. Spring 2019. Available at https://iff.org/the-appraisal-bias/, accessed 19 April 2021

Accessing Finance While Black

The key challenge that Black and other developers of color face, against the backdrop of the systemic issues described, is access to equitable capital—capital that is geared to address the issues, rather than perpetuate them. This applies to both major tranches of the real estate capital stack, equity and debt.

- **EQUITY**: The key challenge here is insufficient access to flexible and non-extractive (<8-10%) equity capital to acquire the property outright, or to attract the corresponding debt that is needed close the deal, and to undertake the necessary pre-development activities (e.g. planning, design, environmental assessments, etc.) to prepare properties for development and operation. The equity that is often available has expected returns of >10% that, over time, prices out legacy residential and desirable commercial real estate tenants in Black and other communities of color, and forces developers to compromise serving their target market. Black and other developers of color are also often not able to find grants or low-cost capital for pre-development; not having this capital (or having it on the wrong terms) could result in aborting the project, or having less ownership of the project overall.

  Even when developers are able to access the necessary capital to get site control, the challenges remain persistent and iterative through the development stage — the lack of comparables due to predatory off-market deals and the appraisal bias noted above can create unexpected capital gaps that put off potential partners that made initial commitments, leaving Black and other developers of color scrambling to find equity to fill the gaps.

- **DEBT**: Debt is generally more expensive and cumbersome to acquire for Black or other POC led development firms or nonprofits than for white ones. Many Black and other developers of color struggle to get amenable financing from banks and must get debt from CDFIs (Community Development Financial Institutions). Those, in turn, offer more flexible terms or slightly more flexible underwriting criteria, but interest rates can be higher, which can mean greater pass-through costs to community stakeholders, and/or reduced returns for the developers themselves. Furthermore, Loan to (property) Value ratios are typically maxed out at 80% with CDFIs and even lower with banks, leaving capital gaps that developers have trouble filling. In this stage, these capital gaps often prevent developers from acquiring operating properties that do not require significant improvements. The unsecured debt that can fill these gaps is often priced at extractive rates and can change the pro forma for the project.

  After site acquisition, debt financing for construction, which is contingent on the as-is and as-built appraisal, is similarly challenging. BIPOC developers also struggle to get access to lines of credit (and don't often have the cash on hand) to pay for construction expenses before project milestones are achieved and loan funds are disbursed — Black and other developers of color often hire Black and other workers of color who also lack access to credit and liquid cash flow, and cannot wait months to be paid. This creates labor and operational issues and additional costs during the construction process. Finally, these developers can find it challenging to find permanent financing partners to "take out" construction lenders leaving an unsolved piece of their final capital stack.

- **CHALLENGES AS IT RELATES TO ZONING**: The impacts of restrictive zoning ordinances have a significant effect on neighborhood-scale Black and other developers of color. These developers are often unable to compete with larger developers on bigger property sites zoned for larger developments, and thus focus more heavily on infilling smaller vacant and underutilized sites in neighborhoods. Overall, restrictive zoning ordinances present the following challenges in this stage:
    - *Adds the additional hurdle of applying for zoning variances for the developers, who are often time and resource-strapped*
    - *Results in suppressing the total land available to develop property for long-term stakeholders that developers are committed to*

Overcoming these hurdles to innovation in real estate finance

For the past 12 months, a group of Black and other real estate innovators of color in the Inclusive Capital Collective have been comparing notes on what would help them overcome the hurdles they face in scaling their community-focused solutions that, in turn, help us overcome the systemic racism of real estate finance. The solutions they are seeking are as simple a they are transformative:

- **PATIENT EQUITY**: Longer horizon, below-market return (0-5%) preferred and common equity at the project and organizational level, including debt-like interest-only options with 12-24 months periods before collecting payments. Such patient equity can enable developers to unlock debt resources, compete for properties on the market, enable construction, and keep the pricing affordable for the ultimate end users.

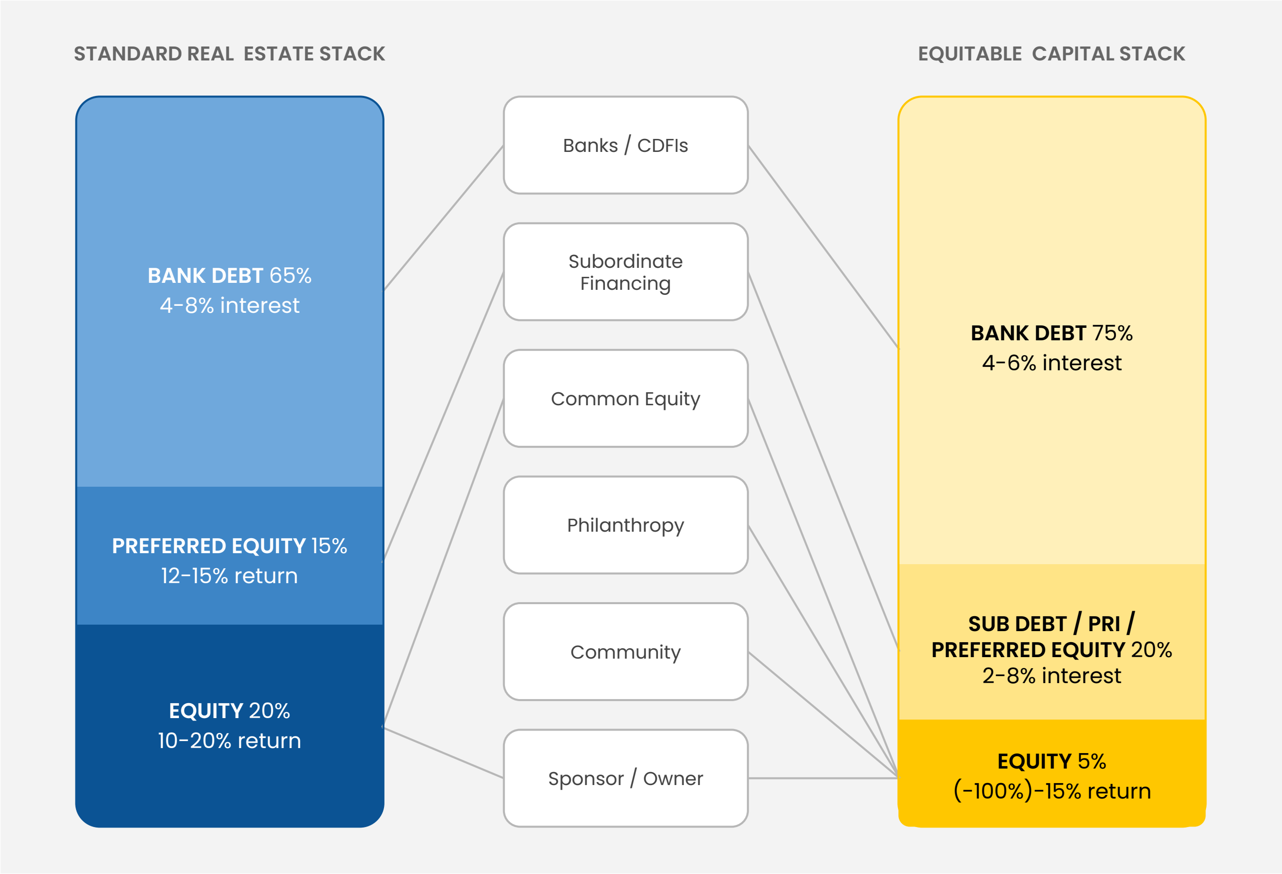
- **FRIENDLY DEBT**: Provide higher loan-to-value (LTV) senior debt (covering up to 90% or higher) to reduce the equity burden, and/or subordinate debt with interest rates that facilitate long-term affordability (0-8% or at cost). Provide optional interest-only periods to allow projects to stabilize.

- **LINES OF CREDIT**: Provide access to lines of credit to developers to enable them to pay for expenses arising between construction draws, due diligence costs, and internal operating expenses.

- **LOAN GUARANTEES**: Facilitate access to guarantors for projects that lenders are unwilling to underwrite without one. Loan guarantees are key to unlocking lending resources from CDFIs and Banks that are affordable and flexible to each project's needs.

In addition to these financial remedies, there is an opportunity to **develop policy and programming to enable Black and other developers of color to acquire land bank properties at lower prices,** which would lower the price of acquisition and facilitate cost savings throughout the development process.

The following graphic outlines what a more equitable capital stack would look like:



In the "business as usual" capital stack on the left, developers typically have the balance sheet to put or raise equity into projects, and banks loan the remaining 65% of project costs at commercial rates.

That self-financing is elusive for Black and other developers of color, who are thus looking to construct an equitable capital stack that has the following distinguishing characteristics:

- Banks and CDFIs are contributing a large debt tranche to the capital stack as long as there is a reliable amount of subordinate financing
- That subordinate financing is more varied than in the business as usual case, and can include concessionary debt, PRIs and preferred equity
- The capital stack is anchored by a smaller tranche of equity that is both comprised of more sources—including philanthropy and the community itself, and also ranges in financial returns from -100% (i.e. grants) to the more conventional 15%.

The equitable capital stack provides several doors through which developers, communities, and values-aligned investors can enter to support the community-driven development of commercial real estate for and by Black and other people of color.

The following table summarizes the challenges encountered by innovative Black and other developers of color, and the solutions in which aligned investors can participate.

FUNDAMENTAL CHALLENGES	BRIEF DESCRIPTION	SOLUTIONS	WHO CAN PROVIDE	OUTCOMES & IMPACT
Access to Patient Equity and / or Enterprise-Level Debt	Black developers lack access to patient equity and enterprise-level debt, at non-extractive rates	• Provide 0-5% return Preferred or Common equity, • Provide 12-24 month Interest only periods • Offer 10 year plus horizons • Provide equity at the project level, or loans directly to the developer	• PRI - Foundations • Family Office • High Net Worth Individuals	• Closes capital gaps, unlocks access to debt enabling Black developers to acquire and develop property • Lower cost of capital enabling more affordable rent, reducing cost burdens and displacement • Community ownership more feasible due to cheaper equity buyback • Black developers increase cash flow, enables deeper service, spread out developer equity and scale
Access to Friendly Debt	Black developers lack access to debt with affordable interest rates and the LTV ratios needed to acquire and develop property.	• Provide senior debt with 80-95% LTV, interest rates at 4-6% • Provide subordinate debt with below market rates (4-8%); • Provide A-note (senior at 80% LTV) and B-note loan products • Provide developer loan guarantee funding	• CDFIs • MDIs • PRI - Foundations	• Closes capital gaps enabling Black developers to acquire & develop property • Lower cost of capital enabling more affordable rent, reducing cost burdens and displacement • Non-extractive, unsecured debt capital can empower Black developers to take risks, thus directly addressing systemic racism
Access to Guarantors	Access to guarantors of projects to "cosign" when lenders are reluctant to finance without additional collateral	• Lenders help developers identify guarantors for projects • Serve as project guarantor	• CDFIs • MDIs • Foundations • High Net Worth Individuals • Development Authorities	• Enables Black developers to gain the backing/collateral needed to close on financing with favorable terms
CDFI Capital Constraints	CDFIs cite capital constraints that reduce the flexibility of their lending	• Provide flexible, nonrestrictive equity and debt to CDFIs • Provide pass through grants to CDFIs dedicated to Black developers	• Private Equity • PRI - Foundations • Family Office • High Net Worth Individuals • Development Authorities	• Enables CDFIs to provide financial products that meet the needs of underserved Black developers
Access to Lines of Credit	Black developers lack access to lines of credit to pay for operating costs, predevelopment, due diligence, and construction costs that occur before funds are released	• Provide line of credit at project level • Provide lines of credit directly to the developer	• CDFIs • MDIs	• Stabilizes internal workforce and operations • Enables Black developers keep projects on schedule saving costs • Pay cash strapped BIPOC subcontractors/trade workers
Zoning Restrictions	Zoning Policy that suppresses density in urban neighborhoods	• Support Developers to gain zoning variance • Support local efforts to reform zoning policy, and ease height, density, and use restrictions • Enable Accessory Dwelling Units on single family property	• City or County Development Authorities • CDFIs • Neighborhood Associations	• Create more opportunities for Black developers to deliver affordable housing and commercial units in Black communities • Increased density improves economies of scale for Black developers in neighborhood projects making the development of blighted property more feasible
Building Commercial / Mixed Use	Lenders (including CDFIs) only willing to underwrite a few commercial uses and tenants (e.g. CVS pharmacy, government office) due to macroeconomic conditions	• Loan guarantee grants for project • Project guarantors • Grants that fund a backstop or reserve for projects	• PRI - Foundations • Family Office • High Net Worth Individuals • Development Authorities	• Enable Black developers to provide commercial uses in neighborhoods in need (e.g. food and retail deserts) • Job and small business growth in Black neighborhoods • Activation of blighted commercial spaces in Black neighborhoods
Access to Attainable Property	Black developers face skyrocketing prices in hot markets, minimal time to fundraise, unable to compete for properties, or must go "all in" on one property, exhaust funds and jeopardize ability to develop, operate, and scale	• Dedicated Land Bank property to Black developer projects • Donation of property, or sale at affordable price, to Black developers	• Land Banks • High Net Worth Individuals • Development Authorities	• Reduces overall capital costs making projects more accessible to Black developers and existing community stakeholders • Opportunities to reduce residential and business displacement in gentrifying neighborhoods
Appraisal Bias	Due to a history of racist housing policy, redlining, and disenfranchisement, the appraised value of properties in Black communities tends to be relatively lower, which lowers the available loan amount.	• Provide equity and/or increase LTV ratio on debt to close capital gap • Develop alternative to appraisal based lending such as income-based approach	• CDFIs • MDIs	• Increase available loan amounts, thus increasing access to sufficient financing for Black developers • Reduce developer equity gaps, increasing opportunities for development

Be Part of the Real Estate Evolution

Across the nation, there are an abundance of Black developers creating equitable and contextualized real estate solutions for their communities--transforming the way real estate development is done, and turning it into a vector for wealth creations for all Americans. They are working on a class of dedicated patient capital products and public policy solutions that are essential to support the success of Black developers like themselves. These products would empower developers to seize opportunities to acquire, develop, and manage community-owned and stewarded real estate projects in Black neighborhoods under the threat of displacement.

While providing risk adjusted returns, these funds would seed and scale innovative and locally contextualized real estate solutions that create pathways for equitable and self determined community development. The case studies in the Appendix provide examples of these projects, and the capital and policy support needed to bring them to fruition.

Please join us, and:

- **Get in touch** with one or more of the community real estate innovators featured here to learn more about their current opportunities to advance community real estate solutions. Email us and we will connect you;
- **Visit us at inclusive-capital.us and join the ICC mailing list** to meet the capital innovators, learn about upcoming events, and receive upcoming Black Papers on other topics in inclusive finance; or
- **Contact Zebras Unite** to learn more about how you can support the continued development of the Inclusive Capital Collective as a collectively owned backbone organization for capital innovators like those featured here. Reach out to Najaah Yasmine Daniels at najaah@zebrasunite.com.

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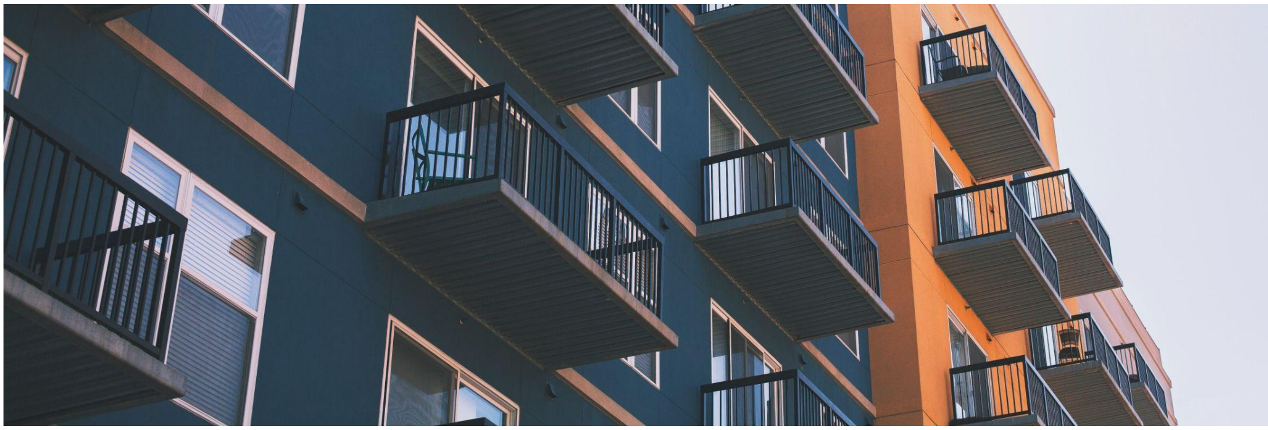
Few areas of American life and the economy exemplify the structural, institutional, and systemic racism in this country as vividly as real estate; the industry's very roots trace back to colonization and slavery and even today, finance, real estate and public policy continue to work together to reinforce racial capitalism's most egregious outcomes. Real estate is the largest source of asset-based wealth and opportunity for American families, and yet Black and other communities of color are systematically marginalized in renting, owning, and financing real estate. This affects both families who are excluded from home ownership (or don't proportionately benefit from it when compared to White families), and also real estate entrepreneurs—the focus of this Black Paper—who are creating innovative models and ecosystems to build community wealth in their neighborhoods.

Centering racial equity in real estate capital stacks. Part of the solution to these systemic problems is to shift from extractive capital stacks towards equitable ones that help re-balance risk and return in service of holistic community development and ultimately, community self-determination. However, this is made difficult by the fact that Black and other communities of color are not deemed trustworthy and capable of developing their own neighborhoods. While dismantling racial capitalism is beyond the scope of this paper, our hope is that our articulation of the challenges (and opportunities) faced by Black and other real estate entrepreneurs of color creates a sense of urgency for the impact investing ecosystem, as well as illuminates a few key policy imperatives to accompany capital access.



Current community development paradigm prizes outputs over outcomes. Current community development practices and institutions tend to focus on outputs (notably affordable housing units) over outcomes that create structural change. They also privilege community development organizations that tend to design *for*, not *with*, Black and other communities of color. The available impact investment capital embodies the systemic bias of these practices. For neighborhood-scale Black and other developers of color who are focused on creating community wealth building solutions, this means that available capital tends to fall into two categories:

- *loans that, due to perceived risk, tend to be at above market interest rates with underwriting criteria that can be racist in and of themselves, and/or*
- *highly competitive, time and resource-consuming grant and tax credits applications.*

Both of these financing sources are often targeted towards nonprofits, the majority of which focus on affordable housing, and to a lesser extent, main street small businesses.

Reimagining real estate finance as if communities mattered. There is an abundance of innovative Black and other real estate developers of color whose projects and financial structures center their communities and sustainable wealth creation. They are individually and collectively running the gauntlet of acquisition costs and timing; racial bias in appraisals; zoning issues; and development financing—with the latter characterized by challenges to access both equity and debt at non-extractive terms.

The solution these capital innovators have identified is simple: **genuine community-driven commercial real estate development requires flexible, equitable capital stacks** that have the following elements in which values aligned investors can participate:

- **PATIENT EQUITY**: *Provide longer horizon, below-market return (0-5%) preferred and common equity at the project and organizational level, as well as debt-like equity with interest-only options and 12-24 months periods before collecting payments.*

- **FRIENDLY DEBT**: *Provide higher loan-to-value (LTV) senior debt (covering up to 90% or higher) to reduce the equity burden, and/or subordinate debt with interest rates that facilitate long-term affordability (0-8% or at cost). Provide optional interest-only periods to allow projects to stabilize.*

- **LINES OF CREDIT**: *Provide access to lines of credit that enable developers to pay for expenses arising between construction draws, due diligence costs and internal operating expenses.*

- **LOAN GUARANTEES**: *Facilitate access to guarantors for projects that lenders are unwilling to underwrite without one. Loan guarantees are key to unlocking lending resources from CDFIs and Banks that are affordable and flexible to each project's needs.*

In addition to facilitating the creation of more equitable capital stacks, there is an **opportunity to develop policy and programming to enable Black and other BIPOC developers to acquire land bank properties at lower prices**, which would facilitate cost savings throughout the development process.

All of these practical solutions to overcoming systemic racism in access to capital and real estate development are available today, and we are calling on philanthropic and values-aligned investors to join us and become part of the real estate evolution!

Reimagining Real Estate Finance as if Communities Mattered

Against this backdrop of a segregated, extractive real estate industry, and a paternalistic community development industry focused on outputs over outcomes, there is a growing group of Black and other real estate entrepreneurs of color who are working on innovative solutions to build community wealth and who are ready to accept capital. They center their communities' interests by, for example:

- **Prioritizing affordable operating space for local Black and other POC owned businesses,** *leading to opportunities for job creation and retention within communities*
- **Involving community organizers, small business owners, and local residents** *in the development process*
- **Providing key community goods**, *such as groceries, community meeting space, and other amenities*
- **Using infill development** *to create or retain affordable rental and for sale housing that stabilizes legacy Black and other residents of color*
- **Creating opportunities for Black and other residents of color** *to have an ownership interest in commercial real estate*
- **Connecting the dots between residents, businesses, and public resources** *such as: technical assistance, financial literacy programming, business grants, etc.*

By making targeted investments (on non-extractive terms) to Black and other developers of color who are focused on pushing beyond the status quo and incorporating community wealth building strategies, capital providers and policymakers can have greater social impact through increased employment, wealth creation, political power, and expanded career pathways for Black and other people of color in an industry where they are highly underrepresented.

But their work is not without challenges and tradeoffs. In this section we detail the major hurdles in their path in terms of access to capital along each stage of the real estate development process.

Case Studies

Capital Case Study

Philly Rise, The Black Squirrel Collective

BLACK SQUIRREL COLLECTIVE

Building Blocks Used

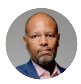
Patient Equity | Friendly Debt

Capital Innovators

Kevin Williams
SMART Group

Thom Webster
2020 Business Advisors

Jabari Jones
West Philadelphia Corridor Collaborative



Jim Burnett
VestedIn (formerly West Philadelphia Financial Services Institution)

Location

Philadelphia, Pennsylvania

Additional Details

- Five-year program
- Annual cohorts
- 10-25 developers per cohort
- 50-200 properties annually
- Development Financing
- Urban Land Institute Certification, membership, networks, continuing education

Background

The City of Philadelphia has over 42,000 vacant land parcels, 2,196 of which are held by its land bank, and loses significant tax revenue annually. Throughout history, the city's Black real estate developers have struggled to leverage vacant properties to grow and develop their communities, in part due to city and national policy that has historically discriminated against the creation of wealth for Black citizens.

The Pitch

Philly Rise, a Real Estate Accelerator for Small Black Developers, aims to provide this group a defined, regular source of patient equity and debt capital, technical assistance, and public and private partnerships to empower them to maximize opportunities to acquire and develop publicly held and vacant properties in the city. This will increase the opportunities for Small Black Developers to provide affordable housing, retail, and community wealth building opportunities for neighborhood residents to invest in the properties in their communities.

Where the instrument sits on the capital continuum

Many Black real estate developers focus their services to lower to moderate income communities where they must balance affordability for local stakeholders and return on investment. Given that these returns do not interest most equity investors, this leaves above market rate debt (from hard money lenders) as their primary source of capital. This inevitably leads to sometimes insurmountable capital gaps, and a slower deal by deal approach where developers can not scale their services and grow to become attractive to investors at the organizational level. Furthermore, developers must successfully acquire capital at each stage of the development to successfully bring projects to fruition.

Philly Rise seeks to facilitate **patient equity** and **debt** that fits at multiple stages in the real estate capital continuum. Although the returns may be below "market", they can provide investors a moderate return at a lower risk than many (equity) alternatives. This includes at the stage of property acquisition where capital is needed for pre-development expenses and to obtain property off the market, and at the development stage where funds are needed to complete construction and property lease up, and take out construction financing. Philly Rise can reduce the risk of investors and lenders by providing the developers access to the funds they need at each stage to streamline their capital needs while providing the technical assistance and partnerships to successfully execute and scale their efforts. Philly Rise is not designed for large real estate developers deep balance sheets and significant access to credit and networks.

Investment Thesis

Providing Black real estate developers access to (1) a dedicated source of capital, (2) access to affordable land bank property, (3) technical assistance and training, (4) and connections to key public and private players in local development ecosystems empowers them to consistently supply impact investors with moderate risk-adjusted returns, increase city tax revenue, and develop underutilized property that increases opportunities for community stakeholders and black entrepreneurs to own and invest in neighborhoods.

Capital Needed

Patient Equity and affordable debt to Black Real Estate Developer Accelerators

Comparison Matrix

	Increases access to equity	% of BIPOC Developers represented	Average Return	Typical Funders/Investors	Maintains founder ownership + Control	Provides Community Ownership Opportunities	Wraparound support / TA
Commercial Loans	No	**26%**	**2%**	CDFIs, Banks	Yes	No	No
Equity	No	**5%**	**10%**	Private Investors, PE, Foundations	No	No	No
City CDBG / Grant Funds	Yes	**N/A**	**0%**	City government, Economic Development Agencies	Yes	No	No
Philly Rise	Yes	**100%**	**8-10%**	CDFIs, Foundations, Development Authorities	Yes	Yes	Yes

Typical Capital Stack Needed

Land Purchase, Design, and Development

DEVELOPER EQUITY 10%
- Limited Partner (CDC)
- Limited Partner (Investor)
- Limited Partner (Small Black Developer)

CDFI Loan Capital for Funding Developers 90%
- Bank
- Private equity
- Foundation
- Government

- **1.14% of startup costs**: *$200,000 (preliminary staff costs, marketing, development of the mentorship platform, working capital needs as funds are initially disbursed.*
- **11.71% of fund for loan loss reserve**: *Suggested loan loss reserve funds are 10% of the primary capital available for lending. As the loans are made and portfolio seasons, it is likely that funds will be released from loan loss reserve funds to make additional loans.*
- **1.43% wraparound services/mentorship**: *The access to mentors through a technology platform is a critical part of a character-based lending loan program.*
- **85.72% primary capital**: *A minimum of $15mm in primary funding capital is necessary to ensure a character-based loan program is self-supporting.*

Philly Rise Accelerator 6 step strategy for Small Developers

Assessing readiness of developer to receive this type of investment

***Readiness is assessed through*:**
- **A review of the applicant's business plan**, *organization needs, development pipeline, and financial projections*
- **An interview / Q&A session** *with the applicant*
- *The completion of a detailed* **loan application**
- **A pitch / presentation** *by the application to an advisory loan review team*
- **The review of the loan request** *by a loan review committee independent of staff*

Common challenge when operationalizing

Staffing, budgeting, confirming partnerships, marketing, timing

Timeline

Fall 2020: Start
12-18 Months: Sale of property

Capital Case Study

Chicago Trend Corporation

Establishing Black RE Developers as an investment class & policy imperative

CHICAGO TREND
Transforming Retail Economics of Neighborhood Development

Building Blocks Used

Community Equity | Friendly Debt

Capital Innovator

Lyneir Richardson
CEO, Chicago TREND

Location
Chicago, Illinois
USA

Year Founded
2016

Background

The COVID-19 health crisis, recession and civil unrest (following the murder of George Floyd) amplify the need for targeted economic empowerment initiatives in Black communities. Black communities receive no financial benefit from the profitability and appreciation of shopping centers that they frequent as customers. Moreover, Black residents have few connections to visible and accessible Black shopping center owners and commercial real estate professionals.

The pitch

The Chicago TREND Corporation has developed a strategy to buy income-producing shopping centers in partnership with Black entrepreneurs and community investors. TREND has market intelligence, capital, expertise and industry relationships allowing it to identify, acquire and improve under-valued shopping centers in Black neighborhoods. TREND seeks to intentionally empower Black entrepreneurs and community residents to have a meaningful ownership stake in the revitalization and continued vibrancy of commercial corridors and shopping districts.

- *Black generational wealth will be created by the ownership of real estate assets with appreciation potential*
- *Black entrepreneurs and investors will receive the benefits of positive cash flow projected to be generated by the real estate asset*
- *Black entrepreneurs will have more opportunity to operate businesses as tenants in shopping centers*

Where the instrument sits on the capital continuum

TREND properties will attract public subsidy, philanthropic support and favorable financing terms because of the mission-oriented branding of TREND and Black ownership. They are acquired as operating properties with patient equity and debt capital. Unless they are sold earlier to an affiliated urban community retail REIT, TREND expects to hold properties for as long as 10 years. During the holding period, these assets are expected to generate annual fees and investment income that will be shared by TREND and Black entrepreneurs. The pro forma for each deal targets an IRR exceeding 20% for TREND, Black entrepreneurs and community investors.

Investment Thesis

To achieve inclusive economic development and growth, it is essential that more assets in Black communities be owned by (and build wealth for) Black entrepreneurs and community residents. TREND has quietly negotiated to buy shopping centers at a favorable price and believes it can provide a strong return for the following reasons:

- *The locations are in well-known retail district, benefit from vehicular traffic, public transit and access to a high-density residential population*
- *Diverse mix of convenience and service-oriented tenants will: (a) reduce risk of cyclicality, (b) drive customer traffic (frequent trips, multiple store visits per trip, etc.), (c) allow for rental revenue from small businesses and national tenants, and (d) not compete directly with Amazon*
- *Property appreciation over time is expected from community stability/revitalization through strategic leasing and property management*

TREND is assembling a team of Black professionals (leasing, management, insurance, architecture, etc.) to provide hands-on property management, stay on top of issues, retain existing tenants and attract new ones to improve financial performance and community impact.

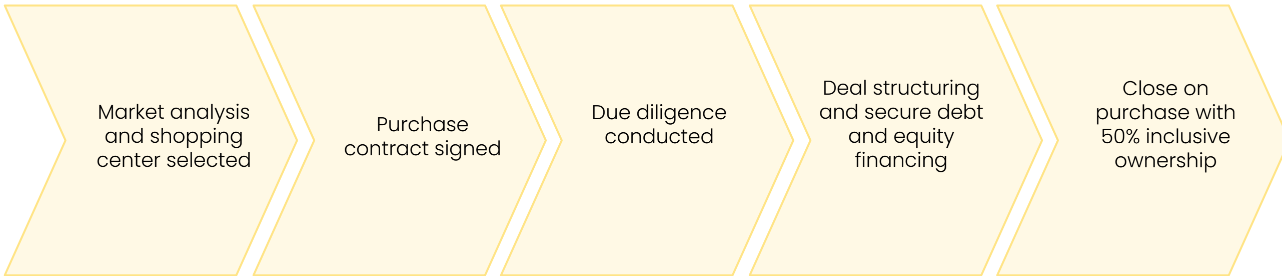
Capital Needed

- **Senior Debt:** *70% LTV*
- **Subordinate Debt:** *25%*
- **Community Equity:** *2.5%*
- **Sponsor Equity:** *2.5%*

Comparison Matrix

	Increases access to equity	% of BIPOC Developers represented	Average Return	Typical Funders/Investors	Maintains founder ownership + Control	Provides Community Ownership Opportunities	Wraparound support / TA
Commercial Loans	No	**26%**	**2%**	CDFIs, Banks	Yes	No	No
Equity	No	**5%**	**10%**	Private Investors, PE, Foundations	No	No	No
City CDBG / Grant Funds	Yes	**N/A**	**0%**	City government, Economic Development Agencies	Yes	No	No
Chicago Trend	Yes	**100%**	**20%**	CDFIs, Foundations, Development Authorities	No	Yes	Yes

5 steps to setting up a Chicago Trend Investment Project



Assessing readiness of developer to receive this type of investment:
TREND is being invited to structure deals in urban markets around the country. Quietly, TREND is analyzing and carefully selecting urban shopping centers to acquire based on the following strategic criteria:

- **STRONG COMMUNITY**
  - *More than 100,000 residents within a 3-mile radius*
  - *At risk of decline or poised for positive change*
  - *"Cusp" location with access to both low- and high-income populations is a plus*
- **STRONG LOCATION**
  - *Visibility through signage, adequate street frontage and property configuration*
  - *Access via auto, transit and walking*
  - *Parking adequate for mix of uses*
- **STRONG TENANT MIX**
  - *Service- and convenience-oriented; diverse mix identified by TREND as more likely to do well during a financial downturn*
  - *"Non-Amazonable" business types*
  - *Rolling lease terms provide value-add opportunity on renewal and opportunity to curate community-supporting tenant mix*
- **STRONG FINANCIAL DEAL**
  - *Purchase at a cap rate of 9%+ on in-place NOI*
  - *Cash flow (after debt service) is available for distribution*
  - *Below-market rents; potential for value appreciation as part of the TREND portfolio*
  - *Ability to obtain favorable low cost debt financing at 90% of total project cost*
  - *Well maintained properties, limited capital improvements needed*

Timeline
Ten community shopping centers inclusively owned by end of 2021 and 30 by the end of 2023.

Capital Case Study

The Guild, Groundcover

Building Blocks Used

- Patient Equity
- Philanthropic Grants & PRIs
- Community Equity

Capital Innovators


Nikishka Iyengar
The Guild


Antariksh Tandon
The Guild


Joel Dixon
Urban Oasis


Avery Ebron
The Guild


Dani Brockington
The Guild

Location
Atlanta, Georgia
USA

Year Founded
2015

Background

Gentrification, evictions, and land grabs (further exacerbated by crises like the Great Recession and COVID-19) are symptoms of a predatory real estate industry that displaces Black and other residents of color, and continues to segregate neighborhoods. Community-owned and governed real estate models are slowly gaining traction as a viable alternative to the status quo.

The pitch

Groundcover, an initiative and forthcoming fund from The Guild, creates community-owned and community-governed models through a Community Stewardship Trust (CST). Residents in the zipcode invest anywhere from $10 to upwards of $100/month that get converted into shares that buy back the equity on the properties in the CST at a below-market rate, that allow them to participate in the financial upside of development in their own neighborhoods. In addition, each community investor gets one vote allowing them to make key decisions that influence the future the property. To produce these projects for marginalized communities, there is a need for patient and lower-cost capital, given that 'market rate' tends to be extractive. Beyond acquiring, developing and exiting assets into the hands of the community, we are also exploring other pilots where we provide capital and technical assistance for existing tenants to gain ownership and control of properties they currently occupy through cooperatives.

Where the instrument sits on the capital continuum

Groundcover will attract public and philanthropic funds, patient equity and "friendly" debt capital. The fund will provide capital for projects that will be owned and controlled by community investors within a 10 year period. Community investors earn returns through annual dividends based on the Net Operating Income (NOI) of the property, and through a share price appreciation that is tied to escalating property values in a gentrifying neighborhood..

Existing problem in the capital ecosystem the instrument addresses

COVID-19 and the eviction crisis has underscored the urgency to support housing justice and community-based organizations, many of which are focusing on alternative community ownership models. However, when properties do come on the market, community-based organizations often don't have the capital (liquidity) to act quickly to purchase them for communal ownership and stewardship. Even if communities are sufficiently organized to acquire and develop assets in their neighborhoods, they are often too small for the right kind of capital (patient, below market equity and debt) that investors can provide. To get to critical mass and momentum for the collective ownership movement, the 'deal by deal' approach akin to our pilot is great, but not sufficient, especially given the long investment durations and trying to adequately match non-extractive sources of capital to uses.

Capital Needed

- **Senior Debt:** *55-70% LTV*
- ***Subordinate Debt:*** *10-15%*
- **Patient Equity:** *10-15%*
- **Grants:** *5-15%*

Comparison Matrix

	Increases access to equity	% of BIPOC Developers represented	Average Return	Typical Funders/Investors	Maintains founder ownership + Control	Provides Community Ownership Opportunities	Wraparound support / TA
Commercial Loans	No	**26%**	**2%**	CDFIs, Banks	Yes	No	No
Equity	No	**5%**	**10%**	Private Investors, PE, Foundations	No	No	No
City CDBG / Grant Funds	Yes	**N/A**	**0%**	City government, Economic Development Agencies	Yes	No	No
Groundcover	Yes	**100%**	**5%**	CDFIs, Foundations, Development Authorities	Yes	Yes	Yes

Pilot Project Example

Located in Atlanta's Capitol View neighborhood, 918 Dill Avenue is slated to become a community-owned and governed 21,000 sq ft mixed-use property. Local residents will be able to engage in an investor education program and buy risk-mitigated (through a loss reserve) shares of ownership in the property ($10-$100/per month), become members of the local community stewardship trust (CST) that collectively owns and stewards the space (and other properties in the zipcode) and build wealth as the property serves the community. The site will provide permanently affordable housing and commercial spaces accessible to BIPOC-owned businesses and organizations that address local needs, such as providing a grocery in a food desert. The project plans to break ground in Q3 -Q4 2021 and open Q3-Q4 2022.

KEY PROJECT FEATURES:

- *Low dollar investments ($10 to $100/ month); accessible to low-income communities*
- *Free entry and exit, short and long-term returns for investors, savings account substitute*
- *Protection from loss for investors (through a loss reserve)*
- *Investor & Communal Governance education courses*
- *Membership in local democratic governing body, one person one vote*
- *SEC-compliant portal for investors*
- *Mutual aid to support existing community residents*

Pilot Project Capital Stack

EQUITY 28%	DEBT 72%	TOTAL
• Equity (Grants) - Acquisition - **12%** • Equity - Development - **16%**	• Construction / Takeout - **57%** • Subordinate - **15%**	**$6.1 Million**

Steps to setting up a Community Stewardship Trust

- **Conduct Community mapping and outreach** *to identify location of project*
- *Put in place* **neighborhood and ecosystem partnerships** *to ensure project success.*
- **Raise mission aligned capital** *and close on property.*
- **Develop property**, *in parallel,* **co-develop community stewardship** *and investor education programming with local partners*
- **Form Community Stewardship Trust (CST)** *entity. Tenant Lease-up.*
- **Community residents engage in programming**, *buy shares of CST and buy back the equity from The Guild. They become community investors with voting rights in a democratic governing body.*
- *Tenants pay rent, the property pays down debt and pays out dividends,* **shares appreciate based on property values.**

Assessing readiness of developer and project to receive this type of investment:

- **STRONG COMMUNITY BUY-IN**
    - *Desire or current effort to develop community owned real estate project in neighborhood*
    - *Project has the support of local community organizations, faith based organizations, neighborhood associations and organizing and activists groups*
- **LOCATION**
    - *Highly visible from street*
    - *Access via auto, transit and walking*
    - *Parking adequate for mix of uses*
    - *< .5 miles from public transit*
    - *Mixed use zoning available*
- **DEMOGRAPHICS**
    - *50% or more BIPOC population*
    - *<80% Area Median Income*

Capital Case Study

SW Florida Impact Partners LLP,

Impact for Equity CDVC Fund I, L.P

Building Blocks Used

Opportunity Zone Funding

Capital Innovators

Anthony Jewett
SW Florida Impact Partners LLP

Therese Parker
Domino Strategy Consulting LLC

Lee Ford
Lee Ford Family Group

Location
Fort Myers, Florida

Year Founded
2018

Instrument

The Fort Myers MLK Redevelopment Fund (aka Impact for Equity CDVC Fund I, L.P.) a to-be-registered Florida Limited Partnership and Opportunity Fund, to provide catalytic early-in capital for anchor institutions, small businesses, commercial real estate and mixed-income housing.

The pitch

Once a more thriving local African American enclave, the Dunbar/Michigan/MLK Redevelopment Area was hit hard by the 2008 financial crisis and has experienced sharp declines in property values. Now designated as a Federal Opportunity Zone, this area presents significant prospects for private investment inclusive of opportunities to greatly enhance overall neighborhood health and resilience. SW Florida Impact Partners, LLP is inviting $10,000,000 of locally-focused private placements from select investors committed to economic and community development in the SW Florida region for Impact for Equity CDVC Fund I, L.P., a to-be-registered Florida Limited Partnership and Opportunity Fund focused on redevelopment and community renewal in the historically African American Dunbar/Michigan neighborhoods, also referred to as the Fort Myers CRA's MLK Redevelopment District. The fund will participate across three classes of investment necessary for this phase of revitalization and achieve at least 1.5X return on capital by a consistent 4.15% IRR. Increases in area property values, community health as measured by 12 indicators of health equity, and targeted Local Economic Impact (LEI) are the Fund's social objectives.

Where the instrument sits on the capital continuum

A to-be-registered Florida limited partnership and Opportunity Fund, the Impact for Equity CDVC Fund I is an integrated capital fund committed to deploying a mix of equity, quasi equity, debt, guarantees, and/or grants to achieve deal success. The fund is a U.S. Treasury certified Community Development Entity (CDE) with a 13-year life span. The Fund is a public-private partnership between SW Florida Impact Partners and the Fort Myers Community Redevelopment Agency (CRA) consulting closely with residents, the City of Fort Myers, and Lee County government. The Fund is focused primarily on limited partnership with local banking institutions per the Community Reinvestment Act and seeking additional limited partners from both business and philanthropy.

Existing problem in the capital ecosystem the instrument addresses

The Dunbar/Michigan/MLK Redevelopment Area has been hard-hit by previous economic cycles and experienced a deep decline in economic activity, most closely linked to the financial crisis of 2008. Property values stood at $231.0M in 2006 prior to the financial crisis, and totaled just $89.8M in 2018, a 61% reduction. This event decimated a key element of household and family wealth within the Opportunity Zones as well as the taxable property base.

Strategy and Goals: Investment Thesis

Phase I: Focus on Anchor Institutions

Three phases of investment will advance and ultimately achieve health equity here. First must come anchor institutions, followed by reinvigorating the MLK commercial corridor, then future-oriented solutions in mixed income, affordable housing and sustainable infrastructure. We are guided by a commitment to:

> **Cultural Relevance for Market Viability**
> Every investment must respond to the unique cultural, historic and economic factors that have shaped this community in order to attract external customers, grow, thrive in the market and return capital. .

> **Ecosystem Building**
> We can support and connect far more than we can capitalize.

> **Private Capital for the Public Good**
> At its best, local government plans for and responds to the needs of the whole down to the neighborhood level. Investing alongside local public priorities ensures equity, and wisely, widely leverages private capital while also creating more ethical opportunities for exit.

> **Community Engagement**
> Revitalization will proceed most organically, successfully and accountably at the speed of trust. We work as an intermediary representing asset owners who want to be in solidarity and right relationship with the neighbors and families that call this community home.

Capital Needed:

- **$10,000,000** equity capital
- **$20,000,000** debt capital
- **$250,000 to $10,000,000** maximum by institutional investors (4.15% target IRR annually)
- **$50,000 to $1,000,000** maximum by individual investors (4.15% target IRR annually)

Comparison Matrix

	Increases access to equity	% of BIPOC Developers represented	Average Return	Typical Funders/Investors	Maintains founder ownership + Control	Provides Community Ownership Opportunities	Wraparound support / TA
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Equity	No	**%**	**10%**	Private Investors, PE, Foundations	No	No	No
City CDBG / Grant Funds	Yes	**%**	**0%**	City government, Economic Development Agencies	Yes	No	No
Impact for Equity CDVC Fund I, L.P	Yes	**60%**	**%**	CDFIs, Foundations, Development Authorities	Yes	Yes	Yes

Investment Criteria and Process:

- *At least one principal of the investee is an **Opportunity Zone resident** or **business owner***
- ***$50,000 to $250,000** first capital placement, dependent on stage of project or enterprise*
- ***5%-15%** equity participation, debt or fixed-term revenue share*
- ***Follow-on rights up to $2,500,000** and willingness to take capital from syndication partners*
- *Willingness to **include Opportunity Zone job creation** and **employment covenants***
- *Investee must leverage other **public policy incentive** or **nonprofit business support programs***

Investment decisions making process:

General Partners independently seek out and lead on cultivating opportunities aligned to our investment thesis.

These opportunities are vetted by our OCIO, CPA, legal counsel and a grouping of community advisors representative of Opportunity Zone stakeholders.

Placement decisions are reviewed by an Investment Committee before the General Partners vote collectively on final approval.

Deal Pipeline

- *Retail bank experienced in LMI markets*
- *Neighborhood grocery*
- *Health clinic/urgent care center*
- *Pharmacy*
- *Mixed-use development including multi-family rental housing and commercial*
- *Mixed-income affordable housing for home ownership*
- *Community arts venue*

Thank you

And thank you to our funders
Surdna Foundation, Wells Fargo, One Project, UBS and the Center for Cultural Innovation