



# A PLAYBOOK TO BUY BACK THE BLOCK

How community practitioners can foster  
inclusive ownership of commercial real estate

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# CONTENTS

- Introduction . . . . . 4
- Fostering CRE ownership with an investment thesis . . . . . 8
  - Forming an investment thesis . . . . . 8
  - Lessons from the lab: Fostering CRE ownership with an investment thesis . . . . . 9
  - Investment types and scenarios . . . . . 11
- Navigating the phases of predevelopment . . . . .16
  - Market research . . . . . 16
  - Two phases of market research. . . . . 18
  - Engaging professionals. . . . . 20
  - Lessons from the lab on market research. . . . . 23
  - Sourcing and securing predevelopment capital . . . . . 23
  - Assessing the political climate and potential community opposition . . . . . 24
  - Communicating a project’s value . . . . . 25
- Understanding the importance of site control in CRE . . . . . 26
  - What is site control? . . . . . 26
  - Contacting property owners . . . . . 27
  - Determining ownership structure and internal dynamics . . . . . 30
  - Understanding the importance of time in the CRE industry . . . . . 31
- Communicating the narratives and the numbers to obtain financing and approvals . . . . . 33
  - The narrative . . . . . 33
  - The numbers . . . . . 34
  - Developing a financial model . . . . . 35
  - Securing committed capital . . . . . 37
  - Lessons from the lab: Communicating the narrative and numbers . . . . . 42
  - A shared equity capital stack. . . . . 42

Selecting a shared equity model to foster inclusive ownership opportunities ..... 43

    Lessons from the lab: Selecting a shared ownership model..... 44

    Fostering community investment..... 44

    Lessons from the lab: Getting a deal done..... 48

Acknowledgements ..... 49

End notes..... 50

# Introduction

Commercial real estate (CRE) ownership in the U.S. is extraordinarily concentrated in the hands of a very small class of owners—just 1% of U.S. households own 81% of American nonresidential CRE value.<sup>1</sup> Expanding and diversifying CRE ownership is a promising strategy to address multiple goals at the same time: close the racial wealth gap, build power and agency in historically disinvested communities, strengthen the tax base, and bring revitalization to these same areas.<sup>2</sup>

A broadening base of individuals and organizations is increasingly eager to acquire and develop CRE, aiming to enhance neighborhoods that have long been shaped by underinvestment and neglect, with roots deeply entrenched in prior discrimination. The intent to uplift these areas and rectify the remnants of past injustices is clear, yet the path to achieving change is less so. The crux of the challenge lies not only in the will to act but also in the know-how, which often remains elusive. Real estate development, particularly commercial, is not readily distilled into textbooks, and for many Black families, who historically have been excluded from holding CRE, a lack of track record in acquiring and developing properties makes it hard to get started.

This backdrop, however, presents a profound opportunity—not just to develop neighborhoods and construct physical buildings but to build wealth among communities and directly address systemic discrimination. Historic and current barriers have long reinforced the racial wealth gap, and commercial corridors in Black neighborhoods have long faced structural challenges. These corridors embody an opportunity to invest in racial and economic justice and to recognize the value in what are genuinely undervalued assets.

Successful CRE entrepreneurs leverage knowledge that comes not from formal education or textbooks but through actually doing deals—rooted in experience and observation—making such

expertise inherently difficult to codify and widely share. Doing deals is also connected to having wealth or access to capital. The wealth gap reinforces the information gap, widening barriers to entry for many aspiring developers, especially in Black communities historically marginalized in this sector.

Acknowledging these challenges is the first step toward pioneering change. This playbook is a response to the opportunity to bridge this knowledge gap, democratize access to CRE ownership, and, in doing so, contribute to the healing and thriving of communities affected by historical biases. Through intentional investment and the sharing of hard-earned insights, stakeholders can begin to dismantle the barriers that have held back too many for too long, paving the way for a future where wealth and opportunity are accessible to all.

This playbook is designed to be a valuable resource for individuals with limited experience in the buying and selling of CRE. It aims 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.

The [Buy Back the Block Lab](#)—led by Lyneir Richardson, the executive director of The Center for Urban Entrepreneurship and Economic Development (CUEED) at Rutgers University and an assistant professor of professional practice at Rutgers Business School, and Tracy Hadden Loh, a fellow at the Brookings Institution—worked over the course of 2023 to bring community leaders in Baltimore, Cleveland, and Detroit together to practice transferring tacit knowledge about



inclusive economic development and CRE and codifying these lessons, with the goal of piloting new community-led investment approaches in majority-Black commercial corridors. The lab studied and advised the efforts of a cohort of community-based, mission-driven investors as they worked toward purchasing CRE.<sup>3</sup>

In each city, the lab brought together community leaders, city officials, real estate investors, and residents to identify and structure CRE opportunities that improve amenities in majority-Black neighborhoods and build ownership and wealth in the Black community. Each city's participants were organized into a lead organization and an advisory committee. The lab brought together these teams into a cohort that engaged with a Brookings-expert-led curriculum and process that resulted in each team identifying a CRE opportunity, matching the project to an appropriate shared equity model, and creating a pitch deck and other resources to be used as strategies to communicate their respective opportunity to prospective investors and key local stakeholders.

This playbook codifies the heretofore tacit knowledge that the experts and practitioners shared together over the course of the lab. The intended audiences include budding CRE developers, community development practitioners interested in CRE, professional CRE brokers, current CRE owners, and philanthropic organizations. The playbook is organized into the following sections:

### **1. Fostering CRE ownership with an investment thesis**

Every CRE deal begins with an investment thesis: a belief that, if a set of assumptions are true, it would be profitable to own a specific parcel of land or a specific building. Articulating this thesis and validating the assumptions it is based on is the first step in executing a successful CRE play. A clear and persuasive investment thesis helps project sponsors focus their efforts and win supporters.

## **2. Navigating the phases of predevelopment**

Before a transaction comes together around a specific piece of property, there is predevelopment work on general market research, sourcing needed professional expertise (including legal, environmental, and architectural expertise), and due diligence on potential sites. Raising resources to support this work and controlling costs at this amorphous phase is a challenge—but one that can and must be surmounted.

### **3. Understanding the importance of site control in CRE**

The first concrete step in translating an investment thesis into reality is site control. Site control is not the purchase itself, but rather the contractual right to make the purchase; it serves as a bridge between the initial planning stages and real actions and expenditures to complete a project. It is a test of credibility that distinguishes those who dream of doing CRE and those who are doing it.

### **4. Communicating the narrative and the numbers to obtain financing and approvals**

Crafting a compelling project summary enables a project sponsor to raise capital from grant funders, lenders, and investors. The narrative tells the story of the CRE project and its potential impact on the community. The numbers demonstrate that the project has logical financial assumptions, reasonable projections of revenue and expenses, and strong potential to earn a profit. A well-structured project summary can make the difference between securing the necessary capital or seeing a project stall.

### **5. Selecting a shared equity model to foster inclusive ownership opportunities**

Implementing a shared equity model involves structuring a community investment vehicle (CIV) to allow both a given project's sponsor and community investors to have equity stakes in the CRE project. There are many shared equity models and CIVs. Each model offers different tradeoffs between goals like building wealth

and preserving affordability or empowering local control, and some models are more mature and/or replicable than others. These models pave the way for a future where community members are not merely bystanders to CRE ownership but active participants and beneficiaries of the growth and prosperity of their neighborhoods.

Wealth is created by owning assets—such as houses, stocks, and publishing rights—that generate revenue and appreciate over time (and perhaps also have tax advantages). But there is more to ownership than just the returns on equity. Ownership of a real estate asset, for example, comes with property rights and thus power:

the everyday power to hire professionals and contractors and decide who the tenants might be as well as the longer-term power to shape how the property will be maintained and managed. The power of such ownership shapes neighborhoods directly and indirectly, so it matters who has it.

It is my hope that the lessons learned from this lab can be applied in cities across the country, creating a new paradigm for inclusive economic development through the shared equity that results from such projects. Ultimately, I hope this playbook will be a complement to municipal and nonprofit efforts to strengthen neighborhoods and advance racial and economic justice.

The **Buy Back the Block Lab** included leaders from Baltimore, Cleveland, and Detroit interested in strategies to help more people of color own property in Black-majority commercial corridors. Here are the main local nonprofits in each participating city that joined the lab (see Table 1).

Invest York Road (IYR) is a nonprofit organization based in Baltimore. It was formed by residents in 2016 with a mission to reverse a legacy of disinvestment and economic exclusion on the York Road corridor. IYR is working to positively transform blighted commercial property and build community wealth through the long-term community ownership of CRE. IYR is focused on developing a way for residents to each make small investments that are collected together, empowering them to buy commercial properties as a community, fix them up, and rent them to businesses desired by residents. IYR has secured a capital grant from the State of Maryland and joined the lab as IYR started to evaluate commercial properties and make an acquisition in 2024.

Cleveland Neighborhood Progress (CNP) is a nonprofit organization based in Cleveland. Founded in 1988, CNP collaborates with residents, community organizations, businesses, and government agencies to foster the equitable revitalization of Cleveland's neighborhoods. CNP has focused on building economic and community development capacity in the Lee-Harvard community with the [Harvard Community Services Center](#). CNP is working with local leaders on a neighborhood planning effort for the commercial corridor and strategic development sites. CNP joined the lab to explore opportunities for residents to invest in their community, not just through homeownership but through CRE projects that will help Lee-Harvard to thrive.

The Grandmont Rosedale Development Corporation (GRDC) is a nonprofit organization based in Detroit. The resident-run organization, founded in 1989, initially focused on the acquisition, rehab, and sale of single-family homes in the Grandmont Rosedale neighborhood. During the mid-1990s, GRDC expanded its work to also include commercial revitalization, beautification, and community organizing efforts. GRDC has acquired and renovated several commercial properties along the main commercial corridor of Grand River Avenue. With the success of its real estate portfolio and with great commercial banking and philanthropic relationships, GRDC joined the lab to identify opportunities where community members could participate as investors in CRE that GRDC owns or will develop.

TABLE 1

## The Buy Back the Block Lab's participating organizations

| Lab participants    | Baltimore   | Cleveland  | Detroit  |
|---------------------|---|--|--|
| Organization        | Invest York Road  | Cleveland Neighborhood Progress  | Grandmont Rosedale Development Corporation   |
| Location            | Baltimore   | Cleveland  | Detroit  |
| Year formed         | Formed by residents and found in 2016   | Founded in 1988  | Founded in 1989  |
| Mission             | Reverse a legacy of disinvestment and economic exclusion on the York Road corridor  | Foster the equitable revitalization of Cleveland's neighborhoods   | Revitalize the Grandmont Rosedale neighborhood and empower residents   |
| Lab focus           | Acquire and transform blighted commercial property and build community wealth through long-term community ownership of CRE        | Build economic and community development capacity in the Lee-Harvard community   | Identify opportunities where community members could participate as investors in CRE projects that GRDC owns or will develop   |
| Notable activities  | Secured a capital grant from the State of Maryland and joined the lab to evaluate commercial properties for acquisition           | Collaborating with local leaders on a neighborhood planning effort for the commercial corridor and strategic development sites | Originally focused on the acquisition, renovation, and sale of single-family homes in the Grandmont Rosedale neighborhood; expanded ongoing work to include commercial revitalization and community organizing efforts since the mid-1990s |
| Current initiatives | Developing a way for residents to make small investments, empowering them to collectively purchase and rent commercial properties | Exploring opportunities for residents to invest in their community through CRE   | Evaluating the plausibility of forming a community investment vehicle so that residents and business owners can be sold an equity stake in an occupied commercial property that is owned and operated by GRDC                              |

SOURCE: Author



Detroit

## Fostering CRE ownership with an investment thesis

This playbook defines CRE as any property (except single-family residential property) that is used for generating income. CRE can be owner-occupied, but it also can be leased to tenants of all types, including property such as office buildings, restaurants, retail stores, hotels, self-storage facilities, mixed-use buildings, warehouses, parking lots, and more. Key benchmarks of profitable CRE are whether annual revenue received from collected rents exceeds property expenses and if the value of the property appreciates over time (generally due to good property management and/or the overall neighborhood getting stronger).<sup>4</sup> Owners of CRE can benefit from certain tax advantages,<sup>5</sup> as well as from distribution of available cash when the CRE is refinanced (assuming there are excess refinancing proceeds) or sold.<sup>6</sup>

The prospective acquirers of CRE in this playbook are called the project sponsors. Project sponsors can be individual entrepreneurs, a group of investors, or nonprofit community developers; all such actors seek to build wealth and improve the conditions of a neighborhood. Every prospective CRE project begins with an investment thesis, by which project sponsors articulate their understanding of an opportunity and establish the basic feasibility of a specific CRE acquisition.

### FORMING AN INVESTMENT THESIS

A project sponsor should start by establishing a simple investment thesis. Building an investment thesis starts with a belief that, if a set of assumptions are true, it would be profitable to own a specific parcel of land or a specific building. A project sponsor forming an investment thesis should first focus on gathering and understanding facts about the following factors.

- The specific CRE opportunity targeted for acquisition and/or development
- Economic data about the market and corridor(s) in which the targeted CRE is located

Part of the calculus surrounding the full formation of a mature investment thesis includes engaging professionals (such as real estate brokers, lawyers, and financial consultants) and construction contractors to help evaluate and analyze specific CRE acquisition opportunities and then making a reality-based determination of who the tenant(s) might be and how much rent they would likely pay. Early in the process, such a team needs to create a budget with estimates of the amount of money (in the form of debt, equity, and/or grants) necessary to acquire the CRE and how the property will be improved, maintained, and managed.



# LESSONS FROM THE LAB: FOSTERING CRE OWNERSHIP WITH AN INVESTMENT THESIS

Table 2 provides a concise summary of each organization’s investment approach within the lab, highlighting their unique strategies for community-driven CRE investment.

TABLE 2

## Buy Back the Block Lab participants’ investment theses

| Organization                               | Investment theses  |
|--|--|
| Invest York Road                           | <ul style="list-style-type: none"><li>• Acquire a shopping center on York Road at a price allowing for the mortgage and operating expenses to be covered by existing rents</li><li>• Actively recruit new tenants to fill vacancies and ensure positive cash flow</li><li>• Aim to achieve financial benefits for community investors and enhance the area’s vibrancy with new retailers deemed desirable by residents</li></ul> |
| Cleveland Neighborhood Progress            | <ul style="list-style-type: none"><li>• Collaborate with Black entrepreneurs who already own underutilized commercial buildings in Lee-Harvard</li><li>• Secure grant capital and low-cost loans to make any building repairs and improvements necessary to attract new tenants</li><li>• Create revitalized commercial store fronts that will benefit CRE owners and bring new services to the community</li></ul>              |
| Grandmont Rosedale Development Corporation | <ul style="list-style-type: none"><li>• Form a new ownership entity to facilitate a special transaction empowering residents to acquire up to 40% equity in a revenue-positive commercial building owned by GRDC</li><li>• GRDC would then use proceeds from refinancing and sale of equity interests to expand its real estate portfolio and reinvest in additional CRE development in the targeted area</li></ul>              |

SOURCE: Author

The project sponsor and the team should also understand macroeconomic conditions (recessions, interest rates, and other market conditions affecting property values), recent sales amounts and leasing rates in the area, and the uses of properties adjacent to the targeted CRE. All these factors have a substantial influence on the potential of profitable CRE ownership, as well as how a neighborhood is perceived and the trajectory of both potential profitability and perceptions of the neighborhood. The project sponsor should thoroughly analyze the what, why, how, and who questions surrounding any transactions to form the investment thesis (see Box 1).

## **BOX 1**

# **Key considerations in forming an investment thesis**

## **What**

- I want to buy this type of CRE and take this investment approach and believe it will be a profitable undertaking
- I believe that I can get a contractual right to buy or lease a targeted property (site control) from a public or private seller
- I believe that I can keep site control for a sufficient amount of time to evaluate the property (due diligence)
- I believe that I can get the capital resources lined up for site control and due diligence expenses

## **Why and How**

- I know a fact (or I believe something) about the property or the area (such as that a space could attract higher market demand or that an area is on cusp of a significant change such as a new transit stop or a new nearby investment)
- I have (or can access) expertise needed to operate the CRE asset type
- I believe that I can fill any vacancies, raise rents, renovate, expand, or build new structures to meet demand and be profitable
- I can build a summary budget and pro forma indicating that there is a “high probability” that my ownership of the property will generate positive net operating income (NOI) and/or will appreciate in value (in the immediate future or over the long term)

## **Who**

- I believe I can find a lender to provide needed debt capital
- I have some equity and can raise additional equity needed from investors
- I believe that city leaders (elected leaders and economic development officials) will be supportive with permits, zoning approvals, and/or public financing/grants
- I believe I can engage a team of professionals to help me start and complete the CRE transaction (including lawyers, financial consultants, real estate brokers, property managers, architects, contractors, and insurance agents)



In addition to thinking through the process-oriented steps that are inputs of an investment thesis, it is important to make an early calculation of the project's potential profitability. Project sponsors typically start with an optimistic outlook but must avoid overly rosy and idyllic visions of CRE ownership. As much as the goal is to foster inclusive ownership of CRE, project sponsors should make every effort to own CRE that has the potential to be profitable. Building a good team with expertise and experience and properly structuring the transaction can reduce the chances that the project sponsor and any investors will come out of the venture worse than they went into it—for example, with their credit negatively impacted or with a foreclosure.

While there are no guarantees, by establishing a strong investment thesis, project sponsors should endeavor to gain at least some early level of confidence that they can confirm:

- the interest of solid tenants
- predictable annual income, and
- the amount of capital that would be needed to get a liquidity event (refinancing or sale) secured

An attractive CRE location is visible (people can see it), accessible (people can easily get to it), and has sufficient and convenient parking or a lot of foot traffic. The most desirable CRE often has long-term credit tenants<sup>7</sup> under triple net leases.<sup>8</sup> Mission-oriented project sponsors might include a vision for inclusive ownership by many small investors who are located in the community and aim to solve a problem such as bringing a grocery store to a food desert, securing a primary care tenant to address a health care desert, or attracting a sit-down restaurant and jumpstarting an entertainment district. These things often take time to achieve, and many of them need government subsidies or philanthropic grants to achieve profitability. CRE does not have to be profitable immediately, but there must be a plan for profitability and enough cash to pay the mortgage, taxes, and other expenses to ultimately get there.

**A good CRE location is visible (people can see it), accessible (people can easily get to it), and has sufficient and convenient parking or a lot of foot traffic.**

An initial investment thesis must also include a budget and plan establishing how the project sponsor will acquire the CRE. This can be very high level or conceptual, but the task starts with projections of how much equity, debt, and subsidies will be needed. In the beginning, it is typical to project some assumptions about how the project sponsor will secure the needed capital and obtain the commitment of prospective tenants.

Once the initial investment thesis has been formed, the project sponsor can move forward with an effort to obtain site control (defined below) and structure the ownership entity. Conversely, the project sponsor might reach an early conclusion not to move forward for a variety of reasons: a viable plan for profitable CRE ownership would be difficult to achieve, the purchase price would be too high, expensive repairs would be needed, or no tenant could be secured to pay the required amount of rent. The project sponsor must be prepared to avoid wasting time and money by determining whether a project is a go or a no go.

## INVESTMENT TYPES AND SCENARIOS

To own profitable CRE, a project sponsor needs to invest sufficient time into evaluating the risk/reward profile of a property—specifically, the income potential and capital improvements necessary. Here is a list of some of the factors that need to be evaluated.

- Prospective tenants' demand for space and the potential for long-term leases
- High-traffic areas (including vehicle and/or foot traffic)
- Areas with high population density and projected growth

- Property with triple net leases (tenants responsible for the costs of utilities, management fees, security, landscaping, snow removal, site cleaning, insurance, and real estate taxes)

The major CRE investment types are characterized in Box 2.

## BOX 2

# CRE investment types and characteristics

## Core

- Property is income-producing in a prime location with predictable income; fully leased with creditworthy tenants and long-term leases
- Buy and hold because no renovation or repositioning is required
- Low risk and low return (higher purchase prices); expectation of long-term capital appreciation

## Value add

- Property is generating income but has some issues (outdated facilities, poor management, or higher vacancy rates)
- Capital needed to renovate or reposition property
- Can attract new tenants and increase rental income
- More risk because of the need to address property issues (such as capital costs, construction costs and timing, leasing, and interest rates)
- Higher investment return if issues are successfully addressed

## Opportunistic

- Property is generating income (maybe just enough to service debt and pay taxes)
- A belief that the property is being purchased at a discounted price to be improved and repositioned
- Demand for space (a tenant is lined up or a potential buyer is known)
- Capital is available for needed improvements (public subsidies or grant money)
- Higher risk but higher returns (must make the improvements and lease/sell the property)

## BOX 2 CONTINUED

### Distressed

- Property is not generating sufficient (or any) income
- Property is blighted and/or boarded up, vacant, abandoned, foreclosed by lender, or owned by the city
- A belief that the property can be redeveloped/rehabbed and become income-generating or saleable at a profit
- Higher risk and higher returns (must complete the renovation on budget and on schedule and must find tenants)

### New construction

- Property is vacant land (or has a building that will be torn down)
- The plan is to build something new on the property such as building(s), parking lots, electric vehicle stations, or billboards
- Belief that tenant(s) can be secured to make it generate income or a buyer will want to purchase the property after it is developed

The price that a project sponsor will pay for a CRE property is based on a determination of the investment type and its characteristics, the property itself, and a project financing strategy. Below are scenarios that will provide insights as to the types of questions that project sponsors should carefully evaluate when finalizing their investment theses, preparing to gain site control, and ultimately acquiring CRE. It is critical for project sponsors to assess their risk/return profile and carefully consider the implications.

**Core CRE:** CRE classified as core most likely has a prime location, is fully leased (to creditworthy tenants with long-term leases), and requires no renovations. Core CRE often commands a higher price because it is deemed to be a stable asset with lower risk. A project sponsor who buys core CRE has an investment thesis that the property will continue to increase in value because of its location, the rental income generated from the tenants continuing to occupy the property, and the overall determination that the property does

not need renovations or repairs. In such cases, a project sponsor can justify paying a higher purchase price for a core property and take a buy-and-hold approach expecting long-term appreciation in value. Core-plus property is very similar to CRE classified as core, but it may be purchased at a lower price because the project sponsor would need to make some investment to repair or lease the property. In theory, core-plus property features a slightly higher risk and should offer a higher prospective investment return.

**Value-add CRE:** CRE is classified as value-add when project sponsors believe they can generate more income from a given property if they make some strategic investment to improve the property. For example, a project sponsor may see that a building is outdated or that its property management is lacking in some way. Such project sponsors could also see that they could obtain a government subsidy to help renovate or reposition a property. Perhaps such a property has some vacancy, and the project sponsor has

a local entrepreneur lined up to lease the space or has a relationship with a national retailer and can convince that company to open a store at this location. The purchase price for value-add property should be lower because it is a higher risk proposition as the project sponsor must make an investment in the property, rebuild it, and lease it. But if the project sponsor can solve the issue, the CRE should yield a higher return on investment and realize a better probability of having a profitable outcome.

**Opportunistic CRE:** Opportunistic properties have even higher risk and the potential for higher rewards if the project sponsor can implement solutions. For example, the CRE might have a mortgage with a low interest rate that is maturing and cannot be renewed. Or perhaps an expensive roof repair is needed, or a key tenant has given notice that it will not renew its lease because of concerns with crime in the area or other issues. The project sponsor's investment thesis will need to address these issues. The project sponsor should seek to negotiate a lower purchase price for the CRE because of the higher mortgage interest rates and the risks associated with the need to invest more equity capital to make repairs and improve occupancy. The project sponsor will create value when it makes necessary repairs, obtains grant money to implement crime reduction and violence prevention programming, and signs leases with new tenants.

**Distressed CRE:** CRE classified as distressed generally either is not operating or is generating insufficient income to pay the mortgage and taxes. Distressed CRE is sometimes vacant, blighted, and/or boarded up. Sometimes the property is abandoned by an absentee owner who no longer sees potential in it. Project sponsors who buy distressed CRE understand that they are probably

not going to make any income in the short run. The project sponsor's investment thesis for distressed CRE must allow enough time, predevelopment capital, equity investment, and patient debt (with deferred or interest-only payment terms) to get the property repaired, leased, and generating income. In theory, distressed CRE should have the lowest purchase price because it has the highest risk.

**New construction:** Finally, new construction CRE involves existing vacant land or vacant land created when a building is demolished. The project sponsor's CRE investment thesis is to build a new structure on the land and generate enough income to justify the development and the construction costs. New construction has the risk of securing zoning approvals, permits, financing, building materials, and labor. The project sponsor will have a lot of costs but no income until the CRE is occupied. Project sponsors must build new construction CRE expecting that they will eventually get beyond the holding and construction period, generate sufficient and consistent income, secure permanent financing, and ultimately operate profitably.<sup>9</sup>

To own CRE and make a profit, project sponsors must seize opportunities and solve problems. Early on, it is important to find tenants, line up the financing, be aware of zoning regulations, and ultimately get repairs and construction done in a cost-effective manner. The project sponsor needs to obtain site control for a sufficient period to be able to complete due diligence and put the deal together. It is important to understand environmental concerns and the availability of capital. Market research and building the right team can help establish the CRE project's feasibility and bring balance to project sponsors' optimistic projections that they can spot CRE located in an area on the cusp of change (see Table 3).



TABLE 3

### Lab participants' initial CRE investment types and associated property strategies

|                                  | Invest York Road  | Cleveland Neighborhood Progress  | Grandmont Rosedale Development Corporation   |
|----------------------------------|---|--|--|
| CRE investment type and strategy | <ul style="list-style-type: none"> <li>Pursuing a value-add strategy by buying an existing shopping center</li> <li>Aiming to generate more income and create value by attracting new tenants to the shopping center</li> </ul> | <ul style="list-style-type: none"> <li>Pursuing a distressed property strategy by rehabilitating vacant, blighted, or underutilized CRE properties</li> <li>Catalyzing new construction on nearby vacant lots</li> </ul> | <ul style="list-style-type: none"> <li>Seeking an opportunistic strategy by restructuring the ownership of an existing building</li> </ul> |

SOURCE: Author



HEX Superette, Baltimore

# Navigating the phases of predevelopment

## MARKET RESEARCH

CRE market research involves the gathering, analyzing, and interpreting of data to make informed decisions about purchasing CRE assets.

The purpose of doing market research is for the project sponsor to test the investment thesis by evaluating the potential return on investment and risks associated with acquiring a specific property (see Box 3).

### BOX 3

## Elements of CRE market research

- **Market dynamics:** Interpreting the current state of the CRE market, including supply and demand dynamics, pricing trends, and future market projections; this involves studying macroeconomic indicators, regional economic conditions, and specific market segments (such as office, retail, industrial, or residential)
- **Vacancy and leasing rates:** Evaluating vacancy and leasing rates provides a snapshot of demand and potential revenue; high vacancy rates may signal market challenges, while competitive leasing rates can indicate robust demand
- **Construction costs and property taxes:** Estimating construction costs and understanding property tax obligations are vital elements of financial planning; these figures significantly impact an investment's bottom line and feasibility
- **Location and demographics:** Considering accessibility, visibility, and proximity to key amenities and transit is critical; awareness of ongoing public and private investments reveals an area's growth trajectory and potential for appreciation; demographic analysis of a surrounding area can provide an understanding of the potential customer or tenant base, including income levels, population growth, population density, educational levels, and employment rates
- **Sales comps and cap rates:** Looking at comparable property sales in the area to gauge market prices and investment returns is important; analyzing capitalization rates (cap rates) will help with calculating the expected yield of a property, providing a basis for valuation
- **Property-specific factors:** Examining the physical condition, legal status, zoning regulations, and environmental assessments of the target property; this includes a review of any leases, tenant mix, and occupancy rates of the CRE property
- **Risks and opportunities:** Identifying potential risks, such as market volatility, regulatory changes, or environmental issues as well as evaluating opportunities for value enhancement, such as redevelopment or repositioning of the CRE



### BOX 3

- **Forecasting financial performance:** Developing financial models to project the CRE property's revenue potential, operating costs, and cash flow; this involves creating scenarios to understand how different market conditions and assumptions could impact the viability and profitability of the CRE venture
- **Reviewing the legal and regulatory environment:** Understanding the regulatory landscape, including zoning laws, building codes, and potential changes in legislation that could affect the CRE property

Market research is not a one-time activity but rather an ongoing process that begins before the acquisition and continues through ownership to monitor market conditions and ensure the investment in a CRE property remains sound. Effective market research helps investors minimize risks, make strategic decisions, and maximize returns on investment. The process allows the project sponsor to understand potential opportunities and risks and forecast the potential profitability of owning a particular CRE property. The project sponsor should gather available information (historical, current, and predictive) and observe, interpret, and evaluate facts and perceptions about the targeted CRE property.

Project sponsors can get access to regional or national industry information through associations such as the International Council of Shopping Centers, the International Economic Development Council, the Urban Land Institute, the Commercial Real Estate Development Association, and the Society of Industrial and Office Realtors as well as commercial brokerage reports from firms like the CBRE Group (Coldwell Banker Richard Ellis), Colliers, and Jones Lang LaSalle. These resources provide comprehensive insights into industry trends, forecasts, and benchmarks, offering a broader context within which CRE properties can be evaluated. Platforms such as CoStar, LoopNet, and Zillow—along with publications such as *The Wall Street Journal* and *Crain's*—offer up-to-

date information to round out a project sponsor's thorough market analyses. Project sponsors might also review economic development plans and industry forecasts (from local, regional, and national perspectives) to get a broad sense of market conditions. There is no substitute for a visit to the CRE site that is targeted for purchase. This will allow the project sponsor to get a feel for the nuances of a given corridor and neighborhood (including a block-by-block assessment to determine if the CRE property is in the strongest or weakest part of the corridor).

### Using research to establish a purchase price

Sales comps and capitalization rates offer insights into the valuation and expected returns of similar properties in a given area. This data informs the purchase offer, ensuring it is competitive yet realistic.

**Sales comps:** Sales comps are the analyses of properties that have been recently sold or are currently on the market, which are comparable to the CRE property targeted for acquisition in terms of location, size, condition, and use. Sales comps provide a snapshot of the current market, highlighting what investors are willing to pay for similar properties. The importance of sales comps in market research cannot be overstated. They provide factual insight on CRE valuation and can help project sponsors justify the reasonableness of

the prices that they will offer to pay for a property. Sales comps can help project sponsors understand market trends, such as shifts in demand for certain property types or changes in investment preferences, which are critical for making informed decisions.

**Capitalization rates:** The capitalization rate is a key metric used to determine the potential return on an investment in real estate. It is calculated by dividing a property's NOI by its current market value. The cap rate offers a quick, comparative measure to assess the profitability and risk of a CRE investment, providing insight into the expected yield on capital invested in a property relative to its purchase price. Understanding cap rates allows the project sponsor to compare the attractiveness of different properties objectively and make a more strategic selection regarding what CRE property to own. Cap rates reflect the perceived risk associated with a property; lower cap rates indicate less perceived risk and vice versa. This understanding helps project sponsors align their investment strategies with their risk tolerance and return expectations. Cap rates vary by location and property type, underscoring the importance of contextual market knowledge in assessing CRE investment viability.

## TWO PHASES OF MARKET RESEARCH

**Market research (before site control):** Conducting market research before site control will help prospective project sponsors to refine their investment theses, negotiate purchase terms, and lay a foundation for success as CRE owners. By focusing on sales comps, cap rates, vacancy and leasing rates, construction costs, property taxes, and broader market trends, sponsors can navigate the pre-contract phase with confidence. At this stage, there is a strategic imperative to manage costs effectively. Project sponsors should focus on gathering free and readily available information and analyzing existing market reports, demographic studies, and real estate trends that are publicly accessible or can be obtained at low cost. Moreover, leveraging online resources, such as property listings, municipal planning documents, and industry publications can allow project sponsors to assess the market demand, potential competition, and regulatory landscape. Engaging with local economic development offices, real estate professionals, and community organizations can also provide valuable insights without significant expenditures. These efforts can guide project sponsors to make a well-informed initial purchase offer and negotiate effectively with sellers of CRE properties (see Box 4).

### BOX 4

## The importance of preliminary market research

**Cost-effective decisionmaking:** Before a project is under contract, it is essential for a project sponsor to limit expenses and time invested. This approach ensures that if negotiations fall through, significant resources have not been wasted.

**Refining the investment thesis:** Early market research helps refine or confirm a project's investment thesis, providing a clearer vision of the project's feasibility, potential returns, and strategic alignment with market demands.

**Due diligence (after site control):** Once site control is established, the scope and depth of market research typically expands, necessitating a more substantial investment of time and resources. At this point, it is not uncommon to see a project sponsor budget between 1–10% of a project's total cost for due diligence activities. This budget allocation allows for a comprehensive assessment of the property and market conditions, including detailed surveys, property appraisals, environmental assessments, and legal reviews.

The due diligence phase typically involves hiring consultants and experts to conduct specialized studies, such as traffic impact analyses, market feasibility studies, and architectural designs (see Table 4 below). Engaging these professionals requires a financial commitment, but their expertise is crucial for validating the project's assumptions and identifying any potential challenges that could impact its success. Once a qualifying property has been identified, it is time to drill down on project feasibility and analyze risk, including the following steps.

- Create a high-level budget and operating pro forma that can demonstrate profitability and attract debt financing and equity capital
- Identify tenant(s) to pay lease rates needed or find a buyer
- Obtain surveys; title, zoning, and environmental reports; appraisals; and other expertise to evaluate the property conditions
- Engage a team of architects, engineers, and contractors to provide estimates and complete work on a schedule

More information reduces risk, but it also has a cost. It can often be difficult to secure funds to allocate for due diligence purposes. Sunk costs from a broken deal are hard to swallow. And the longer due diligence takes, the more expensive the process can be, so managing budget spending is crucial, and project sponsors should be ready to abandon a CRE project when information about costs, market conditions, tenants, government approvals, or financing show that the investment thesis will not be viable or profitable.



Shaker Hair & Beauty Supply, Cleveland

TABLE 4

## What is needed for various forms of CRE due diligence

| What is needed  | Why?  | When?   |
|---|---|---|
| Review of property financial statements, rent rolls, and tenant estoppels | Understanding of what is being purchased and mitigation of risk | Early, middle, and late   |
| Title research  | Understanding of what is being purchased and mitigation of risk | Early and late  |
| Survey and Zoning   | Understanding of what is being purchased and mitigation of risk | Early (provided by seller) and late in the process                                |
| Building and construction cost estimates                                  | What is cost  | High level estimates (early) and confirmed contractor pricing late in the process |
| Architectural concepts/ renderings/plans for contractor bids              | New vision; value add renovation or new construction            | Middle  |
| Commitment for financing (debt, grants, or equity)                        | Establish ability to complete the CRE purchase and renovation   | Middle  |
| Property conditions report  | Understanding of what is being purchased and mitigation of risk | Middle to late in the process   |
| Environmental report  | Understanding of what is being purchased and mitigation of risk | Lender requires. Middle to late in the process                                    |
| Existing property conditions and inspection report                        | Understanding of what is being purchased and mitigation of risk | Late in the process   |
| Appraisal   | Independent and professional opinion of value                   | Late in the process   |
| Insurance certificate   | Protection of the CRE from loss and liability                   | Late in the process   |

**SOURCE:** Author

## ENGAGING PROFESSIONALS

During the due diligence process, project sponsors rely on the expertise of a team of professionals to help them understand risk, create the deal and financing structure, and make sound decisions. All

team members play a specific role, contributing their expertise to navigate the myriad challenges of CRE investment, development, and management. Understanding what these professionals do and when to engage them is essential for project sponsors (see Table 5).<sup>10</sup>



**Brokers:** CRE brokers are the matchmakers who connect buyers and sellers as well as landlords and tenants. Good brokers have an in-depth understanding of the market, including current pricing, demand, and inventory levels. Project sponsors can leverage the knowledge of CRE brokers to negotiate deal terms and achieve their financial and strategic objectives.

**Mortgage brokers:** Mortgage brokers facilitate financing for CRE projects by connecting borrowers with lenders. They have a deep understanding of lending products and processes, helping clients secure the best financing terms based on their financial situation and a given project's specifics.

**Financial consultants:** Financial consultants offer advice on investment strategies, capital structuring, and portfolio management. They help investors analyze the financial viability of projects, optimize returns, and manage financial risks.

**Lawyers:** Project sponsors should engage lawyers who specialize in CRE law. These legal professionals review contracts, handle dispute resolutions, and provide counsel on zoning laws, property rights, and environmental regulations. Their expertise is crucial in mitigating legal risks associated with CRE transactions.

**Architects:** Architects design buildings and spaces while complying with zoning laws and building codes. They consider aesthetics, functionality, and sustainability, ensuring that projects align with project sponsors' vision and the needs of a given project's community.

**Contractors:** General contractors oversee the construction phase, managing everything from budgeting and scheduling to hiring subcontractors. They ensure that projects are completed on time, within budget, and according to the specified quality standards.

**Specialized contractors:** Specialized contractors focus on specific aspects of construction or renovation, such as electrical; plumbing; or heating, ventilation, and air conditioning (HVAC) systems. Their expertise ensures that these critical components are installed and maintained according to industry standards.

**Environmental consultants:** These specialists conduct environmental assessments to identify potential contamination or environmental risks associated with a property. Their work is critical in preventing legal and financial liabilities related to environmental issues.

**Property condition inspectors:** Inspectors assess the physical condition of a property, identifying any defects or maintenance issues that could affect its value or functionality. Their detailed reports inform negotiation strategies and maintenance planning.

**Appraisers:** Real estate appraisers assess the value of CRE property based on its condition, its location, and market trends. Their valuation reports are essential for securing financing, determining sale prices, and for tax and insurance purposes.

**Insurance agents:** These professionals provide risk management solutions, offering property insurance that covers potential damage to buildings and liability insurance for owners and operators. They ensure that the property and its stakeholders are protected against various risks.

**Property managers:** Property managers handle the day-to-day operations of CRE properties, including tenant relations, lease management, and maintenance. They play a key role in preserving the property's value and ensuring tenant satisfaction.

TABLE 5

## The elements of a team of CRE professionals

| Who?                          | Why?   | When?                   | Cost  |
|-------------------------------|--|-------------------------|---|
| CRE broker and Leasing broker | Intel; Seller rapport; Incentive to close                  | Early                   | None; typically paid 2-3% of purchase price by the seller only at closing   |
| Lender                        | Financing  | Early, middle, and late | Application fee \$250 to \$5,000; 1% loan commitment fee  |
| Financial consultant          | Budget and Proforma  | Early, middle, and late | Retainer of \$3,000 to \$20,000 and perhaps some success fee  |
| Lawyer                        | Legal review and protection; Negotiation                   | Early and late          | Negotiate to pay 10-20% early and balance at closing; \$10,000 to \$150,000                                       |
| Architect and Engineer        | Vision; Budget and Proforma                                | Middle and late         | Hourly or lump sum fee; \$5,000 to \$500,000  |
| Contractor                    | Budget and Proforma  | Middle                  | If estimate, may need to pay some hourly or lump sum fee; often pricing provided free based on review of drawings |
| Environmental consultants     | Confirmation of soil conditions required by lender         | Middle to late          | \$3,000 to \$20,000 (phase 1)   |
| Property conditions inspector | Confirmation of building conditions                        | Late                    | \$3,000 to \$10,000   |
| Appraiser                     | Confirmation of value required by lender                   | Late                    | \$3,000 to \$10,000   |
| Insurance broker              | Lender requires  | Late                    | Based on size of property; \$5,000 to \$100,000   |
| Property manager              | Day to day property maintenance issues and rent collection | Late                    | Initial retainer and 3-5% of revenue  |

**SOURCE:** Author



## LESSONS FROM THE LAB ON MARKET RESEARCH

During the lab, IYR, CNP, and GRDC all began conducting pre-acquisition market research to determine the value of their targeted properties. Each organization also focused on assembling a team of professionals to assist in completing their CRE development projects.

Throughout the lab, IYR, CNP, and GRDC recognized the critical importance of thorough market research in their CRE journeys. They conducted preliminary assessments to determine property valuation, analyzed projected revenues and expenses, and identified potential tenant attraction opportunities. This involved analyzing market trends, assessing property conditions, and evaluating revenue potential. Because GRDC has site control—it already owns the building that it seeks to transfer to a new entity to create shared community ownership—it began to undertake more extensive research to determine the appraised value of the building and discuss the details or refinancing with local lending organizations.

Moreover, each organization assembled a team of professionals to support their CRE development efforts. By leveraging the expertise of real estate brokers, architects, contractors, and lawyers, IYR, CNP, and GRDC aimed to navigate the complexities of CRE acquisition and development, mitigate risks, and enhance their chances of success.

## SOURCING AND SECURING PREDEVELOPMENT CAPITAL

Predevelopment capital is money that a project sponsor spends before it owns the CRE property. This phase of expenditures for market research, due diligence, engagement of professionals, and earnest money deposits is traditionally funded by equity, meaning it is cash that comes directly out of the project sponsor's pocket (or that of their investors). Since these expenses are incurred before the full financing of the project is secured, they represent a sunk cost if the transaction does not reach completion.

Accordingly, careful management and allocation of predevelopment funds is crucial to ensure project feasibility, minimize risks, and lay the groundwork for successful development. The initial assessments and services funded by this capital lay the foundation for all future development stages. Mistakes or oversights at this stage can lead to increased costs down the line or, in worst-case scenarios, project failure.

**The hurdle for inclusive CRE:** The need for predevelopment capital is a notable hurdle for inclusive CRE, particularly for projects aimed at revitalizing underserved or marginalized communities. The high risk associated with potentially nonrecoverable costs can deter project sponsors who are working with limited resources. This challenge is compounded in markets or neighborhoods perceived as higher risk, where securing financing and investment can be even more difficult and where a lack of comparable transactions makes market research thinner.

To address this barrier, innovative financing strategies and support from public and private programs aimed at fostering inclusive development are critical. Grants, low-interest loans, or other financial assistance specifically designated for predevelopment expenses can help level the playing field, enabling a more diverse range of project sponsors to bring their visions to life (see Table 6). Additionally, fostering partnerships with community organizations, impact investors, and government entities can provide the necessary support and resources to navigate the predevelopment phase more effectively.

TABLE 6

## Examples of predevelopment capital sources

| Type of capital   | Sources  | Description  |
|---|--|--|
| Grants (typically philanthropic)  | <a href="#">The Chicago Community Trust</a>                  | The <a href="#">Pre-Development Fund</a> was created primarily to support CRE development projects, businesses with brick-and-mortar needs, and neighborhood-scale land use projects that will stimulate economic activity in disinvested communities.                                       |
| Predevelopment loans (from lenders or community development financial institutions [CDFIs]) | <a href="#">Local Initiatives Support Corporation (LISC)</a> | LISC's <a href="#">predevelopment loans</a> represent early-stage investments in planning, design, and environmental and structural assessments for projects that are proceeding to construction. Proceeds are used to pay due diligence expenses, deposits, and other predevelopment costs. |
| Private debt and equity capital   | <a href="#">Basis Investment Group LLC</a>                   | The <a href="#">Emerging Developer Loan Fund</a> provides predevelopment and acquisition financing for multifamily, mixed-use, industrial, and other CRE projects. Strong interest in projects in New York City. Minorities and women are encouraged to inquire.                             |

SOURCE: Author

## ASSESSING THE POLITICAL CLIMATE AND POTENTIAL COMMUNITY OPPOSITION

Gauging the political climate and community receptivity to a project plays a pivotal role in the success of a CRE project. The landscape of CRE development is not solely defined by financials and architectural blueprints; it is also deeply influenced by the social and political environment in which a project is situated. Navigating this landscape requires a tactical understanding of local politics, community sentiments, and the capacity to build relationships and engage effectively with a range of stakeholders.

As soon as practical, a project sponsor should confirm that there is support for a given project, which aligns with its investment thesis. This involves assessing the strength and stance of elected officials, community organizations, and other influential stakeholders toward the project sponsor and the CRE project. Support from these entities can significantly smooth the path for project approvals, funding opportunities, and public acceptance.

Understanding the political and social fabric of the area where a CRE project is proposed is crucial. Elected officials' backing can facilitate negotiations, expedite bureaucratic processes, and lend credibility to the project sponsor's efforts. Similarly, support from community organizations can act

as a catalyst for garnering broader community backing and investment, providing a strong foundation for successful project implementation. Equally important is the ability to identify any opposition to a project and understand the nature of skeptics' concerns. Opposition can stem from various sources, including residents, businesses, environmental groups, or political factions, each with unique concerns including environmental impact, gentrification fears, and disruptions to the local economy. Addressing these concerns involves direct engagement, negotiations to find compromises, or developing workarounds that minimize opposition while still achieving project goals. Ignoring or underestimating opposition can lead to delays, increased costs, or even project cancelation. Hence, a proactive approach in understanding and addressing these concerns is essential.

## COMMUNICATING A PROJECT'S VALUE

Developing and preparing summary documents for public disclosure is a strategic step in communicating both the numbers and the narrative of a project. This includes outlining the economic benefits, such as job creation, infrastructure

improvements, and enhanced community services, as well as addressing environmental and social impact concerns. Transparent communication helps in building trust and can sway public opinion in favor of the project.

Creating a community engagement strategy is critical. The project sponsor should be inclusive, inviting input from a broad cross-section of the community, including those who may be skeptical or opposed to the project. Engagement activities can include public meetings, workshops, or ongoing dialogues with community leaders and organizations. The goal is to create a sense of ownership and participation among community members, fostering a collaborative atmosphere.

Understanding the political climate and potential community opposition is integral to the planning and execution of CRE projects. By confirming support, addressing opposition, effectively communicating a project's benefits, and engaging the community, project sponsors can navigate the complex sociopolitical landscape more effectively. These steps not only enhance the likelihood of project success but also contribute to building lasting positive relationships within the community.



Pages Bookshop, Detroit | Photo credit: GRDC





Lee Harvard Shopping Center, Cleveland

## Understanding the importance of site control in CRE

Once a project sponsor forms an investment thesis and decides that there is an opportunity for profitable CRE ownership, the next step is to obtain site control.

### WHAT IS SITE CONTROL?

Site control is established when a project sponsor makes an offer, negotiates the price and terms, and signs a contract with an existing owner of a CRE property agreeing to buy (or lease or form a joint venture partnership). It is not the purchase itself, but rather the contractual right to make the purchase. Site control serves as a bridge between the initial planning stages and the decision to allocate resources to complete the purchase and bring the investment thesis to fruition. The importance of site control stems from its role in ensuring that the project sponsor's investments in time, money, and resources into due diligence, market analysis, and project design are protected. Site control prevents the CRE property from being

sold to another party while the project sponsor is completing due diligence, working to obtain financing, and securing necessary approvals and permits.

Site control is important because most players in the CRE world will not find it credible to talk about advancing a CRE investment thesis without it. A project sponsor likely cannot obtain a financing commitment or a leasing commitment without it. It is prudent for a project sponsor to seek professional guidance from CRE brokers, legal counsel, construction contractors, and financial consultants, and they will all want to know where the project sponsor stands on site control.

This playbook focuses on purchases and outright ownership of CRE as the most expedient way to achieve the inclusive ownership mission. However, it should be noted that joint ventures, strategic partnerships with existing property owners, and long-term leases are possible deal structures.

For example, a project sponsor could enter into a partnership agreement or long-term ground lease with a church to develop a profitable project on an underutilized parking lot. The church could give the project sponsor a right to pursue development and that project sponsor could go to the city for zoning approvals and financing sources and could approach potential partners and tenants and say, “I have a development vision for the site.” This type of project typically requires establishing a trusted relationship and lawyers to document it.

Establishing site control in CRE is a complex but manageable process when approached with the right strategies. Successful bidding and negotiating hinge on a deep understanding of the property’s value, the current market conditions, and the specific needs of the project. By building the right team, crafting a reasonable initial offer, negotiating protective contingencies, and utilizing the due diligence period effectively, a project sponsor can secure favorable terms that support the project’s success.

## CONTACTING PROPERTY OWNERS

**Making direct contact:** One initial step in acquiring site control is contacting the property owner. The project sponsor can make direct contact with a property owner or work through a CRE broker. Direct contact with a property owner by a project sponsor might be advisable in specific circumstances where personal relationships or detailed, direct negotiations can significantly influence the outcome. For instance, in tight-knit communities where personal relationships and trust are highly valued, a project sponsor might be able to expedite discussions and foster a more collaborative negotiation process by making a direct connection with the property owner. Additionally, in urban markets where project sponsors use specialized financing—like through the New Markets Tax Credit (NMTC) Program—and/or have a unique vision for a given property, direct interaction with the property owner can allow project sponsors to convey their concept and obtain the required time and collaboration.

**Working with a CRE broker:** While direct contact may seem straightforward, working with a CRE broker to negotiate site control offers several strategic advantages for project sponsors. Brokers bring valuable market knowledge, negotiation expertise, and access to off-market opportunities that can be pivotal in securing favorable terms. Their experience enables them to navigate complex transactions, identify potential pitfalls, and advocate effectively on behalf of the sponsor. CRE brokers are generally paid by the seller to market the property and facilitate the sales transaction. CRE brokers serve as intermediaries, providing a buffer that can help maintain professional relationships between project sponsors and property sellers during negotiations. CRE brokers can be particularly useful when dealing with quirky personalities or when sensitive negotiations are required. If direct contact becomes necessary, having a CRE broker who can help the project sponsor change a negotiating position or give up on some demand to salvage a deal may help to ensure that all avenues are explored to secure site control. Project sponsors should also ask CRE brokers to assist with market research and analysis by providing insights into sales comps, demographics, zoning regulations, and potential tenants. This information is crucial for evaluating the feasibility and potential success of a project’s investment thesis. CRE brokers generally offer this as a part of their services, essentially acting as a free information source for the buyer, adding value without direct cost. Finally, project sponsors should recognize that a significant advantage of working with CRE brokers is their network of experts and professional connections. CRE brokers can introduce project sponsors to attorneys, lenders, appraisers, inspectors, contractors, title companies, and other professionals and service providers necessary for completing the transaction and moving the project forward.

Ultimately, CRE brokers can enhance and streamline the negotiation process, increasing the likelihood of a successful acquisition (see Table 7).

TABLE 7

## Lessons from the lab on site control

|                     | <b>Invest York Road</b>   | <b>Cleveland Neighborhood Progress</b>  | <b>Grandmont Rosedale Development Corporation</b>  |
|---------------------|---|---|--|
| Site control status | IYR is working toward site control.   | CNP is working toward site control. (It owns a nearby shopping center and has relationships with existing property owners in the area.)   | GRDC has site control over the project's target property.  |
| Approaches          | IYR identified a shopping center, began to do analysis, and prepared to make a purchase offer.  | CNP reached out to owners of CRE, communicating a willingness to assist with subsidies and favorable financing for improvements.  | GRDC formulated an approach for offering shared ownership that benefits both GRDC and new community investors.   |
| Outcomes            | IYR missed an acquisition opportunity when a shopping center owner signed a purchase and sale agreement with another buyer. IYR had no choice but to pursue alternative CRE purchase opportunities. Fortunately, the team has leveraged its unparalleled local relationships to identify an off-market transaction with strong potential. | CNP has taken initial steps to engage CRE owners and lay the groundwork for potential future collaborations. CNP determined that patience and persistence would be needed to get owners' attention and to secure a commitment to renovate their properties. | GRDC developed various feasibility plans for shared ownership that align with its goals and community interests. |
| Key takeaways       | Swift action is important for securing site control to avoid missed opportunities on the market. Local relationships offer unique value for developing off-market opportunities.  | Proactive outreach and collaboration with CRE owners is important for leveraging available resources for property improvements.   | Site control provides the time and flexibility for strategic planning and alignment with community needs.        |

**SOURCE:** Author



**Bidding and negotiating strategies:** Establishing site control is more than just agreeing on a price; it encompasses negotiating a comprehensive agreement that covers time frames, contingencies, and other essential deal terms that can significantly influence the project's outcome. The art of negotiation in CRE acquisition is multifaceted, involving preparation, clear communication, and strategic concessions. Successful negotiation leads to an agreement that aligns the interests of the project sponsor and the seller.

Negotiating the purchase and sale agreement for a CRE property requires a nuanced understanding of market dynamics and the specific attributes of the property in question. Key factors include the current market value of similar properties, the property's condition, its potential for income generation, and any foreseeable challenges in owning the CRE property. Negotiations should aim to reach a fair price that reflects these factors while leaving room to give the project sponsor an ability to be reasonably conservative in projecting financial viability.

**Making an initial offer:** Making a reasonable initial offer is crucial. This offer should be grounded in thorough research on the property's market value and aligned with the investment thesis. The initial offer sets the stage for negotiations, so it should be competitive yet should leave room for adjustments based on the seller's response. Being prepared for counteroffers is essential, as this is a normal part of the negotiation process. Flexibility and readiness to engage in constructive dialogue can lead to a mutually beneficial agreement.

**Earnest money:** A project sponsor's purchase offer will be taken more seriously when it includes a meaningful earnest money deposit. The earnest money serves as a good faith deposit from the project sponsor indicating to the seller that the project sponsor is a serious buyer that has the intent to complete the purchase. Depending on the purchase price, the amount offered as earnest money could range from 1–10% of the CRE purchase price. Making earnest money refundable

is crucial because it provides project sponsors with the flexibility to back out of a purchase and sale agreement if they cannot obtain financing or if due diligence fails to meet expectations or ends up revealing undesirable property conditions. A project sponsor must take all precautions to safeguard this deposit, as losing earnest money should be viewed as a failure. Agreeing to nonrefundable earnest money should only occur when project sponsors are confident that they have or can secure financing commitments and necessary approvals from government entities and tenants.

Project sponsors should have cash available for an earnest money deposit prior to making an offer, and an additional 1–5% of the purchase price on hand to cover due diligence expenses.

**Contingency clauses:** Contingency clauses in a CRE purchase and sale agreement are safeguards that protect project sponsors because they allow them to exit a deal under specific circumstances without losing their earnest money deposit. Common contingencies include allowing the project sponsor sufficient time to obtain financing and complete detailed due diligence evaluations. These clauses should also cover the verification of a clear title, compliance with zoning and permit requirements, and the resolution of any financial liabilities associated with the property, such as back taxes or code enforcement violations. Addressing these issues upfront can be important for setting clear expectations, establishing realistic timelines, and potentially preventing unnecessary angst when dealing with delays. The goal is to ensure that the sales process progresses smoothly.

**Due diligence:** The due diligence period is a critical window for a project sponsor to thoroughly inspect the CRE property, review its financials, and assess any potential risks or issues. The project sponsor must also use this period to confirm project financing and conduct a comprehensive evaluation of the property. Any concerns identified during this phase can be grounds for renegotiating the terms of the purchase and sale agreement, terminating the deal, or seeking other remedies. During the

due diligence period, the project sponsor should also ensure that all contingencies outlined in the purchase and sale agreement can be met. Failure to perform timely due diligence can lead to earnest money becoming nonrefundable and may obligate the buyer to proceed with the purchase, even if significant issues are uncovered.

During the due diligence period, the project sponsor is working to confirm the investment thesis. Project sponsors work with a team of professionals and contractors to decide how a given property will be occupied, maintained, leased, and managed. Tactically speaking, a project sponsor should try to minimize due diligence expenditures because they will be lost as sunk costs should a decision be made to not move forward and buy the CRE property. Accordingly, it is advisable that a project sponsor use existing or freely available data and market intelligence and make strategic determinations regarding how to manage research and other due diligence costs.

Typically, during the due diligence period, a project sponsor and its team will complete the following tasks:

- conduct inspections to ascertain the condition of the CRE property and estimate the cost of any repairs needed
- review any existing leases to confirm the amount of rent being paid and how long the tenants are obligated to remain in the property
- try to obtain letters of interest or commitment from prospective new tenants
- work to secure commitments for equity, debt, and any grants or subsidies needed
- rely on legal counsel to review zoning stipulations and confirm that the property can be transferred without liens or title encumbrances

Due diligence is a very busy time. A project sponsor should allocate at least 60 days to complete due diligence and negotiate that any earnest money deposit made would be fully refundable during this period. In a hot market with competing buyers, a

project sponsor may be required by the seller to complete a due diligence period as short as 15 or 30 days or lose the opportunity. By contrast, a property sponsor may need to negotiate a due diligence period of six months or longer to confirm that it can get zoning, environmental, and other approvals necessary to complete the envisioned project. At the end of the due diligence period, the project sponsor must decide if the investment thesis has been confirmed and if the financing has been secured to move forward with the purchase of the CRE property.

## **DETERMINING OWNERSHIP STRUCTURE AND INTERNAL DYNAMICS**

**Ownership structures and teams:** Establishing an ownership structure and team sets the foundation for the operational success and strategic direction of a project sponsor's investment. This step will dictate the legal and operational framework of the CRE property's ownership. This involves deciding whether the project sponsor will be the sole owner or if there will be other partners or investors participating in the deal. The ownership structure impacts everything from decisionmaking processes to financial responsibilities and risk allocation. The project sponsor should work with lawyers to determine whether to form a limited liability company (or LLC), a partnership, or another entity type, as each has implications for liability, taxation, and governance.

### **Assessing team capacity and role allocation:**

A project sponsor should decide which team members are best positioned for the necessary operational roles after a property acquisition. This requires a clear understanding of the project's needs and the skills and experience of the team members. For example, who will be responsible for financial management, tenant relations, and property maintenance? How does taking on these roles impact their current job functions? Is additional capacity needed to fulfill these responsibilities effectively? Will these roles be held by parties external to the project sponsor? For example, it is very common to contract with a CRE

broker to lease the property or with an independent third-party property management firm.

**Defining the project sponsor's role:** The role of a project sponsor is closely tied to the ownership structure and the strategic goals in the ownership of CRE property. Such a role can take various shapes.

- **Active management:** Owning a majority stake (51% or more) often involves taking an active management role. This requires setting up an operational structure to oversee the property, including hiring and overseeing a property management team to handle day-to-day operations. Active management provides greater control over the property but also requires a significant time and resource commitment.
- **Advisory capacity:** In some cases, selling the property to an intermediary while continuing to support the project in an advisory capacity may be strategic. This approach allows project sponsors to leverage their expertise and insights without the financial risk or responsibilities of direct management.
- **Facilitating an ownership transfer post lease-up:** Another structuring idea for a community development organization that is serving as a project sponsor is to focus on the acquisition, development, and lease-up phases before transferring ownership to another entity to facilitate community ownership. This strategy can maximize value creation during the early stages and then capitalize on the stabilized asset.

Establishing the ownership team when acquiring CRE is a multifaceted process that requires careful planning and strategic decisionmaking. Determining the appropriate ownership structure and internal dynamics is the first step, laying the groundwork for effective team capacity and role allocation. Defining the role an organization will play as a project sponsor—whether as an active manager, an advisor, or a facilitator of an ownership transfer—shapes the strategic direction of the investment.

By considering these aspects and exploring creative structuring ideas, investors can form a robust ownership team poised for success. This approach not only ensures operational efficiency and strategic alignment but also positions the project for long-term profitability and growth in the competitive CRE market.

## UNDERSTANDING THE IMPORTANCE OF TIME IN THE CRE INDUSTRY

The adage “time is money” is nowhere more relevant than in CRE, where the timing of decisions can significantly impact the success of an acquisition. Drawing inspiration from the wisdom of Kenny Rogers’ lyrics in his song “The Gambler,” the CRE acquisition process involves knowing “when to walk away” in terms of when to remove contract contingencies and when to proceed to closing. These decisions underscore the importance of time in navigating the complex terrain of CRE transactions.

In CRE acquisitions, knowing when to walk away is crucial. This can mean stepping back from a deal that no longer meets the project sponsor’s investment thesis due to unforeseen risks uncovered during due diligence or changes in market conditions. The ability to walk away at the right time can save time, money, and other resources during the due diligence process. More importantly, the project sponsor may have to make the hard decision to walk away and avoid undertaking a bad deal that will result in potential financial losses.

Similarly, knowing when to remove contract contingencies is a critical decisionmaking point in the CRE acquisition process. Contingencies, such as those for financing, due diligence, and zoning approvals provide a safety net for buyers. The removal of these contingencies signals a firm commitment to proceed with the acquisition, locking in the deal structure and terms. This step requires a careful assessment of all available information and confidence in the deal’s viability.



Finally, understanding when to proceed to closing involves recognizing when all conditions for a successful transaction have been met. This decision comes after thorough due diligence, the satisfaction of all contingencies, and the securing of financing. Moving to closing solidifies the acquisition, transferring ownership and marking the beginning of the asset's integration into the buyer's portfolio. In recognizing the complexities and nuances of negotiating the time factor in a CRE transaction, it is useful for a project sponsor to consider the principles below to guide the process.

**Urgent but patient:** In CRE, there is a competitive advantage in completing transactions quickly, as speed allows buyers to capitalize on opportunities before others in the market. However, this urgency must be balanced with the need for thorough due diligence. Rushing into a deal without properly vetting the property, understanding the market dynamics, or assessing the financial implications can lead to significant oversights and potential losses. Therefore, being urgent but patient means moving swiftly but not at the expense of careful analysis and risk assessment.

**Time is money:** The due diligence phase of a CRE acquisition underscores this familiar adage. During this period, investors spend considerable resources, both in terms of organizational time and the engagement of external professionals, such as attorneys, appraisers, and environmental consultants. These investments are critical for uncovering any potential issues with the property or the deal, but they represent a significant cost. Efficiently managing this phase to minimize unnecessary delays can help control expenses while ensuring a thorough investigation.

**Time kills deals:** The dynamic nature of the CRE market means that conditions can change rapidly, influencing the attractiveness of a deal. Interest rate fluctuations, changes in market demand, or the entrance of competitors can all impact a deal's feasibility. Delays in the acquisition process increase the risk of such changes, potentially derailing transactions that were once promising.

This reality underscores the need for efficient deal progression, balancing speed with due diligence, to minimize the window in which external factors can adversely affect the acquisition.

In summary, the strategic management of time in the CRE acquisition process is crucial for maximizing the chances of success. Remembering Kenny Rogers, investors must navigate the delicate balance of knowing when to advance and when to retreat. By prioritizing urgency while maintaining patience for due diligence, managing the costs associated with the timing of decisions, and being cognizant of the market's dynamism, CRE investors can make informed decisions that optimize the value and potential of their acquisitions.



Accelerator Building for lease, Baltimore



The Commons, Detroit

## Communicating the narratives and the numbers to obtain financing and approvals

Crafting a compelling project summary enables a project sponsor to raise capital from grant funders, lenders, and investors (in the CRE industry). The project summary is often offered in a presentation slide deck format featuring a narrative that articulates the essence of the CRE project and its potential impact on the community. Equally important, the project summary must communicate the numbers to demonstrate that the project has logical financial assumptions, reasonable projections of revenue and expenses, and high potential to earn a profit. A well-structured project summary can make the difference between securing the necessary capital or seeing a project stall.

### THE NARRATIVE

Start with a clear statement that captures the big picture of why the CRE project exists, the overarching financial goals, and what the project sponsor aims to accomplish. The project sponsor should first convey the broader purpose and impact of the project and strive to resonate with the values and interests of potential funders, lenders, and investors. To buy back the block, a project sponsor should clearly mention how the project contributes to a larger narrative of inclusive ownership and community revitalization goals.



Second, the project sponsor should share the investment thesis to make the case for why the CRE project will be a viable and profitable undertaking. The project sponsor should highlight the venture's foundational aspects such as having site control, completing initial market research and due diligence, and taking steps to line up capital resources. The project sponsor also should convey confidence and preparedness, showing that the groundwork has been laid for a successful project. Such background material reassures stakeholders that their investment or contribution is grounded in a well-thought-out strategy with a clear path to realization.

Third, a project sponsor should explicitly mention the critical timelines, including the date by which a financing commitment is needed, in line with the stipulations in the CRE project's purchase and sale agreement. Clear timing demonstrates the project sponsor's project management acumen and helps align expectations with potential funders, lenders, and investors. Doing so also adds a sense of urgency and clarifies the immediate financing needs, making it easier for capital providers to understand how their potential financing fits into the project's timeline.

Fourth, it is essential to introduce the project sponsor and the leadership team. Brief biographies of key team members—noting their expertise, roles in the project, and past achievements—can underscore the breadth and depth of the team's capabilities. Give a snapshot of prior experience. If applicable, highlight past projects, particularly those that are similar in scale or scope to the CRE project for which the project sponsor is raising capital. This may encompass evidence of real estate a given team member has owned, capital reserves or a strong balance sheet, and a history of prudent financial management. Investors and stakeholders need to believe that the project sponsor has the strength to be a responsible CRE owner.

Finally, articulate the social impact of the CRE project. For example, it is common to quantify the

number of jobs that will be created and explain how the project will be catalytic to additional development of a given commercial corridor. It is helpful to highlight objectives such as fostering diverse ownership, closing the racial wealth gap, or contributing to the economic empowerment of underserved communities. This part of the summary connects the financial aspects of the project with its broader societal benefits, appealing to stakeholders interested in responsible or impact investing.

Overall, a project summary should aim to captivate the interest of potential lenders, investors, and stakeholders. By showcasing the sponsor's prior experience, organizational mission, leadership team, and social impact, the summary does more than inform: it reassures stakeholders that the CRE ownership will be in capable hands.

## THE NUMBERS

The project summary should include a financial summary that outlines the projected economic objectives to be achieved when the project sponsor owns the CRE property. These numbers must convince lenders and investors of the financial viability of the project. More formally known as the financial model, pro forma, and/or project budget, the numbers will include details about:

- the sources and uses of capital that will be necessary to acquire and make improvements to the CRE property
- revenues, most likely to be collected from tenant rental payments
- operating expenses, including property taxes, mortgage interest, management, accounting, and marketing
- profitability and the overall projected return on investment

A sound financial model demonstrates that a project sponsor has the acumen to be thorough in financial planning and realistic in market assessment. A solid financial model provides investors with a tool to forecast financial

performance, assess potential risks, and make informed decisions. The next section of the Buy Back the Block Playbook provides a comprehensive approach to developing a CRE financial model.

## DEVELOPING A FINANCIAL MODEL

**Summary of fundamentals:** A financial model for CRE should start with a summary of the fundamentals: identifying the property address, property type (office, retail, industrial, or mixed-use), its size (square footage and/or acreage), and defining the investment strategy. This base layer sets the parameters for more detailed analysis that ensures the model is tailored to specific project needs.

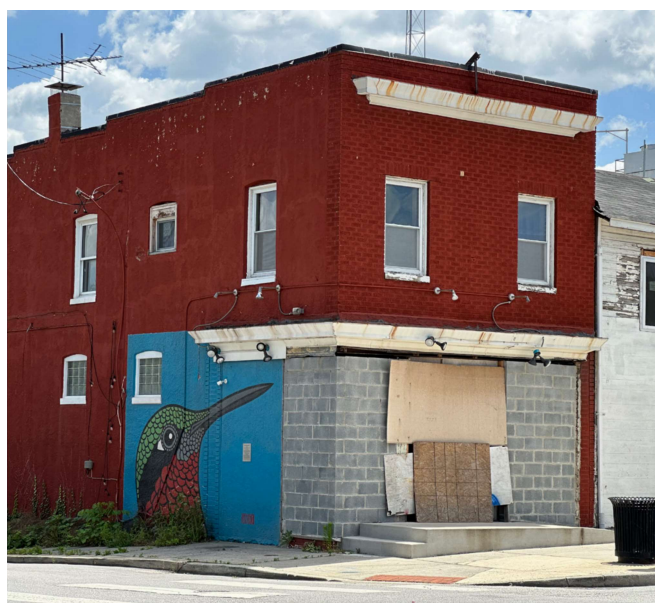
**Key assumptions:** This is where a project sponsor delineates the underlying assumptions that drive the financial model. Common key assumptions include the interest rate, vacancy rates, average rents, and rent escalation rates. Assumptions can also encompass property-specific estimates of acquisition costs, improvement costs, operational expenses, and anticipated capital expenditures for renovation or tenant improvements or allowances. These assumptions are not merely educated guesses; they should be based on research completed by the project sponsor examining historical data, market reports, conversations with industry experts, and trends analysis. The goal is for anyone reviewing the model to understand the rationale behind the numbers.

**Sources and uses of capital:** This section outlines how the project will be funded (the sources of capital) and where the money will be spent (the uses of capital). This page should detail all capital sources, including senior debt, mezzanine financing, equity investment, and any public subsidies or private grants. For the uses, it should itemize the acquisition costs, construction or renovation costs, soft costs (like fees for legal counsel, architecture, and design), closing costs,

and contingency reserves. This part of the pro forma provides a snapshot of the financial structure of the deal, illuminating how much capital is needed, where it will come from, and how it will be allocated.

**Revenue projections:** The revenue section of the financial model will include all income streams from the CRE property, such as rental income, parking fees, service charges, or any ancillary income. Rental income projections should be based on current market rents, with adjustments for future rent growth rates, vacancy rates, and lease-up periods. Incorporating market research and comparable data will ensure that these figures are realistic and grounded in the most current market conditions.

**Expense analysis:** On the expenses side, the financial model must include all operating costs associated with the CRE property. This includes property management fees, maintenance and repair costs, utility expenses, property taxes, insurance, and marketing costs for attracting tenants. It is also important to factor in capital expenditures for property improvements and contingencies for unexpected expenses.



Baltimore

## BOX 5

# A key financial ratio

The debt service coverage ratio (DSCR) is a financial metric used to determine a property's ability to cover its debt obligations. It is calculated by dividing the property's NOI by its total debt servicing amounts, which include principal and interest payments on any mortgage loans. A DSCR of over 1 indicates that the CRE property generates sufficient income to cover its debt, while a DSCR under 1 suggests that it does not. DSCR is often used by lenders to make a quick assessment of a CRE project's financial health and the project sponsor's ability to repay the loan. A DSCR of 1.2 or higher increases the likelihood of loan approval and can potentially lead to more favorable borrowing terms, making it a key consideration for investors and lenders alike.

**Financing and investment structure:** The model should account for the CRE project's capital stack, which includes debt and equity financing and any grants or subsidies received. For debt obligations, it should include the loan amount, interest rate, amortization period, debt coverage service ratio (see Box 5), and loan covenants. Equity inputs should reflect the equity investment required, expected returns, and distribution waterfalls for investors. Grants and subsidies should include the name of the program (such as the NMTC Program or a foundation predevelopment grant), the amount committed, and the timing of receipt (upfront versus reimbursement).

**Cash flow analysis:** A detailed cash flow analysis helps project sponsors and all lenders and investors to understand the project's NOI (net operating income), which is the revenue from the CRE property minus its operating expenses. Subtracting debt service amounts (the payment of the mortgage, for instance) from the NOI determines the project's cash flow before taxes. This analysis will demonstrate that the project sponsor will be able to generate returns for equity investors.

**Valuation metrics:** Valuation metrics such as the capitalization rate,<sup>11</sup> internal rate of return,<sup>12</sup> cash-on-cash return,<sup>13</sup> and net present value<sup>14</sup> are key indicators of a property's financial performance. These metrics can help a project sponsor to

substantiate the value of the CRE property based on its income-generating potential.

**Scenario and sensitivity analysis:** A key investment component of a financial model is scenario and sensitivity analysis, which tests how changes in key assumptions (such as changes in rental rates, interest rates, or vacancy rates) would impact investment returns. This analysis helps identify the risks associated with CRE property ownership and the variables that would have the most significant impact on a project's financial performance.

**Exit strategy:** Finally, the financial model should consider the exit strategy, which could include selling the CRE property or refinancing. Projections should be made regarding the expected sale price or refinance terms based on the property's projected future NOI and the anticipated capitalization rates at the time of exit.

This playbook's resources section contains a financial model for CRE property. It is a dynamic tool that needs to incorporate a wide range of variables and scenarios. It is detailed enough to provide a comprehensive picture of the potential financial performance of a CRE property but flexible enough to adjust as more information becomes available or as market conditions change. Project sponsors should make regular updates and



refinements to ensure the model remains a relevant and reliable tool for decisionmaking throughout the lifecycle of a CRE project's ownership.

## SECURING COMMITTED CAPITAL

Securing a timely capital commitment—whether in the form of debt, grants, or equity investment—is a critical step in the CRE ownership process. Understanding the various facets of this process is key to successfully obtaining the funding necessary to move a project forward. This process guide outlines the essential steps and considerations involved in securing a financing commitment for CRE projects.

**Approaching lenders:** It is essential to understand lenders' varied geographic preferences and asset type missions (see Table 8). Different lenders have varying appetites for risk, which can be influenced by the location and type of property and by a project sponsor's experience with similar projects. Understanding lenders' pricing structures and terms upfront can save time and focus efforts on those most likely to provide a commitment. Project sponsors that tailor a pitch to align with a lender's mission can significantly increase the chances of securing funding.



Childhood Memories, childcare and learning center, Cleveland

TABLE 8

## Lessons from the lab: Funding and financing ecosystems vary in size and completeness between markets

| Institution             | Traditional bank project financing   | CDFIs   | Philanthropic organizations   | Governments (state and local)  |
|-------------------------|--|---|---|--|
| Type of facility        | Acquisition, construction, and permanent financing   | Predevelopment, acquisition, construction, permanent, and bridge loans  | Predevelopment loans, program related investments, and/or grants to fill financing gaps   | Acquisition, new construction, renovation, and equipment   |
| Mission-driven?         | No   | Yes   | Yes   | Yes  |
| Key sample terms        | Interest rates tied to the prime rate; more conservative underwriting, such as requiring higher net worth of borrowers, larger amounts of equity and cash reserves, and more financial covenants | Interest rates may be slightly higher than those of banks but typically involve less stringent underwriting, such as longer interest-only periods, amortization schedules, and loan terms | Interest rates often lower than those of banks and CDFIs and terms are more flexible; however, borrowers must demonstrate a “charitable purpose” to qualify for philanthropic support and the deal must align with strategy and approval cycles | No appraisal or loan to value requirements; up to 15-year terms with no prepayment penalties or balloon payments |
| Example(s) in Detroit   | J.P. Morgan Chase and PNC Bank   | <a href="#">Detroit Development Fund</a>  | <a href="#">Kresge Foundation</a> and the <a href="#">Ebiara Fund</a>   | <a href="#">Motor City Match</a>   |
| Example(s) in Cleveland | Key Bank and Wells Fargo   | <a href="#">Village Capital</a>   | <a href="#">Cleveland Foundation</a>  | <a href="#">Make It in Cleveland</a>   |
| Example(s) in Baltimore | Bank of America and TD Bank  | <a href="#">Baltimore Community Lending</a>   | <a href="#">Baltimore Community Foundation</a>  | <a href="#">Neighborhood Impact Investment Fund</a>  |

SOURCE: Author



**Making the application:** A project sponsor starts the application process by providing the project summary, filing out the lender's intake forms, and paying certain lender fees, if necessary. A complete and thorough submission of all required documents will allow the lender to begin the underwriting process and can expedite the loan approval decision. Being responsive and factual in communications with lenders or investors reinforces credibility and professionalism, potentially smoothing the path to approval.

**Third-party reports:** Lenders typically inform project sponsors about the specific third-party reports needed, which usually include environmental assessments, property condition reports, and appraisals. In many cases, lenders will order these reports directly to maintain control over the process, ensuring that the assessments are unbiased and meet their specific requirements. It is common practice for lenders to require project sponsors to pay for these reports, so it is essential to budget for these costs in the financing plan. While these expenses can be costly to project sponsors, they are vital for lenders' risk assessments.

**Navigating the process:** To traverse the financing process effectively, a project sponsor must complete the following tasks.

- **Research and target appropriately:** Identify and approach the lenders, grant bodies, or investors whose interests align with the project's geography, asset type, and scale
- **Prepare comprehensive documentation:** Maintain a suite of readily adaptable documents that are thorough, clear, and reflective of the project's potential
- **Stay patient and engaged:** Recognize the duration and depth of the due diligence process and stay actively engaged with funders, responding promptly and accurately to queries
- **Understand and facilitate assessments:** Collaborate with third-party assessors to facilitate their evaluations, understanding their role in assuring funders about the viability and risk profile of the project

- **Anticipate costs and time frames:** Account for the costs and scheduling of third-party reports within the project's financial planning and timelines

**Closing financing gaps:** A financing gap can be defined as the shortfall between the total capital required to fund a CRE project and the amount of equity and debt financing the project sponsor is able to secure under conventional terms. Typically, a gap occurs due to various factors such as perceived risks, market conditions, or the financial projections not meeting traditional lender or investor criteria. When a gap is apparent, the project sponsor has the challenge of finding additional capital sources to commence or complete the project. Closing the gap necessitates innovative financing solutions, government grants, or partnerships to fill the void. Public subsidies and philanthropic grants are two key avenues through which project sponsors can address shortfalls. Careful timing considerations are crucial in navigating these financial channels, as they can be contingent upon various approval processes and cycles.

**Public subsidies:** Public subsidies can play a significant role in closing CRE financing gaps. Economic development programs offered by local, state, or federal government entities are designed to stimulate economic growth and revitalization. The "but for" case—a proposition that a development would not proceed but for the assistance of public funding—is often required to access these subsidies. This argument must convincingly demonstrate that the additional financial support is critical for the project's feasibility.

Such subsidies may be directed toward specific aspects of a project, including capital improvements, façade enhancements, and efforts to attract tenants, which can make the CRE project more appealing in the market. Subsidies might come in the form of tax abatements, low-interest loans, or outright grants. For larger projects, engaging consultants and professionals who specialize in public financing can be beneficial. These experts can navigate the complex landscape of public funding, ensuring that all opportunities for assistance are explored and used to the fullest (see Table 9).

TABLE 9

## Sample public subsidy programs

| Type/source of capital  | Offering                       | Description  |
|---|--------------------------------|--|
| Federal funds (from the U.S. Treasury Department's CDFI Fund) | New Markets Tax Credit Program | The <a href="#">NMTC Program</a> “incentivizes community development and economic growth through the use of tax credits that attract private investment to distressed communities.”  |
| Federal funds   | Opportunity Zones              | <a href="#">Opportunity Zones</a> are “economically distressed communities, defined by individual census tract, nominated by America’s governors, and certified by the U.S. Secretary of the Treasury via [the] delegation of that authority to the Internal Revenue Service. Under certain conditions, new investments in Opportunity Zones may be eligible for preferential tax treatment. There are 8,764 Opportunity Zones in the United States, many of which have experienced a lack of investment for decades.” |
| Typically municipal, state or philanthropic funds             | Façade renovation              | A sample of façade renovation funding is the National Main Street Center’s <a href="#">Main Street America Façade Improvement Pilot Program</a> , provided with “generous support from the 1772 Foundation, Inc. This three-year program makes available \$80,000 in no-interest loans and grants that support highly visible improvements to buildings and storefronts.”  |
| Typically municipal or state funding                          | Tax increment financing (TIF)  | The <a href="#">Council of Development Finance Agencies</a> defines TIF as “a mechanism for capturing the future tax benefits of real estate improvements, in order to pay for the present cost of those improvements. TIF is generally used to channel funding toward improvements in distressed or underdeveloped areas where development would not otherwise occur.”  |

SOURCE: Author

### **Philanthropic grants, loans, and equity**

**investments:** Philanthropic organizations can help to bridge financing gaps for CRE projects. Predevelopment grant programs can support the initial planning and feasibility stages, often when risk is highest and when other financiers are reluctant to commit. Programmatic grants may support a particular aspect of the project that aligns with a foundation's mission, such as community services, crime reduction, sustainability features, or historic preservation.

Program-related investments (PRIs) represent a unique form of philanthropic funding. Unlike traditional grants, PRIs are made by foundations to support charitable activities. For CRE projects, this could mean low-interest loans or equity investments in projects that yield social benefits. PRIs can offer more flexible and patient terms than traditional financing (unsecured or subordinate financing as well as deferred or interest-only periods, for instance). Foundations that offer PRIs

and/or grants generally have specific offerings that depend on a given institution's strategic priorities at the time and what projects the institution feels will have the greatest impact. Typically, there is a public description of such foundations' offerings and application processes.

**Timing considerations:** Timing is a critical aspect of closing financing gaps through public subsidies and philanthropic grants. These sources often have long lead times due to application processes, review periods, and funding cycles. They cannot be expedited to match the pace of commercial development timelines; hence, projects must be planned with these constraints in mind. Successful financing strategies are both opportunistic and responsive. They take advantage of funding when it becomes available and adapt to the moment. This might involve timing project milestones to coincide with funding cycles or being prepared to pivot when unexpected opportunities arise.



Dollar General, Baltimore



## LESSONS FROM THE LAB: COMMUNICATING THE NARRATIVE AND NUMBERS

During the Buy Back the Block Lab, IYR, CNP, and GRDC each completed a presentation deck clearly communicating their respective missions of fostering community ownership. Each organization emphasized the dual goals of revitalizing neighborhoods and generating a financial return for resident investors.

Moving forward, IYR, CNP, and GRDC will undoubtedly face challenges as they refine their financial propositions, put together equitable and sustainable deal structures, and work to secure financing for their specific CRE projects. One of the primary challenges for these organizations will be to tailor their financial propositions to align with the unique characteristics of each CRE project. For IYR, which is focusing on purchasing and revitalizing a shopping center and/or a long-vacant former retail property, the challenge lies in attracting tenants and repositioning the properties to maximize returns. CNP, which is working to rehabilitate distressed properties and catalyze new construction, must navigate zoning regulations, community engagement, and property redevelopment challenges. GRDC, as it seeks to restructure ownership and offer shared equity in commercial buildings, faces complexities in legal structuring, investor recruitment, and community buy-in.

Navigating the timelines of obtaining financing may indeed be the most significant hurdle for the organizations. Most sellers are eager to close transactions swiftly and contractually obligate buyers to purchase CRE property in 90 days or less. IYR, CNP, and GRDC will likely require time to secure the necessary equity, debt, grants, and subsidies for their CRE projects. However, bank lenders, CDFIs, philanthropic organizations, and government agencies often operate on timelines that do not align with the urgency of real estate transactions.

Despite the challenges posed by market realities and financing timelines, IYR, CNP, and GRDC are well-positioned to overcome obstacles and achieve success in their CRE projects. Their experiences in the lab have equipped them with insights, information, and sample deal structures that can increase the probability that they will lock down a deal and secure the financing to realize their vision of inclusive and sustainable community development through shared CRE ownership.

### A SHARED EQUITY CAPITAL STACK

Closing the financing gap in CRE projects requires a blend of strategic financial planning, an understanding of the available public and philanthropic funding avenues, and a mastery of timing. Public subsidies can offer substantial support but require a solid case to demonstrate the necessity of public assistance. Philanthropic support, including PRIs, provide alternative funding

sources that can align with both project needs and charitable goals. Ultimately, patience and responsiveness, combined with an opportunistic approach, are key to successfully navigating these avenues and securing the final pieces of the financial puzzle. By leveraging these methods thoughtfully, CRE developers can turn financial gaps into solid foundations for their projects' success.





Riverfront Building Supply Hardware, Detroit

## Selecting a shared equity model to foster inclusive ownership opportunities

Shared equity models allow project sponsors, investors, and community members to collaboratively own and financially benefit from CRE. The aim is to encourage local investment and ensure that some of the economic benefits of development—such as wealth and job creation; improved infrastructure, services, and amenities; and increased property values—remain with residents and organizations in the community. A project sponsor might pursue a shared equity model to garner community support, enhance project viability, and achieve social impact goals while boosting financial returns. Shared equity models can unlock new funding opportunities, such as grants and impact investments, that value both financial returns and social outcomes. Ultimately, shared equity in CRE represents a holistic approach to development that values inclusivity and community welfare as much as profitability.

Implementing a shared equity model involves structuring a CIV to allow both the project sponsor and community investors to have equity stakes in the CRE property. This could mean forming a

corporation or partnership and offering equity shares to community members at accessible price points or creating a cooperative ownership structure where profits and decisionmaking are shared. There are many shared equity models and CIVs.<sup>15</sup> Each model offers different tradeoffs between goals like building wealth, preserving affordability, or empowering local control; some models are more mature and/or replicable than others.<sup>16</sup>

Every model demonstrates that real estate development can be a tool for community empowerment when structured to include those traditionally left out of the investment process. By prioritizing inclusivity, education, and local engagement, shared equity models and CIVs can create ripple effects with positive social impacts, transforming the approach to CRE investment. These models pave the way for a future where community members are not merely bystanders to CRE ownership but active participants and beneficiaries of the growth and prosperity of their neighborhoods.

## LESSONS FROM THE LAB: SELECTING A SHARED OWNERSHIP MODEL

IYR, CNP, and GRDC intentionally sought shared ownership in their modeling as a key project objective. As such, each received sample project budgets and financial projections and designated coaching hours, providing them with the opportunity to collaborate with CRE finance and development professionals to bring shared ownership CRE projects to fruition.

There are various investment models aiming to democratize CRE ownership available for IYR, CNP, and GRDC to adopt. For example, IYR can draw inspiration from the diverse range of CRE deals listed on SmallChange.co, a website that showcases various shared ownership structures for acquisition and development. CNP may benefit from considering a relationship with Partners in Equity, which has established a fund to provide a substantial portion of the required equity for small business owners to own the CRE spaces that they occupy.<sup>17</sup> GRDC, aiming to recapitalize the CRE it owns, is well-suited to explore the shared equity model offered by the Community Investment Trust, which enables collective ownership of CRE property starting from modest investments of \$10–100 per month.<sup>18</sup>

### FOSTERING COMMUNITY INVESTMENT

**Marketing and outreach:** Marketing, outreach, and education are vital components of rallying community investment in CRE. To be successful, a project sponsor needs to develop a range of strategies to identify investors, establish trust, provide information, communicate an upbeat message, and build a sense of urgency. Done right, these elements can effectively mobilize community investment.

**Human connection:** The cornerstone of any community investment initiative is the foundation of trust fostered by human connection. People are more likely to invest in individuals and teams they trust, who demonstrate transparency, credibility, and confidence. Project sponsors should clearly articulate their background, experience, and track record in CRE development. Sharing personal stories and showing their genuine interest in community betterment can create emotional connections that transcend mere financial transactions. Establishing trust is about showing a commitment to shared goals and demonstrating that the project sponsor is interested in more than just profit—the community's well-being is at the heart of the project.

**Upbeat messaging:** Communication should consistently convey an earnest intent to contribute to wealth building and community cohesion. Upbeat messaging that underscores the benefits of the investment—for both individual investors and the community at large—resonates with potential stakeholders. Marketing materials should highlight the project's potential to create jobs, revitalize neighborhoods, and generate sustainable returns. This positive narrative not only inspires investment but also fosters a sense of pride and ownership among community members.

**Early money is like yeast:** This common acronym in fundraising, known by the shorthand form EMILY, alludes to the fact that early investment helps raise the dough. Building momentum early on by lining up initial investors is critical. These early adopters validate the project to others. Project sponsors should know that it is essential to bring your crowd—leveraging existing relationships and networks to secure early investment and create a buzz around the project.

**Urgent but patient:** Maintaining the momentum of a marketing and outreach campaign requires a delicate balance of urgency and patience. While it is important to keep potential investors engaged and moving toward committing, it is equally vital to avoid a tone of desperation. Campaigns should be

structured to be engaging and fun, perhaps through events or community initiatives that add value beyond the investment opportunity itself. Patience is crucial; not all investors will be ready to commit immediately, and a heavy-handed push can be counterproductive.

**Compliant marketing and communications:** When marketing investment opportunities, compliance with regulations from the U.S. Securities and Exchange Commission (SEC) is non-negotiable. Communications must be transparent, providing all necessary information without making unfounded promises. It is important to avoid misleading statements and to ensure that all disclosures are made. This not only avoids legal pitfalls but also reinforces the credibility of the project.

**Pitching stories to media:** Media coverage can significantly boost the visibility of an investment opportunity. Engaging public relations expertise can help in crafting compelling stories that appeal to news outlets. Whether through traditional news stories, television, or radio, media coverage serves as a third-party endorsement, adding legitimacy and generating interest among a wider audience. The goal is to highlight the community impact of the project and its potential to transform neighborhoods and lives.

**Fostering direct engagement:** Hosting information sessions, whether in person or via platforms like Zoom, allows for direct engagement with potential investors. A project sponsor can organize in the community gathering rooms of church basements, public libraries, and apartment buildings to address local concerns, answer questions, and build rapport. These efforts provide a way for community investors to connect with the project sponsor and with each other, fostering a community of interest and commitment around the value of CRE ownership.

**Ongoing education and communications:** Continual education and communication are critical for keeping investors informed and engaged over the long term. Regular updates on project progress, market trends, and educational content related to CRE investment can sustain investor interest. These

communications should be clear, informative, and consistent, demonstrating an ongoing commitment to transparency and investor education.

Conducting marketing and outreach for community investment in CRE is about much more than selling an idea: it is about building a community around a shared vision for growth and improvement. By establishing a human connection, delivering upbeat messaging, leveraging early investment, and maintaining momentum with patience and fun, project sponsors can rally substantial community investment. Furthermore, ensuring that all communications are SEC-compliant and leveraging media and information sessions to foster engagement are also vital steps. Ultimately, ongoing education and clear communication reinforce investor confidence and can help sustain a long-term partnership between the project sponsors and the community, leading to successful outcomes for all involved.

**Social media:** Project sponsors can leverage social media strategies to reach individuals, provide information, and secure community investment in the CRE property. To be effective, project sponsors should:

- Create a content calendar for consistency in posting and for covering various aspects of the equity offering
- Use compelling narratives about the CRE, its impact, and the vision behind it and engage with followers by responding to comments and messages
- Use high-quality images, videos, and infographics to make complex information accessible and shareable
- Share content across different platforms to maximize reach, tailoring the message to the strengths of each platform
- Use analytics tools to track engagement and refine the strategy for better results

Always include a clear call to action, guiding interested parties on how to learn more or participate in the equity offering (see Box 6).



**BOX 6**

# Tools to build inclusive CRE ownership and awareness on social media

## Facebook

With its vast user base, Facebook is a potent tool for reaching a diverse audience. By creating a dedicated page for the equity offering, a project sponsor can share updates, photos, videos, and live events that tell the story of the project. Interactive features such as Facebook Live can be used for Q&A sessions with interested investors, providing transparency and fostering trust. Additionally, Facebook's targeted advertising capabilities allow project sponsors to reach specific demographics, ensuring that the offering is seen by individuals with a known interest in real estate investment.

## LinkedIn

LinkedIn is particularly well-suited for reaching professionals and industry insiders. Sharing insightful articles and thought leadership content can position a project as a credible and attractive investment opportunity. Participating in real estate and investment-related groups can help to build a project sponsor's network and allow them to engage with potential investors on a platform they trust for business-related information.

## Twitter/the X platform

The real-time nature of Twitter (now known as the X platform) makes it ideal for sharing timely updates, news, and insights about an equity offering. It is a platform conducive to short, engaging bursts of information and links to more detailed content. Using hashtags can help increase the visibility of relevant posts to those monitoring specific topics or trends related to CRE investment.

## Instagram

Instagram is a visually driven platform that can be used to share images and videos of the property, development progress, and infographics that explain the investment opportunity in an engaging manner. Instagram Stories and Reels offer creative ways to present bite-sized content that can inform and attract potential investors, while Instagram TV is suitable for longer-form content.



**Getting a deal done:** The completion of a CRE acquisition is both a culmination and a commencement. It is a completion of due diligence and fundraising and the start of ownership, property management, and financial stewardship. Celebrating the closure of a deal is both a relief and a rite; it is the time for the project sponsor to pause to acknowledge the hard work that has brought the CRE ownership to fruition. The project sponsor also must gear up for the closing and post-closing considerations for CRE acquisitions.

**Closing the deal:** Closing a CRE acquisition is like conducting an orchestra where every instrument must come in at the right time and in harmony. The equity closing typically happens first and is set to be close to the property transfer date. Here, the project sponsor receives the money from investors enabling the CIV to buy the CRE. The closing is the next step—where all the lender documents are finalized and signed. This step requires careful negotiation to align the interests of both the lender and the borrower, ensuring that the terms are conducive to the success of the project. It is crucial to thoroughly understand all the clauses, covenants, and conditions before affixing signatures, as they will govern the financial framework of the project moving forward. The property transfer is the crescendo of the acquisition process. The title company plays a pivotal role, providing insurance to protect against claims and defects in the title and ensuring that deeds and mortgages are accurately recorded. This legal transfer affirms the change of ownership and secures the sponsor's rights over the property.

**Post-closing considerations:** After a deal has closed, the project sponsor must pivot toward managing the asset with an eye on the goals of profitability. This is the period to reassess and recommit to the project's objectives, ensuring that they align with the broader vision for community development and stakeholder benefits. The project sponsor must ensure that there are effective property management practices in place and that leasing professionals are hired. Identifying a diverse and experienced range of professionals to handle

these aspects helps make sure that the property attracts and retains tenants, maintains operational efficiency, and adheres to the project's inclusivity goals. The right management team can add significant value, enhancing the tenant experience and, consequently, the reputation and profitability of the property.

**Ensuring profitability:** The financial performance of the property should be a priority for the project sponsor. All post-closing decisions should aim at the goal of making the property profitable. This means diligent management of operational costs, strategic marketing for tenant acquisition, and foresight in maintenance to prevent costly repairs. Ensuring profitability is not just about the bottom line; it is about sustaining the project to fulfill long-term objectives.

**Balancing mission, money, and market opportunity:** Managing the tension between mission, money, and market opportunity is a delicate juggling act. A project sponsor must balance the financial imperatives of profitability with the mission of inclusive community development and the realities of market dynamics. It is essential to remain adaptable, responsive to market changes, and steadfastly attuned to the project's core values.

**Maintaining transparency:** Communication with lenders and investors is fundamental after a deal has closed. The project sponsor should, at least every 90 days, send a report to keep all investors and stakeholders informed about the CRE's performance and any significant developments. Investor education is crucial, especially if the project involves community stakeholders who are new to real estate investment. Annual meetings provide an opportunity for transparent dialogue, fostering trust and continued support.

## LESSONS FROM THE LAB: GETTING A DEAL DONE

Acquiring and developing CRE is complex and daunting, particularly when incorporating a shared equity model. IYR, CNP, and GRDC undoubtedly understand the challenges of orchestrating due diligence, financing, grants, and community investor outreach—with expediency so as not to miss market opportunities. IYR, CNP, and GRDC are now equipped with additional knowledge and tools to successfully execute CRE deals while upholding their visions for community revitalization and shared ownership in majority-Black neighborhoods.



The New York Rd., Baltimore

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# END NOTES

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- 9 Permanent financing is herein defined as financing amortized over a 10-, 20-, or 30-year period of time with an interest rate that is lower than the interest charged by lenders during the construction period.
- 10 These cost estimates are based on the author’s prior CRE experience and vary from market to market.
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- 14** According to a paraphrased quote from Joe Knight in a Harvard Business Review article, “Net present value is the present value of the cash flows at the required rate of return of your project compared to your initial investment.” See Amy Gallo, “A Refresher on Net Present Value,” Harvard Business Review, November 19, 2014, <https://hbr.org/2014/11/a-refresher-on-net-present-value>.
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- 16** Tracy Hadden Loh and Hanna Love, “The Emerging Solidarity Economy: A Primer on Community Ownership of Real Estate,” Brookings Institution, July 19, 2021, <https://www.brookings.edu/articles/the-emerging-solidarity-economy-a-primer-on-community-ownership-of-real-estate>.
- 17** Partners in Equity, “Partners in Equity,” <https://www.pie-nc.org>.
- 18** “Mission,” Community Investment Trust, <https://investcit.com/Home/About>.

An aerial photograph of a wide, multi-lane road in Detroit, Michigan, identified as Grand River. The road stretches from the foreground into the distance, flanked by trees and some commercial buildings. Several cars and a truck are visible on the road. The image has a blue tint and is used as a background for the text.

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Grand River, Detroit | Photo credit Detroit Experience Factory