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A Missing Piece in Community Wealth Building: The Community Investment Trust - Financial Ownership and Real Equity

In summary, access to ownership in neighborhoods is a missing link in the chain of efforts taking place around the nation to democratize development strategies to foster inclusive wealth building. This paper describes a new approach – an innovative real estate investment using patient investment capital to enable traditionally vulnerable and economically marginal residents an opportunity to invest and build equity via shared ownership in real estate as it increases in value. A pilot in Portland, Oregon's most diverse and high poverty neighborhood, the Community Investment Trust, offers a model for financial inclusion that could apply in similar neighborhoods around the country.

Bruce Katz and others take aim at the history, failure and future of community development in Towards a New System of Community Wealth[i], a co-authored paper published in October 2019, and an extension of his 2017 book with the late Jeremy Nowak, The New Localism.

"For almost sixty years, the U.S. has delivered a top-down 'Community Development' system, narrowly focused on delivering low-income rental housing with a mix of federal tax incentives, federally encouraged bank debt and federal subsidies." They argue: "A new system has begun to emerge, focused on growing people rather than buildings."

Capital sources are being refocused, including the federal CBDG - which is not unlike turning an old ship to a new direction at sea - and new private sources and approaches are being devised almost daily to capture this 'new localism' vision. A challenge is that new funding flows need not only to be delivered to neighborhoods, but also guided by and managed by people at the community level. The multi-representative term *equity* is at the core of the emerging systems and its strategies. Authors, Katz, Baird, Lee, and Palmer say effective community wealth-building rests on four pillars:

1. *Growing individual assets in distressed places.* Upgrading workforce skills can enable local residents to buy homes and invest in their own businesses.

2. *Growing collective neighborhood-based assets.* Strengthening local institutions will "create, capture and deploy value for local priorities and purposes."

3. *Improving access to private capital.* Communities should look to attract investors with social purpose, fair and transparent terms, the willingness to make a long-term commitment, and reasonable expectations about financial returns on their investment.

4. *Enhancing inclusion.* Ensuring that all residents have the opportunity to participate in the economy and share in the wealth that is created.

The pillars framework is helpful because strategies abound, as do meaningful but marginally actionable buzzwords: inclusive, regenerative, intentional, purpose-built, steward-ownership, collective assets, equitable development, place-making, and ladder to opportunity. The systemic change from top-down efficiency to bottom-up effectiveness is the community development challenge we face. In addition to needing to codify, align and expand the most promising of the many models, however, is the need for a financial product in the right asset class that meets the four pillars at scale and early in the development process in each community.

What is missing? A financial product benefitting actual people: A path to ownership - by real people in real time, today, not a place-based benefit that generates community participation, energy and benefits down the road. Great intentions, attention and innovation notwithstanding, people in neighborhoods living with low or no financial assets deserve and need an early and sustained financial stake in the changes happening in their neighborhood. Without ownership, they will fall further behind. Ownership matters.

In Portland Oregon, Mercy Corps created the Community Investment Trust (CIT), a model and financial product for community ownership of a retail strip mall for residents in a prescribed four zip codes of approximately 140,000 people. Unlike the rest of Portland, which is not particularly diverse, this 1950s-era suburb has transitioned into one made up of low-income people, largely renters, people of color and refugees and immigrants. One of the area's large high schools has a student population that speak over seventy languages at home. The neighborhood reflects many of the challenges and opportunities of post-industrial, rust-belt cities, where traditional industries, such as the timber industry in Oregon, have largely evaporated.

Leaders of the CIT worked closely with the most vulnerable community members - renters, people of color, the disabled, refugees and immigrants – to understand their desires and barriers regarding financial management. Based on their feedback, and using behavioral economics strategies, they designed a real-estate investment product that is appropriate for, and motivating to, low-income families. The CIT's unique attributes include:

1. Affordable investments at $10 to $100/month in neighborhood commercial real estate.
2. Short and long-term returns through an annual dividend and share price change.
3. Guaranteed protection from loss through a direct pay letter of credit from a bank.
4. Required education course "Moving from Owing to Owning," translated into five languages.
5. User-friendly investment portal and website: investcit.com

The CIT model checks all four of the pillars.

Growing individual assets in distressed places: Residents around the CIT invest monthly buying shares in a C Corporation and paying back the down payment in the property provided by impact investors. They receive dividends annually, and long-term share price appreciation based on the mortgage reduction and change in the property's value. Their investment is protected from loss and they can exit any time. Investors report being more active in their neighborhood, voting and advocating for their interests. Over 95% re-subscribe annually at the new share price. They are mostly women, renters, first-time investors, low-income and people who speak another primary language at home. The CIT product targets these new investors but is open to all.

Growing collective neighborhood-based assets: The CIT creates community ownership starting with a single commercial-retail property, strengthens civic engagement and catalyzes democratic participation at a meaningful scale by offering access to place-based ownership. The CIT has created impact on three mutually reinforcing levels:

1) Increases long-term individual and family net worth.
2) Builds support for local business and non-profits.
3) Creates safer, equitable and economically strong neighborhoods with engaged citizens.

Improving access to private capital: The project is a $450K equity shift of funds provided by impact investors for the down payment and deferred maintenance of a $1.5 million property to some 300-400 families. In 28 months since launch, the CIT has delivered three rounds of dividends averaging 9.3% to 140 families to-date and a share price gain from $10/share to $15.86/share, based upon the reduction of mortgage debt and the increase of property value to $2.0 million. A bank made a conventional mortgage and offered a direct pay letter of credit (LC) to provide downside risk protection for all investors. The LC, a necessity for exemption for registration of the security offering to unaccredited or low-income investors, grows as the investors' monthly investments grow.

Enhancing inclusion: The CIT's core value is equity – in diversified ownership, governance, and for widely distributed, long-term family asset building. The CIT is more than just a financial product: it is a model for community development and economic empowerment that makes neighborhoods more engaged, equitable, safer and economically active. The CIT pilot has proven its initial aspirational theories:

- Ownership matters and changes neighborhoods.
- The ability of people to thrive, not just survive.
- The power of collaboration and shared learning.
- Access to the right financial products, education, and peer support creates opportunities for people to help themselves. (Prosperity Now refers to these elements as financial capability which, when combined, leads to greater financial well-being).

New models and systems for addressing urban and rural economic challenges are attracting new capital sources and upending the top-down federal routine and local government bureaucrats clinging to their slice of CDBG funding, banks on tax credits and measuring outcomes by housing units and marginally impactful "upward mobility" programs around financial literacy and savings.

Guided by a few leading thinkers, banks and foundations, and implemented by more and more cities starting with DEI training and commitment, yet codified haphazardly, expectations at the neighborhood level are growing. Change is coming and leading communities aligned and funded by multiple sources are implementing creative place-making, thoughtfully including the people who have been affected by blight to participate in planning to drive the change they want to see. Sources of external capital have formulated – from Opportunity Zones to funds to seed entrepreneurs such as BluePrint Local. Other good plans are taking hold for Neighborhood Real Estate Investment Trusts, which will seek capital nationally for localized good, and Neighborhood Trusts, which promotes the shift of managing external capital to local control. The potential lost opportunity in all of these efforts is leaving the people in these places out of the investment early. A CIT project can do this while catalyzing a neighborhood early as a foundation to build upon, and it puts active ownership by individuals and families from the outset into the development efforts.

The CIT is built for replication and adaption. The opportunity to scale the model is in front of us with over forty cities having expressed interest and initiating feasibility studies in their communities. From Atlanta, St. Louis and Kansas City to Colorado Springs, Phoenix and Fresno, community-based organizations embrace the power of the model in their effort to build local solutions for their cities and neighborhoods. These cities and others are the seeds of a movement to deliver financial equity to those on the lowest rungs of our economy early and long-term.

[ii] Towards a New System of Community Wealth, released on October 27, 2019. Co-authored by Nowak Lab Director Bruce Katz, Ross Baird, Jihae Lee and Daniel Palmer.