

# **Equitable Development Toolkit**

## **CDCS with Resident Shareholders**

Updated November 2001

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# What is it?

Resident stock ownership in CDC projects is an emerging strategy to provide low-income/low-wealth residents the opportunity to own stock in neighborhood commercial real estate projects carried out by CDCs. While not yet fully implemented, resident investment in community real estate projects is being explored by several CDCs around the country.

CDCs are non-profit entities established by local stakeholders—residents, business owners, faith-based institutions, service providers—whose goal is to revitalize a targeted low- or moderate-income community. CDC commercial real estate developments include shopping centers and mini-malls in urban core areas, occupied by businesses that serve the needs of local residents.

CDCs generally develop or acquire commercial real estate to stimulate the neighborhood economy and provide needed retail services. The CDC's involvement in the project may be as developer and then owner (or part owner), or the CDC may acquire the project after another entity has developed the site.

Stock ownership in CDC projects is among a broad array of emerging resident ownership strategies being explored in communities across the country. For a more comprehensive review of existing, emerging, and conceptual resident ownership mechanisms (or "ROMs") in the areas of business, real estate, financial institutions, home equity, and natural resources, see the PolicyLink report *Sharing the Wealth: Resident Ownership Mechanisms*.

Community Builders must pay attention to the lack of financial assets among residents.

Ownership in CDC projects gives residents a vested interest in the growth and prosperity of their community's economic development activities. It gives them a voice in the development process and enables them to play a new role—of stakeholder and shareholder—in partnership with the CDC and other investors. It provides an opportunity for residents and families to increase their financial assets as community assets appreciate—thereby building family security while at the same time building community.

Several CDCs are currently exploring the resident stock ownership option. For example, Anacostia Economic Development Corporation (AEDC) in Washington, D.C, plans to make 10 percent of the stock in its shopping center development available for purchase by residents in the sixth year of the project's development, 2003.

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# Why use it?

**Asset Building and Ownership Opportunities for Residents.** Resident stock ownership in CDC projects represents a promising asset-building strategy in neighborhoods where residents do not own assets and where private sector development interest is emerging. CDCs possess the technical expertise and access to financial resources needed to engage in development activities; but, to date, they have lacked the tools to enable residents to participate as owners in their projects. Developing tools for residents to invest in CDC real estate projects provides significant ownership and asset-building opportunities for local families.

An equity stake in CDC projects enables residents to become owners in the development process - to be stakeholders and stockholders - in local economic activity.

**Integrating Efforts to Improve People and Place.** Resident ownership in CDC projects is one way to enhance "place-based" development activities with a "people-based" focus. CDCs improve *places* by increasing the affordable housing stock, stimulating commercial revitalization and improving the physical condition of neighborhoods. Enabling residents to invest in CDC projects benefits *people* by offering them the possibility of direct financial returns from neighborhood development activities.

**Promotes Voice and Participation.** One reason that CDCs are investigating resident ownership is to give residents a greater voice in economic development planning efforts at the local and regional level. Resident Ownership can give community members an opportunity to learn about the development process - and to use that knowledge to better understand and engage in public planning decisions that are affecting their communities.

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# How to Use it

Practitioners and residents exploring resident ownership are finding that to adequately evaluate the suitability of these strategies, they must undertake a process of community reflection on the different dimensions of ownership and how resident ownership fits into broader community building objectives. Some central issues that should be considered by the organization and the broader community include:

**Relationship between collective and individual ownership .** While these strategies are not mutually exclusive, communities and practitioners interested in resident stock ownership are assessing the respective benefits of each and how individual and collective ownership can best complement each other to enhance community building and asset development.

**Voice and control.** An ownership stake in a project does not necessarily guarantee resident control. Issues of community control must be resolved locally, in the context of each development project.

**Timing and Risk.** Exploring resident ownership strategies may involve confronting tensions between residents who want to maximize short-term returns and those who want profits reinvested to produce longer-term benefits. Building a consensus on these questions early in the process will help determine the most appropriate technical and legal alternatives to pursue. Projecting neighborhood and commercial development out 20 years will help the community conceptualize the trade-offs in real terms.

**Legal and Regulatory Issues.** Communities that are considering resident ownership strategies must confront regulatory and legal hurdles. Sales of stock are overseen by the federal Securities and Exchange Commission (SEC) and similar state entities. CDCs pursuing this strategy must comply with all applicable state and federal regulations. Because of the legal complexities and the volume of tasks involved, preparing a stock offering involves significant costs. A CDC must carefully weigh anticipated costs in comparison to the total capital to be raised through the offering.

Practitioners and residents must determine the type of legal structure that best meets their financial and social objectives regarding stock ownership. For example, in San Diego, California, the Market Creek Plaza development is pursuing a Limited Liability Company (LLC) in which resident stakeholders will constitute a special class of investors. Other communities are exploring a real estate investment trust (REIT) structure as a promising alternative. CDCs will require significant legal expertise to help them craft an approach that meets regulatory requirements and fulfills financial and broader community development goals.

**Training and Technical Assistance.** Training and technical assistance is a critical component of implementing resident investment strategies. Financial literacy and development finance training are needed to ensure that residents have a clear understanding of project finance, of factors influencing the rate of return and profitability, and of how to interpret a project's financial position. This training can build effective project investors as well as long-term asset-builders in the community.

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# Challenges

**Learning Curve.** A key challenge to implementing this strategy is the necessary learning curve. No CDC has fully carried out a sale of stock to residents, so no implementation blueprint exists. As individual CDCs pursue resident stock ownership, they will contribute to building the practical knowledge base regarding implementation.

**Legal and Regulatory Hurdles.** Each CDC will need expert legal assistance to explore the most cost-effective way to comply with SEC and state regulations regarding the sale of stock. National or regional technical assistance intermediaries with legal expertise could be tremendously useful to CDCs in this area, and may help to reduce some of the costs incurred in exploring options for regulatory compliance.

Given the legal and regulatory issues, resident stock ownership in CDC projects may not be a viable option for all CDCs. Some may elect to craft alternative mechanisms for offering ownership to residents. Both resident stock ownership in CDC projects and other ownership concepts such as real estate investment trusts merit further exploration to build a broad menu of asset development options for low-income/low-wealth residents. For general information on these and other resident ownership strategies, see the PolicyLink report, *Sharing the Wealth: Resident Ownership Mechanisms*.

**Risk.** Investing in CDC project stock carries risks, and financial returns are not guaranteed. Risks can be mitigated, though not entirely eliminated. Some risk mitigation strategies include: training and technical assistance to help residents understand the investment they are undertaking, restrictions on the purchase of stock to prevent a buyer from purchasing a dollar amount of stock greater than a certain percentage of a buyer's net worth, sale of stock to residents after a real estate development project has a profitable track record, and partially subsidizing resident investment through a potential expansion of the Individual Development Account concept. (For more information, see the [Financing](#) section.)

**Identifying Beneficiaries: Who Benefits.** A key consideration for those pursuing resident ownership strategies is determining who benefits. Community stakeholders and the CDC need to determine who will be eligible to invest in a given project. Options include eligibility based on residence in a defined geographic area, income or asset levels, interest and commitment to the project, or some combination. A CDC must also determine whether financial barriers will preclude certain low-income/low-wealth residents from participating in investment opportunities and whether to pursue some form of subsidy for resident investment. Finally, the transferability of shares is another issue to be addressed in the planning process.

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# Success Factors

Resident ownership in CDC projects is still in the development phase. Several guiding principles can maximize the success of resident ownership strategies:

**Resident Involvement.** Residents—the ultimate beneficiaries of this strategy—need to become engaged early in the CDC's real estate development efforts, and stay involved throughout the planning and implementation processes. Participation can build a broad sense of ownership even before stock has been sold, and effective resident leadership will ensure that the project as a whole meets community needs. Such involvement can take a variety of forms and may be initiated by a group of residents or by the CDC.

**Access to high-quality technical support and legal assistance.** Implementation of resident stock ownership in CDC projects requires specialized technical expertise in a mix of finance, real estate, corporate law, tax accounting, and other areas. In particular, competent legal assistance is essential for exploring the most viable options for selling stock, as well as to ensure that the CDC is in complete compliance with SEC regulations.

**Funding and financing for planning and implementation.** Resident ownership in CDC projects involves a substantial commitment of time and resources on the part of the CDC, over and above what is required by typical development projects. Stock ownership opportunities must be tailored to the local interests and capacities of residents, and residents must be educated and involved in the process. These activities incur costs. Implementation of resident ownership can be facilitated by early and ongoing investment on the part of funders who are willing to support meaningful participation and decision-making—and ultimately ownership—on the part of residents in the project.

**Active engagement in the political process.** Many successful CDC real estate developers are seasoned participants in the political process. Outreach to local elected officials can help build institutional and financial support for resident investment and ownership in CDC developments.

**Strong accountability systems.** The credibility and support for resident ownership as an emerging strategy can be enhanced through the implementation of effective and transparent monitoring and evaluation systems.

**Telling the story.** Effective documentation of efforts to build resident ownership in CDC real estate development can contribute to the collective knowledge base about how these strategies work, particularly in relation to addressing the legal and regulatory hurdles. Telling the story is an important way to share accomplishments, encourage replication, and reduce the time and effort required for future ownership endeavors.

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# Financing

In most cases, resident investment will account for a relatively small portion of a project's total financing. Residents may be able to make only a modest expenditure on stock, in the range of \$10 - \$100 per share, and many residents will not have the resources for even a small investment. The CDC will need to work with their community to assess the price of individual shares according to the means of residents.

The CDC must pay for the legal costs incurred in offering stock. The CDC may incorporate these costs into the share price. Alternatively, a CDC may work to cover these costs through philanthropic or public support for resident ownership opportunities.

There may be innovative ways to assist or even to partially "subsidize" resident investment—for example, through a proposed variation on the Individual Development Account (IDA) concept that would include investment in real estate as an approved use of account-holders' accumulated savings. This expanded IDA concept is still in the conceptual stages; further exploration is needed to assess its promise as a strategy for supporting resident investment in community real estate assets. See the PolicyLink report *Sharing the Wealth: Resident Ownership Mechanisms*.

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# Policy

*It is in the interest of private and public sector developers, business owners and financial institutions to provide ownership opportunities to community residents because it gives residents a direct stake in ensuring the success and vitality of economics development projects in their community*

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CDCs pilot resident investment in their projects, policy needs and opportunities will emerge. Initial recommendations include:

**Incorporate Resident Ownership Into Existing Federal Community Development Initiatives.** Federally-sponsored community development initiatives, such as Empowerment Zones and the New Markets Tax Credit, could be tailored to foster resident investment in neighborhood real estate projects. In addition, revision of federal securities laws to better reflect the financial and social goals of specific resident investment strategies could facilitate the work of CDCs in this arena by decreasing the effort and legal costs associated with complying with SEC regulations.

**Utilize Existing Public Revenue Streams.** States, counties, and cities can use various financing tools at their disposal—such as tax increment financing, Community Development Block Grant funds, tax credits and rebates, loan guarantees, land write-downs, zoning bonuses, and direct subsidies—to support planning and implementation of real estate projects with a resident investment component.

**Fund Demonstration Projects.** While they constitute a promising vehicle for building community ownership, many resident ownership mechanisms are still untested. Funding for demonstration projects that assess the effectiveness of these strategies will lay the basis for taking them to scale. Philanthropy can provide incentives for resident ownership in CDC projects through grants that support resident education and involvement as well as through Project Related Investments (PRIs).

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# Case Studies

## Good Hope Marketplace, Washington, D.C.

Good Hope Marketplace, a retail shopping center anchored by a Safeway supermarket, is located in the Hillcrest neighborhood of Washington D.C. A local CDC, the Anacostia Economic Development Corporation (AEDC), owns and operates the development, which covers eight acres and includes approximately 90,000 square feet of retail space. In 2003, after six years of operating the shopping center, the CDC plans to make ten percent of the project's stock available for purchase by neighborhood residents.

The idea for the development originated in 1994 when Safeway acquired an option to purchase a large, vacant site in the Hillcrest neighborhood and Anacostia EDC initiated a dialogue with the supermarket chain regarding the site's future. The parties negotiated an agreement whereby Safeway would develop the site and secure tenants and the CDC would purchase the development once it was complete. The agreement included a provision giving the CDC veto power over leasing decisions while Safeway still owned the site. In 1997, Anacostia EDC secured financing of some \$13 million from diverse sources and acquired the shopping center.

The total area served by the CDC, which includes the Hillcrest neighborhood and several others, is home to about 120,000 people. Most are low-income renters, although homeownership is increasing. Ninety percent of residents are African American. While the years of disinvestment have caused residents to suffer from a lack of retail services, both commercial and residential interest in the area are rising. A number of new homes have been built and sold and a CDC-planned landscape/streetscape improvement program is being financed.

*"One of our key goals with Good Home Marketplace has been to keep the profits from ownership in the community"*  
*-Albert "Butch" Hopkins*

Good Hope Marketplace delivers essential retail services to area residents. With a grocery store, two banks, a dry cleaner and discount shoe store, a video store, clothing store, and US post office—residents are finding that the retail center offers services they need within their neighborhood for the first time in decades. As of 2001, Good Hope—fully occupied and turning a profit—is enhanced by the patronage of community residents, as well as commuters who cross the neighborhood on their way to and from work.

The CDC aims to offer stock to area residents in 2003. It has established the Anacostia Community Investment Corporation (ACIC), which currently owns 0.1% of Good Hope Marketplace. ACIC will acquire a total of 10 percent of the shopping center stock to sell to residents. The resident stockholders will elect a board of directors to run the company. Once the board has formed, the CDC will offer ACIC appropriate training and administrative support.

Albert "Butch" Hopkins, CDC President, projects a share price of \$25-50 per share. The exact figure will depend on the cost of preparing the stock offering and will reflect the base value of the stock from when the

shopping center was acquired in 1997. According to Hopkins, the important thing is "to give residents a stake in the shopping center, so they can reap some of the rewards of the development."

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# Resources

*The following are general resources on resident ownership strategies:*

## Readings

- Brown, J. Larry and Larry W. Beeferman. 2001. "From New Deal to New Opportunity." *The American Prospect* 12(3).
- Carr, James H. 1999. "Community, Capital and Markets: A New Paradigm for Community Reinvestment." *The NeighborWorks Journal* 17(3).
- Conley, Dalton. 1999. *Being Black, Living in the Red: Race, Wealth and Social Policy in America*. Berkeley and Los Angeles, CA: University of California Press.
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- Geisler, Charles and Gail Daneker, eds. 2000. *Property and Values: Alternatives to Public and Private Ownership*. Washington, DC: Island Press.
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- McCulloch, Heather, with Lisa Robinson. 2001. *Sharing the Wealth: Resident Ownership Mechanisms*. Oakland: PolicyLink.
- Oliver, Melvin L. and Thomas M. Shapiro. 1995. *Black Wealth/White Wealth: A New Perspective on Racial Inequality*. New York: Routledge.
- Sherraden, Michael. 1991. *Assets and the Poor*. Armonk, NY: M. E. Sharpe, Inc.

## Organizations

### [Institute for Community Economics](#)

57 School Street  
Springfield, MA 01105  
Phone: (413) 746-8660  
*Topic Area: Community Land Trusts*

### [Corporation for Enterprise Development](#)

777 North Capitol Street, NE, Suite 800  
Washington DC 20002  
Telephone: (202) 408-9788  
*Topic Area: Individual Development Accounts*

### [Anacostia Economic Development Corporation](#)

2019 Martin Luther King Ave., SE  
Washington D.C. 20020  
Telephone: (202) 889-5100  
*Topic Area: Resident Ownership in CDC Development*

### [Jacobs Center for Nonprofit Innovation](#)

5160 Federal Blvd., Suite A  
San Diego, CA 92105  
Telephone: (619) 527-6161  
*Topic Area: Resident Ownership in Real Estate Development*