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Feature

Building an American Ownership Society

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Neighborhood investment trusts can help create more inclusive economies in cities and restore the fabric of US democracy.

Building an American Ownership Society

BY ELWOOD M. HOPKINS

Illustration by Jakob Hinrichs

American democracy was founded on the distributive ownership of property. Thomas Jefferson suggested that all citizens be granted land, starting on the first day of the republic, because he believed that citizens would be more likely to participate responsibly in politics if they had property. He also recommended, with greater success, that westward expansion be carried out through land grants and homesteading, so that ownership would never be consolidated among a few aristocratic families, as it had in Europe. Since then, waves of legislation, both conservative and liberal, have managed to advance, to varying degrees, this ownership mandate.

Historically, though, the mandate has failed miserably when it comes to nonwhite Americans. After the Civil War, the proponents of Reconstruction believed that the formerly enslaved should have property if they were to become fully enfranchised citizens. In 1865, General William Tecumseh Sherman issued Special Field Orders No. 15, which allocated 400,000 abandoned acres in South Carolina, Georgia, and Florida to 18,000 freedmen. But President Andrew Johnson overturned that order, granting the land instead to Confederate soldiers. In that one decision, a pivotal opportunity to repair American democracy was lost.

In the 20th century, even the most successful postwar policy initiatives aimed at fostering ownership, such as the GI Bill and federal home loans—which helped grow America's enormous middle class—proved less advantageous for people of color. Although racial bias was not explicit in the GI Bill, which issued a range of benefits to returning veterans, including low-interest home loans with no down payment, its implementation effectively prevented 1.2 million Black soldiers from profiting from rising real estate values.[1]

Today, the accumulated racial wealth gap faces another inflection point. A post-COVID-19 land grab is imminent, as affluent speculators eye foreclosures and cash-strapped property owners in poorer or transitioning neighborhoods.[2] These financiers are not just wealthy individuals on buying sprees but also institutions of investment and wealth building, including massive real estate investment trusts in which poor families have no stake. American democracy will once again be tested. Will working families and people of color finally get their fair share?

As it happens, entities that can help address this inequity are arising. New types of real estate trust structures, neighborhood investment trusts, are giving low-income households a chance to have an ownership stake in rising property values in their neighborhoods. Fueled in part by a renewed movement for communities of color to collectivize financial power and "buy back their blocks," these new trusts and related corporate structures aggregate small-dollar investors in a neighborhood in order to purchase portfolios of real estate in conjunction with market investors. Designed to address structural constraints in the market, these new entities may be more than a collection of promising experiments; they may hold the potential to transform how we think about the conventions of community development financing, real estate markets, and urban policy.

A STRUCTURAL PROBLEM

Low-income families face a structural problem in our economy: The financial industry ignores small-dollar investors. The institutions that amass property and build wealth—Goldman Sachs, Morgan


BUY BACK THE BLOCK!
LOST
Rays

Stanley, Fidelity, Blackstone, and so on—need customers to invest a minimum of thousands of dollars if they are to service them economically within their business models. And the complexities of the stock market and other fields for investment can seem dense and impenetrable to someone who cannot afford an investment advisor at one of these firms. Until recently, in fact, anyone with less than $1 million in assets and $200,000 in annual income—the vast majority of Americans—was classified as an "unaccredited investor" by the US Securities and Exchange Commission (SEC) and faced limited investment options. Regulators feared that outside a few safe choices, such as employer-linked mutual funds, people could not invest responsibly.

The 2012 Jumpstart Our Business Startups (JOBS) Act eliminated minimum income and net-worth thresholds for investing, to open up the field of crowdfunding. But some well-meaning public-policy makers and financial leaders still worry that the poor are, to put it simply, too poor to invest. To be sure, many low-income families are struggling to pay their monthly bills. An emergency health expense or car repair can push them over the edge. But many working families can, in fact, invest and would benefit from doing so. Further, many poorer households have repeatedly shown their willingness to take financial risks to get ahead. Think of all the enterprising individuals who, unable to see how their jobs could lead to lucrative career paths, start long-shot businesses in the hope of contributing to the economy and bettering their lives.[3]

As for the barriers that minimum investment requirements present, these can be addressed by creating structures to aggregate many small-dollar investments in one easily serviced pool. In their groundbreaking 1999 article for *Harvard Business Review*, "Collaborating with Congregations: Opportunities for Financial Services in the Inner City," Larry Fondation, Peter Tufano, and Patricia Walker point out that a single investor with $500 may warrant little attention from a fund manager, but a network of churches with 10,000 members pitching in an aggregate $5 million changes the economy of scale and potential interest.[4] Such arrangements would make the management of the pool more cost-effective while grounding it in informal trust-based networks that can facilitate investment during critical early stages.

BUILDING BRIDGE ENTITIES

Low-income communities need intermediaries or bridge structures that meet people where they are and enable them to make investments they can afford in places where they live. Consider a scenario: What if it were possible, in a given neighborhood, to collect investments from residents so they could collectively purchase a set of contiguous or proximate properties in conjunction with institutional investors? A particular household might not be in a position to buy a freestanding, single-family home, but it might be able to afford shares of fractional ownership in an entire district. In neighborhoods experiencing gentrification, where an influx of outside investments is fueling market rate development, investments by residents might even generate more wealth for the household than homeownership could. And it might even do so without displacing residents through such growth, as happens too often with gentrification.

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Legacy community development infrastructure is limited in its ability to play this mediating role. Credit unions and other community development financial institutions (CDFIs) are not customarily certified to collect and manage investments or carry out investor relations. Neither are community development corporations (CDCs), the nonprofits charged with purchasing and developing land in low-income communities. CDCs can be adept at blending capital streams from government, banks, and foundations for large projects, but they are seldom, if ever, equipped to manage local investors. Community land trusts also cannot serve, because they remove land from markets, insulate it from rising property values, and preserve it for other uses they deem desirable, such as affordable housing. In fact, the intention here is precisely the opposite: Keep land in the market, enabling residents to themselves become beneficiaries of rising land values.

A central question underlying these models is whether gentrification can be transmuted into a beneficial process for a neighborhood's residents.

Cooperatives—local groups whose members pool savings, purchase a building, and govern it democratically—have long fostered local ownership. But, impelled by a spirit of self-sufficiency, they have generally existed as closed systems, financially limited by what residents can muster on their own. And when they pay benefits, they do so according to each member's participation, not the capital value of shares. New cooperatives are becoming bigger actors in building local real estate ownership, enabled by state laws permitting members to make larger investments. NorthEast Investment Cooperative in Minneapolis and East Bay Permanent Real Estate Cooperative in Oakland, California, for example, include different investor classes and recycle investments to acquire multiple properties. But while part of the solution to democratizing ownership, traditional cooperatives by themselves have tended to remain small.

So, what kinds of organizational roles do these new intermediaries need to play? There are three, and—as is immediately apparent—they are core competencies that are seldom, if ever, found in one organization. The first is the full set of operational skills related to acquiring, developing, and managing real estate. These capabilities may reside in existing CDCs or private developers, though many of these specialize in specific types of projects, such as multiunit or freestanding housing, commercial retail centers, and facilities like schools or hospitals. To promote neighborhood development, the intermediary would bring together expertise spanning these different categories.

The second function involves continuous engagement with residents that goes beyond occasional community hearings or surveys. Trusted community-based organizations must mount campaigns and public education to foster new financial behaviors, decentralize financial coaching, and even facilitate residents' governance over real estate. Most communities have informal associations and mutual-aid networks that can perform these tasks. Church congregations, for example, represent promising platforms. But so do school-based parent networks, block clubs, tenant associations, trade groups, immigrant "hometown" associations, and other civic and social groups.

Finally, a recognized legal entity must be available to manage financial assets. If the aim is to draw outside investors, this role may be better served by a for-profit like a limited liability company or C corporation. Or it could be a B corporation, a relatively recent legal invention permitted to balance shareholder returns with social objectives. Any of these entities might apply for SEC designation as a real estate investment trust (REIT), a company that buys income-generating real estate on behalf of investors. Traded on stock exchanges, REITs are familiar, regulated vehicles that distribute revenues and tax liabilities directly to shareholders. REITs typically specialize in one class of properties—such as medical facilities, shopping malls, or office buildings—that may be scattered nationally. But in theory, there is no reason why a REIT cannot focus its portfolio instead on a neighborhood.

Nationwide, new organizational structures are arising to play these three roles. Unsurprisingly, they are in most cases not a single entity, but rather an institutionalized partnership that distributes the functions across different, interrelated organizations. This article refers to them in helpful shorthand as "neighborhood investment trusts." Let us consider a few illustrative examples.

PROMISING MODELS

One of the earliest structures for resident investment in a real estate development launched in 2001 as Market Creek Plaza, a 10-acre commercial and cultural center in southeastern San Diego. Its retail outlets include the first major grocery store in this disinvested area in 30 years. A corporation, Market Creek Partners, LLC, issued a Community Development Initial Public Offering, or CD-IPO, and sold shares totaling \$500,000—a 20 percent ownership stake—to 419 residents. The nonprofit Neighborhood Unity Foundation, a resident-led community foundation established by the Jacobs Family Foundation, invested another \$500,000 to ensure that resident priorities were met.

Market Creek stands apart for its unusually robust degree of resident engagement and local control. The Jacobs Center for Neighborhood Innovation (JCNI), a foundation established expressly for the purpose of engaging residents in local development, facilitated the effort. Its resident teams conceived the project's core attributes: its audacious scale (including an open-air theater), multicultural design, and insistence on hiring local entrepreneurs. Construction contractors were sourced locally, and family-run restaurants leased storefronts. Over the years, as profitable retail chains replaced struggling restaurants, resident leaders confronted the inherent challenges of supporting local businesses while also delivering shareholder returns. As a result, a sophisticated base of residents is planning smaller storefronts that are more affordable to local business owners and is contemplating a buyout of JCNI's shares.

When the Community Investment Trust (CIT) was established in Portland, Oregon, in 2017, it sought existing, underutilized properties, instead of developing from the ground up. After ranking potential sites according to pragmatic cost criteria, it purchased a \$1.2 million foreclosed strip mall with 60 percent occupancy. The CIT sold shares of \$10 to \$100 to residents of nearby zip codes who had completed a customized financial education class, *From Owing to Owning*. It leased vacant units to local entrepreneurs. Original plans sought a REIT. But, unsure about the prospects of recruiting the requisite 100 investors, the founder instead established a C corp exempt from SEC restrictions. His aim was to consider conversion to a REIT later, if a sufficient number of investors were interested. Since inception, 140 families have purchased shares and 95 percent resubscribe annually.

The CIT features several unique provisions that guarantee low-income families will not lose their investments. They can cash out at any time, and a letter of credit from Northwest Bank provides downside risk protection. This letter of credit represents a pool of cash that can be tapped only to buy back resident shares, thereby providing a bank guarantee for low-income investors. To date, these safeguards have been unnecessary. In its first two years, the CIT delivered three rounds of dividends averaging 9.3 percent to shareholders and a share-price gain from \$10 to \$15.86 per share, based upon the reduction of mortgage debt and increase in property value to \$2 million. CIT leadership is monitoring performance to consider conversion to a REIT.

In the meantime, the first neighborhood REIT to receive SEC approval, The Neighborhood Investment Company (Nico), was established in 2019. As a REIT, Nico was able to amass institutional financing to acquire three already occupied residential and commercial buildings worth \$30 million in Echo Park, a neighborhood facing encroaching development and gentrification pressure because of its proximity to downtown Los Angeles. Nico comprises three interrelated entities: an asset management company to steward investments, a property management company to oversee the buildings, and an entity dedicated to resident engagement. The parent company, as a benefit corporation, is able to maintain current building uses without pressure to displace tenants for higher rents.

Nico offered residents common-stock shares in the portfolio for \$10. Nico's leadership recognized that owning shares and real estate was new to residents and that building trust takes time. As COVID-19 soured the local economy, Nico permitted tenants to convert security deposits to rent, draw down a rental assistance fund, and receive free shares. In a world where outright homeownership seems out of reach and paying rent feels like "throwing money away," Nico's founders consider their offering a third option—a way to build equity while renting.

In Kansas City, Missouri, the Ewing Marion Kauffman Foundation partnered with two local nonprofits, Neighborhoods of Hope and We Grow KC, to design a structure that offers an incremental path to purchasing a home. The entity, a "neighborhood equity finance vehicle," is attracting both market-rate and social investments to finance a district of townhomes for lease by working families. The vehicle enables tenants to divert rent to capital accounts and gradually buy an ownership stake from the social investors, who agree up front to be supplanted by the tenants over time. In this way, renters transition to full ownership of their unit or benefit from an equity position if it is sold. By lengthening the holding period, the model offers competitive returns for traditional investors and affordable rents for families.

A central question underlying all these models is whether gentrification can be transmuted into a beneficial process for a neighborhood's current residents. To date, local governments, philanthropies, and advocacy groups often seek to mitigate gentrification by constraining or restricting the economic forces that drive it—impeding development projects aimed at affluent populations or requiring developers to build affordable housing or offer other community benefits as compensation for high-end construction. But what if residents could benefit from the inflow of capital?

Trust Neighborhoods, a nonprofit based in Kansas City, Missouri, launched the mixed-income neighborhood trust (MINT) with this premise in mind. MINTs assemble and redevelop properties in a 10-to-15-block transitional neighborhood, curating the property mix so that a small portion of market-rate holdings cross-subsidizes a portfolio of affordable housing and retail rentals for low-income families.

Trust Neighborhoods is preparing financial projections for several neighborhoods in Kansas City and Omaha. They plan for a capital stack that includes both debt and equity, a portion of which can be composed of resident investors who could benefit financially from the development while remaining in modestly priced rental units. A MINT is structured as an LLC with voting shares held by a perpetual purpose trust (PPT), governed by community representatives. A PPT, like any other type of trust, holds and manages financial assets on behalf of a beneficiary. In this case, the beneficiary is not a particular person or persons but a social objective: the development of a mixed-income neighborhood.

A NEW COMMUNITY OF PRACTICE

These examples represent some of the more advanced efforts in a burgeoning field, one that private foundations are catalyzing in part. Understandably, philanthropy has preferred to focus on the racial income gap, instead of on the more entrenched racial wealth gap. Income gaps, after all, can be remedied through nonprofit education, job training, or workforce programs, whereas wealth building may entail partnering directly with financial institutions often held responsible for the racial wealth gap in the first place. And as tax-exempt institutions, foundations have generally been reticent to engage directly in market-oriented strategies designed to benefit private households or businesses. But as the racial wealth gap widens, foundations are rethinking this position.

The Kresge Foundation is taking the most explicit focus on this evolving field by convening a national community of practice on the subject that includes elected officials, government agency directors, bankers, foundations presidents and program officers, researchers, private and nonprofit developers, and community leaders. The network currently includes cities nationwide where such leaders are putting locally owned real investment structures in place, including Chicago; Cleveland; Arlington, Virginia; Fresno, California; Kansas City, Missouri; Los Angeles; Louisville, Kentucky; Memphis, Tennessee; Miami; Milwaukee; Minneapolis-Saint Paul; Omaha, Nebraska; and Portland, Oregon. In each city, Kresge is identifying coalitions to set up neighborhood investment trusts, networking their leaders, and helping them to advance their efforts.

In Cleveland, the Fund for Our Economic Future and the Metro West Community Development Organization are leading the formation of a community investment fund in the Clark-Fulton neighborhood, a dense, lower-income, largely Latino neighborhood southwest of downtown. Backed by a team of legal, financial, and community planning advisors, they are pursuing real estate projects that will benefit from the $1 billion expansion of the nearby MetroHealth medical center. Beyond creating opportunities for resident investors, they are contemplating giving all long-term residents, even those not investing, modest "birthright" payouts. They also want residents to have a participatory voice in the development trajectory, ensuring a balance of affordable and market-rate development.

In Memphis, the blighted Soulsville community retains deep cultural significance as the birthplace of soul music. Southeast Regional Development Corporation (SRDC) recognized both the likelihood of gentrification and residents' widely shared interest in an ownership stake. As it began planning a community investment trust, SRDC chose to widen its geographic focus to include surrounding neighborhoods and a shopping mall slated for reinvestment. Its strategy could channel $1 million into the capital stack for the community investment trust, allowing greater returns for resident investors.

In Kansas City, Missouri, where the equity finance vehicle and MINT are under way, a married couple, Daniel and Ebony Edwards, formed a development entity called Neighborbuilt that is buying up a multiblock section of the East Side, including 38 vacant lots. They are now in the predevelopment stage of constructing more than 100 homes and a commercial district to include a brewery, coffee shop, jazz club, event venue, and health center. When Neighborbuilt purchased vacant lots from current residents of the neighborhood, the sellers obtained ownership stakes in the development. The couple is tapping personal relationships to recruit new home buyers to the area.

THE NEIGHBORHOOD CONTEXT

These diverse approaches to neighborhood investment trusts demonstrate that form should follow function. Low-income neighborhoods resist generalizations and reflect very different circumstances and trajectories. Contextualization is paramount.

For starters, neighborhood investment trusts need to be grounded in an understanding of prevailing resident views toward development, as well as household financial behaviors and investment readiness. Immigrants in a port-of-entry community, for example, might see their neighborhood as a place to get their bearings and earn some income before moving elsewhere for better opportunities. In a historic Black or established immigrant community, the neighborhood could signify cherished cultural history, political power accumulated through local elected officials, or a place to which parents hope college-bound teens will return to raise children. Residents here may feel passionate about controlling local development.

These neighborhood investment trusts have also depended on painstaking, granular investigation into local real estate markets: parcel-level ownership patterns, the existence of real estate liens or deed restrictions, zoning limitations, current and projected sale prices, and vacancy rates. Their creators have usually searched for a critical mass of clustered properties likely to increase in value. And they have scanned for indicators predicting gentrification, such as rising property values in surrounding neighborhoods, plans for rail lines or transit centers, proximity to anchor institutions, citywide demand for housing, and so on.[5]

How is this information used? In practical terms, some places still have time to get out in front of gentrification: Land prices are still rising slowly, residents are committed to staying, and local nonprofits are amassing local control. The Unity Council, a CDC in Oakland's Fruitvale neighborhood, has constructed a cluster of affordable residential and retail projects near a new transit stop. As regional growth pressures inflate the value of interstitial parcels between their projects, gentrification looms. But because of a tradition of local organizing and prospective social investors, a neighborhood investment trust could succeed in exerting enough control to preserve Fruitvale's character.

To become more than a "boutique" project, neighborhood investment trusts ultimately depend on conducive public policy.

In other neighborhoods, by contrast, rapid development is a foregone conclusion. Consider, for example, National Landing in Arlington, Virginia. This mixed-use district that will surround the new Amazon headquarters and Reagan National Airport is being spearheaded by JBG SMITH, a REIT based in Washington, DC. Given the firm's successful track record with revitalizing other neighborhoods, and the combined economic powerhouse of Amazon and the airport, a rise in property values is virtually guaranteed. But what if a small set of shares in a project like this were made available for purchase to small-dollar investors currently living in the area? Residents could profit from growth, even as that same growth might price out some from living there.

In some cities, numerous simultaneous neighborhood investment trusts are under way in different types of neighborhoods at distinct stages of development. Consider, for instance, Minneapolis-Saint Paul, where many resident-led cooperatives, real estate funds, and trusts are emerging. In Saint Paul, residents of the Rondo neighborhood, a historic Black community disrupted by 1950s freeway construction, formed a trust to restore its vitality. In Hamline Midway and Dayton's Bluff, residents are buying up buildings. Across the river in Minneapolis, NorthEast Investment Cooperative is mobilizing residents to purchase stretches of Central Avenue. In the aftermath of civil unrest on West Broadway and Lake Street after the May 25, 2020, police killing of George Floyd, business proprietors, primarily people of color, are exploring vehicles for purchasing their leased storefronts from absentee landlords. And as Minneapolis proceeds with plans to redevelop the 48-acre Upper Harbor Terminal site, advocates are calling for a structure that would allow North Side neighborhood residents to be investors in the project.

Increasingly, nonprofit intermediaries, foundations, and government agencies in the Twin Cities region are recognizing these efforts as an ecosystem. They aim to create technical assistance systems, pipelines for new entities, and reliable sources of capital. Their primary obstacle is the speed with which speculators buy up properties as soon as they hit the market. Local groups have little chance of outpacing aggressive buyers, to say nothing of engaging in the time-consuming process of mobilizing resident investors.

In response, Local Initiatives Support Corporation (LISC) Twin Cities—working with Land Bank Twin Cities, the McKnight Foundation, the Minneapolis Foundation, and Hennepin County—established the Community Asset Transition Fund to finance the purchase of properties in commercial districts, take them off the market temporarily, and hold them until the more time-consuming process of selling fractional ownership to local residents can be completed. This two-step process of quickly making a "conscionable land grab" before fostering local ownership addresses the different timelines of these tasks. Such systemic efforts can support the formation of neighborhood investment trusts on a citywide scale.

PUBLIC POLICY IMPLICATIONS

To become more than a "boutique" project—to meet the scope of need—neighborhood investment trusts ultimately depend on conducive public policy. In 2019-'20, the Kresge Foundation consulted policy makers at every level, from former US Department of Housing and Urban Development secretaries to US representatives and senators, mayors, and commissioners. These conversations suggest that the kinds of policy changes required are not huge ones. Relatively modest, incremental modifications of existing policies could help expand these strategies appropriately.[6]

In federal policy, for instance, opportunity zones represent an existing incentive system that can be adapted to accommodate neighborhood investment trusts. As is, the opportunity zone policy encourages the wealthy to invest in qualified "opportunity zone funds," specially formed investment vehicles for real estate or business development in blighted areas. Investors can benefit from deferrals on capital gains taxes or even permanent exclusion of taxable income, depending on length of investment. But what if investors in opportunity zone funds included neighborhood investment trusts and the low-income families they represent? What if public policy afforded even more advantages or incentives to investors in opportunity zone funds because they included such trusts? Capital would not only be directed to blighted neighborhoods but also support structures that promote ownership and wealth building among working families.

States have a wide variety of authorities to steer investments to low-income areas. They can authorize government agencies to create a range of investment funds.[7] They can also directly capitalize these funds, which becomes more politically feasible if this capital can be recovered as residents buy equity over time. These factors, coupled with the power to charter financial institutions, set tax laws, and own land, bestow states tremendous power to usher in these changes. They can publish template incorporation documents and by-laws for new kinds of entities (such as neighborhood REITs) and institute standards for financial education curricula. They can also loosen restrictions on cooperatives, enabling them to secure more capital. And states with excess land inventory can contribute land to trusts.

The most immediate options, though, may exist locally, where cities play direct roles in real estate transactions. A municipality, for instance, might rethink its "entitlement" process—the lengthy procedural steps through which it reviews a developer's plan, approves allowable land uses, prescribes the balance between commercial and residential property, or stipulates affordable-housing requirements. Typically, the process focuses on one property at a time; it rarely entitles a portfolio of properties. But what if, through a neighborhood investment trust, entire blocks or districts were entitled as a set? The larger parcel would permit greater flexibility in the spatial distribution and overall balancing of affordable and market-rate development.

Some cities are considering ordinances that would give renters a first right of refusal to buy their buildings if they go up for sale. Increasingly, tenant groups nationwide are sufficiently organized to mobilize such buyouts. Consider the 35 families in Minneapolis' Corcoran district who negotiated the collective purchase of the five buildings where they live. Those buildings, known as the Corcoran Five, have inspired other groups around the country to pursue their own community purchases. What if local policies gave such groups sufficient advantage that they were motivated to begin pooling investments, pursuing other financing, and forming neighborhood investment trusts? It could lead to a more scalable approach.

Yet another idea growing in popularity involves tax increment financing (TIF) districts, a common incentive that cities offer to developers to stimulate commercial corridors. When a city designates a TIF district, it freezes the tax rate, holding it constant for 20 to 30 years. During this period, the developer can keep the difference between the real and suppressed tax rate as a subsidy for taking on the project in the first place. But what if that benefit were granted instead to a neighborhood investment trust, so that it was more profitable and delivered even greater returns to local investors? Once again, a straightforward modification of a familiar public finance instrument would stimulate local ownership in communities where it has until now seemed a remote possibility.

THE PRIVATE SECTOR

Although questions of policy typically pertain to the public sector, it is useful to consider what might be called "corporate policy," the standard practices that guide business operations. This concept is especially true for market-oriented strategies like neighborhood investment trusts, in which the private sector plays a central role. In government, a pilot program is expected to yield measurable results before it can ever be considered for replication through policy. But for a corporation to have interest in even a small project, it must discern from the outset some potential for a profitable, large-scale market opportunity.

In 2019-'20, the Kresge Foundation consulted senior leaders at large financial institutions, real estate investment trusts, and development companies to better understand their economies of scale and how their interests might align with those of working families. The executives affirmed that structures like neighborhood investment trusts could indeed act as an essential intermediary by aggregating small investments, and they imagined scalable bridge products and services for that purpose. To a degree, the building blocks exist already: administrative accounts that consolidate many investments into one fund, or the "group banking" services that financial institutions offer the employees of businesses that bank with them.

We cannot change the past. But opportunities to expand the fortunes of working families in this country abound, if we can seize them.

Some bridging could happen online. We know that a wave of online crowdfunding platforms is already disrupting the real estate investment field. CrowdStreet, Fundrise, PeerStreet, EquityMultiple, DiversyFund, Realty Mogul, and others allow small investors to access real estate investment opportunities, and they provide real estate operators a way to crowdsource capital. Another way of integrating neighborhood investment trusts with larger capital flows, then, may simply require connecting these online platforms with the grassroots organizations that can spark local investor activity in particular neighborhoods and tie it to specific local projects.

Insurance companies could follow the inspiration of the letter of credit given to Portland's CIT and design viable products to safeguard low-income investors. When insurance firms design products, they quantify risk from individual payers, pool that risk, and redistribute it across a large portfolio. They then charge premiums for coverage. An insurance company that quantified the risk to poorer investors could set a reasonable premium. A third-party sponsor, such as a foundation or government, might pay the premium on behalf of residents, or the premium might be factored into the total development cost. A diversified national set of neighborhood investment trusts—some in dependably fast-growing markets—would spread risk even more broadly.

On a grander scale, if large national or global REITs saw mutual benefit in partnering with local neighborhood investment funds, they might construct an infrastructure of "back office" services for them. These offerings might include management of assets, packaging of data, or syndication of capital. Large REITs whose holdings are national or global could seek out accounting methods to segregate localized clusters of properties from their larger holdings, thereby enabling resident investor pools in those areas to align with them.

Yet another field for private-sector innovation centers on the idea of development compensation or community benefits. Major urban development projects—such as a mixed-use planned revitalization project, a sports or entertainment complex, or the expansion of a university or hospital campus—increasingly generate a public expectation of a "community benefits agreement." Such agreements sometimes stipulate that the developer must invest in public amenities for current residents. Alternatively, the developer makes onetime compensatory payments to families who will be displaced. But what if residents were given the choice of receiving their compensation either as a onetime cash payment or as ownership shares in the project? Residents might find themselves emerging from a rental situation as part owners.

Finally, a number of real estate developers are exploring models that enable renters to become owners. In Canada, ProCura Real Estate Services has begun developing $400 million in multifamily developments. In a model called OpTown (short for "option to own"), renters sign a five-year lease. At the end of the lease, tenants vote on whether to convert units to condominiums. If 75 percent vote in favor, the company manages the conversion process and offers tenants 25 percent of the upside of their unit's market value, which can be used as a down payment. ProCura finds it easier to rent properties that come with the prospect of ownership, and tenants like a path to ownership that does not require a down payment.

AN AMBITIOUS IDEA

Ultimately, even a modest scaling of neighborhood investment trusts could not only address the seemingly intractable racial wealth gap but also restore the fabric of American democracy. In Portland, Oregon, the Community Investment Trust reported that at least 65 percent of resident investors, a majority of them immigrants from diverse backgrounds, became qualitatively more involved in their community's civic life through local projects and events within the first year of becoming owners. Residents of the neighborhood surrounding San Diego's Market Creek Plaza publicly attested to their increased civic engagement and showed up in large numbers to cultural events associated with the development.

And what happens to commercial districts when local residents have a vested ownership interest in the success of the businesses and the profitability of the land those businesses stand on? It is only natural for residents who have such a stake to mobilize their support for the restaurants, grocers, Laundromats, coffee shops, copy stores, and other retailers in their area. In a model of mutuality, the success of those business proprietors directly influences the residents' success as investors.

Recent American history could have played out differently if such ideas had taken root sooner. Consider, for example, the possibility that a REIT had been created for 28 properties on 125th Street in Harlem in 1989—shortly before the revitalization of the area—and that hundreds of local renters had been able to make small-dollar investments. In all likelihood, displacement would still have ensued, but those households would have achieved varying measures of wealth and economic mobility in the process. Some households might still be there, feeling a deeper sense of ownership. Or what if the resurgence of Detroit's downtown area after its municipal bankruptcy—a massive revitalization of hundreds of properties by Bedrock Development and Olympia Development—had included the sale of a limited number of shares to residents in the surrounding neighborhoods? Many working families in Detroit might have experienced economic mobility alongside the city's overall recovery.

We cannot change the past. But opportunities to expand the fortune of working families in this country abound, if we can seize them. The concept of "master planned" communities has the distinct intimation of white, upper-middle-class suburbanization, and it suggests the prospecting of giant, private real estate development firms. But there is no reason why inner-city neighborhoods and low-income areas cannot undertake similarly bold and comprehensive improvements, and in ways that meaningfully engage residents as both owners and civic participants.

It is an ambitious idea. But if leaders in the philanthropic, nonprofit, public, and private sectors can embrace it as a distinctly American solution to a distinctly American problem, it can help the country rebuild the expansive, civically engaged, property-owning middle class that our nation's founders knew was possible from the outset. ■

Notes

1 In *Know Your Price: Valuing Black Lives and Property in America's Black Cities* (Washington, DC: Brookings Institution Press, 2020), Andre M. Perry examines how deliberate devaluation of Black-owned homes and real estate served as an effective form of institutional racism, keeping Black families from holding a place in the middle class alongside white counterparts.

2 Nikishka Iyengar and John Haines, "Preparing for the Post-COVID-19 Land Grab," *Next City*, June 3, 2020.

3 Considerable evidence suggests that low-income households not only are capable of setting aside sufficient sums but routinely take risks to get ahead financially. See, for example, Jonathan Morduch and Rachel Schneider, *The Financial Diaries: How American Families Cope in a World of Uncertainty* (Princeton, New Jersey: Princeton University Press, 2017). Other studies cite multiple reasons why people of modest means do not entrust precious savings to mutual funds or other investment vehicles. Most often, they report being intimidated by the complexity of their financial choices or deterred by minimum investment requirements.

4 Larry Fondation, Peter Tufano, and Patricia H. Walker, "Collaborating with Congregations: Opportunities for Financial Services in the Inner City," *Harvard Business Review*, July-August 1999.

5 In *Dealing with Neighborhood Change: A Primer on Gentrification and Policy Choices*, a report prepared by PolicyLink for the Brookings Institution, Maureen Kennedy and Paul Leonard argue compellingly that these indicators and others can reliably anticipate where gentrification will likely occur.

6 For a fuller discussion, see "How States Can Empower Local Ownership for a Just Recovery," by Elwood Hopkins, Jennifer S. Vey, and Tracy Hadden Loh. The article is part of Brookings' COVID-19 Metro Recovery Watch.

7 See *Community Investment Funds: A How-To Guide for Building Local Wealth, Equity, and Justice*, by Brian Beckon et al., a publication of the National Coalition for Community Capital and The Solidago Foundation, 2018.