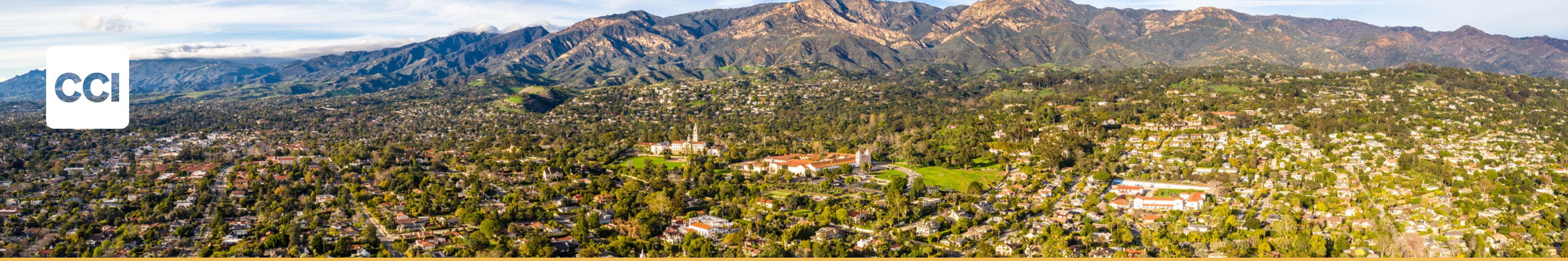


Genesis LA: Embracing Shared Ownership Models

In the field of community finance, Genesis LA (Genesis stands out. In part, that's because the Los Angeles (LA)-based lender is hyper-focused on financing and supporting local organizations for whom real estate ownership is a means to strengthen community control. But it also stems from the organization's growing willingness to embrace shared equity and shared ownership models, locally and statewide, as a powerful way to stabilize communities and help residents take control of their futures.

CONTEXT

Los Angeles Mayor Richard Riordan founded Genesis LA in 1998 during his second term. The institution was designed to bring investment back to the city and revitalize communities still affected by the 1992 civil unrest following the acquittal of white police officers in the beating of Rodney King. Genesis lived on as an independent organization after Riordan left office and later became a certified community development financial institution (CDFI).

The organization's approach has evolved over time. In earlier years, it had a relatively small portfolio, using most of its public resources on large private development projects that utilized New Markets Tax Credits. About a decade ago, however, Genesis began to look more closely at the needs of lower-income communities within its purview.

> "We really started to say, 'What's going on in these neighborhoods that the private sector can't do?'" said Tom De Simone, Genesis's executive director. "We went out to neighborhoods to talk to folks and ask, 'What are you trying to do that no one else can help with?'"

These conversations helped De Simone and his colleagues to identify a missing piece in Los Angeles's financial ecosystem. In working-class Black and Latino areas across the city, neighborhood anchors like community development corporations (CDCs), nonprofit affordable housing developers, and small business owners were trying to stabilize their communities in the face of rising property prices and increased displacement, but they were frequently unable to attract traditional for-profit lenders because of the small size and/or perceived riskiness of their projects.

Historically, CDFIs were established to do exactly that kind of work: provide low-cost loans to people and communities that were otherwise overlooked by the market. But over time, the industry has grown considerably, and many CDFIs now lend at a high volume. Often, they've been forced to standardize their approach so they can work at scale. While this does allow more money to go out, it can result in a loss of flexibility for individual projects.

Genesis has intentionally retained a tight geographical focus, working largely in LA's lower-income Black and Latino communities. Knowing their market well frees De Simone and his colleagues to focus their attention on customizing their terms to address the nuances of each deal. "It allows us to take more risks at the project level and lets us deal with things that otherwise don't get on people's radars, because they're too one-off," said De Simone.

An early example of the new approach was a partnership with Jovenes, a small LA nonprofit that works with homeless youth. In the wake of the Great Recession, Jovenes's leader wanted to buy cheap foreclosed homes to provide low-cost housing for formerly homeless young people who were working. But the group couldn't get a loan for the first house.

In response, Genesis came in as an equity investor; in return for the investment, the CDFI owned a share of the home. "We said we'd give back ownership when they paid it back," said De Simone. Genesis created an additional feature that placed a small portion of each resident's rent payment into a savings account; eventually, those young people gained control of the money. "It wasn't earth changing but was a bit of extra financial security for folks who have none."

EMBRACING COMMUNITY OWNERSHIP

While Genesis has maintained an explicitly local focus, its total assets have swelled from roughly $10 million a decade ago to around $130 million today. It continues to wield New Markets Tax Credits as an important tool in commercial lending, and its work has attracted the attention of powerful foundations like The California Endowment and brought in grants and program-related investments that allow it to try new models and take risks.

Another thing that makes Genesis a little different is its general area of focus, community-owned commercial real estate. That's a niche within a niche, say observers. Most CDFIs outside of the affordable housing field focus on small business assistance, while those that do real estate lending tend to work with large institutions like charter schools and health clinics rather than small, community-based organizations and individuals.

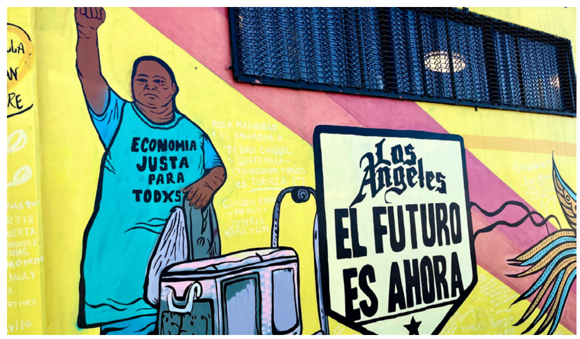
Genesis defines "community ownership" as anything that genuinely puts real estate ownership and operation under local control—whether that control is in the hands of a local nonprofit, developer, business, or resident. The institution is increasingly focusing on helping community anchors like CDCs and neighborhood-based groups gain capacity to both plan what they'd like to see in their communities and actually implement those plans through commercial real estate development and property ownership.

But over the past few years, Genesis has also begun doing significant work on projects that could be more narrowly defined as "shared equity" or "shared ownership"–lending to community land trusts, for example, in which community members may own buildings but the land they sit on will remain indefinitely in the hands of a nonprofit organization. It's a powerful tool and a trend that's been growing around the country, as communities look to property ownership as a key way to combat gentrification and displacement as surging prices put individual purchases out of reach.

De Simone acknowledges that there are some challenges in lending to shared equity projects. Each project is unique, requiring an even more bespoke approach than Genesis already takes. And the financial details can be trickier than with a conventionally-owned project and may require longer repayment timelines than a CDFI like Genesis is able to provide.

Still, the organization has partnered with several other local, statewide, and national community-focused groups to design and implement innovative initiatives that support shared property ownership–and that can be replicated. These initiatives are described below.

COMMUNITY OWNED REAL ESTATE (CORE)



CORE[1] got its start in 2016, as gentrification was heating up in neighborhoods east of the Los Angeles River. The leader of Inclusive Action for the City, (then known as Leadership for Urban Renewal Network – LURN), put out a call advocating for property ownership as the only way local businesses would survive. De Simone responded, and a new partnership emerged.

Gradually a team of four interested local organizations came together, each contributing a particular strength. Inclusive Action had deep roots in the community and could provide small business technical assistance; East LA Community Corporation (ELACC) had property management expertise and a larger balance sheet; Little Tokyo Service Center also had financial resources, as well as experience with commercial development; and Genesis provided financing, including access to New Markets Tax Credits. A four-way partnership was new for Genesis, but the groups had worked together in various capacities in the past and trusted one another.

Everyone was willing to take a risk and think through a new model, one that applied principles of housing preservation and community land trusts to the commercial sector. Gradually they arrived at a plan to buy commercial properties that were at risk of being lost to speculative market forces, rent those spaces at affordable rates to local entrepreneurs, provide coaching to help them grow their businesses, and eventually assist them in buying the buildings themselves.

By 2019, the partners had identified five commercial tax credit subsidy properties in Boyle Heights and East LA. Using $10 million in New Markets Tax Credits–$3 million of actual subsidy capital, $5.5 million in Genesis's CDFI loan capital and program-related investments from two foundations, and several grants for the rest–they raised enough money to buy the properties and finance their renovation. That fall, many tenants signed their leases; the spaces would eventually hold around 20 small businesses in total.

[1] Community-Owned Real Estate (CORE): A Mission-Driven Approach to Preventing Small Business Displacement in Los Angeles." Inclusive Action for the City, November 2023. www.inclusiveaction.org/core

When the pandemic hit, the CORE partners' main focus shifted to helping the entrepreneurs survive. Genesis modified some loan terms in order to reduce rents, and the partners identified additional grants and public funding that could help.

But the effects of the pandemic lingered and are still visible today. "Our small businesses have been struggling. Covid set them back: they've had a loss of income for many years, and operating costs have gone up," said Adalia Rodriguez, ELACC's vice president of human capital and chief operations officer.

As a result, plans to help the entrepreneurs become property owners have been pushed into the future. The New Markets Tax Credits term ends in 2026 and the CORE partners had hoped to begin selling the properties to their tenants then. But that may take a few more years. "It's all about stabilizing the business owners right now. It might take longer for them to transition," said Rodriguez.

If that's their eventual goal, the CORE partners will help the entrepreneurs get there. Others, however, may elect not to buy their buildings. Simply knowing that their landlord is an ally who won't sell the property out from under them may be enough.

What CORE has become, for now, is a stewardship model, similar to a land bank. The real estate is being held indefinitely for community use–something that's incredibly valuable in a changing region like East LA and offers a model for similar communities across the country.

CALCORE

Genesis's partnerships extend past Los Angeles. In the Bay Area, Community Vision is another CDFI that lends to nonprofits looking to own or develop community facilities. It also has its own community-owned real estate initiative that provides space for local artists. Its leaders have worked with Genesis in various ways for over a decade.

Community Vision
Capital & Consulting

Around 2020, said Saul Ettlin, senior advisor at Community Vision, "We were getting calls from emerging community land trusts that needed to build their chops in real estate development and were trying to find their way." His organization had been considering creating a new program that would use funding from JPMorgan Chase and The California Endowment to build the capacity of community-based groups to do real estate deals. He reached out to see if Genesis was interested in partnering with them on it. They were.

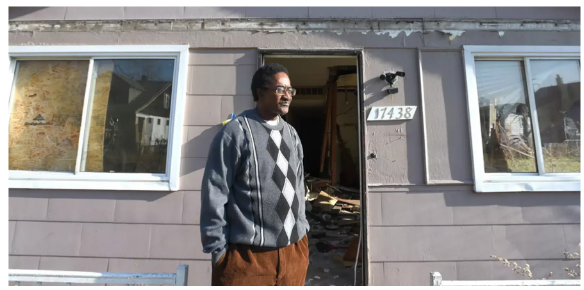
Together, the two organizations created the California Community-Owned Real Estate program, or CalCORE. This statewide initiative brings together a new cohort of BIPOC-led community-based organizations every year, alternating between community land trusts and CDCs, and provides them with trainings, one-on-one technical assistance, and network-building opportunities.

In many cases, land trusts and CDCs are governed by dedicated, community-minded leaders who don't necessarily see themselves as real estate actors. CalCORE's goal is to provide them with both technical skills and support as they navigate the complex process of real estate acquisition or development–with a particular focus on the financing that's necessary for a deal to succeed. It's too early to definitively evaluate the program, but outcomes have been promising, with many participants saying they feel more confident about purchasing and developing real estate. Genesis is extending financing to a handful of projects sponsored by CalCORE participants.

“The gap is in learning the real estate,” said Ettlin. “These are nonprofits that care about a place and are very invested in a geography, but they don’t think of themselves like that.”

Providing the groups’ leaders with the skills, knowledge, and ability to do real estate deals is not only empowering; it also makes them more effective at stabilizing their communities. Local businesses have a better chance of remaining on a commercial corridor if they or a community organization owns the property. And local residents are less likely to be washed away in a tide of gentrification if they own a stake in a community land trust.

CONNECTING CAPITAL AND COMMUNITY



In 2021, when the Center for Community Investment (CCI) and JPMorgan Chase kicked off Connecting Capital and Community (3C), a new affordable housing and racial equity initiative in five cities around the US, Genesis was already part of the plan.

In each of those cities, a convening organization was gathering together dozens of key players with influence over their city’s affordable homeownership ecosystem. Together, team members–real estate developers, lenders, community organizations, city officials, and others–would hammer out their shared priorities and create innovative models to help Black and brown families become homeowners. From the beginning, Genesis was LA’s convening organization.

“Genesis wants to support communities and community organizations throughout the process, rather than just coming in at the end and saying, ‘Yes, we can finance this,’ or ‘No, we can’t,’” said Omar Carrillo Tinajero, CCI’s director of programs and the site advisor for 3C’s LA team. “We were excited to work with a sophisticated and experienced CDFI that was willing to play a significant role in the sausage making.”

Genesis gathered a variety of organizations for the LA team, including TRUST South LA, Little Tokyo Service Center, the Coalition for Responsible Community Development, and Community Coalition. But the challenge was daunting from the start. Home prices in LA have increased by almost 40 percent in the past five years, pushing the city’s iconic single family homes further out of reach for many families. After the program began, interest rates and the prices of land, labor, materials, and insurance increased precipitously, making construction even more costly.

“Considering the economics of the projects we were looking at, we wondered if we could come up with different financial and building models to bring down costs and make homeownership feasible for people who were being priced out of the market in their own communities,” said Carrillo Tinajero, remembering those earlier conversations.

There was, and it involved shared equity models.

The team now has two projects in the pipeline, with more under consideration. The first is in the South LA community of Hyde Park, where the team has purchased a single-family property. They’ll make use of SB 9–California legislation that allows property owners to split single-family lots into two and build more homes on each–to add two more units to the property for a total of three.

The other project is a property in South LA that once held a single-family home, but is now zoned commercial, which means it can include more units. The team will build two three-unit buildings that will become a community land trust, led by local nonprofit TRUST South LA. Because the residents will own the physical homes but not the land, the price will be affordable to people earning up to 80 percent of the area median income.

"Collective ownership is a growing market in LA, and we're hoping to build on the existing environment," said Aishah Abdala López, a project manager with TRUST South LA.

In both projects, the homes are expected to individually owned through tenancy-in-common (TIC) arrangements, a type of shared ownership that's typically used for more expensive housing. Incorporating TICs in affordable housing is an exciting innovation, but the lack of a conventional deed may prohibit buyers from acquiring traditional mortgages. In response, Genesis and the team reached out to Self-Help, another creative CDFI and ally, to see if they could create a new lending product that would cover tenancy-in-common projects. That product, which is currently under development, is a good example of Genesis's determination to make shared ownership models work, in service to the city's Black and Latino communities.

"They're pushing the envelope in what community control and community self-determination look like," said Debbie Chen, director of real estate at Little Tokyo Service Center, which is both a CORE partner and part of the 3C team. "It's really special that a lender like Genesis is willing to do that."

About the Center for Community Investment

The Center for Community Investment , a sponsored project at Rockefeller Philanthropy Advisors, works to ensure that all communities, especially those that have suffered from structural racism and policies that have left them economically and socially isolated, can unlock the capital they need to thrive. Our work is supported by the Robert Wood Johnson Foundation, The Kresge Foundation, JPMorgan Chase & Co, and The California Endowment.

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