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Trust Talks Episode #3: Catalyzing Neighborhood Investment

Michael Davidson: I want to put today's conversation in context because while the focus is going to be real estate development in neighborhoods, there's a broader aim. That broader aim is the Trust's north star of closing the racial and ethnic wealth gap. And we're doing a number of things at the Trust to make that happen, including deep investments in the capacity of neighborhoods to attract capital. Neighborhoods are a lot of things, but real estate development is an especially important indicator of economic mobility, and real estate development isn't a level playing field across communities. We're here to talk about, one, real estate development in places that have been structurally locked out of market opportunities for a generation, and two, how do we change that? Let's formally introduce our guests.

Lennox Jackson: Good afternoon, everyone. Michael, thank you for having me today. I am Lennox Jackson, founder and CEO of Urban Equities Incorporated, which is a real estate development and consulting company. I started a company in June of 1993 and thankful to still be around.

Ja'Net Defell: Hi, I'm Ja'Net Defell with Community Desk Chicago. Thanks, Mike, for having me. Community Desk Chicago is a recently launched initiative at The Chicago Community Trust in partnership with the JPMorgan Chase Foundation and the Boston Consulting Group. Our mission is to leverage private market expertise and our relationship with capital providers to secure investments for catalytic real estate development projects in communities of color. Our long-term goal is to change the way capital investments show up in communities.

Juan Saldana: Hello everyone. Good afternoon. Thank you so much to The Chicago Community Trust for allowing us to speak on this very important subject. My name is Juan Saldana. I'm one of the managing partners of P3 Markets. Our office is located in Bronzeville. Phil Beck, my business partner, and our team are honored to serve that wonderful community. P3 Markets is an impact-focused real estate development firm that values transparency, co-creation culture, and belonging. This is how we choose to invest and create value in our communities with our public and private partners. Very happy to be here. I'm also a part of the Yield program that is helping emerging developers of color and women build relationships with seasoned developers that make deals happen.

MD: Let's go right into it. Lennox, I'm going to start with you. You're a private developer, you've been at this for a long time, and I think of you as very much a mission-driven developer, committed to communities where it can be hard to assemble the capital necessary to get something built. I want you to tell us about your commitments to some of our city's most under-invested communities and why other developers shouldn't overlook these places.

LJ: I believe leadership always starts at the top. With that, I have been and continue to be very intentional about re-imagining narratives. I believe that any community area can be different in a positive and favorable way. I believe also in self-empowerment. I believe that if afforded equitable opportunities, people choose to change their lot in life. As a private company, I believe in trying to assemble and deploy resources in such a way that it helps to drive change in communities that have been under-invested or perhaps are emerging at that pivot point as we speak.

Why is this such a big deal? Why should other developers share this thinking? Because quite frankly, we're here to serve. We are born to serve. And so, it's not about making money. It's about trying to drive impact and change lives. I believe that if we can do that in a favorable way, in an impactful way, we will generate attractive financial returns in order that we can build a sustainable business. I have a dualistic mindset around this. I do want to do good, but I do have to drive a return for the shareholders and investors who entrust us with their resources.

MD: In just two or three words, what are developers and other investor types missing when they bypass one of these communities?

LJ: Seeing opportunities. They say art is in the eye of the holder. A lot of times, if we're unfamiliar with something, we won't see the value. We won't see the opportunity until someone else extracts it and makes it very visible. That's when the marketplace starts to get in line and starts to respond. But, someone or some group of people initially have to have a risk-taking mindset to see the possibilities. There is value in these communities, but a lot of folks just don't have the patience or the intentionality to devote time to extracting that value.

MD: I know you've mentored young professionals looking to get into real estate development. Why do you think it's so important to have people of color in the field of real estate development, and for the listener who may want to get into the field, what's your advice to that listener?

LJ: I believe that there are people who want to devote their lives to trying to make a difference. I believe that there are people who just need to be afforded an opportunity to be introduced to the principles of real estate development, which there are quite a number of them. But, I do believe that there are a lot of folks who need to be in this because they bring a certain voice to this conversation. People who live in these communities, people who perhaps grew up in these communities and now want to return to them as working professionals, for example. Their voices need to be at the table when it comes to city and other governmental agencies trying to develop policy and trying to develop programmatic initiatives to help rebuild these communities.

MD: I'm going to pivot to you, Ja'Net. I've heard you and others, myself included, refer to real estate development as an ecosystem. I want you to tell us what you think that means and how does that ecosystem make it especially difficult for communities of color to get their projects across the finish line?

JD: I think the simplest way to describe that is it's really about all of the components to make the deal work. You have the developer; they are a major player in this ecosystem. You've got the capital providers, which range from lenders, tax credit investors, and philanthropy, to those folks that are providing neighborhood opportunity funds and other sorts of municipal-related grants at the state and the local level. And then you have the community, which also makes up part of this ecosystem. All of these components really play a critical role in the ecosystem, and all of them have to work together. A developer can't develop a building without the necessary capital. But, then you also have to make sure that the project is appropriate for the community. And how does the community react to that? Then there's also all of the complications associated with doing development: zoning, plan developments, automatic approvals. If you're not a really sophisticated developer Lennox touched a little bit on this in terms of thinking about mentorship- it's a lot to juggle to move these projects forward. You have to have the skillset, the support, and the network to be able to navigate all of these players within this ecosystem for that project to be successful.

MD: As a follow-up to that, just thinking about the complexity of the ecosystem, navigating the ecosystem, especially when you're inexperienced, Community Desk Chicago is adding something new and important to this ecosystem. Tell us what you think the value add is.

JD: I think about Community Desk Chicago as a help desk. And I think the value add that we bring to the table is we really can be that connector, and then navigator, for community. Lennox alluded to earlier, if you don't have access or a seat at the table, it makes it very difficult to access the resources, the connections and, the network, to get the capital and, to get access to being on projects. What we try to do with the Desk is really about, how do we support this project in getting the necessary capital to move forward. But it's also about how can we strengthen this project by serving as a navigator and a connector to the critical relationships that they need to be successful.

MD: You're working with a lot of folks who, unlike Lennox and Juan, aren't seasoned developers. This includes business owners who need some real estate to open shop and community-based organizations that don't have a lot of real estate experience but are nonetheless overseeing real estate projects in their communities. What's the main issue you come across with these projects? And what's the one thing that you most hope they take away from your work with them?

JD: I would probably say capacity is the biggest issue. Again, we're talking about the level of sophistication that it takes to do deals. We haven't really talked a lot about the financial feasibility of projects in communities. Generally, there's a dollar threshold that we get to in communities where they just don't pencil out without a layered capital stack. In most cases, that requires sophisticated tax credits or opportunities on type funding. A lot of the developers, entrepreneurs, and non-profits don't have that level of sophistication to navigate how to do pro formas to make these projects pencil out and even how to interact with those folks who may want to be investors in the space. What we try to do with the Desk is to demystify what that process looks like and connect them to the folks who may have the capacity to ultimately move these projects forward.

MD: Juan, I'm going to pivot to you. Private capital is arguably the most important piece of this puzzle. Private capital is missing from many of our Black and Latinx communities. Your company, P3 Markets, works at the intersection of public and private, and you're working hard to be an inroad for private investment in under-invested places. From your point of view, why aren't more inroads available, and if we build them as you have and as you continue to do at P3 Markets, will private capital flow?

JS: First, it's important to understand that real estate, of course, is about location. Private capital is mostly about numbers, relationships, and numbers. They really want to make sure that the developer cares about the bottom line, and they want to build a relationship with organizations that have proven financial success. This requires some time, expertise, and a book of success or a book of business, where they can go back and see the deals that you've done in the past.

All developers have to be very accurate with project due diligence and finance, so I'm very glad that the Community Desk is helping with that. There's many moving pieces to a deal, and those risks have to be mitigated before a deal can materialize. It's expensive to do a project because you have to pursue the deal on the one end, and then you have to fund the deal through the pre-development phase of the project. Small developers typically have challenges with those types of funds. That being said, we want to see more real estate development firms that are owned by women or people of color, but there has to be some new access to this type of capital.

A smaller deal, which would be somewhere in the range of $3-$8 million, requires a specific set of due diligence and compliance. The pursuit capital bite might be a little bit smaller, so the level of sophistication is a little bit different than say a larger deal where you have to stack the capital, like Ja'Net was mentioning, with different types of credits and public capital. Sometimes we see that the City of Chicago Department of Housing and Department of Planning and Development want to look for projects that are catalytic that are going to make big changes, create jobs, create access, cultural amenities, things of this nature. It's important to tell that story very clearly to the people that are going to be investing in the project. And when we talk about investors, there's different levels of investment with a deal. In the investment world, or in a development world, they're called limited partners. The limited partners all have different investment objectives, and they're looking for ways to recuperate their investment. Some investors and developers, when they have a conversation, they start talking about the trenches, the financial trenches. When you look at when the payout is going to be, or the waterfall of that development is going to occur, it's important to determine what is the risk appetite for those investors at that level? It sounds complicated but in reality, people have different wants and needs, and that's no different from private investors. I think that for us, for people of color, for communities to have a seat at the table, much like Ja'Net is saying, we have to really look at the impact model more closely, and that is the ecosystem.

MD: The homepage of your website has this trademarked statement in bold white letters, "The future of our world depends on integrating wealth with community." Explain it to us a little bit.

JS: Well, at the most fundamental level, there's too much money in the hands of very few. This is something that's all across the United States. We can look at figures from a pandemic and quickly determined that the wealthy capitalized faster and more robustly than anyone else. I think that the concept of capitalism itself needs a refresh or an upgrade. There are many new models that are being tested around the world where the community is a partner to the people, the haves if you will, and we're pushing the ideas of sharing the upside. So, in quotation marks, "Sharing the upside with the built environment through commercial real estate." That's the difference in the way that we see the world in the future. We would like to see a more positive-sum real estate development and a reduction of the zero-sum real estate development that we see today. Positive sum is that you're adding a lot of value and adding livelihood and capacity to the neighborhoods that you're building in.

P3 Markets is co-creating models with communities to share the upside through ownership or real access and belonging to projects to help maintain the identity, the culture, and the values of Black, Indigenous, and people of color and the communities in which they reside. It means to us having a transparent, open process where we co-create with the local community, where the funding comes from investors that care about driving impact into those communities and making sure that the people that live in those communities are able to have a good life, a dignified life, and access to opportunities where they can have a fair livelihood. In other words, can create wealth themselves.

MD: Your website also mentions the importance of, "Forward thinking real estate developers." When doing, for example, public-private partnerships like Opportunity Zones or impact investing. Who are these forward-thinking developers, and what personal and professional characteristics does the forward-thinking developer possess?

JS: For us, a forward-thinking real estate developer should focus on community impact first. What is the built environment going to do for this community? A forward-thinking developer should always think about increasing opportunities for local entrepreneurs, creating cultural amenities where people can come, and helping to inspire new opportunities for the local workforce. The built environment can be a catalyst for both health and wealth in local communities.

MD: The Trust recently launched the Pre-Development Fund to help Black and Latinx community-based developers pay for some of those costs incurred during that very vulnerable pre-development phase of a brick-and-mortar project. For each of you, from your perspective, why is pre-development so important?

JD: I think that the fund is a great opportunity, and I think it's important because it's a capital conversation. There are a lot of upfront costs involved with trying to make a deal work. There's risk involved, and then ultimately, even after all of that work, the deal may not pencil out. You may not get the site. So having that upfront capital really helps the small developers, the community developers to stretch their dollars and support them as they're thinking about being competitive with folks who may have a larger balance sheet or may have extended lines of credit.

LJ: I would add by first, mentioning that the Trust has been kind enough to share some of its dollars with one of my projects, and so I'm thankful for that. Early-stage capital is not always easy to access. Not everybody wants to get into the pool at the same time. The capital that has been deployed by the Trust to Urban Equities has allowed me to move at a faster pace and to protect some speed to market opportunities. We have to understand this is all market-driven. Just because I'm thinking about this idea doesn't mean that someone else is not thinking about the same idea. It's a competition. I've got to position myself to secure my position faster to protect my investment objectives and my mission. Capital allows me to move faster and allows me to get to a yes or no much more quickly.

MD: There's a lot going on in our city and region right now to address the disparities that exist in our society and communities. I want your thoughts on some of the neighborhood investment initiatives that are happening right now. For example, the INVEST South/West initiative in the city of Chicago, Opportunity Zones throughout Cook County, and others that you may know about or are involved with. From your perspective, are they fulfilling their intention?

JD: What I like about the INVEST South/West initiative is it's about concentrated investment. Because the City of Chicago is taking a very concentrated approach in terms of layering in its resources and its tools, it is shining a light on communities and doing intentional development in communities that historically has not been there. It's great to see that synergy and alignment, not only across the city but even in things like the Chicago Prize and others they're layering in. The more we do cluster development in concentrated areas of the city, I think you'll see more impact.

JS: I think it was quite genius that the INVEST South/West program has a mandate that a local developer is actually part of the project. These projects are larger in scope. They're what we consider institutional-sized deals. So, in essence, what INVEST South/West is doing is making sure that there's a matching going on behind the scenes where larger developers are looking at local developers and saying, "Hey, who do we partner up with so we can get this deal off the ground?" You have that plus The Chicago Community Trust Pre-Development Fund grants, and now you have a stronger position for the local developer to say, “Hey, you know what? I’m part of the deal, right? I have pursuit capital to add to the project because there’s got to be a lot of due diligence done.

MD: This is a podcast that’s being put forward by a foundation. If you were the emperors of philanthropy, what’s the one thing you would do to make real estate development easier in Black and Latinx communities. Anything’s on the table. No rules here.

JS: The first thing I would do is create a mission-related investment initiative at my foundation. I would put aside something in the range of $300 million, and from that MRI, I would look at what is the impact that may be coming from the built environment into communities where we want to see changing outcomes? I would create another separate initiative to bring in smaller developers to be able to access those funds either for pursuit capital or to include into the deal as equity or capital. In other words, they become the investors in a deal, and through their mission-related investments, they’re able to take those funds, invest in projects that are going to catalyze changes in those neighborhoods, such as creating jobs, creating opportunities for the workforce, or the opportunity for the local community to own the commercial real estate or a portion of it. I would make that a prerequisite if I had it my way, and then I would basically then go to the city and to corporations and say, I put up $200 million. What about you?

JD: Projects on the South and West sides generally don’t get funded unless there’s a guaranteed income stream, which is why you see a lot of affordable housing. We definitely need that, and we have to have development that has credit-worthy tenants. So this is where you exclude a lot of smaller entrepreneurs because the capital stack and the lenders are very concerned about putting in a startup business or local entrepreneur who’s not credit worthy. For me, as I think about how do we change the quality of life, the South Side of Chicago and the West Side, they are flooded with liquor stores, dollar stores, beauty supply stores, and social services. I think these communities continue to struggle with just having the basic sit-down restaurants, florists the quality of life that you see on the North Side. That’s because the deals don’t happen when investors and lenders have to take risks on projects that don’t have guaranteed revenue.
I would want the philanthropic community to back some of the creative projects that are risky. It’s a startup; it’s a business that has only been operating for two years. Put the necessary capital we need to back the project so that the bankers and the investors feel comfortable, that allows us to grow that individual wealth and that business wealth with those businesses. But it still works for the developer in getting the necessary capital that they need to move these projects forward because, without that creative capital and that risk-based capital, we’re going to continue to see the same type of projects happening in these communities because folks are just very leery about taking a chance on new investments, different investments.