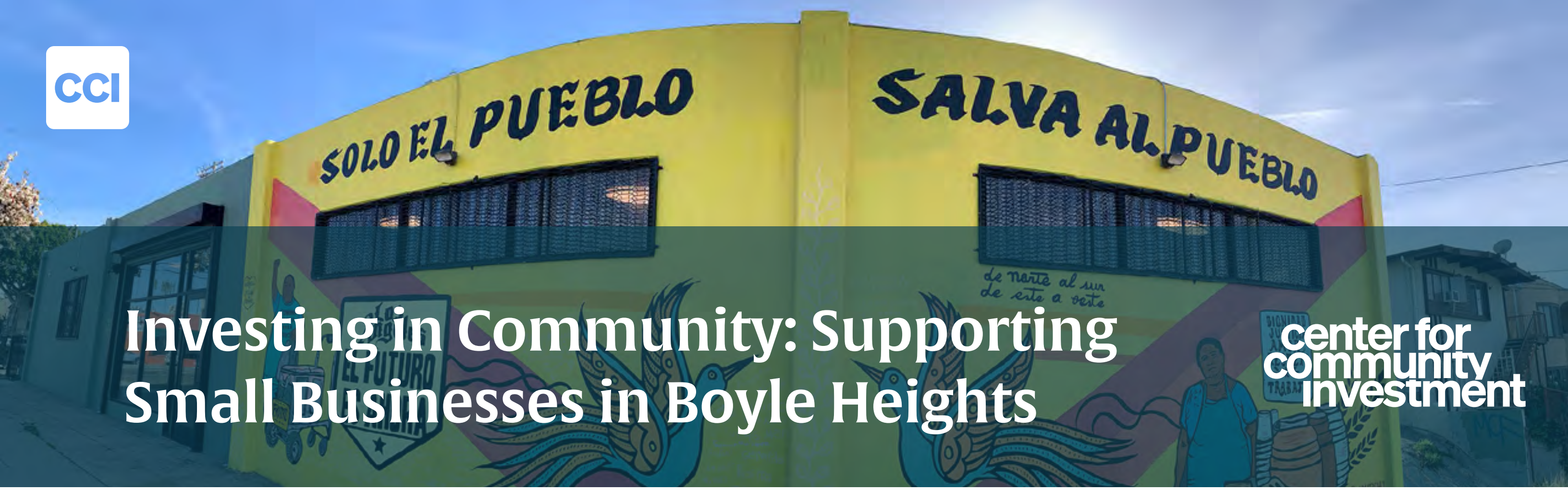


Investing in Community: Supporting Small Businesses in Boyle Heights

INTRODUCTION

Cesar E. Chavez Avenue, the main street that cuts through Boyle Heights, Los Angeles, pulses with energy. Storefronts selling plants, home goods, clothing, and food line one side of the sidewalk, while rainbow umbrellas shelter street vendors selling cut fruit, flowers, and small treasures on the other. Many of the businesses are mom-and-pop shops, largely owned by Latino entrepreneurs, which have been a bedrock of stability for LA's business owners, families, and Latino communities for generations.

Here is where Yessica Villegas's family was able to expand their home-based food business to include a small trailer, a food truck, and eventually their own storefront, which they turned into a dulceria (candy store). Dulceria Seis Oriente is located in a building wrapped in a yellow mural that proclaims, "Solo El Pueblo Salva Al Pueblo" (only the people save the people). The building sits atop a hill, a few blocks from the center of the commercial corridor. In 2019, the building was purchased by the Community Owned Real Estate program (CORE), a partnership designed to combat speculative real estate and support local small businesses.

The CORE portfolio consists of five commercial properties that house stores, local nonprofits, and an arts organization with a gallery, classrooms, and a backyard event space. CORE's buildings provide the stability tenants need to serve their community. A vegan deli, Malinalli Superfoods, hosts a monthly market for other plant-based vendors and provides healthy food options in a neighborhood with skyrocketing diabetes rates. The arts organization, Las Fotos Project, became a food distribution site during the pandemic and intends to continue that work for the foreseeable future. Yessica's Dulceria Seis Oriente sells candy from areas of Mexico where many Boyle Heights residents grew up, literally bringing the sweetness of home to the neighborhood.

Boyle Heights, historically known as Paredón Blanco, is a neighborhood in Los Angeles, California, located east of the Los Angeles River.

CORE emerged out of a crisis. In 2016, Boyle Heights had become an epicenter for Los Angeles's latest cycle of gentrification and displacement.[1] Organizers began fighting the influx of art galleries and cafes in protests that drew local and international attention. Amidst the struggle, Rudy Espinoza,

[1] Located next to LA's downtown and arts district, the displacement pressures experienced by Boyle Heights residents were the newest iteration in an intergenerational lineage of racist and classist planning practices. A multiracial neighborhood at the turn of the 20th century, people from across the country came to Boyle Heights looking for work and opportunity in LA's growing industrial areas. Highway construction bisected the neighborhood, displacing fifteen thousand people in the 1950s cutting residents off from the economic development happening in the largely white suburbs. With the internment of its Japanese residents in the 1940s and white flight through the 50s and 60s, the neighborhood increasingly became home to a predominantly working class Latino population. (2021) Jennifer F., Julie B., Brianna R., Lino Z., Misael G., Emmanuel L., Gentrification: The Displacement in Boyle Heights. StoryMaps.ArcGis.Com

All photographs of CORE Program participants by Allison Allbee executive director of Inclusive Action for the City (then known as Leadership for Urban Renewal Network – LURN) wrote a response to the organizers, articulating how hard it is to prevent systemic displacement without systemic protections:

> *We don't own much...Most of us are tenants. All but for a few policies here and there to protect us, tenants are subject to displacement. This is a huge problem, especially in a neighborhood like Boyle Heights where 75 percent of residents are renters... Within the economic system that we live in, if we do not own property, we can be displaced. Plain and simple... Land ownership is key and we have historically been barred from it. We need to think critically about how we can help residents own land.*

While the post was a call to action, it did not include a clear plan. Rudy had participated in the Center for Community Investment's Fulcrum Fellowship program and focused on developing a large-scale microfinance initiative that would support business owners at the "bottom of our economic pyramid," like street vendors and home-based entrepreneurs. The knowledge he gained helped to lead the effort in Boyle Heights. Inclusive Action was a small nonprofit with a microlending and advocacy program for street vendors. They didn't have the means or balance sheet to purchase a building, much less the five that would ultimately make up the CORE portfolio. But the protests were a flashpoint for all of the organizations that worked in and around Boyle Heights–and something needed to be done.

WE WANTED TO JUMP IN: ESTABLISHING PARTNERSHIPS

When president and CEO of LA-based community development financial institution (CDFI) Genesis LA Tom De Simone read Rudy's post, he reached out and invited him to lunch. If the organizers lit the spark and Rudy began to formulate a vision, that lunch was the first step in a new investment in Boyle Heights and the Latino small business and nonprofit ecosystem of Los Angeles. Like Rudy and the protesters, Tom was troubled by accelerating displacement pressures, especially for small businesses. Tom knew Inclusive Action didn't have the financial means to buy property, but he had some resources in the form of New Markets Tax Credits (NMTC) that he thought might help create a path forward.

As Pavlin Buchukov, director of lending for Genesis LA explained, "We've done a lot of investments in housing and housing preservation. Nobody was paying attention to commercial preservation. We saw the need and wanted to jump in." Jumping in required pulling together a team that had complementary expertise and a willingness to take a risk and try something new. Rudy reflected, "Inclusive Action didn't have a big enough balance sheet; we were small and scrappy. If you want a $10 million deal, you need to show how you'll steward the funding, but how do you get experience if nobody is willing to give you the experience? We had to think through who the partners were that could merge their balance sheets together."

Yessica Villegas, Dulcería Seis Oriente

Seeking partners with expertise in development, real estate, and their community, they landed on long-time community development organizations East LA Community Corporation (ELACC), which had the staff to help manage the project and a slightly bigger balance sheet, and Little Tokyo Service Center, which could also provide its balance sheet, as well as expertise with commercial properties, and agreed to come in as a mentor. "Each group brought a successful piece to the puzzle," said Pavlin. "The partnership was new for us, as normally we just work with one organization. We wanted to identify organizations that we already trusted and trusted each other, and there was a lot of [real estate] speculation, so we needed local groups."

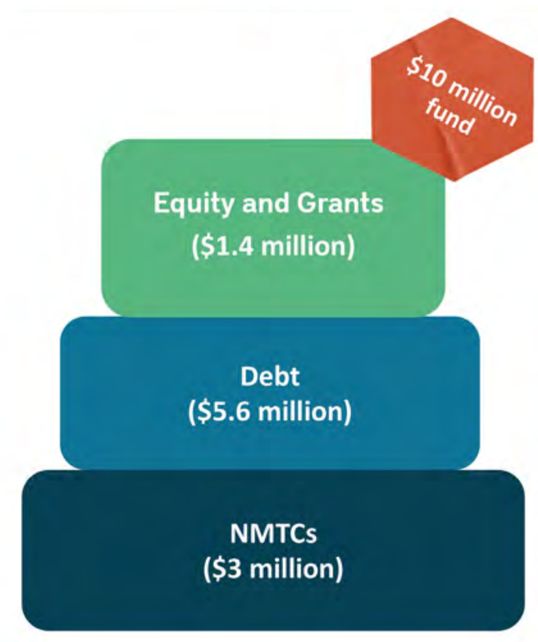
Together, the four organizations created a new joint venture, CORE, and their shared priority was to create a pathway for tenants to become owners to guide their work. The short-term approaches they devised were to purchase buildings, preserve existing businesses, offer commercial spaces to local entrepreneurs, and provide technical assistance and other resources to help people grow and stabilize their businesses and nonprofits. CORE's long-term aim was to create a pathway for tenants to become owners.

BUILDING A PIPELINE

With a partnership and priorities in place, CORE could start thinking about how to put together deals. Using new markets tax credits forced the partners to think at scale because the complexity and transactional costs of utilizing NMTC financing only pencils out for larger deals (a minimum of $8–$10 million). Given CORE's priorities, buying one $10 million building didn't make sense. They needed a set of smaller properties that would work for the small businesses and nonprofits they hoped would move in. This meant they had to think in terms of a pipeline, which Omar Carrillo Tinajero, director of partnerships and initiatives at the Center for Community Investment, describes as "a bundle of smaller deals so you can more easily attract and deploy funding."

CORE's dual focus on buildings and small business support meant they effectively had to develop both a pipeline of development deals and a pipeline of entrepreneurs to fill those spaces. This entailed identifying properties and raising funding to acquire them, as well as thinking about what services, support, and infrastructure business owners and nonprofit leaders would need. And because their aim was to provide an onramp for business owners to become property owners, they would need to build the infrastructure for that as well.

Internally, the organizations that made up CORE also needed to figure out new ways of working. For example, they had to build out a project management strategy that straddled four organizations, get approval from their respective boards to join the partnership, build a collective pitch, fundraise for the rest of the money they'd need, and hire staff to support the new tenants.



A capital stack is a structure that layers together capital from investors with different risk and return expectations to finance a particular project or group of projects. *From "All In Data for Community Health: Using Investment to Drive Improved Outcomes." Center for Community Investment. September 2018.*

FINANCING THE VISION

New Markets Tax Credits were a critical element of CORE's financial strategy. After more than a decade of experience with this complex financing tool, Genesis LA had a long track record of securing competitive NMTC allocations and putting together the complicated financing for deals. The goal of the NMTC Program is to incentivize private investment in projects that support commercial development and growth in low-income neighborhoods. Under the program, CDFIs like Genesis LA can pursue certification as a community development entity (CDE), which allows them to competitively apply for allocations of tax credit authority. Once awarded, that authority allows CDEs to issue federal tax credits to investors in exchange for equity investments in qualified projects. The tax credits act as a subsidy, allowing the CDE to lend the investment capital on more favorable terms to qualified borrowers like CORE while reducing risk for investors.

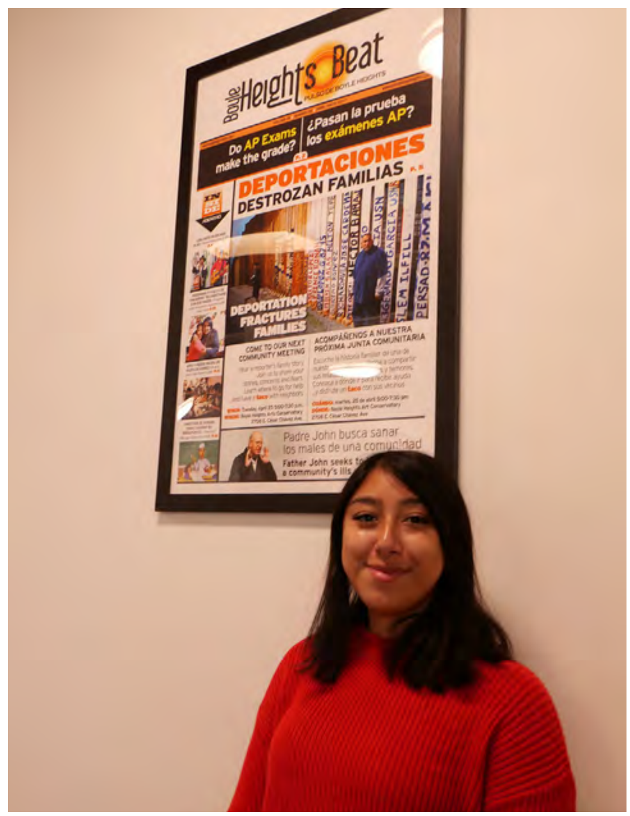
The $10 million funding stack for CORE includes about $3 million in NMTCs, which supports about $5.6 million in debt, while the remaining $1.4 million is sourced from equity and grants from philanthropic partners. Pavlin noted that CORE's main financial hurdle was securing philanthropic grants to make the deal structure work, which they were able to do by organizing joint pitches with all of the CORE participants and several foundations. Once they secured grant support from six foundation donors, they were able to complete the tax credit transaction.

The acquisition process moved quickly because the market was hot. Genesis LA made short-term acquisition loans, and CORE was able to identify and acquire all five sites within six months. Acquisition criteria included financial feasibility from a rehab cost perspective as well as assessing the sustainability of existing tenant businesses. While four of the sales came from traditional listings, the fifth was a building acquired by ELACC in 2017 that needed to be rehabbed. In the fall of 2019, the deals closed and many tenants signed their leases. Then the COVID-19 pandemic hit.

TAKING A SHOT ON US: WEATHERING THE COVID CRISIS TOGETHER

COVID-19 not only revealed health inequities, it also underscored striking disparities between business owners. In LA, where Latino residents[2] were two and a half times as likely to die from COVID-19 as white residents, businesses in white-majority neighborhoods were twice as likely to receive government support, such as Paycheck Protection Program loans, as businesses in Latino neighborhoods.[3] These disparities deepened the economic crises for LA's Latino communities.

With the pandemic bearing down on LA, CORE staff got creative and flipped the landlord-tenant paradigm on its head. Instead of leaving tenants on their own to scramble to make rent, CORE set to work figuring out how to help them get through the crisis. Genesis helped slash costs by modifying loan terms, and the rest of the partners sought out grants and public resources to help the small business owners survive.



Jacqueline Ramirez, Boyle Heights Beat

[2] http://publichealth.lacounty.gov/media/coronavirus/docs/COVIDServingLatinxCommunities.pdf
[3] https://revealnews.org/article/rampant-racial-disparities-plagued-how-billions-of-dollars-in-ppp-loans-were-distributed-in-the-u-s/

In late 2019, Ruben Pena and Jennifer Silva, co-owners of Malinalli Superfoods signed a lease and put down a deposit for one of the CORE spaces. Months later, the shelter-in-place orders threw their plans into disarray. "The pandemic hit and we were told the permit was going to take six months," Ruben explained. "That was nerve-wracking, but CORE said, 'Don't worry about it, just keep going.'" So they did. Meanwhile, CORE staff were busy securing grants to support small business owners. Ruben and Jennifer were shocked a landlord would support them in that way. When they signed the lease, they didn't have the cash flow to support months and months of delays. But the infrastructure CORE had in place gave them the extra support they needed to weather the crisis. Reflecting back, Ruben says, "When it came to dealing with [CORE], it felt like they were willing to take a shot on us."

On the back end, the CORE partners were also hustling to pull through. Four of the five buildings slowly opened over the next year, but the pandemic took its toll: shelter-in-place orders halted construction activities, supply chain delays for building materials pushed timelines out even further, rental projections collapsed when tenants couldn't move in, and would-be tenants had to back out for a variety of reasons. While Genesis' flexible loan terms helped relieve strain on the CORE partners, the project ultimately had to absorb an additional $500,000 in pandemic-related cost overruns. Still, the CORE partnership remained steady and committed.

Today, three years after the pandemic began, four buildings are fully occupied and the fifth is almost there. With the support of CORE, tenants are repaying their back rent and have seen their small businesses rebound and take flight. One of Pavlin's major takeaways was, "Be careful how you pick your partners because unexpected issues pop up all the time, and you need a solid team that can be relied on."

WE CAN GIVE BACK: TRANSITIONING TO COMMUNITY OWNERSHIP

The next steps for CORE and their tenants will be even bigger tests of the partnership's vision. The loan on the tax credits expires in 2026, creating an inflection point. For the last few years, CORE has not been able to pass the full costs of purchasing the buildings onto their tenants, so they will need more subsidies to ensure rents remain affordable. Tenants who want to purchase their buildings will need to be ready to take over, financially and operationally.

Lucia Torres, Las Fotos Project

Ensuring that everyone is ready for this moment has been part of the plan from the beginning. CORE's work on the enabling environment–the policies, practices, and relationships that can make or break community development deals–will be what makes this transition successful. The CORE partners have worked in coalitions to advocate for policies that increase resources for community ownership initiatives and small businesses run by people of color, as well as policies that incentivize the transfer of commercial property to mission-driven organizations.[4] They are also beginning work on a

[4] Inclusive Action has a full economic justice platform that breaks down the type of work they do to improve their enabling environment.

capital campaign, building support with local foundations to increase the subsidies to ensure the properties remain affordable when the NMTCs expire. In addition to fundraising, the team is also researching community ownership structures, and collaborating with tenants to decide which models to pursue.

The key to this transition will be the trust, friendships, and relationships built through CORE. Trust is an essential part of any risk-taking venture, but it also has material benefits. For the Las Fotos Project, which intends to buy their building in the coming years, CORE's long-term vision for keeping the property in community hands gave them the will and wherewithal to seek funding to transform their backyard from a weedy lot to a community event space. Lucia Torres, executive director of the Las Fotos Project, explains, "It's a little bit of a tit-for-tat. We have this affordable and accessible space, and we'd like to provide affordable and accessible space to community members. We can give that back. Also, when we made this investment, we thought, if, for whatever reason, we do move out of this space I'm confident that the property will be reinvested back into the community."

Thus far, CORE's investment has succeeded on many fronts: securing financing, surviving the pandemic, and sustaining businesses and the community. Of course, more challenges lie ahead, and the future is never certain. Still, as Rudy put it, "Failure is a risk, but we won't achieve systemic change if we don't try."

About the Center for Community Investment

The Center for Community Investment at the Lincoln Institute of Land Policy 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, and JPMorgan Chase & Co, and The California Endowment.

For more resources, visit centerforcommunityinvestment.org/resources.

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