SMALL BUSINESS ANTI-DISPLACEMENT STRATEGIES & TOOLS: SUPPORTING LOCAL SMALL BUSINESSES IN CRENSHAW

Recommendations on Policies and Tools To Support Local Small Businesses from Displacement & Gentrification

ABOUT THE ORGRANIZATIONS

Inclusive Action for the City

Inclusive Action for the City is a community development organization whose mission is to bring people together to build strong, local economies that uplift low-income urban communities through advocacy and transformative economic development initiatives.

Report designed by Inclusive Action for the City

Destination Crenshaw

Destination Crenshaw (DC) is a community-designed, 1.3-mile-long arts and cultural place- keeping initiative that will celebrate the culture and legacy of Black Los Angeles. It will also dramatically repair, revitalize and sustain the Crenshaw Corridor, the most important commercial corridor in South Los Angeles and arguably the most important Black business corridor on the West Coast.

ABOUT THE AUTHOR & CONTRIBUTORS

Primary Author:

- Prince Osemwengie | Inclusive Action for the City

Contributors:

- Lyric Kelkar | Inclusive Action for the City
- Rudy Espinoza | Inclusive Action for the City
- Jason Foster | Destination Crenshaw
- Tafarai Bayne | Destination Crenshaw
- Terrick Gutierrez | Destination Crenshaw
- Nadra Nittle | Destination Crenshaw

Photo Credit:

- Pg. 13 - “LA Redline Map” | LaDale Winling and urbanoasis.org.
- Pg. 14 - “CA Can Live Anywhere” | KCET
- Pg. 14 - “Fair Housing Law” | UC Berkeley/Bancroft Library
- Pg. 14 - “This Tract is Exclusive” | California Eagle
- Pg. 15 - “Sugar Hill Home” | KCET
- Pg. 13 - “Santa Monica Freeway” | LA Examiner Collection
- Pg. 16 - “Watts Rebellion” |Associated Press
- Pg. 16 - “BLM Los Angeles” |IG:@yakooza

Date Published: May 2022

SPECIAL THANKS TO OUR SPONSOR

LISC LA

LISC-LA

LISC LA is one of 37+ local offices of the Local Initiatives Support Corporation, a national CDFI that forges resilient and inclusive communities of opportunity across America- great places to live, work, visit, do business and raise families. For over 30 years, LISC LA has worked with local partners and residents to invest $1B in small businesses, housing, health, education, public safety, and employment. LISC LA champions strategies that promote equity and economic inclusion in underserved communities across LA County. Our economic development initiatives aim to create opportunities for low-income people of color to participate in the economic growth of the region and build wealth within their communities.

ACKNOWLEDGEMENTS

Special thanks to all the small business owners, policy researchers, real estate developers, and financiers who were willing to share lessons from their experiences and provide insight into the commercial real estate industry. If the reader finds this research comprehensive, it is because of the contributions of our interviewees and peer-reviewers.

Interviewees:

- Ade Neff, Ride On! Bike Co-op
- Alexandra Yates, Greenway Commercial Holdings Ltd.
- Anthony Jolly, Hot and Cool Cafe
- Ben Caldwell, Kaos Network
- Connor Macleod, Hudson Commercial Partners, INC
- Dyane Pascall, Conscious Capital Investments
- Gilda Haas & Adriana Swain, LA Co-Op Labs
- Marco Covarrubias, Inclusive Action for the City
- Mary Lee, Policy Link
- Nick Saponara, Los Angeles Metro
- Olympia Auset, SÜPRMARKT
- Prophet Walker, Treehouse
- Radhika Krishna, Anchorage Community Landtrust
- Sandra McNeil, Sandra McNeil Consulting
- Shmel Graham, Sheppard Mullin Richter & Hampton LLP (formerly)
- Tom De Simone, Genesis LA
- Tony Jolly, Hot and Cool Cafe
- Vanessa Anderson, AM PR Group

Peer Reviewers:

- Bi'Anncha Andrews, Small Business Anti-Displacement Network
- Bobby Boone, Small Business Anti-Displacement Network / &Access
- Hanna Love, Brookings Institution
- Tracy Loh, Brookings Institution
- Manuel Pastor, University of Southern California, USC Dornsife

CONTENTS

EXECUTIVE SUMMARY

The Crenshaw neighborhood in South LA is a rich, cultural destination home to legacy small businesses, a new open-air arts hub, and a thriving Black community. Its history is unique in the context of redlining and has gone through large socio-economic shifts in the past 60 years since its founding in the early 1900's, as a premiere white community. In the 1970s, Crenshaw became a predominantly Black neighborhood following white flight to surrounding Los Angeles suburbs and dedicated efforts by then public agencies and private institutions to exclude Black and people of color from developing Westside neighborhoods and access to capital. The legacy of racially discriminatory practices, though long ago outlawed, can be felt today through various indicators of public and private neglect, such as the prevalence of bank deserts and food deserts throughout South LA. This report provides recommendations on how policymakers can take action to curb the displacement of existing local small businesses and provide opportunities for future local small businesses to thrive in gentrifying and emerging neighborhoods.

Today Crenshaw is emerging as a "transitioning" or gentrifying neighborhood with commercial and residential properties rapidly increasing. This report explores property ownership as a tactic to combat gentrification and to equitably address decades of private and public disinvestment of communities of color, especially Black communities. Property ownership has also been one of the greatest wealth-building tools within the American economy. However, Black communities and other communities of color have been actively barred from ownership. Many business owners across LA, especially in the Crenshaw neighborhood, do not own their business property. Property ownership, especially in a speculative market like LA, is as much an issue of access to capital as it is the ability to navigate a real estate industry that was designed to keep Black and brown people from participating.

This research provides a snapshot of the Crenshaw corridor and its businesses. This analysis aims to understand the types of businesses in the neighborhood, the challenges they are experiencing, and identify the best ways to uplift said establishments that make up the neighborhood's social fabric. Through use of Costar data, 18 expert interviews, surveys of local small business owners, and secondary research, a set of recommendations is presented in support of small businesses.

1

NEW INCLUSIVE COMMERCIAL REAL ESTATE FINANCIAL PRODUCTS

New financial products must be created with the specific intent of helping small business owners be successful in a competitive real estate market. Access to capital is the primary barrier to property ownership for many small business owners. Having capital available to them for property acquisition —whether by themselves or collectively — is a key tool in combating displacement and getting small businesses the support they need.

2

TECHNICAL ASSISTANCE

Technical assistance for small businesses must be funded and expanded to include capital stacking compliance and business development. It's essential that technical assistance programs be paired with capital opportunities for small business owners who want to acquire commercial real estate

3

ANTI-DISPLACEMENT PROGRAMS & POLICIES

Anti-displacement policies need to be put in place to protect Black-owned and people of color-owned businesses in historically under-resourced communities. Market speculation plays an integral role in gentrification and small business displacement. Anti-displacement policies and programs can limit the externalities caused by gentrification.

4

PUBLIC & PRIVATE STRATEGIC INVESTMENTS

Responsible public and private investment must occur to promote small business growth. There are stark differences in amenities in higher-income neighborhoods - including the vital access to fresh and locally-sourced foods. Investing in these communities through responsible and equity-driven policymaking will assist small businesses and allow vital community-serving assets to flourish.

Property values, property sales, and vacancy rates are rising, while small businesses in Crenshaw lack the support needed to fill some of the vacancies. This moment marks an opportunity to act —to build out support systems after a detrimental year for small businesses and exemplify what small businesses need.

INTRODUCTION

For small business owners, the pathway to commercial property ownership can be strenuous. The upfront capital demand, credit evaluation, relationships with financiers and property owners, and technical knowledge of financial products are significant challenges for many small business owners who want to acquire an existing building or construct a new facility. Local small businesses in marginalized communities, especially BIPOC, women, and immigrant-owned businesses, face many of the same systemic disadvantages as marginalized individuals — lack of access to financial institutions and the associated capital, appraisal bias, neglect from private and public agencies, gentrification, and displacement.

The Crenshaw neighborhood is a prominent example of a historically Black community that has been stigmatized and subjected to public and private sector neglect. However, in the last decade, the area has seen an influx of private and public funds. Destination Crenshaw, a public cultural arts project, has attracted an estimated $70-$90 million in public and private investments. Whereas $900 million has been allocated to build the Los Angeles County Metropolitan Transportation Authority's (LA Metro) railway from the Los Angeles International Airport to downtown LA, including a Crenshaw station. There is growing fear among some community stakeholders that these projects will fuel real estate speculation and expedite the process of displacement and gentrification. Although the discourse around gentrification and displacement often centers on residential community members, these forces also affect local small businesses. The looming threat of gentrification and displacement has prompted local small businesses and policy advocates to explore conventional and alternative ownership models for commercial property.

Local small businesses, especially those located in historically marginalized communities such as Crenshaw, need assistance to acquire commercial property as a primary anti-displacement strategy to hedge against market speculation. An equity-driven anti-displacement approach must be adopted to prevent local small businesses from being pushed out.

METHODOLOGY

Inclusive Action for the City conducted this research with additional support from Destination Crenshaw. The purpose is to understand which public or private financial products and programs are needed to (1) facilitate ownership of property by existing local entrepreneurs and small business owners and (2) inform policymakers and local entrepreneurs about the systemic barriers to traditional and community-owned commercial property ownership. This process has three major components: interviews, secondary research, and commercial real estate data analysis.

Interviews

Interviews with experts were conducted to better understand barriers to commercial property ownership for small business owners, gather insights into innovative approaches to address small business displacement, and gather input on the resources/programs public and private agencies need to support small businesses and entrepreneurs seeking to acquire property. Eighteen formal interviews were conducted featuring input from three groups: small business owners, real estate investors/developers/financiers, and land use and community economic development policy experts. These interviews provided critical insight that other forms of research would not be able to provide.

Surveys

In-person and online surveys of local small business owners in Crenshaw were conducted by Inclusive Action and Destination in April 2022. The surveys gathered insight into local small business owners' interest to own commercial property and part-take in a community ownership real estate model. Additionally the surveys gathered insights of local small business owners' rising rent concerns and barriers preventing them from purchasing a property.

Secondary Research

The report was also informed by publicly available scholarly articles, journals, and newspaper articles that discussed the nature of gentrification, commercial real estate trends, and the geography of South LA. This research is cited throughout the report and helps set the context for the conducted interviews.

Commercial Real Estate Data Analysis

To understand commercial real estate trends in the Crenshaw neighborhood, real estate property and transaction data gathered from CoStar was analyzed. Data gathered from CoStar enables one to identify historical and recent commercial real estate sales, which provides insights into the projected market conditions of an area. The CoStar report was conducted in March 2021. In addition to the transaction data, nine additional South Los Angeles zip codes were analyzed as comparables. This analysis includes commercial real estate trends centered around average sale prices, vacancy, business typology breakdown by zip code, commercial property walkability to transit hubs, and top entities involved in real estate transactions.

The two community-based organizations that developed this report have a vested interest in ensuring that local entrepreneurs remain in the communities they have long served. The reader should consider the backgrounds of each organization when reading this research:

Inclusive Action for the City

Inclusive Action for the City is a nonprofit, Community Development Financial Institution (CDFI) that pairs its small business lending and technical assistance with policy advocacy and research in support of low-income communities and their entrepreneurs. The organization has deployed over $750,000 in micro-loans and administered over $1.6 million in grants to entrepreneurs, including street vendors in the informal economy. The organization has also been an active economic development agent as a commercial real estate owner. In 2019, Inclusive Action partnered with Little Tokyo Service Center, East LA Community Corporation, and lender Genesis LA to acquire five commercial buildings on L.A.'s Eastside to preserve small businesses. Inclusive Action has also been a major advocate for street vendors through its leadership in the LA Street Vendor Campaign, which helped legalize street vending in 2018. More recently, it has advocated for rent relief for small businesses impacted by the COVID-19 pandemic.

Destination Crenshaw

Destination Crenshaw (DC) was born of a groundswell of community concern about potential displacement caused by gentrification and the construction of a new light rail Metro line that would tear through the heart of Black Los Angeles. The elimination of small business parking, trees, green space, and pedestrian areas to make way for the light rail led many to believe that long-standing residents and businesses would not benefit from the investment. DC evolved to become a cultural district, as a result of thousands of interviews, surveys, community meetings, and design charrettes. DC's goal is to address widespread concerns, buffer against negative impacts of the light rail, and ensure that current residents and businesses would take active part in the growth to come. The project will create ten architecturally stunning pocket parks, plant 822 trees, commission over 100 public artworks, create job pipelines for construction workers and artists, and focus on small business revitalization.

CRENSHAW COMMERCIAL CORRIDOR OVERVIEW

AN OVERVIEW OF THE CRENSHAW CORRIDOR

In popular culture, the South LA neighborhood of Crenshaw has become synonymous with historically Black Los Angeles. The neighborhood sits southwest of downtown Los Angeles and northeast of the Los Angeles International Airport. Crenshaw Boulevard extends 23 miles from Wilshire Boulevard in Mid-City to Rancho Palos Verdes. This study focuses on the commercial strip between West Exposition Boulevard and Slauson Avenue, which includes zip codes 90008 and 90043.

At a glance, the socio-economics of the Crenshaw neighborhood is contradictory. Pocket areas along Crenshaw Boulevard can shift drastically in demographics from the number of homes that rent versus own and median income. Crenshaw sits among both highly divested communities and predominantly Black, affluent residential neighborhoods. The surrounding neighborhoods of Baldwin Hills, Ladera Heights, and View Park/Windsor Hills, collectively nicknamed the "Black Beverly Hills," represent the largest concentration of Black affluence and homeownership in the United States.[1] Adjacent to Baldwin Hills and Crenshaw, Baldwin Village, nicknamed the "Jungle," is composed of predominantly low-income renters, and recently a growing population of Central and South Americans. Over the last few decades, there has been a steady decline of Black residents leaving Los Angeles for more affordable surrounding communities and cities, such as the Inland Empire, Antelope Valley, and Sacramento.[2] Historically, the greater Crenshaw area has inspired Black creatives and entertainers and showcased African-American upward mobility. Popular films and cultural icons, such as Issa Rae and the late Nipsey Hussle, have highlighted the neighborhood's richness.[3]

Crenshaw Demographic Information

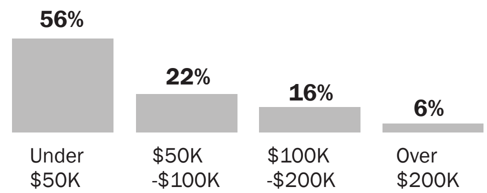
Zip Code 90008

14, 858 Residents:

Per Capita Income: **$33,723**

Median Household Income: **$43,364**

Household Income Distribution:



Median Value of Owner-Occupied Housing Units:

$701,800

23% Owner Occupied Households

67% Renter Occupied Households

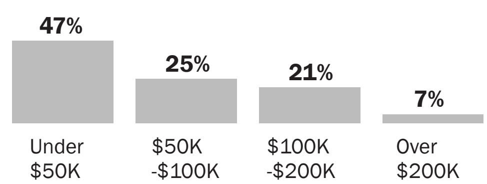
Zip Code 90043

45,873 Residents:

Per Capita Income: **$31,101**

Median Household Income: **$54,729**

Household Income Distribution:

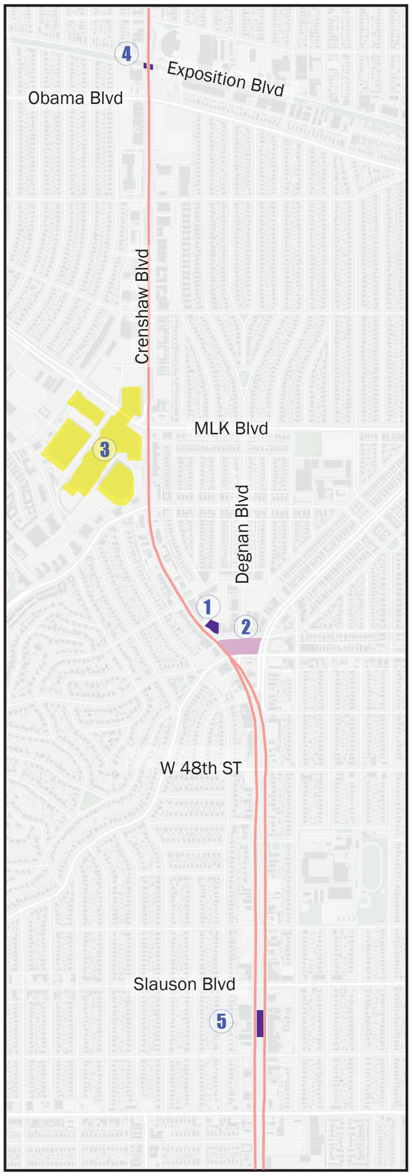


Median Value of Owner-Occupied Housing Units:

$556,400

55% Owner Occupied Households

45% Renter Occupied Households



Scale: 2000 ft

Figure-1: Map of Crenshaw Commercial Corridor Study Area

Map Legend:

1. Leimert Park Metro Rail Station
2. Leimert Park Plaza
3. Baldwins Hills Mall
4. Exposition Metro Rail Station
5. Slauson Metro Rail Station

Local Businesses Overview

Crenshaw Boulevard from W Exposition Blvd to Slauson Avenue features a heavy concentration of local and chain restaurants, beauty salons and barber shops, local fashion retail, Black sidewalk vendors, and shopping centers such as the Baldwin Hills Crenshaw Plaza. Along this 2.5-mile commercial strip from Expo Blvd to Slauson, less than two grocery markets provide residents access to fresh produce, e.g., Albertsons and SÜPRMARKT.

Surrounding communities such as Leimert Park, and its commercial strip Degnan Blvd serve as a main tourist anchor and mecca for Black arts, culture, and events. On weekends local Black sidewalk vendors, drum circles, and artists can be seen at Leimert Park. Annual community events and festivals such as the Juneteenth Celebration, MLK Parade, and Taste of Soul draw tens of thousands of Angelenos to the neighborhood.[4] Destination Crenshaw, a 1.3 mile cultural arts open museum, is expected to be a major tourist attraction once it is completed in 2022. Destination Crenshaw pays homage to Black LA's impact on popular culture and social change through installation art and monuments along Crenshaw Boulevard.[5]

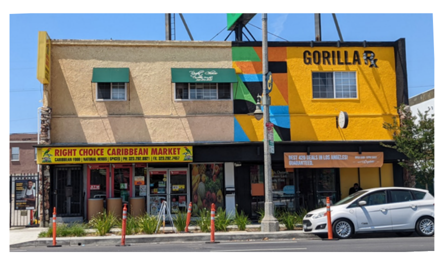
Harun Coffee

Leimert Park Metro Station

Sidewalk Vendors

Ride On!

Sidewalk Vendors

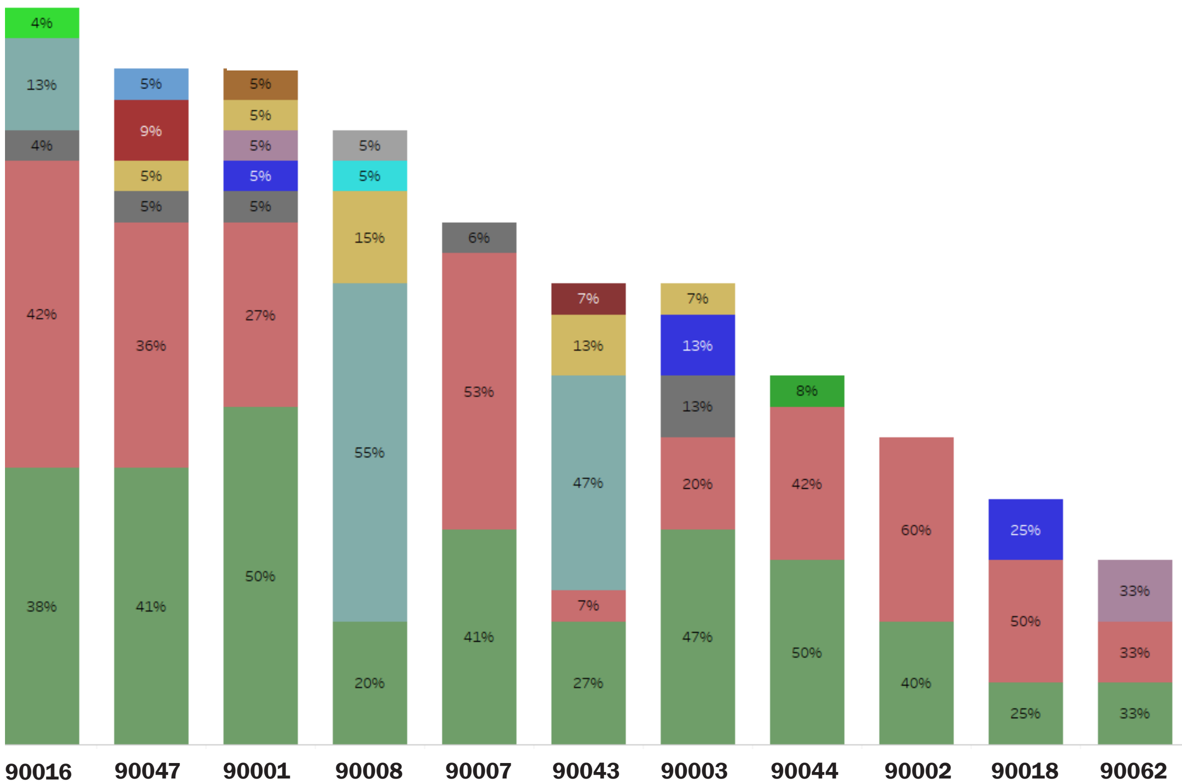


Gorilla Rx Wellness Co

Ebony Wigs & Beauty Supply

Baldwin Hills Mall

Figure-2 Business Typology Percentage by Number of Businesses in Zip Code (Costar)



Specific Business Use Type:

- Resturant, Cocktail Lounge
- Theater
- Service Station
- Bank, Savings and Loans
- Professional Building
- School (Private)
- Department Store
- Non-Auto Service and Repair Shop
- Store Combination
- Supermarket
- Shopping Center (Regional)
- Parking Lot (Commercial)
- Commercial
- Shopping Center (Neighborhood)
- Store

To understand Crenshaw in relation to surrounding areas, nine adjacent zip codes' commercial properties were analyzed. The above graphic showcases the types of businesses among all 11 zip codes analyzed. Two general trends emerged from the analysis of the 11 zip codes. First, convenience stores, dry cleaners and liquor stores[6], followed by non-auto service and repair shops, are the most dominant type of businesses among the 11 zip codes analyzed. Second, the dearth of grocery markets in the area draws attention to the food deserts and swamps across South Los Angeles. Food swamps are neighborhoods characterized by an abundance of unhealthy food options.[7] Ninety-eight percent of supermarkets are concentrated in zip code 90062, which includes Vermont Square and borders Leimert Park. Over half of the commercial space in this zip code contains supermarkets like Food 4 Less, Ed's Market, Lily's Market, and Choice Market, which are discount food chains. Grocery markets such as Whole Foods, Aldi, Trader Joe's, Sprouts Farmer Market, and Vons which are commonly found in West LA do have locations in the 11 South LA zip codes analyzed.

In the 90008 zip code, the Baldwin Hills Crenshaw Plaza presently accounts for 55% of all commercial property. The Baldwin Hills Crenshaw Plaza houses the sole movie theater across all 11 zip codes. Adjacent to and similar to the 90008 zip code, 47% of commercial space in the 90043 zip code is allotted to regional shopping center space.

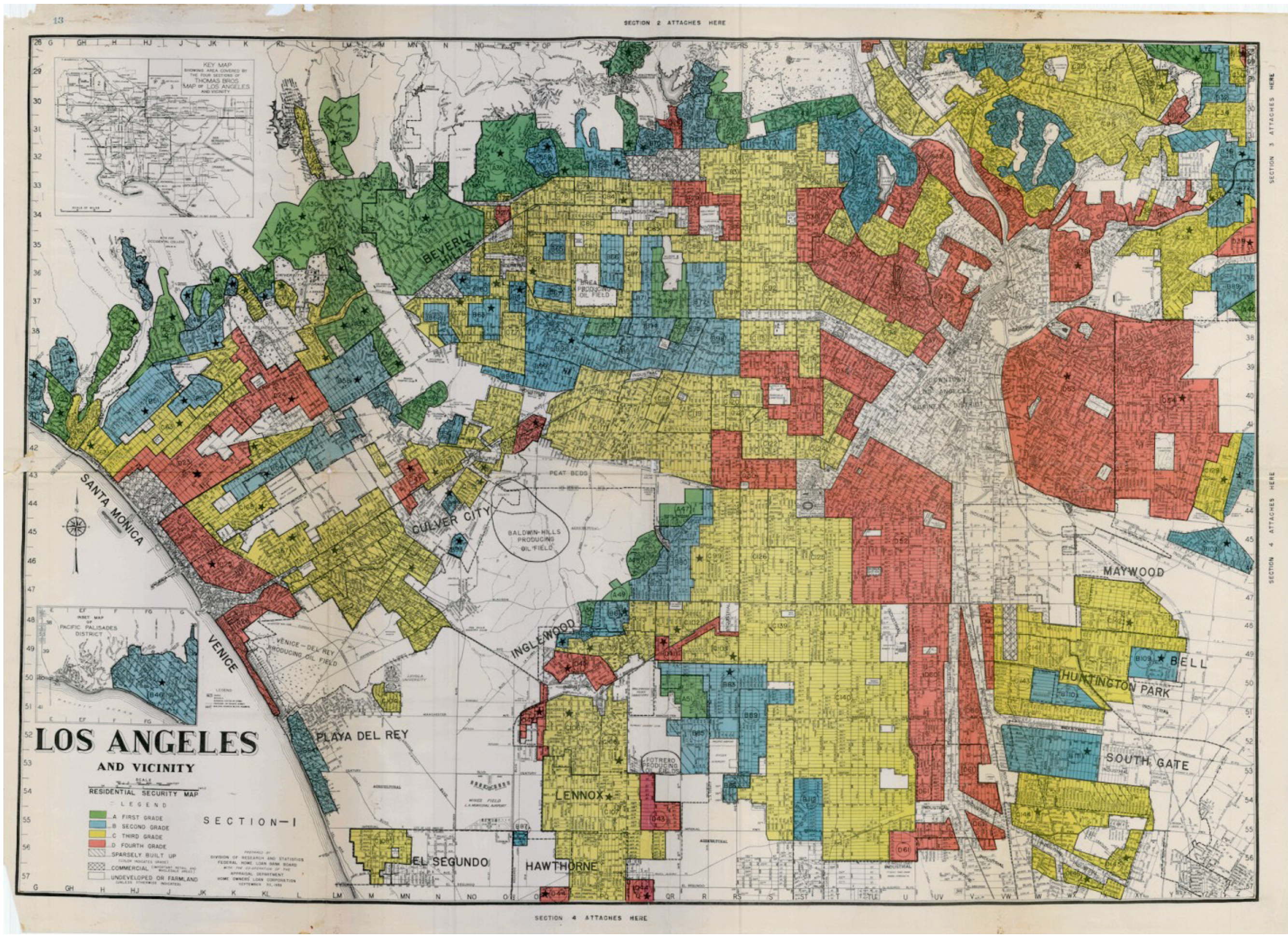


Figure 3 - 1939, Los Angeles - Redlining Map[12]

HISTORICAL OVERVIEW & CHALLENGES

Despite Crenshaw's fame, the neighborhood is still stigmatized and underinvested. State-sponsored dispossession, neglect, and discriminatory racial zoning practices have led to the disparities prevalent in the neighborhood today.[8] Lack of access to land ownership for Black and people of color residents and businesses has been happening since the establishment of the Crenshaw neighborhood.

Historic Exclusion from Access to Real Estate

The origins of the Crenshaw neighborhood are one of exclusion and racial discrimination by way of racialized zoning ordinances. The Crenshaw neighborhood is named after George L. Crenshaw, a white Missouri-born developer. George L. Crenshaw developed the first portion of Crenshaw Boulevard and the surrounding neighborhood of Lafayette in the early 1900s.[9] Crenshaw and the white developers who succeeded him, sought to create an exclusive upper-class white community that barred non-white, especially Black, residents from acquiring residential or commercial property. This practice of redlining involved the systematic exclusion of non-white and Jewish residents from geographical areas, access to loans, mortgages, and insurance coverage to acquire property.[10]

To ensure neighborhoods such as Crenshaw remained exclusive to white residents, house deeds included explicit restrictions:

1. "No part of any said realty shall ever be sold, conveyed, leased, or rented to any person not of the white or Caucasian race.

2. No part of any said realty shall ever at any time be used or occupied or be permitted to be used or occupied by any person not of the white or Caucasian race, except such as are in the employ of the resident owner or resident tenants of said property."[11]

From the early 1900s to the late 1940s, the Crenshaw neighborhood remained exclusively white until the 1948 Supreme Court ruling of *Shelley v. Kraemer*. *Shelley v. Kraemer* ruled that while racial covenants are not inherently illegal, courts cannot enforce them under the 14th amendment of the U.S. Constitution.[13] The 14th amendment protects all persons born or naturalized in the United States from State powers (i.e., laws) that abridge their privileges as citizens or restrict any person's equal protection of the laws.[14]

The transformation of Crenshaw and surrounding neighborhoods from a predominantly white, affluent community was not driven by court rulings but rather white flight to L.A.'s Westside communities and the fear that Black and people of color were depreciating real estate values.[15] The Federal Housing Administration heavily sponsored white flight by subsidizing white households with mortgage loans to move to suburbs while denying non-white households mortgage loans.[16] As white residents left Crenshaw from the 1950s to the1960s, Black residents migrated to the neighborhood from Central Avenue (near Historic South Central) and southern U.S. states, in addition to Japanese Americans and working-class Eastern European Jews.[17] It's important to note that not all white residents immediately left. In fact, new Black and people of color residents were often met with vandalism and violence from white residents who remained and police departments who sought to push these newcomers out.[18]

Despite the passage of their laws, including the Supreme Court ruling of Shelley v. Kraemer (1948). The California Rumford Act (1963) prohibits all racial discrimination in California's public and private housing. Last, the federal Fair Housing Act (1968) prohibits discriminatory real estate practices, racism, and prejudice in real estate, which remained overt in Los Angeles through the 1970s.[19]


CAL. NEGROES CAN NOW LIVE ANYWHERE, SAYS HIGH COURT

Homes Like These No Longer 'Out of Bounds'

FREED FROM RESTRICTIONS—Pictured above are two of the many homes in Los Angeles which have figured prominently in race restrictive covenant cases and which, by virtue of Monday's U.S. Supreme Court decision, are no longer "out of bounds" to Negroes. Both of these houses are in the city's wealthy "Sugar Hill" area, suits involving which have been awaiting action by the California Supreme Court for nearly two years. The cases will now undoubtedly be dismissed. At the left is the home of the late Ben Carter, well-known comedian and motion picture agent, who was teamed with Mantan Moreland for television shows at the time of his death. At the right is shown Hattie McDaniel's home. Her right to live there was challenged on racial grounds despite the fact that she has attained top rank in motion pictures and is currently giving a 15-minute nightly program, the "Beulah Show," over radio station KFI.

Historic Exclusion from Political Power and Resources

White flight from Crenshaw to the suburbs in the 1950s not only altered population demographics but also public and private resource distribution across the region. Historically, local and state governments have targeted communities of color as areas to build highways and other large-scale infrastructure that negatively impact the quality of life.[20]

In 1954, the predominantly Black, affluent neighborhood of Sugar Hill, an adjacent West Adams neighborhood to Crenshaw, attempted to fend off the construction of the Santa Monica (I-10) Freeway. Despite strong neighborhood opposition citing the racial targeting, the California State Highway Commission voted to construct the I-10 freeway through Sugar Hill and InkWell Beach, a predominantly Black Santa Monica neighborhood. The construction of the Santa Monica Freeway destroyed dozens of Black-owned households in Sugar Hill and InkWell Beach and significantly impacted the businesses and social fabric of the area. The California State Highway Commission said these Black communities were selected for transit convenience and cost-effectiveness.[21] The implication of this decision implies predominantly Black neighborhoods are more "cost-effective" to demolish in the name of infrastructure, perpetuating the idea that the livelihoods and neighborhoods of people of color are disposable and less desirable.

The effects of infrastructure like this also have direct health implications. Communities near freeways have significantly higher rates of respiratory illnesses.[22] Crenshaw and surrounding communities have the highest air pollution in the county. In particular, Crenshaw has more than three times the pollutants (traffic emission, PM 2.5, toxic releases) than more affluent Westside communities such as Playa Vista.[23]

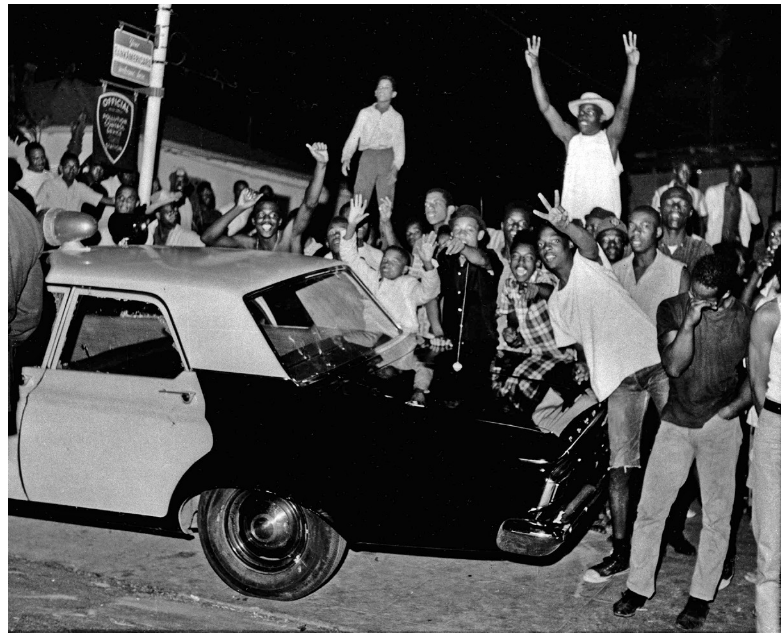
The implication of this decision to build Santa Monica Freeway through Sugar Hill is that predominantly Black neighborhoods are more "cost effective" to demolish in the name of infrastructure - perpetuating the idea that the livelihoods and neighborhoods of non-white people are less desirable.

Sugar Hill Home - 1930s

Construction of the Santa Monica I-10 Freeway - 1950s

As mentioned previously, the Crenshaw neighborhood was an affluent white community that utilized racial covenants to keep Black and people of color from settling within. Only when white flight occurred did the perception of Crenshaw as a Black and people of color community transpire that prompted public and private institutions to classify Crenshaw as risky, or redlined. Redlining was discriminatory housing segregation and urban planning practices orchestrated by federal and local governments, financial institutions, and realtors. Redlining classified communities with high concentrations of Black and people of color as risky investments and less desirable.[24] Redlining not only denied people of color from acquiring property in certain areas but also incentivized public and private disinvestment from communities of color. Additionally, redlined communities' property values tend to be valued 25% lower than adjacent white communities with similar amenities. The lack of public and private investments impacts a community's ability to fund public schools and youth programs, repair existing infrastructure, develop affordable housing stock, and expand job creation. It also limits community members' and local businesses' access to traditional financial institutions.[25]

Historic disinvestment and lack of access to political power and resources in communities of color are not unique to the Crenshaw neighborhood. Rather, it's part of the national trend of state-sponsored violence against non-white individuals and communities. The 1965 Watts Rebellion, for example, was a community uprising against decades of state-sponsored neglect and hyper-policing. The rebellion occurred in Watts, CA, a predominantly Black neighborhood in South LA, after police officers used aggressive force on a Black motorist and community members rose to the driver's defense. The traffic stop escalated into six days of unrest, the death of 34 residents, and $40 million in property damage.[26] Other rebellions have occurred decades after the Watts Rebellion due to similar reasons, such as community disinvestment, police brutality, and lack of upward mobility. These rebellions include the 1992 Los Angeles Uprising, and the 2013 and 2020 Black Lives Matter demonstrations.



Watts Rebellion - 1965

Black Lives Matter Protest - 2020

Limited Political Power to Change Infrastructure Pathways

Sixty years after the Sugar Hill community pushed back against the Santa Monica Freeway construction, West Adams and Crenshaw residents challenged LA Metro's decision to build the LAX - Crenshaw rail line at grade along Crenshaw Boulevard. Local organizations such as the Crenshaw Subway Coalition's 2011 lawsuit against LA Metro cited concerns around LA Metro's at-grade railway disrupting traffic and impacting local small businesses in the area.[27] Despite community pushback, LA Metro ultimately opted to keep the rail at grade and rejected an additional proposal to build a transit stop at Leimert Park.

Limited Opportunity to Acquire Property

Community-driven efforts, led by the nonprofit Downtown Crenshaw Rising (DCR), to acquire the Baldwin Hills Crenshaw Mall have been met with resistance. The Baldwin Crenshaw Mall has been on the decline for decades and has been greatly impacted by the lack of investment in the area. In 2006, Capri Capital Partners acquired the mall for $136 million and planned to create a mixed-use development with predominantly market-rate housing, hotels, and community space.[28] In 2020, Capri Capital Partners announced plans to sell the mall. It reportedly operated in the negative, which was further exacerbated by the COVID economic shutdown. Interested developers have faced severe backlash from organized community opposition, who were concerned that proposed developer plans neglected to provide adequate affordable housing stock to the neighborhood. In an attempt to purchase the Baldwin Hills Crenshaw Mall, DCR raised $80 million in collaborative philanthropic donations and investments. Despite raising capital to acquire the property, according to DCR, the current mall owner, Deutsche Bank's DWS, rejected their offer and sold the property for a lower bid to Century City-based Harridge Development Group.

Critics of Deutsche Bank cite that their property sale to Harridge Development Group was racially motivated. Critics argue the Deutsche Bank effectively put a de facto racial covenant on the property, i.e., a clause barring the sale of the property to people of color, which is not explicitly written in the contract but rather carried out in practice.[29]

Limited Access to Goods and Services

Lack of access to healthy food and fresh produce can contribute to health-related illnesses such as obesity, type 2 diabetes, heart disease, strokes, and cancer.[30] South Los Angeles, including the Crenshaw neighborhood, is home to numerous food deserts — communities devoid of fresh fruit, vegetables, and other healthful whole foods — due to a lack of grocery stores, farmers' markets, and healthy food providers within a one-mile radius.[31] Before the pandemic, studies found the entirety of South Los Angeles had fewer than seven supermarkets. During the pandemic, Ralphs at Slauson and Crenshaw, chose to shut down to avoid paying "Hero Pay", a County wage provision that mandates stores to pay employees an additional $5 per hour for providing essential services.[3233] The closure of Ralphs made it harder for residents in a food desert to secure healthful foods.

It's important to note white flight pushed not only white populations to Westside LA but also financial institutions and their services. In addition to being a food desert, multiple neighborhoods in South Los Angeles are in bank deserts. Bank deserts are areas where residents lack access to a bank or credit union in their neighborhood. Bank deserts tend to have a high concentration of payday loans, check-cashing services, auto title loans, and other predatory forms of credit that charge exorbitant interest rates, in substitute of traditional banks such as Wells Fargo, Chase, and Bank of America.[34] The lack of financial institutions in communities can have a rippling effect on residents' ability to access capital, obtain mortgage loans, build credit, and create saving accounts.[35]

LOOKING FORWARD

Historical context is key to understanding Crenshaw's complicated challenges currently affecting small business owners. Today, similar patterns of exclusion and neglect can be observed from LA Metro's decision to build the Crenshaw/LAX line at grade instead of underground and local Black vendors' difficulties obtaining permits. The fact that local organizations had their bid to purchase Baldwin Hills Crenshaw Mall denied is also part of this pattern.[36,37,38]

Recurring patterns of disinvestment, neglect, and limited community political power are expected to continue to affect Crenshaw and under-resourced communities without intentional policymaking adversely. While historical context is key, it's equally just as important to acknowledge the modern issues such as a hyper-competitive and speculative real estate market, zoning density law changes, and the emergence of tech jobs in Los Angeles further impacting small businesses in Crenshaw.

Equity must be at the forefront of all local government economic and infrastructure development plans going forward. While it's important to diagnose the systemic challenges impacting Crenshaw's local business owners, it's important to acknowledge the emergence of new local Black and people of color entrepreneurs contributing to the rich cultural history and paving the wave for new businesses. There are abundant local business owners and residents doing important work to right the harm that government policies, racist and biased real estate practices, and neglect from financial institution lending have instituted. It is essential to ensure the businesses and residents that make up the community today have a place in their respective homes tomorrow.

ANALYSIS OF COMMERCIAL REAL ESTATE TRENDS IN CRENSHAW

ANALYSIS OF TRANSACTION AND OCCUPANCY TRENDS OF COMMERCIAL SPACES

Our study focuses on the neighborhood of Crenshaw, located within zip codes 90008 and 90043. To better understand commercial real estate trends in the neighborhood, real estate property and transaction data gathered from CoStar was analyzed. The information provided by CoStar gives a picture of how commercial property transactions have trended over time, and provides valuable insight into who is buying and selling the commercial buildings in Crenshaw and surrounding areas. The CoStar data was pulled in March 2021, and transactions analyzed were those conducted from January 2000 - March 2021. In addition to the transaction data, nine additional South Los Angeles zip codes were analyzed as comparables. This analysis includes commercial real estate trends centered around average sale prices, vacancy, business typology breakdown by zip code, commercial property walkability to transit hubs, and top entities involved in real estate transactions.

COMMERCIAL REAL ESTATE YEARLY SALES TRENDS

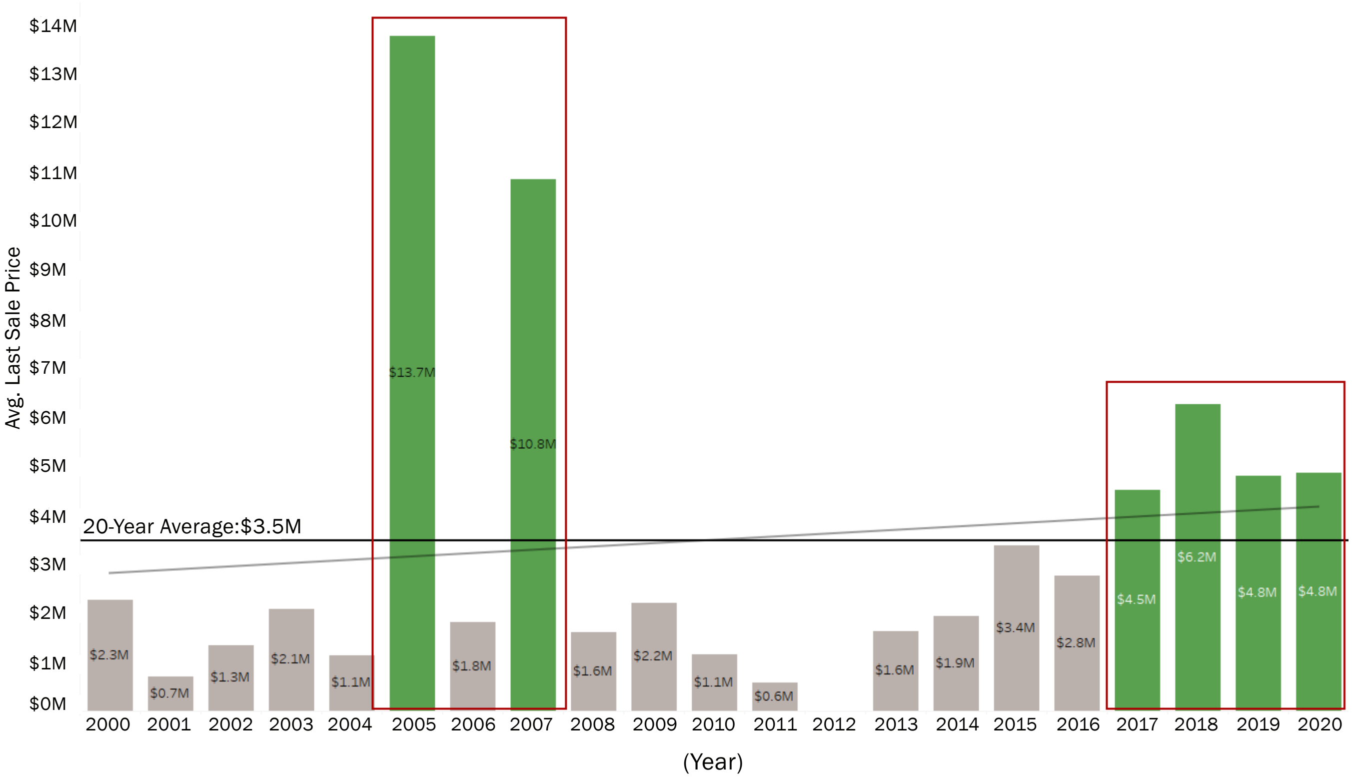


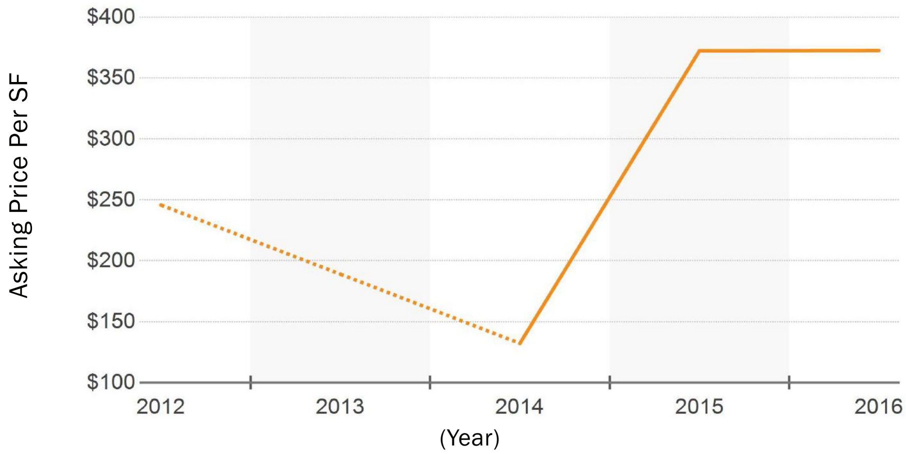
Figure-4: Average Yearly Sale Prices Across all 11 Zip Codes (Costar)

Over the last four years, average annual sale prices have been trending up across all surveyed zip codes. In the same period, annual sales exceeded the 20-year average of $3.5 million per property. This is an important finding because the 20-year average skews upward due to the 2005 sale of the Baldwin Hills Crenshaw Plaza. The plaza makes up over half of the retail space in the 90008 zip code. Even without a mall purchase in the last four years, the average sale price is still over the 20-year average that is skewed upward.

Transaction costs rising above the 20-year average, including the sale of the Crenshaw Mall periods, indicate that rent prices will also increase. When property owners buy their properties at a higher price, the space rented out will also have higher rents to ensure that the financing for the project clears. Often, the financing options for buying property rely on the income through rent collection. Higher property sale prices mean higher rents and less opportunity for local small business owners to rent at an affordable rate. This cycle leads to displacement as newer, higher-income businesses come into a neighborhood that can afford higher rents.

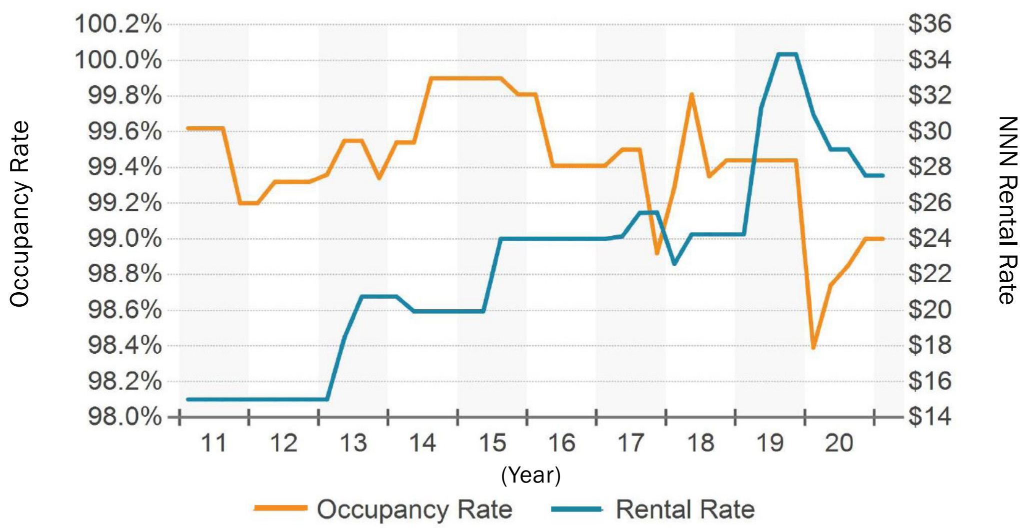
COMMERCIAL REAL ESTATE TRENDS IN ZIP CODE 90008

Figure-5: Asking Price Per SF - 90008 (Costar)



In the 90008 zip code, the asking price per square foot (PSF) for property sales fell from $250 PSF in 2012 to $130 PSF in 2014. Following the dip, the asking price PSF from 2012 to 2014, has been on the rise. From 2014 to 2015, the asking PSFspiked over 188%, jumping from $130 PSF to $375 PSF.

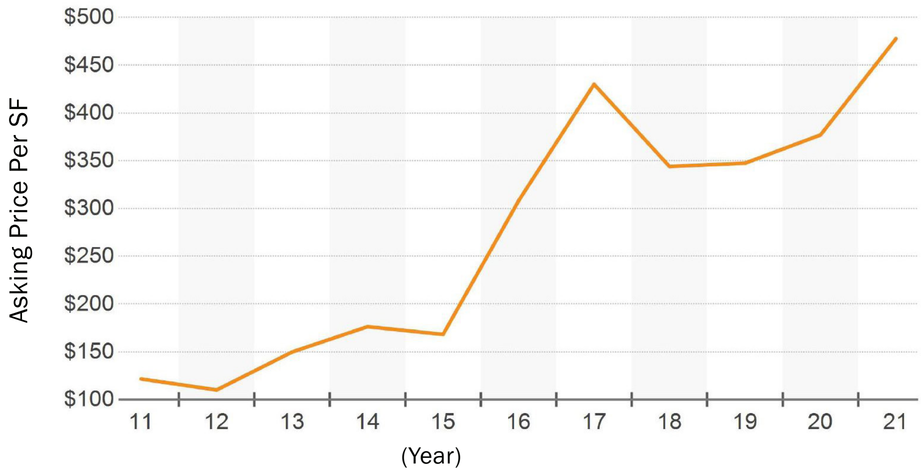
Figure-6: Asking Rent Per SF & Occupancy Rates - 90008 (Costar)



Rent is an important indicator of a perceived property's value. Triple net rent (NNN) refers to the total costs of rent and all the expenses a tenant pays related to renting a building, including property tax, insurance, and operating expenses. Our research found that triple net rent in Crenshaw has been trending upwards over the past decade.[41] In the past decade, triple net asking rent for commercial properties in the 90008 zip code was at its lowest at $15 PSF from 2010 to 2013 and its highest in late2019 and early 2020 at $34 PSF. From 2018 to early 2020, the triple net asking rent PSF spiked 41% from $24 PSF to $34 PSF. In 2020, the triple net rent asking rent PSF dropped from $34 PSF to approximately $27.50, or a 19% decrease. The decrease of triple net asking rent PSF in 2020 can most likely be explained by the impact of COVID-19 and the subsequent economic shutdown. Despite the drop in triple net asking rent PSF in 2020, we can assume triple net asking rent PSF will continue to rise at a steady rate in the coming years based on the historical data and assuming the commercial real estate market rebounds.

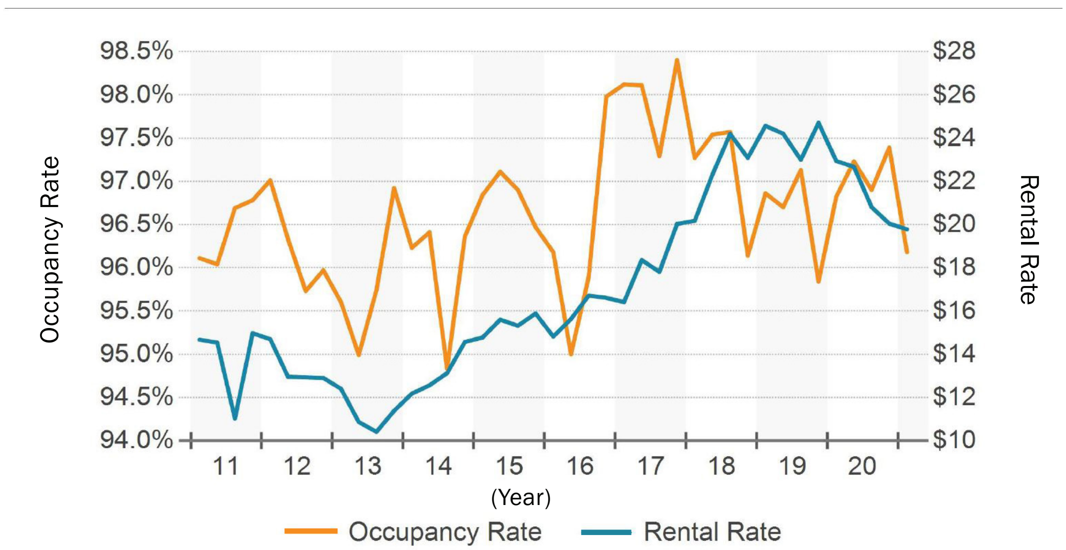
COMMERCIAL REAL ESTATE TRENDS IN ZIP CODE 90043

Figure-7: Asking Price Per SF - 90043 (Costar)



In the 90043 zip code, the asking PSF for property sales has risen since 2011; then, the asking PSF was approximately $130 PSF. The asking PSF has risen over $475 PSF, or a 265% increase a decade later. The largest spike, a 165% increase, occurred from 2015 to 2017. Momentum did not slow down in 2020; even as COVID-19 led to lockdowns in 2020, the asking PSF still rose 26% from 2020 to March 2021.

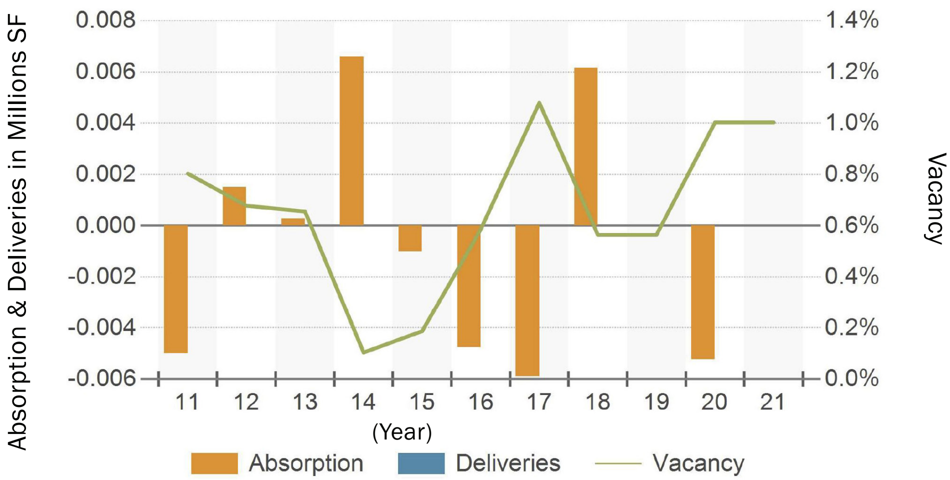
Figure-8: Asking Rent Per SF & Occupancy Rates - 90043 (Costar)



The asking rent PSF in the 90043 zip code has steadily increased since 2011, representing a 35% increase over a decade. At its peak, the asking rent PSF hit over $24.75 in 2019 but fell again in 2020. The impact of COVID-19 can likely explain this. From 2014 to the beginning of 2020, the asking rent PSF on average increased by 14.2% annually. If the asking rent PSF rebounds to pre-2020 rates, it will rise steadily.

ABSORPTION, DELIVERIES, VACANCY RATES

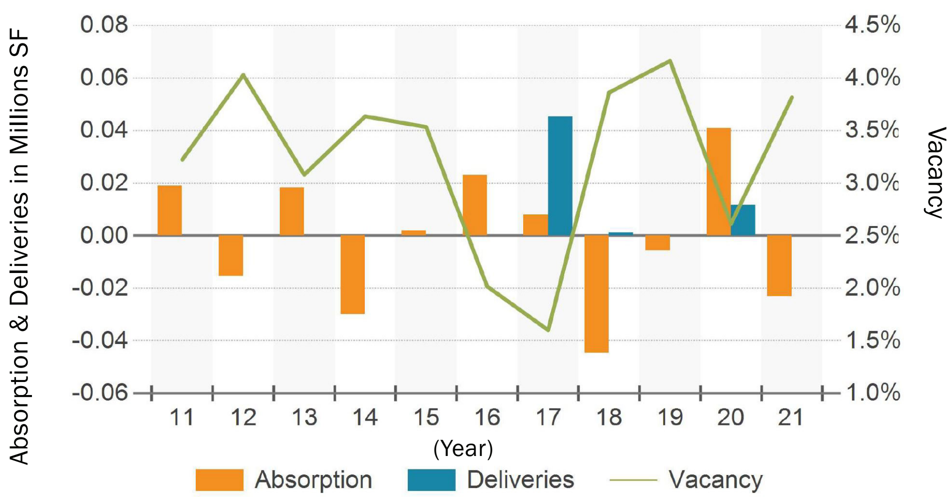
Figure-9: Absorption, Deliveries, Vacancy Rates - 90008 (Costar)



Absorption is another way to understand the demand for property in a neighborhood; it refers to the change in occupancy over a set period. In commercial real estate, the absorption rate evaluates the availability of square footage on the market.[43] This rate is an important indicator to determine the health of an area's real estate market. If an absorption rate is negative, it indicates more tenants have moved out than have moved in over a period of time, pointing to a surplus of commercial space available. If an absorption rate is positive, more tenants have moved in than out, meaning less available commercial space on the market.

According to figure-9, there have not been any new commercial real estate developments (referred to as "deliveries" in the figure) to enter the market since 2011. This means the supply of commercial space available to lease has been consistent for the past decade. Despite the drop in absorption in 2020 and the rise in vacancy, the net absorption over the past five years is positive. The net positive absorption indicates more tenants are moving in than out of the 90008 zip code, which means tenant demand and occupancy rates are high.

Figure-10: Absorption, Deliveries, Vacancy Rates- 90043 (Costar)



According to figure-10, in the years 2017, 2018, and 2020, new deliverables entered the market in the 90043 zip code. The year 2017 saw the largest set of deliverables to enter the market. It took approximately until 2020 for the market to absorb or tenants to occupy the new units. Similar to the 90008 zip, despite the rise in vacancy and drop in absorption in 2021, the 5-year net absorption is positive. The net positive absorption indicates more tenants are moving into commercial spaces in the 90043 zip code than moving out. which means tenant demand and occupancy rates are high.

CRENSHAW COMMERCIAL REAL ESTATE ANALYSIS TAKEAWAY

Multiple factors can impact the health of commercial properties in a neighborhood, such as economic conditions (e.g., COVID, recession), high asking price to purchase or rent, and the lack of or oversupply of new deliverables.[44] Commercial property absorption and occupancy rates have been consistently strong in 90008 and 90043 zip codes despite rising rent and property prices. Consistently high demand (i.e absorption) and occupancy rates in both zip codes suggest the presence of a warm or hot commercial real estate market. Property owners can demand higher than market value prices in a competitive hot market, especially when available real estate supply and deliverables are low. In hot markets tenants and buyers must compete to submit competitive bids to purchase or succumb to paying high to above market rate rents.

In both Crenshaw zip codes, 90008 and 90043, institutional (i.e. finance institution like a bank retirement fund, hedge fund, or mutual fund that makes large investments[45]) and private entities (i.e. property owners or management companies[46]) account for the vast majority of buying and selling of properties, which suggest a high-cost barrier of entry to purchase commercial property for the average consumer, i.e. local business owner. In the 90008 zip code, institutional buyers account for 97% of property purchases and private property owners account for 85% of property sales from 2011-2021. In the 90043 zip code, private entities account for 85% and owner-occupied buyers (i.e. business owners who occupy the property they purchase[47]) account for 23% of property purchases from 2011-2021. Ultimately high demand and strong competition for commercial space in Crenshaw put more financial pressure on local small business owners, especially those with tight revenue margins and limited access to capital. Rapidly growing and competitive commercial real estate markets put local businesses at greater risk of displacement from high asking rents, high cost to purchase a property, and being outbid to acquire property from institutional and private entities.

INTERVIEW KEY-TAKEAWAYS:

UNDERSTANDING THE VIEWPOINTS OF LOCAL SMALL BUSINESS OWNERS & REAL ESTATE INVESTORS & DEVELOPERS

Inclusive Action and Destination Crenshaw conducted a series of interviews with small business owners, real estate, community development policy experts, and real estate developers and financiers. The interview scope of topics explored the challenges local small business owners in Crenshaw experienced/are experiencing seeking to acquire commercial property, existing and needs to be developed financial products and resources, and community-driven ownership models. These interviews provide more detail on specific issues around commercial property acquisition and insight on tension points within the process.

Eighteen formal interviews were conducted with:

- 7 - Real Estate Financiers/Developers
- 6 - Small Business Owners & Renters
- 5 - Policy Experts & Advocates

Five key takeaways from the interview follow. A more detailed look at the insights provided can be found in Appendix C.

1

Quick capital deployment for property acquisition is essential in the Los Angeles real estate market.

The Small Business Administration (SBA) and government programs tend to be slow; speed and access to liquid assets are key to closing deals. In "hot" commercial real estate markets such as Los Angeles, where demand is high, it's critical to close deals as fast as possible. For small businesses to compete in rapidly gentrifying communities such as Crenshaw, they must have access to large sums of liquid assets and good relationships with financial institutions to underwrite loans. The average turnaround time to acquire a commercial SBA loan can take up to 60 days. Local investors, however, can have the cash to the seller in 14 days. While SBA loans allow small business owners to purchase property, in practice, they are not competitive in a "hot" real estate market where speed and timing are everything.

2

Community-based organizations are needed to help small businesses connect to resources for acquiring property.

The processes for successfully locating, financing, and closing out on a commercial real estate property deal is not transparent, especially for small business owners that do not have prior experience purchasing a property. Closing on a commercial property deal requires a targeted skill and knowledge set. Small business owners need technical assistance that provides information and viable resources they can utilize to secure commercial property. Additional training around price negotiation strategies (e.g., leveraging market data to one's advantage), financial training for property owners, telling effective stories to compel owners to sell, and legal services and input are needed. Technical assistance, however, must also be paired with actual capital so that business owners can buy their property.

Homeowners would benefit from these services, too. According to interviewees, many Black homeowners in neighboring communities tend to be property rich but lack liquid cash. As a result, Black homeowners are increasingly selling homes that have been in their families for decades for record profits. Access to technical assistance around ways to leverage residential equity can illustrate how households can keep their house without selling and obtain capital in a home equity line of credit (HELOC). Technical assistance around the home equity line of credit can potentially help slow gentrification by showcasing to homeowners that they don't sell their property to leverage their assets.

> "There is a growing trend of elderly homeowners and children from the area who have inherited their parents' property selling their homes for quick liquid cash instead of leveraging equity from their property to fund other initiatives."
>
> **- Ben Caldwell; Owner of KAOS Network, a multi-media center in Leimert Park, and 30-year resident of Leimert Park.**

3

Down payment assistance is needed to support small businesses, especially those located in low to moderate-income (LMI) areas, to cover down payment and closing fee costs.

One of the biggest hurdles small business owners face when acquiring commercial property in the Crenshaw corridor is paying the large down payment needed to close a deal. Down payment assistance is needed to help small business owners make down payments on properties. This down payment assistance can come in a low-interest loan or a grant. The size of a down payment can vary depending on various factors from loan type, equity down payment, and negotiated clauses between the buyer and seller. Government commercial real estate loans such as the SBA 7A and SBA 504 can require a 10% down payment, while conventional loan down payments can start as low as 20%. The median price of commercial property sold in Crenshaw from 2000-2020 is $1,750,000, and the median sale price for 2020 is $4,039,500. For a $1,750,000 property, a 10 % down payment is $175,000, and for a $4,039,500 property is $403,900. Other upfront expenses to be covered include taxes, closing fees, and due diligence costs ranging from 2% to 5% of the sale price.

> "We can't program our way out of poverty. If there are [technical assistance] programs they must be attached to capital and opportunities for folks - otherwise, capitalism will run its course and gentrification will occur."
>
> **- Dyane Pascall, Real Estate Developer**

4

Conventional and government financial products are not designed to finance collective ownership of commercial models.

Multiple interviewees expressed interest in pursuing community-driven commercial real estate ownership approaches through cooperatives and community land trusts. Cooperative models establish a democratic organizational structure in which community members can partake. Community land trust models enable shared ownership of property in which rent for community residents or businesses can be affordable in perpetuity. Additionally, they can potentially raise the capital purchasing power of a community collective if multiple entities provide equity to acquire a property, in contrast to one entity providing equity alone. (see page 38 for information on collectively owned commercial properties in Los Angeles and Alaska).

Despite growing interest in collective property ownership models, neither conventional financial institutions nor federal government financial products are designed to finance these ownership types, which nonprofits typically develop and manage. Nonprofits are not eligible for government financial products such as SBA 7A and 504. As a result, community-serving nonprofits must raise funds to purchase a property through donations or conventional loan products. Conventional loan products, however, are difficult to obtain. For nonprofits with limited access to capital, are newly formed, and do not have a strong financial record, obtaining a conventional loan to purchase a property poses a significant challenge. This is also true for nonprofits with no connections to conventional lending institutions.

Biasness and discrimination persist in the lending and real estate industry.

5

Historically, communities of color have been excluded from accessing financial products such as business loans, residential loans, and bank accounts. Racist lending practices such as redlining and racial covenants used to be common protocol. Although these practices have been outlawed, the legacy of discrimination and bias still prevents business owners and real developers of color from securing loans to acquire real estate. Interviewees stated bias in the lending industry manifests in multiple ways: a higher level of scrutiny of Black loan applicants' business and personal credit history, generalized assumptions that Black applicants are not "capable" of managing a loan, and unwillingness to work with potential applicants that do not have an existing connection to a bank. Four out of the seven real estate investors and developers interviewed felt pressured to use a white, male "straw buyer," a person who purchases a property on behalf of another person. They have witnessed white straw buyers help Black and people of color buyers avoid heightened levels of scrutiny and racial bias. These buyers are also able to negotiate better prices than buyers of color who face discriminatory practices can.

> "I do not understand how there is an assumption that people can pay rent [in South LA], but cannot own [property]...it doesn't add up. This [assumption] basically tells me you don't want me to own anything here. There are so many people here who stays in a place [rental property] for 10 years or longer, but whenever they want to own something they are given a hard time."
>
> **- Olympia Auset, Owner of SÜPRMARKT**

SURVEY-TAKEAWAYS:

UNDERSTANDING THE VIEWPOINTS OF SURVEYED LOCAL SMALL BUSINESS OWNERS

Inclusive Action and Destination Crenshaw surveyed local small business owners in the Crenshaw neighborhood. The survey assessed local small business owners' interest in commercial property ownership, their rationale for purchasing their commercial property, the obstacles they face preventing them from buying today, and their interest in collective real estate ownership models. In total, 28 small business owners were surveyed; surveyed business owners included media marketing agencies, restaurants, salons and barbershops, yoga studios, and jewelry stores. Approximately 85% of the small businesses surveyed operate in a commercial space in the Crenshaw neighborhood, while the remaining 15% operate from their home. Survey questions can be found in Appendix B - Interview Questions.

91%

SEEKING FINANCIAL AID SUPPORT TO PURCHASE

91% of surveyed local small business owners are seeking financial support for down payment and closing cost.

63%

RISING RENT IS THE MAIN CONCERN

63% Local small business owners surveyed stated rising rent as their main concern.

82%

INTEREST IN COMMUNITY-OWNED REAL ESTATE MODELS

82% Local small business owners surveyed expressed interest in joining a community-owned real estate model.

"I've been on a month-to-month lease at the same space for the last eight years. My rent has been steadily going up annually, but nothing too drastic until this year. This year my landlord decided to double my rent overnight from $1800 in December 2021 to $3600 in January 2022. I was told if I can't pay, then I should leave. My friend, a small business owner, faced a similar situation with his landlord next door. My friend decided to leave and purchase a commercial space further down the block. I'm looking to do the same once I can find a location in the neighborhood and within my budget. So many shops are closing around me, and rent in the area is only going up. I am on a month-to-month lease, so I am trying to leave before they raise the rent again."

- Crenshaw Small Business Owner #1

1

Renters are concerned about their rent going up above their budget.

Fears of rent going above their budget is the main concern expressed by over 63% of survey respondents. While it's expected rent to increase over time, most surveyed small business owners are concerned that the asking price of rent will rise above their budget sooner than later. Of the 28 small business owners surveyed, 21% percent have month-to-month contacts, 43% annual contracts, and 36% own their space or operate from home. Whether they have a month-to-month lease or annual lease agreement, commercial tenants are both vulnerable to significant rent increases.

2

There's a growing concern that property owners will sell their property and businesses will have to relocate.

Relocation due to existing property owners selling their property was the second most cited concern from surveyed business owners after rising rent prices. When small businesses relocate, they essentially have to start over again if they cannot find a suitable or affordable location within their neighborhood to serve their original clients. A surveyed small business owner, who wishes to be anonymous, shared their story of being asked to leave after a new owner acquired the property.

> "I've been at my business for 22 years. The original owners sold the property and now the new owners are giving us a year to move. We have to uproot our business. [I believe] ownership is the way to go so you have stability in your business."
>
> **-Crenshaw Small Business Owner #2**

3

Small business owners view ownership as a way to ensure stability over time.

The most cited rationale for wanting to purchase a commercial property is stability. Surveyed small business owners stated property ownership is a key to remaining in their neighborhood without the worry of being priced out to high rent or being forced to relocate due to property owners selling their property - i.e. stability to remain on their terms. Additionally, surveyed business owners cited ownership will better enable them to build generational wealth for their families and contribute to the cultural wealth of South LA.

4

Small business owners are looking for financial support to purchase the property.

Multiple challenges are hindering surveyed small business owners today from acquiring commercial property for their business. Amongst the top three challenges are locating a commercial property in the neighborhood within budget, acquiring financing from a lending institution, and saving for a down payment and closing cost.

When asked what tools and resources can support their efforts to purchase a commercial, the majority of surveyed small business owners stated financial support as their first and second option. More specifically, small business owners choose help with down payment/closing cost financial assistance support as their first choice and accessible commercial loan products as their second choice. Given that financial barriers were chosen as the most significant obstacles preventing business owners from acquiring commercial property, it is not surprising that surveyed business owners selected financial assistance as their most desired form of support.

5

Most business owners are interested in partaking in a community-owned real estate model.

An overwhelming majority, or 82% of 23 small business owners surveyed, expressed interest in joining a community-owned real estate model in which multiple entities collectively share ownership of a commercial property. Interestingly enough, most small business owners are still unsure what community-owned real estate entails, despite expressing interest in joining a community-owned real estate model. In a follow-up question asking whether or not they have explored community-owned real estate models, less than 21% have done so. The lack of general knowledge of community-owned real estate models signals the need for technical assistance and outreach to local small businesses to train them on community-owned real estate models.

REVIEW OF MAINSTREAM COMMERCIAL REAL ESTATE FINANCIAL PRODUCTS

Typically, small business owners have three standard financial products available to finance the development or acquisition of commercial property: the Small Business Administration (SBA) 7A, SBA 504, and a conventional bank loan. The SBA 7A and SBA 504 are federal loan products originating from the Small Business Administration (SBA) that offer small businesses guaranteed loans. In contrast, conventional commercial loans originate from private financial institutions such as JP Morgan Chase, Wells Fargo, local banks, etc.

The three primary challenges with existing loan products in hyper-competitive seller markets:

1. SBA Loans Competitive Disadvantage in Hot Real Estate Markets
2. Exclusionary Loan Eligibility Requirements
3. Loan to Value Dilemma

Figure 11 - Commercial Financial Products (See Appendix D for more info on financial products)

-	SBA 7A (Standard)	SBA 504	Commercial Bank Loan/ Traditional Mortgage
Loan Type	Federal Government	Federal Government	Private Financial Institutions
Allocation Limits (Max/ Min)	• Max: $5M • Guarantees: 85% for loans up to $150K; 75% for loans more than $150K	• Min:$125K • Max:$5M (small manufactures and energy eligible public policy projects eligible to $5.5M)	• Min/Max: Varies
Down Payment	10% typical; 5% lowest	• 10% typical; 15% for businesses less than 2yrs of operation; 20% max cap (depends on loan size/company)	• Typical 20% - 30%
Loan to Value Ratio	• 90% - 95%	• 80% - 90%	• Average 65% - 85% (up to 90% in rural areas)
Additional Fees	• Varies	Varies - Can include SBA, CDC, and bank fees	• Ballon payment
Loan Repayment Duration	10, 25 year terms	10, 20, 25 year terms	5 -20 year terms
Interest Rate	Varies by loan term: 5.5%-8%	Varies by loan term: 2.231 (10yr), 2.364 (20 year), 2.399 (25 year)	• Average 5%-7% (Can be as low as 4.50% for high qualified applicants)
Loan Approval Duration	• Typical 40 - 60 days	Typical 30-90 days	Typical 30 - 45 days

SBA Loans Competitive Disadvantage in Hot Real Estate Markets

While SBA loans offer great benefits on paper as CRE loan products, such as a high loan to value coverage of 90% and no minimum credit score requirements. In practice, SBA loans' longer approval time due to tedious paperwork makes them non-competitive. The processing time for these loans can range from 30 - 90+ days. In competitive real estate markets, such as Los Angeles, small business owners are at a disadvantage to investors who can pay entirely in cash in 7 - 10 days or with a conventional loan in 7 - 30 days.

Exclusionary Eligibility Requirements

Conventional bank loans and SBA loans have distinct drawbacks that impact small businesses' and nonprofits' ability to access capital. While conventional loan products offer a few advantages, such as faster approval times and more flexibility in loan terms and rates for well-qualified applicants, they can also be more challenging for small business owners to attain. Conventional loan products are not readily accessible to all small business owners without a credit score of at least 700 and require a 20%-30% down payment. This poses a challenge for small businesses that do not have cash on hand. Recently, due to the economic instability of small businesses caused by COVID-19, traditional lending institutions have tightened their lending credit standards to small businesses.[48] As a result, traditional banks are actively denying commercial real estate mortgages to limit banks' exposure to the risk of default and are requiring higher down payments between 25%-35%.[49]

Nevertheless, the SBA excludes nonprofits from being eligible to receive 7A and 504 commercial loans.[50] The exclusion of nonprofits from SBA coupled with the tendency of conventional banks to deny small businesses from commercial makes it especially difficult for community-based organizations to obtain capital to acquire commercial real estate and hinders the ability of community-centered ownership models like commercial community land trusts.

Loan to Value Ratio Dilemma

In hot real estate markets, sellers have the advantage of leveraging market conditions and demand exorbitant asking prices for properties. In contrast, buyers have to submit competitive offers to outbid their competition, further driving up property prices. A significant challenge small business owners face when seeking to acquire a loan for a commercial property is that the property's appraised value can be tens to hundreds of thousands, and in some cases, millions below the property's asking price. As a result, this creates a loan to value ratio (LTV) gap in which the appraised value by a lender is below the asking price of the commercial property set by the seller. Appraised values are important because lenders determine the size of the mortgage they offer borrowers based on a percentage of a property's appraised value. On average, a traditional loan from a bank has a loan to value ratio ranging from 65% - 85%, and SBA loans have an LTV between 80% - 90%.[51]

LTV Ratio = Loan Amount / Appraised Value

When the LTV exceeds a conventional lender or SBA lender's threshold range, lenders will either deny an applicant's loan or request more capital upfront to lower the LTV ratio. For small business owners already finding it difficult to make a down payment, paying additional capital upfront to reduce the LTV ratio presents an even bigger challenge. Such added expenses can ultimately discourage small businesses from purchasing a commercial property in their community.

Last, in emerging and gentrifying markets like Crenshaw, the disconnect between property owners' asking prices and lenders' appraised values is more severe. Tom De Simone recalls a case where a South LA community-based organization was in escrow on a property for $2.3M, and the appraised value of the property came back at $1.6M. The gaps in gentrifying communities tend to be more severe because when banks appraise properties, they derive their analysis based on comparable commercial properties in the neighborhood or surrounding neighborhoods which tend to be depressed values of heavily stigmatized communities. When banks appraise properties in historically stigmatized neighborhoods, they tend to appraise properties below market value because banks fail to consider said neighborhoods' nuanced value or real-time implications of gentrification. Ultimately, when small business owners seek to purchase a commercial property in their gentrifying community, at times they cannot secure a loan because a bank appraises a property far below a seller's asking price and creates a loan to value dilemma.

CASE STUDIES ON FINANCING COLLECTIVELY OWNED OF COMMERCIAL PROPERTIES

+ COMMUNITY OWNED REAL ESTATE (CORE)
+ ANCHORAGE COMMUNITY LAND TRUST

Alternative forms of property ownership are an opportunity to pool resources from multiple small businesses or nonprofits, leverage expertise of program partners, and establish a means for affordability in perpetuity. However, with these models, complex capital stacking, or combining multiple funding from different lenders or programs, is required to obtain large amounts of commercial property.

While collective ownership of commercial property is not common in the US, a few places locally and elsewhere can be used as a case study. These case studies provide insight into how these transactions were developed, the challenges to be aware of, and their overall benefits. Below are two case studies of collectively owned commercial spaces in the US and the types of financing used to obtain properties.

COMMUNITY OWNED REAL ESTATE (CORE)

Los Angeles, CA

Community Ownership Real Estate (CORE) is a collaborative effort from three community-based organizations— Inclusive Action for the City (IAC), East LA Community Corporation (ELACC), and Little Tokyo Service Center (LTSC) — to preserve small businesses in gentrifying neighborhoods.[52] To ensure local businesses of today have a place in their respected communities tomorrow, in 2018, the founders of CORE acquired five commercial properties. CORE partners agreed to maintain affordable commercial rents in perpetuity for local entrepreneurs within these locations. All five commercial properties are located on L.A.'s Eastside and total an estimated 29,000 square feet of commercial space over 23 units. In addition to providing affordable commercial space for local small businesses, CORE provides commercial tenants with technical assistance and other resources to make their tenure as tenants less stressful. More importantly, rent increases are capped at 3% annually, and rent will not float to market-rate prices when a tenant moves out. In the long-term, CORE is exploring ways for tenants to build equity by claiming a minority stake in the real estate portfolio ownership. In lieu of building equity, long-term tenants also can choose to obtain discounted rent.

Inclusive Action Headquaters & CORE Property

CORE's founding organizations have made the initiative thrive. Their unique expertise and shared morals around community-oriented work and partnerships supported CORE's formation.

CORE Founders' Backgrounds:

- Inclusive Action: a CDFI with a decade of experience serving small businesses and micro entrepreneurs.
- East LA Community Corporation: a CDC with 30 years of experience as an affordable housing developer.
- Little Tokyo Service Center: a CDC with 40 years of experience developing commercial and residential projects, better enabling the development of the CORE project.

Latinx With Plants - CORE tenant

In total, it cost approximately $10 million to develop and renovate all five buildings. Four financial mechanisms were utilized: grants ($3.8M), loans ($3M), borrower equity ($200K), and new market tax credits ($3M). One key takeaway from financing CORE with new market tax credits was abiding by all the stringent conditions required by new market tax credits regulations that can be challenging to organizations with limited real estate experience. To submit a competitive new market tax credit application, a borrower must submit a project proposal and a proforma (i.e. financial statement to forecast project earnings vs operating cost) outlining all funding sources backing the proposed development pre-new market tax credit allocation. In contrast to typical development processes, CORE is unique because philanthropic donors agreed to provide equity in the project's pre-development phase. Without relationships with financiers such as Genesis LA, which served as the primary financier and loan underwriter, and philanthropic organizations, CORE may not have been funded.

Community-driven commercial initiatives, especially models that seek to offer reduced rent, can amount to complicated pro forma models. When financiers evaluate the feasibility of a proposed development to determine whether to provide a loan, they take into account the rent captured as a source of income to pay off the project's loan and operation cost. A general rule of thumb is the less rent a property owner charges, financiers demand borrowers to acquire more secondary soft loans, capital, or grants to cover total development cost before they reward a loan. That being said, it's important to stack as many funding sources as possible before submitting a proforma to a conventional lender or applying for new market tax credits.

ANCHORAGE COMMUNITY LAND TRUST

Anchorage, AK

Anchorage Community Land Trust Headquarters

Anchorage Community Land Trust (ACLT) is an Alaska-based commercial community land trust that started in 2004 after acquiring and developing its first commercial property. Since then, ACLT has amassed five properties and a diverse portfolio, including commercial space, a nonprofit hub, public housing, and a 28,000-square-foot urban farm. Following the development of its first property, ACLT initiated a series of internal developments to expand to provide holistic wrap-around services such as targeted technical assistance for small businesses, community advocacy and organizing training for businesses and residents, small business lending, real estate ownership training, and community planning and engagement. ACLT seeks to improve the quality of life in Mountain View, Alaska, by taking a grassroots approach to engagement and organizing as well as investing in commercial properties to provide opportunities for local small businesses.

In contrast to Los Angeles' unaffordable real estate market, Anchorage's real estate value is expensive due to short construction and build-out cost.

> "We are not working in the context of gentrification in any of the communities, even in the more high end areas like downtown. So we haven't had to compete with private landlords or the private sector for property ownership. The economics of our real estate are different. We have a short construction season and build costs are hideously expensive, the price per square foot can be as high as $300."
>
> **- Radhika Krishna, ACLT**

In the earlier years, ACLT leveraged state dollars with donor dollars. Now, state dollars, entirely dependent on Alaska's oil reserves, have dried up and stalled the expansion of ACLT's real estate portfolio. Over the past few years, ACLT has developed strategic partnerships with philanthropic and financial institutions to jumpstart real estate development initiatives again.

Similar to CORE, ACLT previously utilized new market tax credits to develop the Mountain View Service Center. The 55,000-sq-ft space was one of ACLT's first projects and to date, is the only NMTC development in Anchorage.

Over the course of 15 years, ACLT invested $15.7 M into nine properties (they own five properties and co-own four), galvanized the support of $45 million from partners, provided technical assistance to 95 small businesses, engaged with over 3000 community residents, and engaged with Mountain View residents to develop a neighborhood plan advocating for municipal & state investments. Over this time, ACLT has learned valuable lessons along the way.

In the early days of ACLT's formation, when determining whether to expand into affordable housing, the company decided to focus on developing partnerships instead of replicating the work of existing organizations and competing for limited funding. Through ACLT's partnership and relationship with COOK Inlet Housing Authority, the largest affordable housing developer in the area, which also has an associated CDFI, ACLT has provided financing to local entrepreneurs. ACLT also developed an important partnership with Catholic Social Services, a Refugee Settlement Agency in Anchorage. Catholic Social Services has provided ACLT, a small 6-person organization, with staffing support and administrative support that has enabled it to operate multiple programs simultaneously.

Equally just as important as developing strategic partnerships with organizations, ACLT found it important to develop meaningful connections with the community at large. In the early days of ACLT's formation, ACLT was perceived as an outsider by residents who voiced their concerns at community meetings when ACLT attempted to rapidly acquire multiple properties at above-market prices. Through in-depth community engagement, ACLT has garnered long-lasting support and trust from its community. This has enabled ACLT to develop targeted holistic programs and initiatives to serve the community at large.

Mountain View Service Center

Credit Union 1

LESSONS LEARNED

+ TECHNICAL ASSISTANCE

+ BARRIERS TO OWNERSHIP

+ DISINVESTMENT & MARKET SPECULATION

ACCESS TO TECHNICAL ASSISTANCE ON COMMERCIAL REAL ESTATE ACQUISITION IS NEEDED BY SMALL BUSINESS OWNERS

Technical assistance demystifies complex financing processes and requirements for small business owners. This enables them to negotiate better terms for their new properties. Technical assistance also builds trust between small business owners and the agencies providing them with support.

Federal SBA loans and conventional loan products are the two major ways for small businesses to access capital for property acquisition. The right approach for each small business is dependent on the needs of the individual owner. As noted in interviews with small business owners, financiers, and real estate developers, small business owners typically are not familiar with all the resources available to finance the acquisition of a property. This, paired with the fact that a 10% down payment is expected for acquisition and loan approval, shows that the process to commercial property ownership can be intimidating and overwhelming. Providing technical assistance to a small business owner is one way to build capacity for these skills and also create a sustainable pathway for property ownership.

ACCESS TO CAPITAL IS THE PRIMARY BARRIER TO BUYING PROPERTY

Access to capital is the primary barrier for small business owners who want to own their property. New targeted products must be created that aim to support small business owners seeking to acquire the properties where they do business. These types of targeted loan products can help combat displacement and support the businesses that make up the cultural fabric of gentrifying neighborhoods. New products must also be accessible to community-driven entities or non-profit organizations seeking to acquire property to create affordable commercial properties in perpetuity. As it currently stands, neither government financial products nor conventional products readily serve nonprofit organizations seeking to acquire real estate. Creating financial products that are community-serving can be a key stabilizer for neighborhoods like Crenshaw.

COMMUNITY DISINVESTMENT AND RISING PROPERTY VALUES ARE NOT MUTUALLY EXCLUSIVE

Disinvestment in the community continues to happen today, but property values are still rising. There are stark differences in amenities in higher-income neighborhoods, including access to fresh foods and produce. Market speculation plays an integral role in gentrification, and anti-displacement policies need to be put into place. Ensuring that the people of Crenshaw and the community-serving businesses are prioritized in public and private investment will help slow displacement and stabilize property values. Investment in neighborhoods like Crenshaw must be intentional and thoughtful to support existing residents and small business owners.

RECOMMENDATIONS

+ ANTI-DISPLACEMENT PROGRAMS
+ INCLUSIVE REAL ESTATE FINANCING INITATIVES

This section features short and long recommendations for the City and County of Los Angeles governments to consider that can curb the displacement of local small businesses. The recommendations in this section were developed based on synthesized information from interviews, surveys, Costar Data, and case studies. Recommendations for local governments are grouped into two main sections: small business anti-displacement programs and inclusive commercial real estate financing programs. It's important to underscore strategic partnerships between local governments, corporate and philanthropic entities that are needed to leverage public funds to support small businesses and anti-displacement programs adequately.

Small Business Anti-Displacement Programs:

- Technical Assistance
- Commercial Community Land Trust
- Legal Aid Clinics
- Commercial Rent Subsidy Program

Inclusive Commercial Real Estate Financing Initiatives:

- Gap Financing Soft Loan
- Guaranteed Loan Program for non-profits
- Leverage Racial Equity Investments
- Small Business Economic Development Tax Subsidies

SMALL BUSINESS ANTI-DISPLACEMENT PROGRAMS

INVEST IN TECHNICAL ASSISTANCE FOR SMALL BUSINESSES

The business owners, financiers, and real estate developers interviewed highlighted the need for locally-based technical assistance providers. Technical assistance can guide business owners throughout the acquisition and purchasing process. Small business owners have said they're unsure where to get funding and information about properties for sale. While the County's Department of Consumer and Business Affairs (DCBA) and the City of Los Angeles' Economic & Workforce Development Department (EWDD) provide small business owners an array of services, business owners noted being unaware that these programs are available to them.[53] It's important to note many small business owners of color distrust government entities because of their history of discrimination.

The county and city should fund community-based technical assistance providers. Technical assistance providers can access "hard-to-reach" community members and business owners and help the local government build trust in the community. Public agencies like DCBA and EWDD should partner with approved technical assistance providers to develop a curriculum around commercial real estate acquisition and available public resources to small businesses in historically marginalized neighborhoods.

Community-based technical assistance providers must be able to do the following:

- Have access to a point of contact person(s) at DCBA and EWDD to direct small business owners for additional support and counseling.
- Explicitly illustrate the processes needed to acquire property and available financial products.
- Educate small business owners on financing methods available in the market.
- Foster connections between small business owners, conventional lending institutions, and community-based lenders (e.g. community development corporations, community development financial institutions, and credit unions).

Public agencies and community-based organizations must work together closely to ensure small business owners have access to both technical assistance and resources for funding via public grants or loans.

COMMERCIAL COMMUNITY LAND TRUST PILOT PROGRAM

Market speculation and demand have driven up both residential and non-residential property values across Los Angeles County. To counter market forces the county should create a commercial community land trust pilot program. A commercial community land trust can complement the affordable housing community land trust partnership pilot program approved by the County of Los Angeles Board of Supervisors in September 2020.[54] Additionally the county should develop a supplemental commercial land banking program, which builds upon the land banking program recently passed by the Board of Supervisors in March 2022.[55]

Commercial properties eligible for the pilot should include those that are under property tax default and can be sold to a board-approved, community-oriented non-profit entity. According to the California Revenue and Taxation Code: Chapter 8. Deed to State County or Public Agencies, commercial properties that fall into tax default at a minimum of 3 years can be sold by the County tax collector in an auction to an eligible entity.[56] Chapter 8 tax sale properties prioritize the selling to eligible nonprofit organizations or a public agency. Additionally, seized priorities can be sold to eligible nonprofit organizations at the price of all defaulted taxes, assessments, and penalties by approval of the tax collector and Board of Supervisors. Other types of properties to consider eligible for this program are commercial property owners who are defaulting on their loans. Allowing these types of properties to be part of the program would ensure that we keep more businesses in place, build capacity for collective ownership, and stabilize the property in perpetuity.

According to the California Revenue and Taxation Code, all payments associated with the sale of a Chapter 8 property are due within 14 days of the sale. Failure to pay can result in the loss of the property. Given this barrier, a pilot program for a commercial CLT must be paired with a loan product that can cover all associated costs, with amenable terms that suit a non-profit.

SMALL BUSINESS ANTI-DISPLACEMENT PROGRAMS

LEGAL AID CLINICS FOR SMALL BUSINESS OWNERS

The local government can fund legal aid clinics centered around commercial tenant protections and lease negotiation. Property ownership serves as one tool against displacement for both residents and businesses in rapidly gentrifying neighborhoods. While much of this report is targeted toward property ownership, it is important to acknowledge there are small business owners who are not ready or want to acquire property. For the small business owners who need more time to begin the process to acquire a property, or are uninterested in becoming a property owner, legal aid assistance can help address immediate leasing concerns. Surveyed and interviewed business owners expressed the need for support with mitigating significant rent increases, obtaining a formal lease agreement, acquiring a long-term lease term, pressuring their landlord for routine maintenance and site improvement, and negotiating lease-to-own clauses. It's important that legal aid clinics partner and fund community-based public interest firms such as Public Counsel and Bet Tzedek, that have a presence in hard-to-reach communities and experience counseling local small businesses.

- ***Longer Lease Terms.*** Longer lease terms than the traditional 12 months agreements provide some commercial tenants advantages such as the lower likelihood of rent increases on a yearly basis, and greater opportunity to establish a fruitful relationship with their property owner. An interviewed small business owner was able to negotiate a 5-year lease term with their property owner after being initially offered a year-to-year contract.

- ***Annual Rent Increase Limits.*** Since 2000, average yearly commercial property rates in the Crenshaw corridor have risen by 108% in comparison to 2020 average yearly sales. Even more so, from 2017-2020 alone, commercial property sales have risen 45% above the 20 year average. With each passing year, the cost of property and rent prices have been rapidly increasing. Unlike residential properties protected under rent stabilization ordinances (RSO), commercial properties are not covered in the same way. Commercial tenants can ask to include language in their lease agreements that cap annual rent increases. An interviewed small business owner was able to negotiate an annual rent increase cap of 3% on their lease.

- ***Lease-to-Own Clause.*** If a small business is looking to purchase their property, lease-to-own agreements are one way of building up to that. Lease-to-own agreements can explicitly require a property owner to offer the property to their tenant before placing it on the open market. They can also specify that a portion of rent goes towards the purchase price of the property. The percentage amount of rent allocated towards the purchase price of a property can range depending on negotiated terms. This, however, can be predatory because the deal overall may significantly benefit the landlord. Lease-to-own clauses can stipulate that a higher monthly rent will have a portion of go toward the purchase price.[57] For instance, if rent is typically $1000 per month, a lease-to-own agreement might set rent to $1250 per month and that additional $250 will go towards the purchase price of the property. These types of agreements can be complicated, so it is recommended that a lawyer is consulted who can protect the small business.

- ***Harassment Protections and Anti-Harassment Clauses.*** Landlords often do harass their commercial tenants for a myriad of reasons. Creating harassment protections within the lease is one way to ensure that the tenant is not harassed by the landlord. There can be detailed information on what happens if the tenant has to pay rent late, or if there needs to be a repair so that both the tenant and the landlord are clear on what the course of action is to correct an issue. Clarifying these processes in the lease will protect the tenant in the case that a landlord is harassing a tenant, because the lease is a legally binding document.

SMALL BUSINESS ANTI-DISPLACEMENT PROGRAMS

COMMERCIAL RENT SUBSIDY PROGRAM

Local small businesses in marginalized communities face many systemic challenges such as a historic lack of access to financial institutions and neglect from private and public agencies. Commercial tenants also have fewer safety nets available to them that ease the burden of rapidly rising commercial rent. Commercial properties are also not covered by the City of Los Angeles Rent Stabilization Ordinance (RSO). The local governments should develop a commercial rent subsidy program to provide temporary assistance to small business owners in need of financial support to cover rent hike rents. As previously mentioned, surveyed local business owners are vulnerable to sudden drastic rent hikes (in some cases as much as 100%) due to having month-to-month leases or no max caps on rent increases.

The city and county can reference the Department of Housing and Urban Development's (HUD) Section 8 Housing Choice vouchers to create a commercial tenant rent subsidy program. The commercial rent subsidy program can be utilized in two ways - (1) stability gap funding and (2) jumpstart lease funding. The stability gap funding would provide financial assistance for a portion of commercial rent for businesses and nonprofits, who are already in a brick and mortar. The stability gap fund would temporarily subsidize a portion of the increased commercial rent, while business owners seek new spaces to lease, purchase, or allow for more time to generate more revenue. Whereas the jumpstart lease funding program can be used by businesses and nonprofits who are not already in a commercial space but seeking a location and in need of capital for a security deposit and first and last rent. The intent of this initiative is to support promising upcoming local businesses early in their development or established businesses who are relocating.

One of the main objectives of HUD's Section 8 rent vouchers is to make sure low-income households find suitable housing of their own choice and rent from an owner who agrees to rent under the program conditions.[58] The allocation of housing vouchers is administered by local public housing agencies (PHAs), such as the Housing Authority of the City of Los Angeles (HACLA). To establish a commercial rent subsidy program, a public agency such as the LA County's Department of Business and Consumer Affairs will be needed to administer and monitor the program.

If the city or county were to implement a commercial rent subsidy program, some considerations must be explored to launch the program:

- ***Funding Sources.*** The city and county would need to identify a pool of funds that could be used for such a program. Federal investment dollars from the American Rescue Plan could be a potential source of funding for innovative programs like this one. Local government agencies such as the City of Los Angeles's Economic & Workforce Development Department and the County of Los Angeles's Department of Consumer & Business Affairs should consider partnering to develop a sustainable comprehensive commercial rent subsidy program.
- ***Commercial Rental Expectations.*** Residential vouchers typically require applicants to pay 30% of their income in rent, while the gap between 30% of income and the market rate is covered by the voucher. The city and county would need to determine what portion of rent must be covered by a commercial tenant and what portion the city and county would cover.
- ***Eligibility Criteria.*** Small businesses vary across all industries, and each industry has its own estimated growth potential. Eligible businesses must be holistically assessed based on their industry, size, years of operation, location of the business, owner profile, and mission of business. Special consideration should be given to culturally significant, community-oriented, and legacy businesses making an impact in their neighborhood.
- ***Anti-Discrimination Guidelines & Requirements.*** It is widely documented that residential Section 8 voucher holders have been discriminated against by landlords who refuse to accept voucher holders as tenants.[59] In the City of Los Angeles, which does not have anti-discriminatory voucher laws, the denial rate was surveyed as high as 76% in 2018.[60] When developing a commercial tenant voucher program, it's important to engage with and educate commercial landlords on the program and their obligations.
- ***Applicant Voucher Term Limit.*** There should be consideration of how long a business owner will qualify to obtain commercial rent vouchers. Applicants should be assessed on a case-by -case basis dependent on the eligibility criteria.

INCLUSIVE COMMERCIAL REAL ESTATE FINANCING INITIATIVES TO SUPPORT SMALL BUSINESSES

GAP FINANCING SOFT LOAN

The large upfront capital (i.e., down payment, closing cost, proof of operating cost, etc.) required to supplement a conventional CRE loan and/or SBA 7A or 504 loans is one of the biggest challenges impacting small business owners from acquiring commercial property. To better support small businesses in need of additional funds, a modified gap financing product could help more small businesses close on a deal.

Traditionally, a gap financing product has a short repayment cycle (6 months to a year), and a high-interest rate (7%-30%).[61,62] Rather than replicate a traditional gap financing loan, the local government can develop a modified gap financing soft loan product. A soft loan is a junior loan product that is borrower-friendly and typically features either zero or below-market interest and lenient repayment terms.[63] To ensure small business owners are best supported, the soft gap loan should have a deferred grace period for at least two years to give the borrowers a head start on their primary senior loan repayment. This loan product should prioritize small business applicants who have already obtained either an SBA or conventional loan and are financially capable of taking on an additional loan.

Partnerships are essential to implement the gap financing soft loan program. First, the government should secure private and philanthropic partnerships to fund a gap financing soft loan program. Second, the government should partner with local community banks, community development financial institutions, community development corporations, and minority depository institutions, to administer and underwrite the gap loan product. Lastly, funding should be provided to trusted community-based organization partners that provide comprehensive technical assistance and guidance. This will be an investment the government takes on to support small businesses that have been left out.

GUARANTEED LOAN PROGRAM FOR COMMUNITY BASED ORGANIZATIONS (NON-PROFITS) FOR REAL ESTATE ACQUISITION

While for-profit small businesses are eligible for both SBA and conventional commercial loan products, these financial products are either not accessible or eligible to non-profits. Similarly, local programs like the County's Economic Development Loan Program (CEDLP), developed to help local small businesses acquire commercial real estate, disqualify nonprofits as eligible applicants.[64] There is a need for commercial real estate financial products that are readily accessible to nonprofits and support alternative community-ownership approaches to real estate. The County and City should consider referencing the SBA 504 loan program to develop a non-profit-focused guaranteed commercial loan program. To implement the program, the local governments should partner with philanthropic organizations to set aside a pool of funds for the guaranteed loan program. Similarly, trusted local financial institutions and partners should take the lead in providing technical assistance, administration, and underwriting of the loans. To ensure awarded nonprofits pursuing community ownership models work in the best interest of their community, considerations around annual rent caps clauses should be considered a requirement to obtain the loan.

INCLUSIVE COMMERCIAL REAL ESTATE FINANCING INITIATIVES TO SUPPORT SMALL BUSINESSES

LEVERAGE RACIAL EQUITY INVESTMENT OPPORTUNITIES WITH CONVENTIONAL BANKS: GOVERNMENT TASKS FORCE

The city and county have an opportunity to develop a government task force to spearhead developing strategic investment plans centered on racial equity and financial + economic inclusion, and partnering with conventional financial institutions and fintechs. Financial institutions pursuant to the federal Community Reinvestment Act (CRA) are obligated to invest in low to moderate-income areas that have been historically impacted by redlining and neglected by financial institutions. Traditional banks are encouraged to open up branches in underserved markets to meet CRA requirements and provide substantial commitments to state and local governments and development organizations to increase lending to underserved markets.[65] Local governments can play a significant role as primary facilitators and work with community financial institutions (i.e., CDFIs, CDCs, credit unions) and large banks to develop a joint master reinvestment plan. The reinvestment plan should feature local government programs large banks can fund, such as low-interest commercial real estate loan programs or grants or innovative pilot programs in historically redlined and under-resourced areas. Community financial institutions could administer programs to small businesses that can reach and provide comprehensive technical support to local small businesses. Large banks could voluntarily use the joint-master plan to guide their approach to investing in economic development initiatives needed to meet their Community Reinvestment Act obligations. Crenshaw and similar neighborhoods can benefit from a strategic public and private reinvestment plan that is open to meaningful and participatory public feedback to ensure funded programs are supporting the needs of local small businesses and community-based organizations.

Additionally, the City and County of Los Angeles should capitalize upon conventional institutions' historical racial equity pledges following massive global protests against racial injustice in 2020. Financial institutions such as Chase & JP Morgan[66], Wells Fargo[67], Bank of America, and PNC pledged to donate or invest $33 billion collectively to address racial equity in the United States. Conventional financial institutions have expressed the need to improve access to loan products and allocated billions of dollars to uplift racial equity gaps. Similarly, the local government can act as a coordinator and leverage its public funds to develop financial products better to enable homeownership and commercial ownership in under-resourced communities.

ECONOMIC DEVELOPMENT TAX CREDITS FOR SMALL BUSINESSES

Economic development tax credits are direct financial benefits provided to firms to encourage their opening, expansion, or retention in an area.[68] To protect small businesses from displacement and gentrification, the City and County of Los Angeles should utilize entities such as Los Angeles Development Fund and create tax credits to subsidize community-oriented collective ownership models and anti-displacement initiatives. Every year, local and state governments collectively spend between $45 and $90 billion on economic development tax credit initiatives including property tax abatements, job creation tax credits, tax increment financing, capital grants, workforce training, energy programs, skill enhancement funds, and new market tax credits.[69] Since 2007, the Los Angeles Development Fund, the City of Los Angeles's CDE, has invested over $249 million through new market tax credits to support low-income communities.[70]

New market tax credits is an example of a competitive tax credit designed to finance commercial real estate acquisition and rehab in under-resourced communities. As mentioned earlier, while projects such as CORE (pg. 36) utilized new market tax credits, its application process is highly competitive, complicated and may not be practical for projects under $10 million.[71] It's important the local governments develop tax credit programs that can be scaled to support local small business owners and non-profits' commercial real estate projects under $10 million. Second, the local government should partner with community based technical assistance providers to ensure local small businesses and nonprofit applicants are able to obtain professional guidance to better submit competitive project proposals.

A major criticism of economic development tax credits and subsidies is that they overly incentivize the largest corporations without guaranteed benefits. In recent years, large corporations such as Nike, Tesla, Nissan, and Ford have received more than $1 billion in tax credits and subsidies to either move or keep their headquarters in various cities.[72] In 2017, Amazon spurred a bidding war of 238 cities offering upward of $5 billion in tax breaks and subsidies to open new large facilities and offices. Amazon selected National Landing in Arlington County, Virginia, and Long Island in Queens, New York. Collectively, the cities offered Amazon $2 billion in tax breaks, subsidies, and direct cash payments.[73] Less than a fraction of billions of dollars in tax subsidies large corporations are given can significantly fund anti-displacement initiatives and community owned real estate models. Anti-displacement focused tax credits should strive to interpret the number of legacy businesses preserved, community land trust opened, and local small business owners property acquisitions as metrics of success.

CONCLUSION

Crenshaw has a complex history of racial discrimination and disinvestment, and historical private and public neglect. Nonetheless, today Crenshaw, a culturally significant Black neighborhood, is emerging as the next "upcoming" neighborhood with huge public and private investments set to fund new infrastructure, cultural art projects, market-rate residential development, and more. While public and private investments are very much needed in Crenshaw, such large investments can fuel unintended real estate market speculation processes and add another layer of harm to a vulnerable community. These histories and current realities must be meaningfully addressed through responsible and equitable investments and policies that uplift local businesses and residents.

Data shows commercial real estate property costs and rent in Crenshaw have been rapidly rising yearly for the past decade. Property values are expected to continue increasing as new amenities such as the Metro's rail line breaks ground in the neighborhood. Rapidly rising real estate values and rent is concerning for existing local small businesses in Crenshaw who are vulnerable to displacement and future local entrepreneurs who will not have an opportunity to lease or buy in their neighborhood. It is critical to ensure local small businesses and residents have a place in their rapidly transitioning community tomorrow.

Policymakers can support local businesses and residents through intentional outreach and engagement to better understand their needs and through effective policy and program design. Local government anti-displacement programs such as commercial rent subsidies, legal aid clinics, and commercial community land trusts, as well as the creation of commercial real estate products such as guaranteed loans for nonprofits and soft gap financing soft loans, can help preserve local small businesses and cultural diversity in Crenshaw.

Crenshaw and similar neighborhoods around Los Angeles in competitive and speculative real estate markets are at a pivotal moment - small businesses that have been and will continue to make up the fabric of these neighborhoods need support, and legislators and financiers are in a position to help.

This page is intentionally left blank

APPENDICES

APPENDIX A - KEY THEMES FROM INTEVIEWS

KEY THEMES FROM REAL ESTATE INVESTORS/DEVELOPERS INTERVIEWS:

1. The disconnect between financial markets and public perceptions

Despite public discourse around gentrification and displacement concerns in the Crenshaw corridor, according to interviewed real estate financiers and developers - conventional financial institutions tend to be neutral about such issues. Interviewee Prophet Walker, a multi-family real estate developer and advocate for affordable housing and community-centered development, stated that banks are less concerned about gentrification. Banks are interested in protecting their assets and their capital outlay and oftentimes the value of a property is determined by a market appraisal that may or may not be fully reflective of the nuanced value of a community such as Leimert Park. Such neighborhoods unfortunately are stigmatized in ways that can make it difficult to invest there without government subsidies. Land evaluation is derived from comparables, or adjusted property values in the neighborhood or surrounding community. As a result, for neighborhoods such as Crenshaw, which has seen a 45% increase in average sales from 2017 to 2020 compared to the 20-year average, the cost of acquiring property is rapidly soaring, making it increasingly difficult for the small businesses to match sale prices. Additionally, conventional financial institutions profit more when property sale prices rise, because banks loan out larger loans to buyers seeking to acquire property. There is a disconnect between financial institution concerns and public/community concerns. As a result financial institutions are not incentivized to service local residents and small businesses with favorable loans to acquire property in gentrifying communities markets.

KEY THEMES FROM SMALL BUSINESS OWNERS:

1. Qualifications to obtain a conventional commercial loan can be hard for business owners with limited credit history.

Qualifying for a commercial loan product can be challenging for small business owners, especially those who personally do not have established or high credit scores. To qualify for a commercial loan, lenders assess applicants primarily on two criteria: business credit and personal credit.

Business credit is established when business owners register their business and obtain an Employer Identification Number (EIN) through the IRS. Business credit is assessed based on credit history, business demographic detail, and public records. Business credit history encompasses a review of business payment patterns, outstanding balances, and credit utilization ratio. Demographic information pertains to specific characteristics of a business, such as how long the business has been in operation, employee size, or industry profitability. Lastly, public records illustrate if a business has gone through bankruptcies, judgment, and liens. Similar to business credit, personal credit assesses an individual's financial history — on-time payments, debt (credit card, mortgage), and FICO score.

Traditional financial institutions minimum commercial real estate loan terms require a small business to have been in operation for less than 2 years and generate $180,000 annual revenue.[74] Obtaining a commercial loan can be challenging for small business owners with poor personal credit history and who do not have existing relationships with a financial institution. Personal credit is used as an indicator to assess how risky a borrower is based on financial habits such as payment history and credit utilization. For entrepreneurs, business credit is more important than personal credit. Small business owners who get approved with subpar credit will likely obtain loans with higher interest which cost more money overtime.

2. Over Abundance of Landlords Refusing to Sell

Even if small business owners are financially capable of buying their current commercial property or locate a commercial property, they still must appeal to a property owners' ethos to sell. In the Crenshaw Corridor, it has become increasingly difficult for small business owners and community-driven real estate developers to persuade property owners to sell their property near assessed land value. Speculation around major infrastructure projects like the Metro line extension and cultural projects like Destination Crenshaw have driven real estate speculation to an all-time high. As a result, property owners have hesitated to sell their property at its assessed value price. They likely anticipate that their real estate value will exponentially grow in the coming years.

Additionally, some business owners have reported that property owners have reneged on agreements to sell multiple times, despite commercial tenants showing proof of funds to purchase. Not only do some landlords refuse to sell, they also refuse to make any repairs to their properties because they want to save as much money as they can. Generally speaking, these slumlords view their properties as long-term investments and have no interest in supporting the current needs of tenants or care for the socio-economic issues impacting the community.

3. Existing Site Conditions & Regulations limit business growth and potential

Existing site conditions within the Crenshaw corridor can make it hard to conduct business. Site conditions such as lack of parking spaces, trash build up, neglected and dilapidated surrounding buildings, and hard to obtain liquor licenses, are a few challenges small business owners face in Crenshaw. Business owners like Vanessa Anderson, who regularly meets with entertainment industry clients, does not want to deal with someone parking in one of the few spaces she has available for these clients. Anderson, along with cafe owner Tony Jolly, also expressed concerns about the need for maintenance to address trash build up in the area and to repair dilapidated buildings. A handful of small business owners emphasized the role perception of an area plays in drawing in customers and how the presence of dilapidated buildings skews perception of the Crenshaw Corridor for the worst. If perception of an area is bad, then businesses there suffer from lack of tourism and visitors.

For Ben Walton, a comedy store club owner, serving alcohol is essential to his business. According to Walton, just obtaining a liquor license in California is difficult, but obtaining liquor licenses along the Crenshaw Corridor is even more difficult because elected officials appear to want to stop venues there from serving alcohol. Walton emphasizes the critical role alcohol-serving venues play in attracting visitors who socialize and spend money at surrounding businesses. Given the lack of entertainment venues with liquor licenses in the area, Walton has seen local residents commuting out of Crenshaw to enjoy the nightlife.

KEY THEMES FROM POLICY EXPERTS:

1. Lack of trust amongst residents gives way to disjointed efforts.

According to Mary Lee, residents in South LA and the Crenshaw Corridor distrust government entities. Historic and ongoing tendencies of government entities pushing forth externality-producing initiatives (e.g constructing highways, zoning for factories, above ground railways, etc) on to under-resourced residents under the guise of economic development and transportation development fuels distrust. Lee also said community distrust stems from the neighborhood being neglected for decades by local government agencies and private industries who never fulfill promises they make to improve socio-economic conditions.

> *"Wherever there are black communities, economic development and transportation have been used to destroy and devastate black communities."*
>
> **- Mary Lee, Policy Link**

As real estate speculation reaches all-time highs, distrust amongst residents and business owners in the community is also expected to grow. Any large upcoming project regardless of its intentions, good or bad, is met with suspicion (e.g Crenshaw Mall, Destination Crenshaw, and the Metro line extension). Once, Black donors banded together to provide small loans for community development initiatives in the area but hesitated to release the funds for fear the loans would go to questionable individuals. Lee said that it is important to address community distrust while facilitating collective action strategies to acquire property.

2. Develop an Equity Plan - Explicitly state goals and develop benchmarks

> *"At the bare minimum, an equity plan should be at the forefront of development plans in the area."*
>
> **- Mary Lee, Policy Link**

Equity should be at the forefront of all development plans in the area from the Metro line extension to Destination Crenshaw. For small business owners and advocates, it's important to explicitly define goals that have time sensitive benchmarks over a set course of tim1e when appealing to policymakers, government agencies, large developers, and to the surrounding community. For example, "We want to ensure by 2035, there are 3 community land trusts and 2 co-operatives in the Crenshaw Corridor." By explicitly laying out goals and having community members back plans, equity plans can be used to hold public agencies and organizations accountable and be integrated into proposals. Quasi-government organizations such as Metro in recent years have been making strides in uplifting equity as a core component in their projects and practices.

APPENDIX B - INTERVIEW QUESTIONS

Ade Neff, Ride On! Bike Co-op

1. Tell us about your experience with property ownership?
2. What have been the challenges in acquiring property?
3. What is your general assessment of concerns of small businesses in the area?
4. What financial tools or funding sources did you use to acquire and/or lease your property in Leimert Park?
5. Have you looked into community ownership models? Why or why not?
6. Have you interacted with local leaders (i.e. public offices) to support your business? If so, how?
7. What resources and/or support systems do you think are needed to better help small businesses acquire property ownership?

Anthony Jolly, Hot and Cool Cafe

1. Tell us about your experience with Property Ownership?
2. What have been the challenges in acquiring property?
3. What is your general assessment of concerns of small businesses in the area?
4. What financial tools or funding sources did you use to acquire and/or lease your property in Leimert Park?
5. Have you looked into community ownership models? Why or why not?
6. Have you interacted with local leaders (i.e. public offices) to support your business? If so, how?
7. What resources and/or support systems do you think are needed to better help small businesses acquire property ownership?

Ben Caldwell, Kaos Network

1. Tell us about your experience with property ownership/what financial products did you use to purchase?
2. What challenges, (if any) did you have or other small businesses you know of in the area have with acquiring property?
3. Have you looked into community ownership models? Why or why not?
4. What resources and/or support systems do you think are needed to better help small businesses acquire property?

Connor Macleod, Hudson Commercial Partners, INC

1. How are borrower qualifications weighted? What do lenders look for in borrowers?
2. How competitive are SBA loans in practice against conventional loans?
3. What are the benefits of a SBA loan to small businesses owners?

Dyane Pascall, Conscious Capital Investments

1. What are the existing financial models used by small businesses to acquire/maintain ownership of a commercial property?
2. What are the primary barriers preventing local small businesses in underserved communities, such as the Crenshaw Corridor, from acquiring property?
3. What financial products or community ownership models are needed to facilitate community ownership of property?
4. What metrics do you use to evaluate potential borrowers interested in acquiring a commercial property?
5. When seeking a site, what resources do you use to find it and evaluate it to make an offer to the owner?

Gilda Haas & Adriana Swain, LA Co-Op Labs

1. What are cooperatives and what are their purposes?
2. What program components are needed to jumpstart a CO-OP (i.e. permit licensing, legal aid, etc)
3. What role can CO-OPs play in protecting small businesses from being displaced?
4. What funding sources, private and public, are available to support the development of CO-OPs?
5. What barriers or challenges (i.e. political, financial) exist today that hinder the proliferation of CO-OPs?
6. What case studies or cities do you advise we look into for innovative CO-OPs/initiatives?

Marco Covarrubias, Inclusive Action for the City

1. Can you describe the Community Owned Real Estate (CORE) project and its intended purpose?
2. How did the partnerships come about and what was the benefit of working with partners?
3. What stage of developing CORE presented you and the partners with the most challenges (acquisition, raising capital, closing the deal, finding tenants)?
4. What incentives and equity building initiatives are you looking to offer tenants?

Mary Lee, Policy Link

1. Mary, last time we spoke you were talking to some of the businesses on Leimert Park and brainstorming what collective ownership could be. Is that right? How is that going?
2. What do you think are the challenges and opportunities for local businesses?
3. What incentives and/or protections from the city/county do you feel are necessary to curb displacement?
4. What collective action and collaborative practices models do you envision being essential to preserving Black, POC, and legacy businesses in the Crenshaw Corridor?
5. Are there other people or case studies we should consider talking to or exploring?

Nick Saponara, Los Angeles Metro

1. How has Metro been engaging with existing local commercial business owners in the Crenshaw Corridor, especially before and during the construction of the Metro rail line?
2. Can you speak about Metro's Joint Development Policy & TOC Small Business Loan Program?
3. What have been the recent conversations at Metro centered around TOC development and equity around small businesses?
4. There is a growing concern that the public works projects, such as Destination Crenshaw and the upcoming Metro line, will drive up property value in the Crenshaw Corridor and lead to displacement for both residents and local businesses. What community benefit agreements or programs has Metro been exploring to enable existing local businesses to purchase properties?
5. How can businesses who are unaware of Metro's programs best outreach and get the information they need to apply to programs such as Metro's TOC-SB programs?
6. How could value capture policies like TIFs or EIFDs benefit efforts to establish anti-displacement measures to stabilize new transit-oriented communities?
7. Can Metro acquire existing commercial properties and ultimately allow the tenants to purchase the property?

Olympia Auset, SÜPRMARKT

1. Tell us about your experience with property ownership?
2. What have been the challenges in acquiring property?
3. What is your general assessment of concerns small businesses in the area have?
4. What financial tools or funding sources did you use to acquire and/or lease your property in Leimert Park?
5. Have you looked into community ownership models? Why or why not? Have you interacted with local leaders (i.e. public offices) to support your business? If so, how?
6. What resources or support systems are needed to better help small businesses acquire property?

Prophet Walker, Treehouse

1. Can you expand on your co-living community ownership model and the opportunity it provides residential tenants to build equity over time?
2. What financial products or entities are available now or are needed to facilitate community ownership of property or implement a similar co-living model for commercial properties?
3. As a developer, what stages of developing a property have been most difficult for you, especially in an area like the Crenshaw Corridor (i.e. pre-development, project financing, construction period, close out)?
4. Access to capital is a major issue for small business owners.
5. What incentives or protections from the city/county do you feel are necessary to spur more equitable investment in underserved communities to support small businesses?

Radhika Krishna, Anchorage Community Landtrust

1. From your experience, what organizational structures/support (i.e team, relationships, community input) are needed to establish a sustainable commercial-oriented community land trust?
2. Have there been any key partnerships you found critical to maintain or to let go?
3. What barriers or challenges (i.e. political, financial, economic) have you come across that have hindered the expansion of your CLT?
4. Have you looked into equity-building models that provide entrepreneurs with the transformative properties to build equity over time?
5. Besides partnering with Credit Union 1, what other financial products, partnerships, or government incentives (NMTC, tax abatement) have you explored to acquire property?

Sandra McNeil, Sandra McNeil Consulting

1. What role can CLTs play in protecting small businesses from being displaced? What program components are needed to jumpstart CLTs (i.e. permit licensing, legal aid, etc)?
2. What zoning changes would better support collective ownership models where multiple entities have equity in a property?
3. What amendments are needed in real estate loan products to enable (1) small business owners with no credit or poor credit to acquire property, and for (1) community ownership of property and land?
4. What barriers or challenges (i.e. political, financial) exist today that hinder the proliferation of CLTs? What case studies or cities do you advise we look into for innovative CLTs/initiatives?

Shmel Graham, Sheppard Mullin Richter & Hampton LLP (formerly)

1. What police powers can the City or County of Los Angeles exercise to require property owners to bring their property up to code and/or acquire dilapidated land that has been sitting vacant?
2. What protections can small business owners advocate for to purchase their property at appraised value and/or acquire long-term leases?
3. There is a need for gap financing that neither public nor private financial products currently offer. What steps/actions are needed to facilitate a public-private partnership to develop gap financing models?
4. What zoning changes would better support collective ownership models where multiple entities have equity in a property?
5. What amendments are needed in real estate loan products to enable (1) small business owners with no credit or poor credit to acquire property, and for (1) community ownership of property and land?
6. What programs or initiatives are needed to protect small businesses from being displaced?

Tom De Simone, Genesis LA

1. What are the existing financial models used by small businesses to acquire/maintain ownership of a commercial property?
2. How does Genesis LA define value?
3. What are the primary financial barriers impacting local small businesses in underserved communities, such as the Crenshaw Corridor?
4. What metrics do you use to evaluate potential borrowers interested in acquiring a commercial property? / Are those metrics flexible at all? Do you see places where they could be changed?
5. Access to capital is a major issue for small business owners. What incentives or protections from the city/county do you feel are necessary to spur more equitable investment in underserved communities to support small businesses?
6. What financial products are available now or are needed to facilitate community ownership of property?
7. What is philanthropy's role in helping community ownership?

Tony Jolly, Hot and Cool Cafe

1. Tell us about your experience with property ownership?
2. What have been the challenges of acquiring property?
3. What concerns do you think small businesses in the area have?
4. What financial tools or funding sources did you use to acquire or lease your property in Leimert Park?
5. Have you looked into community ownership models? Why or why not?
6. Have you interacted with local leaders (i.e. public offices) to support your business?
7. If so, how? What resources and/or support systems do you think are needed to better help small businesses acquire property ownership?

Vanessa Anderson, AM PR Group

1. Have you had any interest in owning property? If so, can you tell us about your experience? (What financial products, if any, did you use to acquire the property?)
2. Are you seeking to purchase commercial property? Why or why not?
3. Have you looked into community ownership models? Why or why not?
4. Knowing that you originally looked for a space on the Crenshaw Corridor for your business, what was the reason you didn't end up there?

APPENDIX C - SURVEY QUESTIONS

Preliminary Info Questions

1. Name / (Type: Short Answer Text)
2. Email / (Type: Short Answer Text)
3. Business Name / (Type: Short Answer Text)
4. Street Address / (Type: Short Answer Text)
5. Zip Code / (Type: Short Answer Text)

Property Ownership Related Questions

1. **What best describes your business residency status / (Type: Multiple Choice)**
    - Rents/Leases - long-term contract (i.e. 12 months or more)
    - Rents/Leases - short term contract (i.e. month to month)
    - Rents/Leases - temporary contract (i.e. sublet)
    - Owns - Owner of commercial space
    - Home Business - Operates business from residency
    - Street Vendor - Operates on the sidewalk or in a park
    - Other: (Type Response)
2. **How many years have you been at your current business residency? / (Type: Multiple choice)**
    - 0 - 12 months
    - 1 - 3 years
    - 3 - 5 years
    - 5 - 10 years
    - 10+ years
3. **If currently renting - have you considered purchasing commercial space for your business(es)?/ (Type: Multiple Choice)**
    - Yes
    - No
    - Other: (Type Response)
4. **If you have no intentions of purchasing a commercial property for your business, what are your main reasons for choosing to rent? / (Type: Short Answer Text)**
5. **If currently renting, do you have any concerns about your rental rates going up above your rental budget? / (Type: Checkbox)**
    - Yes
    - No
    - Other: __________
6. **If currently renting, besides rent what other concerns do you have? / (Type: Short Answer Text)**
7. **If interested in purchasing a commercial property for your business, what are your main reasons for seeking to acquire a property? / (Type: Short Answer Text**)
8. **If interested in purchasing a commercial property, are there any barriers or obstacles preventing you from doing so? (Type: Checkbox)**
    - The cost of properties are too high
    - Financing is inaccessible
    - Locating a property
    - Being outbid
    - Other: _____________

9. **If interested in purchasing a commercial property, what resources or tools would better support your efforts in purchasing a commercial property? (Type: Checkbox)**
    - Grants
    - Assistance with the buying process
    - Information on the buying process
    - Accessible financial products
    - Other: _____________

10. **Have you explored community-owned real estate models? If so, what ownership models? / (Type: Short Answer Text)**

11. **Would you be interested in joining a collective of businesses that occupy and share ownership of commercial properties? (Type: Checkbox)**
    - Yes
    - No
    - Other: _______________

12. **Did you face any challenges acquiring your current commercial property? (owner) - checkbox**
    - Acquiring financing from a bank or lending institution
    - Being outbid by competitors
    - Locating a commercial property in your neighborhood or desired area
    - Locating a commercial property in your price range
    - Saving for a down payment and/or closing cost
    - Other: _____________

13. **Have you considered acquiring additional property? (owner)**
    - Yes
    - No

14. **If yes, are there any challenges or obstacles preventing you from doing so today? (owner) - checkbox**
    - Acquiring financing from a bank or lending institution
    - Being outbid by competitors
    - Locating a commercial property in your neighborhood or desired area
    - Locating a commercial property in your price range
    - Saving for a down payment and/or closing cost
    - Other: _____________

APPENDIX D - COMMERCIAL FINANCIAL PRODUCT TERMS

-	SBA 7A (Standard)	SBA 504	Commercial Bank Loan/Traditional Mortgage
Collateral	• Not required to obtain a SBA loan, a conventional lender might have their own requirements. All business assets are expected to be made available as collateral	• Not required to obtain a SBA loan, a conventional lender might have their own requirements. All business assets are expected to be made available as collateral	*All business assets are expected to be made available as collateral. (The more valuable assets you have the stronger your application will be)
Eligibility	• Operates a for-profit company in the United States • Considered a small businesses defined by SBA • As a business owner, must have invested your own time/money into the business	• Operates a for-profit company in the United States • Having a tangible net worth of less than $15 million • Have an average income of less than $5 million after federal income tax for the two years preceding application.	• Operates a for-profit or non-profit company in the United States
Non-Eligible	• Non-profits	• Non-profits	-
Acceptability Usage / Unacceptable Allowances	• Acquire land • Existing buildings or land • New facilities • Long-term machinery and equipment • Improvement or moderation of: land, streets, utilities, parking lots, landscaping, and existing facilities	• Existing buildings or land • New facilities • Long-term machinery and equipment • Improvement or moderation of: land, streets, utilities, parking lots, landscaping, and existing facilities	• Existing buildings or land • New facilities • Long-term machinery and equipment • Improvement or moderation of: land, streets, utilities, parking lots, landscaping, and existing facilities
Financial Evaluation	• Proforma • Financial Analysis (Ability to repay the loan-analysis of historical income statements, tax returns, 2 year projections, bank statements)	• Proforma • Financial Analysis (Ability to repay the loan-analysis of historical income statements, tax returns, 2 year projections, bank statements) • Comparative Ratio Analysis of the business financial statement vs industry trends/averages	• Proforma

Borrower Evaluation	• Experience Evaluation (Relevant experience in type of business) • Personal Credit History (No-minimum credit score required but lenders can set minimums. Typical 650-680 or more • If you have existing debt, you need to show that you can take on additional financing. (Requires a debt to service coverage ratio (DSCR) to be at least 1.15 for loans over $350K	• Experience Evaluation (Relevant experience in type of business) • Personal Credit History (No-minimum credit score required but lenders can set minimums. Typical 650-680 or more	• Experience Evaluation (Relevant experience in type of business) • Personal Credit History (Typical requires a credit score 700 or more)
Where to Apply	• Conventional bank (national, regional, local) • Credit Union	• Must apply through a CDC (Community Development Corporation)	• Conventional bank (national, regional, local) • Credit Union
Key Documents	• Business Certificate, license, or permits • Form 1919 • Form 912 • Form 413 • Form 148 or 148L: Unlimited/Limited Personal Guarantee	• Business Certificate, license, or permits	• Liability of loan falls entirely on borrower, since not guaranteed by government • Tend to have higher qualification requirements for approval • Offers more room for negotiation for high qualified applicants (interest rates, repayment, longer terms) • Can be faster to obtain approval • Can service loans greater than $5 million (the max limit for SBA loans)

APPENDIX E - GLOSSARY OF TERMS FROM COSTAR[75]

Restaurant: A building that provides sit-down dining only. May vary in size and range from small local establishments to larger national restaurant chains. May include bar and/or nightclub or other associated uses.

Bar/Cocktail Lounge: This property use includes all types of drinking/entertainment uses such as bars, cocktail lounges, taverns, and nightclub/dancing establishments. Bars may have limited kitchen facilities and food menus.

Service Station: This property type includes both full-service and self-service gas stations that have a small cashier "kiosk" building. Self-service gas stations may have a mini-mart, or a fast-food restaurant tenant, and may also include a drive-thru car wash.

Bank: A building used as a bank building with a vault. Generally it has a drive-up and/or walk-up teller service or machines. Typically it may be a single-story building, but it may have mezzanine space or be multi-story.

Professional Building/Office Property: The primary intended use of an office building is to house employees of companies that produce a product or service primarily for support services such as administration, accounting, marketing, information processing and dissemination, consulting, human resources management, financial and insurance services, educational and medical services, and other professional services. Office buildings are characterized by work efficient floor plans, work areas, comfortable heating and cooling, cabling for phones and computers, and other conveniences that allow people conduct business.

School: A property built specifically as a school facility with individual classrooms, offices, etc. may include library, auditorium, cafeteria, gym, playground, and playing fields. Typically a private grade, middle or high school, vocational or trade school, private college.

Department Store: The major anchor department stores generally have a square footage of 100,000 square feet each. Certain centers that are anchored by a large discount department store often have a discount focus.

Non-Auto Service and Repair Shop, Paint Shop, or Laundry: Retail secondary type. Commercially zoned single and/or multi-tenant buildings featuring service/work bays for wide ranges of auto repair and auto care services. Laundromats are also included in this building typology.

Store Combination: Store combinations are freestanding retail properties with a few commercial/retail properties around who do not operate as part of a larger cohort or part of the same parcel of land (lot).

Supermarket: Commonly referred to as supermarket, market, or grocery store. These buildings are often freestanding or stand-alone in design, and anchor neighborhood/community centers. Tenants range from smaller local, independent grocers to the regionally/nationally owned supermarket chains. Buildings usually have some truck loading capability in the rear (grade level, truck well, dock hi, etc).

Shopping Center (Regional/Neighborhood): A shopping center is primarily a group of retail stores that are planned, developed, owned, and managed as a single property, with on-site parking provided. CoStar further qualifies that a shopping center must have three or more stores. Some shopping centers may also include residential (multi-family) and/or office space. The center's size and orientation is generally determined by the market characteristics of the trade area served by the center. The following are the primary center types: Strip/Convenience, Neighborhood, Community, Regional, Super-Regional, Outlet, Power Center, Theme/Festival, Life Style, and Airport Retail. Please refer to the ICSC overview for details.

Parking Lot (Commercial): An open surface parking lot utilized solely for pay parking.

WORKS CITED

1 Jennings, Angel. "'Black Beverly Hills' Debates Historic Status vs. White Gentrification." Los Angeles Times. July 18, 2015. https://www.latimes.com/local/la-me-adv-view-park-20150719-story.html.

2 https://calmatters.org/projects/california-black-population-exodus/

3 Meares, Hadley. "Crenshaw Boulevard Rising." LA Curbed, May 17, 2019. https://la.curbed.com/2019/5/17/18563304/crenshaw-blvd-los-angeles-nipsey-hussle-history.

4 Bakewell Media: Taste of Soul. "About Taste of Soul Family Festival," 2021. https://tasteofsoul.org/about.

5 Perkins & Will. "Destination Crenshaw: Celebrating Black LA." Destination Crenshaw, 2021. https:/perkinswill.com/project/destination-crenshaw/.

6 CoStar Realty Information Inc. "CoStar Glossary." CoStar, 2021. https://www.costar.com/about/costar-glossary#go_s.

7 Los Angeles Food Policy Council. "Food Equity and Access," December 20200. https://www.goodfoodla.org/food-equity-and-access.

8 Roy, Ananya. "Racial Banishment." In Radical Geography, 50th ed. Antipode Foundation Ltd, 2019. https://onlinelibrary.wiley.com/doi/pdf/10.1002/9781119558071.ch42.

9 Ibid. Meares, Hadley. "Crenshaw Boulevard Rising."

10 Learning for Justice. "The Color of Law: Creating Racially Segregated Communities," 2021. https://www.learningforjustice.org/classroom-resources/lessons/the-color-of-law-creating-racially-segregated-communities.

11 Darnell Hunt, and Ana-Christina Ramón. Black Los Angeles: American Dreams and Racial Realities. NYU Press, 2010. https://www.jstor.org/stable/j.ctt9qfzv0.

12 Reft, Ryan. "Segregation in the City of Angels: A 1939 Map of Housing Inequality in L.A." KCET, November 14, 2017. https://www.kcet.org/shows/lost-la/segregation-in-the-city-of-angels-a-1939-map-of-housing-inequality-in-l-a.

13 Ibid. Darnell Hunt, and Ana-Christina Ramón. Black Los Angeles: American Dreams and Racial Realities.

14 https://www.law.cornell.edu/constitution/amendmentxiv

15 Ibid. Darnell Hunt, and Ana-Christina Ramón. Black Los Angeles: American Dreams and Racial Realities.

16 Rothstein, Richard. "Op-Ed: Why Los Angeles Is Still a Segregated City after All These Years." Los Angeles Times. August 20, 2017.

17 Kurashige, Scott. "Crenshaw and the Rise of Multiethnic Los Angeles." University of Michigan, Afro-Hispanic Review, 2008. https://www.jstor.org/stable/23055222.

18 Ibid. Rothstein, Richard. "Op-Ed: Why Los Angeles Is Still a Segregated City after All These Years."

19 https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=200320040ACR53

20 Inskeep, Steve. "A Brief History Of How Racism Shaped Interstate Highways." National Public Radio (NPR), April 7, 2021. https://www.npr.org/transcripts/984784455.

21 Ibid. Darnell Hunt, and Ana-Christina Ramón. Black Los Angeles: American Dreams and Racial Realities.

22 Barboza, Tony, and Jon Schleuss. "L.A. Keeps Building Near Freeways, Even Though Living There Makes People Sick." Los Angeles Times. March 2, 2017. https://www.latimes.com/projects/la-me-freeway-pollution/.

23 California Office of Environmental Health Hazard Assessment. "CalEnviroScreen." OEHHA, June 25, 2018. https://oehha.ca.gov/calenviroscreen/report/calenviroscreen-30.

24 https://www.nytimes.com/2021/08/17/realestate/what-is-redlining.html

25 Neighborhood Data for Social Change. "Bank Deserts: Nearly One in Five L.A. County Neighborhoods Lack Bank or Credit Union." KCET, November 27, 2017. https://www.kcet.org/neighborhood-data-for-social-change/bank-deserts-nearly-one-in-five-l-a-county-neighborhoods-lack-bank-or-credit-union.

26 Ibid. Darnell Hunt, and Ana-Christina Ramón. Black Los Angeles: American Dreams and Racial Realities.

27 Ibid. Bloomekatz, Ari. "Lawsuit Alleges Metro Violated Law in OKing Crenshaw Light Rail."

28 Sulaiman, Sahra. “Baldwin Hills Crenshaw Plaza Offers Window into History of Redevelopment, Legacy of White Flight.” StreetsBlog LA (blog), July 28, 2017. https://la.streetsblog.org/2017/07/28/the-baldwin-hills-crenshaw-plaza-project-offers-window-into-history-of-redevelopment-legacy-of-white-flight/.

29 Ibid. Downtown Crenshaw Rising. “Black Group Seeking to Buy Iconic Crenshaw Mall to Establish Community Control of Black Space Being Thwarted by Deutsche Bank Racism.”

30 Center for Disease Control and Prevention. “Poor Nutrition,” 2021. https://www.cdc.gov/chronicdisease/resources/publications/factsheets/nutrition.htm.

31 Lui, Earl. “Transforming Food Deserts: A Food Justice Tour of South Los Angeles.” The California Wellness Foundation, 2021.

32 Borrelli, Dominic, Ryan Gunn, and Andrew Leung. “Food Deserts in South LA.” Story Maps ArcGIS, November 9, 2020. https://storymaps.arcgis.com/stories/4ef7d78c52ec4b29a6073ffdc6809e83.

33 Slauson Girl. “Community Reacts to Kroger Closing Ralphs on Crenshaw and Slauson.” Slauson Girl, April 13, 2021. https://slausongirl.com/community-reacts-to-kroger-closing-ralphs-on-crenshaw-and-slauson/.

34 Ibid. Neighborhood Data for Social Change. “Bank Deserts: Nearly One in Five L.A. County Neighborhoods Lack Bank or Credit Union.”

35 Ibid. Neighborhood Data for Social Change. “Bank Deserts: Nearly One in Five L.A. County Neighborhoods Lack Bank or Credit Union.

36 Bloomekatz, Ari. “Lawsuit Alleges Metro Violated Law in OKing Crenshaw Light Rail.” Los Angeles Times. October 26, 2011. https://latimesblogs.latimes.com/lanow/2011/10/lawsuit-metro-crenshaw-light-rail.html.

37 Lewis, Jason. “African Marketplace and Drum Circle in Leimert Park Village.” Los Angeles Standard Newspaper, May 29, 2021. https://lastandardnewspaper.com/index.php/news/971-africa-marketplace-and-drum-circle-in-leimert-park-village.html.

38 Downtown Crenshaw Rising. “Black Group Seeking to Buy Iconic Crenshaw Mall to Establish Community Control of Black Space Being Thwarted by Deutsche Bank Racism.” Cision US Inc, March 23, 2021. https://www.prnewswire.com/news-releases/press-conference-black-group-seeking-to-buy-iconic-crenshaw-mall-to-establish-community-control-of-black-space-being-thwarted-by-deutsche-bank-racism-301254420.html.

39 CoStar Realty Information Inc. CoStar Definitions Call w. CoStar Data Analysts, 2021. https://www.costar.com/.

40 Ibid. CoStar Realty Information Inc. CoStar Definitions Call w. CoStar Data Analysts.

41 Ibid. CoStar Realty Information Inc. “CoStar Glossary.”

42 West Angeles Church of God. “West Angeles Church of God in Christ Signs a Blockbuster Deal to Improve and Preserve Crenshaw Corridor of South Los Angeles.” Cision PR Newswire, October 2, 2019. https://www.prnewswire.com/news-releases/west-angeles-church-of-god-in-christ-signs-a-blockbuster-deal-to-improve-and-preserve-crenshaw-corridor-of-south-los-angeles-300929646.html.

43 Ibid. CoStar Realty Information Inc. “CoStar Glossary.”

44 The Genau Group. “How To Calculate Net Absorption In Commercial Real Estate,” November 16, 2020. https://www.thegenaugroup.com/net-absorption-commercial-real-estate/.

45 CoStar Realty Information Inc. CoStar Definitions Call w. CoStar Data Analysts, 2021. https://www.costar.com/.

46 Ibid. CoStar Realty Information Inc.

47 Ibid. CoStar Realty Information Inc.

48 Lynch, David J. “Mounting Commercial Real Estate Losses Threaten Banks, Recovery.” The Washington Post, November 11, 2020. https://www.washingtonpost.com/business/2020/11/11/commercial-real-estate-economy/.

49 Burns, Dan, and Chizu Nomiyama. “Banks Tighten Lending Standards, See Weaker Commercial Loan Demand: Fed Survey.” REUTERS, November 9, 2020. https://www.reuters.com/article/us-usa-fed-survey/banks-tighten-lending-standards-see-weaker-commercial-loan-demand-fed-survey-idUSKBN27P2NY.

50 US Small Business Administration. “504 Loan Program Eligibility,” 2022. https://www.sba.gov/loans-grants/see-what-sba-offers/sba-loan-programs/real-estate-equipment-loans-cdc-504/cdc-504-loan-program-eligibility%20.

51 Ella. “How to Get a Commercial Real Estate Loan: What Do Lenders Consider?” Value Penguin, March 18, 2022.https://www.valuepenguin.com/small-business/how-to-get-commercial-real-estate-loan#:~:text=Generally%2C%20commercial%20real%20estate%20loans,receive%20a%20loan%20of%20%24140%2C000.

52 Inclusive Action for the City. “Community Owned Real Estate (CORE).” CORE, 2021. https://www.inclusiveaction.org/core.

53 Los Angeles County Department of Consumer & Business Affairs (DCBA). “Small Business Concierge,” 2021. https://dcba.lacounty.gov/concierge/.

54 Hilda L. Solis. “Expanding the Pilot Community Land Trust Partnership Program at Supervisor Solis’ Direction,” November 10, 2020. https://hildalsolis.org/expanding-the-pilot-community-land-trust-partnership-program-at-supervisor-solis-direction/.

55 https://hildalsolis.org/establishing-a-land-bank-for-los-angeles-county/

56 CHAPTER 8. Deed to State, County or Public Agencies [3771 - 3841], REVENUE AND TAXATION CODE § DIVISION 1. PROPERTY TAXATION [50 - 5911] (2014). https://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=RTC&division=1.&title=&part=6.&chapter=8.&article=2.

57 Letham, Saundra. “Understanding Rent To Own Homes.” The Simple Dollar, June 2, 2021. https://www.thesimpledollar.com/mortgage/rent-to-own-homes/.

58 U.S Department of Housing and Urban Development. “Housing Choice Vouchers Fact Sheet,” 2021. https://www.hud.gov/topics/housing_choice_voucher_program_section_8.

59 Wiltz, Teresa. “Getting a Section 8 Voucher Is Hard. Finding a Landlord Willing to Accept It Is Harder.” The Pew Charitable Trust, August 31, 2018. https://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2018/08/31/getting-a-section-8-voucher-is-hard-finding-a-landlord-willing-to-accept-it-is-harder.

60 Bell, Alison, Barbara Sard, and Becky Koepnick. “Prohibiting Discrimination Against Renters Using Housing Vouchers Improves Results.” Washington DC: Center on Budget and Policy Priorities, December 20, 2018. https://www.nhlp.org/wp-content/uploads/CBPP-2018-report-on-SOI-laws.pdf.

61 Kagan, Julia. “Bridge Loan.” Investopedia, May 3, 2022. https://www.investopedia.com/terms/b/bridgeloan.asp.

62 Gellerman, Erica. “Average Commercial Real Estate Loan Rates,” February 25, 2022. https://www.valuepenguin.com/average-commercial-real-estate-loan-rates.

63 Segal, Troy. “Soft Loan Definition.” Investopedia, November 30, 2020. https://www.investopedia.com/terms/s/softloan.asp.

64 Ibid. “LA County Small Business Resource Guide.”

65 Kaufman, Rachel. “Los Angeles May Force Its Banks to Disclose Unethical Sales Practices.” Next City, July 2018. https://nextcity.org/urbanist-news/los-angeles-may-force-its-banks-to-disclose-unethical-sales-practices.

66 Kelley, Alexandra. “JPMorgan Chase Is Making a Massive $30 Billion Investment in Racial Equity in the US.” The Hill Publishing CORP. October 8, 2020. https://thehill.com/changing-america/respect/equality/520166-jpmorgan-chase-is-making-massive-30-billion-investment-in.

67 Cunningham, William Michael. “Six Companies Account For 70% Of Corporate Black Lives Matter Pledges.” Linkedin, n.d. https://www.linkedin.com/pulse/six-companies-account-70-corporate-black-lives-matter/.

68 Parilla, Joseph, and Sifan Liu. “Examining The Local Value Of Economic Development Incentives.” Brookings Metropolitan Policy Program, March 2018. https://www.brookings.edu/wp-content/uploads/2018/02/report_examining-the-local-value-of-economic-development-incentives_brookings-metro_march-2018.pdf.

69 Ibid. Parilla, Joseph, and Sifan Liu. “Examining The Local Value Of Economic Development Incentives.”

70 Los Angeles Development Fund. “LADF ‘What We Do,’” 2021. https://www.ladfnewmarkets.org/about-us/what-we-do.

71 Tess, John M. “New Markets Tax Credits and Historic Rehabilitation.” NOVOGRADAC, May 6, 2019. https://www.novoco.com/periodicals/articles/new-markets-tax-credits-and-historic-rehabilitation.

72 Thompson, Derek. "Amazon's HQ2 Spectacle Isn't Just Shameful—It Should Be Illegal." The Atlantic, November 12, 2018. https://www.theatlantic.com/ideas/archive/2018/11/amazons-hq2-spectacle-should-be-illegal/575539/.

73 Roosevelt, Margot. "Amazon's HQ2 Is Headed to New York and Virginia with Thousands of Jobs. Here's Why Some in L.A. Are Relieved." Los Angeles Times. November 13, 2018. https://www.latimes.com/business/la-fi-amazon-california-20181113-story.html.

74 Wood, Meredith. "What Credit Score Is Needed for an SBA Loan?" Fundera, May 4, 2021. https://www.fundera.com/business-loans/guides/sba-loan-credit-score-minimum.

75 Ibid. CoStar Realty Information Inc. "CoStar Glossary."