

What Works

The People's IPO: Lower-income patrons of Market Creek Plaza can now invest in the shopping center By Anne Stuhldreher

Stanford Social Innovation Review
Winter 2007

Copyright © 2007 by Leland Stanford Jr. University
All Rights Reserved

what works

Strategies, Approaches, Developments

The People's IPO

Lower-income patrons of Market Creek Plaza can now invest in the shopping center by Anne Stuhldreher

"Every time I go to Market Creek with my kids now, they say 'We own this,'" says Bevelynn Bravo, a mother of four who lives in a struggling San Diego neighborhood known as the Diamond. Bravo recently took part in a first-of-its-kind initial public offering (IPO), purchasing 25 shares in the Market Creek shopping center at \$10 per share. Market Creek Plaza's developer, the Jacobs Center for Neighborhood Innovation (a foundation), had previously partnered with teams of residents to conceive, design, and plan the new shopping center. Now the foundation is pioneering what it calls a "community development IPO" to meet residents' new request – a chance to own a piece of Market Creek Plaza.

Most IPOs target high-net-worth people. This one is aimed at area residents whose median income is \$35,000. The IPO opened in July and will close at the end of December. Market Creek Partners will sell shares to 450 people who live, work, or volunteer in the Diamond. Investors need only \$2,000 in net worth or annual income and can invest from \$200 to \$10,000.

As a group, these resident shareholders can claim up to a 20 percent stake in the company. The Jacobs Center will own 60 percent of the company, and the Neighborhood Unity Foundation will own the remaining 20 percent. By 2017, the Jacobs Center plans to retire its shares so that Market Creek will be completely owned by residents and the Unity Foundation, which residents control. Until that time, community residents will be first in line for any profits. Resident investors will also each have one vote – regardless of how little or much they invested – to elect a nine-person advisory board.

"Jacobs is showing that you can do commercial development and have community stakeholders be owners," says Heather McCulloch, principal of Asset Building Strategies and author of *Building Assets While Building Communities*. "People have been talking about building community ownership since the sixties, and Jacobs actually did it."

Creating a new kind of IPO wasn't easy, however. Neither was educating people who've never invested before. But



(above) Banners at Market Creek Plaza encourage shoppers to "own a piece of the block." (left) Residents partnered with architects to design the colorful shopping center.



community groups and foundations across the country are closely watching this IPO, wondering if something similar would work in their communities.

A Rainbow at Death's Corner

The Jacobs Center and many of the Diamond's 80,000 residents want more than financial returns from the IPO. They hope it will spur residents to control how their neighborhood develops. The idea came about after residents inventoried neighborhood properties and realized that outsiders owned the most neglected ones. The Jacobs Center first worked with residents to determine the mix of stores they would like in Market Creek Plaza, which sits at an intersection previously known as the "Four Corners of Death." Residents called for a grocery store, coffee shop, bank, and even an outdoor amphitheater that seats 500. They chose a brightly painted rainbow exterior, accented with portraits of neigh-



neighborhood leaders and tile mosaics, all by local artists.

Residents now hold 60 percent of the jobs. So far, most of the stores are reaching or exceeding their sales targets.

Having taken a piece of blighted land and partnered with residents to turn it into something valuable, the Jacobs Foundation wanted to “recycle it back to the people who live there,” says Jennifer Vanica, the foundation’s CEO. But the mechanisms to conduct an IPO restricted to community residents didn’t exist. Vanica and the residents weren’t dissuaded. “You get the biggest innovation when you work around obstacles,” she says – of which there were no shortages. Over a five-year period, a team of 125 Diamond residents, Jacobs Center staff, and lawyers submitted 35 drafts of the IPO to the California Department of Corporations. At first, the department claimed the IPO was too risky for the community investors because Market Creek Plaza wasn’t yet completed or fully leased.

Two years later, after the shopping center was built and stocked with vendors, the department again denied the IPO proposal – this time because some of the riskier ventures, such as allowing community entrepreneurs to open restaurants and stores, dampened the property’s value.

The Jacobs team added additional properties, but the department still rejected its application. The IPO’s targeted investors – Diamond residents – didn’t meet the department’s “sophisticated investor” test, which usually means having an income of \$200,000, according to Vanica. Residents countered that the state would let them buy any amount of lottery tickets, which have a much lower probability of return. Eventually the department agreed on what Vanica calls the “10-10-10” rule: Residents would be able to invest up to 10 percent of their income, or 10 percent of their net worth, for up to \$10,000.

Educating Investors

Once the IPO was approved, Jacobs staff members and resident-partners had to educate first-time investors about investing in commercial real estate. The team first turned the 200-page Market Creek prospectus into a 20-page illustrated executive summary. Pictures and graphs answer questions

FORMING NEW INVESTORS

- Create a property that new investors want to own
- Explain investing in plain English
- Lower minimum requirements for buying in
- Communicate with investors early and often

such as “What is equity?” and “How does the payout work?”

The team then made sales pitches to residents who had been prescreened for eligibility to participate in the IPO. The pitches included a tour of Market Creek Plaza, dinner, and a 90-minute interactive presentation. So far, 85 percent of the residents who have attended the pitches have decided to become investors. More than 750 people are interested in investing. To date, people have invested an average of \$1,000. Half have invested less than \$500, which suggests that the Jacobs Center is meeting its goal of making half of the resident-owners first-time investors.

In mid-September, Jacobs launched a final push to attract neighborhood investors with billboards and buttons that say “Are you in?” A resident came up with the slogan.

Patience and Time

Nearly 1,000 community groups and investors have toured Market Creek Plaza. Many ask whether Jacobs’ community engagement and ownership mechanisms are too labor-intensive and expensive for other community groups and foundations. Victor Rubin doesn’t think so. Rubin is the director of research at PolicyLink, which is evaluating the IPO. “Involving residents in the design and planning doesn’t take deep pockets,” said Rubin. “It just takes patience and time.”

The Jacobs Center originally bought the 20-acre Market Creek Plaza for \$4 million in 1998. At one point, Jacobs had borrowed \$30 million against its portfolio to develop the plaza. They’ve since taken out a \$15 million, 3 percent loan made possible by New Markets Tax Credits, which were introduced by the federal government in 2000 to spur economic development in lower-income communities.

Other foundations are trying to follow the Jacobs model. The Casey Foundation, for instance, plans to develop 32 acres in a low-income community in Atlanta. Gail Hayes, Casey’s Atlanta civic site coordinator, says: “We don’t have a vision for the property. We’re going to ask the residents what *their* vision is.” The organization is still considering whether to offer a community development IPO.

Market Creek Plaza isn’t out of the high-risk phase, however. “We are still learning about how to convert people to shop in their own neighborhood, and how to bring the rest of San Diego to Market Creek Plaza,” says Vanica. Although residents could end up losing money on their investments, Jacobs absorbed the biggest risks before it invited in community investors.

To Bravo, the risks seem worthwhile. “It was hard to give up \$200 and not spend it at Wal-Mart,” she says. “But now I have something to leave my kids besides memories.” □