Empty Spaces to Thriving Places:

Centering Community on the Ground Floor of Affordable Housing Projects

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This report seeks to honor the complexity of this work, illuminate the powerful synergies that arise when housing developers and community-based organizations collaborate, and offer considerations and recommendations for all who engage in this work.

Summary

This paper discusses prioritizing the ground floor space of affordable housing mixed-use projects for local, community-rooted nonprofits. Over the past several years, Community Vision has worked with organizations occupying ground floor space of these projects across the Bay Area. After reviewing some of the metrics of the projects we supported, we discuss the benefits and challenges of prioritizing nonprofits and highlight two successful approaches we noticed. The paper concludes with recommendations for affordable housing developers, nonprofit organizations considering locating in these spaces, and considerations for philanthropy and local government. Three case studies are also included.

Introduction

The housing affordability and availability crisis continues to rage across the United States. According to Pew Research, purchase prices increased 25% from 2017 to 2021, and rental prices increased 18% from 2018 to 2022.[1] Further, according to the Urban Institute, "The shortage of affordable rental units disproportionately affects Black, Latinx, and Indigenous households who are more likely than white households to be renters and have extremely low incomes."[2] The need for quality, affordable housing persists—not only to ensure everyone in America has a safe, comfortable place to live, but also to address the history of racial discrimination in real estate in this country and to support thriving communities.

Affordable housing is developed and preserved through a range of strategies. These include wealth creation models like Community Land Trusts (CLTs), which make homes available through split ownership structures that preserve affordability and build limited equity for families. Another example is multifamily community cooperatives, which have strong tenant governance structures that maintain affordability and sometimes offer inheritable rights to pass on below-market-rate units. Further, deeply subsidized by the government public housing is a key strategy and provides permanently affordable homes. Among these, the most common approach to affordable housing development is large multifamily projects funded by federal Low Income Housing Tax Credits (LIHTCs).

According to the National Housing Law Project, "the [LIHTC] program was created in 1986 and is the largest source of new affordable housing in the United States." The LIHTC program is a complicated government financing scheme used by a range of for-profit, public and nonprofit housing developers. Leading the way amongst nonprofit developers are Community Development Corporations (CDCs).[3] In fact, community development has become frequently synonymous with affordable housing development, rather than its broader origins as a framework for community power-building rooted in the civil rights movement. Due to the economics of construction, operations, and local zoning requirements, these developments frequently consist of more than 100 apartments and often take the form of four- or five-story timber-frame buildings over a concrete podium.

The ground floor commercial space that makes up the podium is the subject of this paper. Given the pressing need for more affordable housing, we can expect much more of this model to be developed.

Because of zoning requirements and the desire to build thriving neighborhoods, these ground floor spaces frequently house retail businesses, restaurants, services, and, depending on the place, parking. When done well, these spaces help weave together a neighborhood. However, as noted in a NextCity article, "there's at least one thing on which [community members, affordable housing organizations, public space advocates, local businesses and local government] all agree: Poorly designed ground-floor space in new, mixed-use affordable housing developments is a persistent challenge, limiting the vitality and value of such developments to developers, owners, residents and neighbors.[4] "Further, findings from the American Community Life Survey indicate that Black and Hispanic American are roughly twice as likely to live in low-amenity neighborhoods than white Americans (~24% to 12%) in urban places, and 53% of white Americans live in high-amenity areas, compared to only 32% of Black Americans.[5]

There is an opportunity to more frequently have synergistic, mission-aligned uses that complement the goals of the housing project, drive positive community results, and bring new programs and services to a place by prioritizing community-centered nonprofit entities for long-term occupancy of these spaces. This does not mean the ground floor tenants should be exclusively nonprofit. Traditional uses provide important community amenities and opportunities for entrepreneurship. However, by prioritizing community services and arts and culture uses, these multifamily housing projects can drive a holistic, community-led strategy that results in greater positive impact on the lives of the residents, builds stronger neighborhoods, and strengthens community-serving organizations.

Community Vision and Our Recent Work

Community Vision is a local, nonprofit Community Development Financial Institution (CDFI) working across Northern and Central California. We have a nearly 40-year track record of providing financing, including for affordable housing, and delivering programs and services that advance social justice and racial and economic equity. We have a unique combination of real estate lending and technical assistance that supports community-based organizations in advancing community ownership of community assets. Through our real estate consulting program, we have had the opportunity to work very closely with a wide range of community-based organizations moving into these ground floor spaces.

Over the past 20 years, Community Vision has provided real estate advising services to a large variety of nonprofit organizations. From leasing to buying, we have seen firsthand the positive impact that quality, affordable, long-term space has on organizations and their communities.6 Further, we have seen how the traditional commercial real estate market negatively impacts organizations, especially as they face rapidly increasing rents. Despite changes in the commercial real estate market and the rise of hybrid work due to COVID-19, community-serving organizations continue to seek quality, affordable space close to the communities they serve. We fundamentally believe that stable spaces for deeply rooted nonprofits are essential for power-building and place-keeping in communities of color and low-income communities. As Joe Neri, the CEO of IFF, a sister CDFI based in Chicago, put it in a recent Nonprofit Quarterly article, "a [nonprofit] facility with functional—even beautiful—design sends a clear, edifying message to its occupants, visitors, and the neighborhood that they are important, with intrinsic value and a realizable vision of hope."[7]

More recently, our consulting team has had a front row seat to a commitment made by Bay Area affordable housing developers to prioritize community use on the ground floor of their LIHTC-financed projects. Over the past five years, we have worked with 13 different nonprofit organizations occupying space in these projects around the Bay Area, including San Francisco, Oakland, Emeryville, Berkeley, and San Jose, 85% of which were led by people of color and rooted in communities of color. Through this work, we've engaged with six different developers, including two joint ventures with other community-based entities, across 11 different project sites. In total, our clients have secured over 50,000 square feet with the average space size being just under 4,000 square feet. The average base rent on these spaces is roughly $1.25 per square foot. All of these leases are on a net basis, meaning the nonprofit occupant must directly pay for all other occupancy costs. Some leases include common area maintenance (CAM) charges in the base rent, while others do not. Lease lengths, including tenant options, range from 10 to 55 years, with the average term being just under 28 years—a goal that organizations strive for as it provides long-term security and stability. In three cases, the nonprofit tenant has an option to purchase their unit. Every one of these projects were ground-up, new build developments.

Beyond the business terms of these leases, our clients took possession of their spaces in two distinct conditions. The most common, and consistent with commercial real estate, is for the tenant to receive the unit in a "warm shell" state. Warm shell generally means that utilities (electricity, plumbing, etc.) are brought into the perimeter of the space, and the tenant will finalize construction (partition walls, lighting, fixtures etc.). This allows for the space to be purpose-built by the tenant. It also means a significant construction project to fund and finance. Some of our clients had to raise as much as $3M, with an average of approximately $1.1M, to finish their spaces. Given that some of these organizations have budgets under $500,000, this level of fundraising campaign was substantial for them. It is also worth noting that "warm shell" has no unified definition, meaning one warm shell space may be fitted out differently than another. However, the City of San Francisco's Mayor's Office of Housing and Community Development (MOHCD) does provide a warm shell standard for the projects it finances, which is very helpful in giving clarity to the potential tenant on what condition they can expect the space to be delivered in. This is a practice that more cities should adopt.[8]

While most spaces were delivered to the nonprofit tenant in warm shell condition, one developer collaborated very early in the project, enabling them to fund most of the build-out to with selected tenants to what is referred to as turnkey condition. This means that all of the interior construction was complete and ready for use by the nonprofit at move-in, allowing them to focus on space design and preparing for operations, which can be a consideration as their previous facility may have had more services provided by the owner. This strategy requires early engagement by the developer and the nonprofit to support fundraising and ensure an efficient and smooth construction project.

Regardless of the condition in which the space is delivered to the nonprofit, it is important for organizations taking space in these projects to understand that they are part of a large construction project that will likely take years from concept to completion. During that process, staff and board will have to dedicate time, energy, and resources to the development project.

Project Table

	Square Footage	Lease Term	Purchase Option	Base rent psf/mo	Shell Condition	Total investment by NP tenant
Project A	~7,000	33 yrs +	no	<$1/PSF	Warm Shell	$2.5M–$3.5M
Project B	~2,000	33 yrs +	no	$1-$2/PSF	Warm Shell	Less than $500k
Project C	~5,000	33 yrs +	no	$1-$2/PSF	Warm Shell	$1.0M–$2.5M
Project D	~8,000	33 yrs +	yes	$1-$2/PSF	Warm Shell	$2.5M–$3.5M
Project E	~2,500	33 yrs +	yes	$1-$2/PSF	Warm Shell	$1.0M–$2.5M
Project F	~9,000	33 yrs +	yes	<$1/PSF	Warm Shell	$2.5M–$3.5M
Project G	~2,000	10 yrs +	no	>$2/PSF	Warm Shell	$1.0M–$2.5M
Project H	~1,000	10 yrs +	no	$1-$2/PSF	Warm Shell	Less than $500k
Project I	~2,000	10 yrs +	no	$1-$2/PSF	Warm Shell	Less than $500k
Project J	~2,000	10 yrs +	no	$1-$2/PSF	Turnkey	Less than $500k
Project K	~3,500	10 yrs +	no	$1-$2/PSF	Turnkey	Less than $500k
Project L	~7,000	10 yrs +	no	<$1/PSF	Turnkey	Less than $500k
Project M	~1,000	10 yrs +	no	$1-$2/PSF	Warm Shell	Unknown
Averages	**~4,000**	**~28 yrs**	**no**	**~$1.25/PSF**	**Warm Shell**	**~$1.1M**

Benefits and Challenges

In our experience, prioritizing nonprofit use must be an intentional effort by the developer. This can add complexity to the process, but also realizes positive results for the community. That said, many of the policies and practices that guide affordable housing developers in engaging the long-term nonprofit tenant are drawn from traditional commercial real estate, frequently causing friction between parties. Given the partnership needed, these projects require a collaborative approach that retains the intent of binding agreements (tenant-centered leases, memorandums of understanding, etc.) but breaks the purely transactional nature of the leasing process. The mix of approaches highlighted in this paper elevates those practices and should be shared across the ecosystem. The hope is to build a framework that better meets the needs of affordable housing developers by leveraging their construction expertise, and in turn, allows nonprofits to focus their efforts as a partner—participating in design, fundraising, space management preparation—to ensure a robust set of programs and services will be in place to serve communities.

Having walked alongside our clients multiple times in these social purpose real estate development relationships, we have seen the benefits and challenges associated with this approach and how all of the parties, including other stakeholders like community members, government, and philanthropy, can develop spaces that provide long-term stability for organizations that anchor communities.

In the sections below, we will highlight why this use and partnership is a great match for affordable housing projects and how these nonprofit partnerships can catalyze development. We will then address some of the challenges associated with this type of partnership, followed by a discussion of two key approaches that should be further explored. Finally, we will conclude with recommendations for affordable housing developers, potential nonprofit partners, philanthropy, and local government.

Benefits

Prioritizing nonprofit use of the ground floor of affordable housing can bring at least three key positive outcomes to both the project and the surrounding community: community impact, nonprofit sustainability and project feasibility.

Community Impact What will feel familiar to all community developers are the potential positive synergistic outcomes created through these partnerships. Most affordable housing developers, and all CDCs, are mission-driven organizations looking to ensure low-income and marginalized communities thrive. By partnering with local nonprofits, especially those that are deeply rooted and led by community members, these projects can more easily achieve:

- *Stronger neighborhood fabric*. The presence of community services and arts and culture organizations contributes to a more diverse set of amenities, adding to the tapestry of restaurants, small businesses, and personal services enterprises. It makes the surrounding area more self-sustaining and attracts more residents and visitors.

- *Vibrant and engaging places*. Nonprofit organizations often host events, workshops, and programs that can bring vitality and activity to the ground floor. In particular, arts and culture organizations bring exhibitions, performances, workshops, and other creative activities. This can create a dynamic and engaging environment for residents and visitors, fostering a sense of belonging and ownership and making visible a place's unique people, culture and history.

- *Holistic community development*. By incorporating community services and arts and culture, the project becomes a hub for community and economic development. It ensures easy access to programs, opportunities, and essential services, such as childcare, healthcare, educational support, creative expression, job training, and more—benefiting both building residents and the surrounding community.

Nonprofit Stability This strategy can promote stability for the nonprofit tenants, which can be particularly powerful when prioritizing BIPOC-led organizations with deep roots in the community or creating space for new programs and services to be available to community members. From the arrangements we have observed, these partnerships can:

- *Create permanency of place*. While COVID has high-end office space reeling, community serving nonprofits still want space. Our experience has shown that nonprofits are heavily impacted by the Bay Area's volatile commercial real estate market over-and-3over. However, the longer lease terms we see as part of these projects eliminate the risk of eviction during the next inevitable real estate frenzy, allowing organizations to grow their roots and deepen ties in their community.

- *Provide predictable, below-market-rate rents*. The affordable housing projects considered here consistently provided stable, below-market-rate rents. Nonprofits are frequently the first to be impacted by "hot" markets. The approach of these developers allows for scarce organizational resources to be redirected to programs and improves long-term financial planning and predictability.

- *Increase community presence*. These ground floor commercial spaces put nonprofits directly in the community, increasing their visibility and accessibility. It makes them easier to find and, as we see with other highly visible spaces, it can attract new resources to the organization, including funding, volunteers, program participation, and other support.

- *Foster collaboration opportunities*. When these projects include more than one nonprofit in separate units, multiple nonprofits sharing one space in the building, or a set of nonprofits in nearby projects within a few blocks (as is the case with several of the projects considered in this paper), it can foster broader collaboration. Like a multi-tenant nonprofit center, the potential for collaboration increases when the developer supports an intentional approach. In fact, we recommend that affordable housing developers consider making the entire ground floor available to a group of nonprofits to create such centers.

Project Feasibility and Sustainability Partnering with nonprofits can increase project feasibility and sustainability. Strong, early partnership between developers and ground floor nonprofit tenants can support the entitlement process, fundraising and financing, and possibly make the overall project more sustainable.

- Entitlements. Local nonprofit tenant partners can be key to community acceptance, especially for developers entering new markets. In a recent Affordable Housing Finance (AHF) article, one developer noted, "Find local partners. People who are indigenous to the community and who truly understand the dynamics of the community will be the most committed to the success of the project."[9] This not only helps garner increased community engagement, but it can also support the project as it moves through the entitlement process, as the future nonprofit tenants become champions for the project and build a strong story of impact.

- Fundraising and financing. The same AHF article also noted, "The retail and commercial portion of a mixed-use project is usually financed through banks and conventional lenders. But due to COVID-19, banks and traditional lenders are now cautious to lend to mixed-use projects"[10] If engaged early, the nonprofit tenant partners can play a role in attracting other financing. Again, the synergistic relationship between the affordable housing developer and the nonprofit partners builds a compelling narrative for community strength, self-determination, and resilience. This collaboration has the potential to attract additional resources from government and philanthropy.

- Tenant diversification. When mixed with other tenant types, nonprofits allow for diversification of ongoing revenue needed for the project. It is worth reiterating here, in the context of long-term financial resiliency, that people-serving organizations weathered COVID well and continued needing the same, if not more, space for their programs.

Challenges

The complexities of affordable housing projects are vast, and layering in commercial ground floor space adds to this. Introducing community-based organizations to achieve greater neighborhood impact further complicates the project. Given all the moving parts, it is unsurprising that this strategy comes with its challenges. Below, we highlight some consistent themes we have seen in hopes that all parties can anticipate potential issues and approach projects with open eyes.

Lack of Clarity Not surprisingly, a lack of clarity in these partnerships can create a lot of friction and wasted time. We have seen developers come to the table without fully formed commercial space goals, which is not uncommon in the early stages of development, or without their bottom-line needs for a partnership established. From the outset, it is important to have a clear vision and purpose for the partnership, mutual understanding of expectations, and a defined outline of the process. However, given the nature of real estate, there will need to be built-in flexibility. Partners must agree on how to address changes, allowing the partnership to evolve over what could be up to a five-year or longer relationship during the development process and continue into the ongoing operational relationship.

Time Considerations in Process Building We have seen situations when neither party considered that the staff and board of both partners may change over the development process. Because the development phase of the partnership can span several years, it is critical that everyone operates with the understanding that they are building something that may be handed off to others. Without this foresight, successive leaders are left with a steep learning curve, often forcing them to backtrack and essentially start anew—a process that can be both frustrating and inefficient. This is particularly critical once the project has moved from visioning and funding phases and into construction, where prompt decision-making is essential to keep the project moving and minimize costly change orders.

Nonprofit Readiness Even with a friendly and mission-aligned building owner, it is still important that the nonprofit tenant comes to the process with a level of real estate readiness. This includes having a vision for their space, board and staff agreement around the real estate project, understanding of how much space is needed, some high-level knowledge of the real estate development process, and a capacity to fundraise or participate in the developer's fundraising efforts. Further, the nonprofit tenant will need to establish a process to make quick decisions during the construction phase (like having a small fast-acting real estate committee with the authority to make decisions). Inadequate readiness can create additional tension within the partnership, and the housing developer may not be equipped to address these gaps.

Zoning Both the nonprofit tenant, typically responsible for zoning compliance, and the affordable housing developer must conduct thorough due diligence regarding current zoning and permissible uses. Some nonprofit programmatic uses are not allowed on the ground floor or require a conditional use permit and public engagement process for approval. Failure to account for zoning requirements can lead to delays and zoning processing can be a complex, time consuming, costly, and politically fraught.

Two Notable Approaches

In addition to the three cases included at the end of this paper, we want to highlight two approaches that are particularly useful for future projects. In fact, all of the case studies exemplify these methods, and this section synthesizes some of the broader lessons learned. The first example illustrates how an affordable housing developer implemented a holistic strategy for the project, starting with deep community and nonprofit partner engagement. The second example is a joint venture, neighborhood approach to activate multiple sites.

One Developer's Approach Established in 1990, Resources for Community Development (RCD) provides rental homes to nearly 5,000 people in 25 cities in the region, about one third of which are reserved for people with special needs. RCD distinguishes itself as a developer through its holistic approach to partnering with their ground floor tenants. RCD starts with a strategy centered on organizing, followed by an extensive community engagement process to identify which programs and services should be prioritized. Next, they engage the nonprofit community and begin long conversations to identify organizations interested in and appropriate for the space, eventually forming relationships with groups whose missions align with community priorities. RCD's organizing staff remain involved throughout the early development process, working alongside the project manager and nonprofit leadership to ensure that the partnership advances smoothly.

For the projects that we participated in, RCD's engagement process with their future nonprofits was thoughtful and deliberate, moving at the speed of trust. This front-end investment enabled the partnership to more easily navigate changes in the project as it evolved. RCD also project managed construction for the commercial spaces, delivering turnkey units to its partners. This critical differentiation saves the nonprofit partner from becoming an 'accidental developer' and leverages the construction expertise of the housing developer. Further, they were able to minimize tenant improvement costs for the nonprofit while keeping base rent low and offering long tenancies, setting a gold standard for this work.

RCD's approach requires time and dedication, and nonprofit partners must commit to a long-term strategy. Ideally the project can absorb the cost of this extra time effort. However, additional subsidy may be needed from government and philanthropy to support this approach. That said, all the projects we were involved with required subsidies outside the deal. We hope that RCD's approach can be shared with the broader affordable housing development ecosystem and can be further advanced to achieve similar results.

A Multi-Site Neighborhood Commercial Approach Managing commercial spaces presents a significant challenge for some affordable housing developers, especially as the operational frameworks for housing differ from those of commercial real estate. Further, many projects have small commercial space footprints, making the economics of managing these spaces challenging. For those operating multiple buildings, scattered site management can prove cumbersome. In San Francisco, the Mission Economic Development Agency (MEDA) is leading one interesting solution to these issues.

Founded in 1973, MEDA's work is centered on equity for Latino families. They are "committed to maintaining the cultural identity and enhancing the resources of the Mission District." MEDA runs a wide range of community-centered programs, including commercial real estate and small-sites housing projects.

MEDA is implementing a joint venture strategy by partnering with nonprofit affordable housing developers who typically do not operate in the Mission but regularly develop LIHTC projects. MEDA takes the lead in operating and tenanting the ground floor spaces. This approach not only means that there is a deeply invested local partner in the housing development, but it also has the potential to create efficiencies around managing these scattered commercial spaces. Further, it allows for a strategic approach to occupancy of the spaces that brings in a set of services and programs to the community. MEDA has prioritized nonprofit use across all its ground floor spaces. Because they have done this repeatedly, they have built their expertise in tenant selection (like developing a competitive selection process based on community priorities), partnership (such as supporting fundraising in some cases), and operations.

This approach is worth exploring in other dense urban communities where multiple projects happen at a relatively similar time and where there may be a locally rooted community development corporation or other community organizing group interested in entering into real estate development and operations. The joint venture supports the legitimacy of and holds accountable a developer from outside the community, while also giving experience to the locally based organization as they grow their development expertise. Further, having a specialized operator for commercial spaces creates efficiency allows the housing operator to focus on their mission of delivering and operating quality affordable housing.

Recommendations

To support all those involved in creating these spaces and to promote emerging best practices that can make the process easier, we offer the following recommendations. We acknowledge that many of the parties we have engaged with are the leaders in some of these ideas. In fact, these recommendations are not so much a set of new ideas; rather, they are a culmination of insights gathered from various field parties, filtered through our understanding of what makes these projects successful. We hope this marks the beginning of a conversation around the best ways to anchor vibrant community programming and advance thinking on mixed-use development that supports local leadership and fosters more equitable and thriving places.

A note of context: As described above, this work generally spans a period of over five years or more and can be seen as a joint venture-like relationship. Many of our recommendations are informed by the long timelines and capital-intensive nature of this work. Further, frequently overlooked here is the "sweat equity" by leaders of the organizations that occupy these spaces. Given all of this, it is worth a considered and intentional front-end investment of what is generally described as "readiness." With that, we turn to our recommendations.

For Affordable Housing Developers We laud affordable housing developers for taking this approach. Grounding communities with amenities beyond retail and restaurants is key to strong places and is good business. During the height of COVID, we saw well-being and opportunity organizations, generally direct services groups, continue to pay occupancy and, in many cases, need more space. To support developers and a successful project, we suggest:

- *Have a Strong Vision* Having a clear vision for the ground floor, especially when guided by a community engagement process, supports a strong relationship with prospective nonprofit partners. A clear vision can differentiate the project, build project momentum, support the entitlement process, and attract capital. It also lays the foundation for the subsequent recommendations. Finally, a clear vision clarifies what you can offer to partners (like fundraising support, design opportunities) and what you cannot (such as certain uses, design constraints).
- *Establish a Process* It's not so much what process you choose, but rather that you have one. In some cases, it might make sense to just select partners; in others, one might issue an RFP or other competitive approach. If choosing a competitive process, consider forming a community panel to make a recommendation to decision-makers.
- *Come with Draft Agreements* Prepare draft agreements before engaging with partners, particularly a memorandum of understating (MOU). At a minimum, the MOU should include what the developer can offer (fundraising support, tenant improvement allowances, opportunities to influence ground floor structural design, expected rent structure, ownership opportunity, etc.), expectations for the nonprofit (fundraising requirements, participation in entitlements process, community engagement, participation in project meetings, reporting requirements, project milestones the partner has to meet), and the process for conflict resolution. Expect the selected partners to negotiate the MOU.
- *Rethink the Relationship* It is likely apparent by now that we suggest an approach that looks more akin to a joint venture rather than a landlord/tenant relationship (that's not to say that there wouldn't be leases and other agreements). This mission-aligned approach not only fits the long-term nature of relationship needed for development, but it also supports capitalization of the project, attracts philanthropic support, supports the entitlements process, and deepens community connection to the project. To ensure a successful relationship, plan to spend a lot of time building trust and err on the side of over-communicating.
- *Offer Long-term Spaces and Paths to Ownership* Lease agreements should reflect the effort and time that goes into these projects. Community-serving nonprofits need long-term, stable spaces to thrive. Very long-term leases can allow the nonprofit to fundraise for or finance tenant improvements if needed. Leases can be structured with multiple tenant renewals to allow for flexibility for both parties but keep stability in the hand of the tenant organizations. When possible, develop spaces where the nonprofit partner has the options to purchase the space in the long term.
- *Construction Management for Tenant Improvements* To keep partner nonprofits from becoming accidental developers, consider managing their tenant improvement project and delivering the space turnkey. This will free up the partner to focus on design, fundraising, and engaging in the process.
- *Consider a Secondary Approach* For large footprint ground floor space (generally more than 15,000 square feet) consider a partnership with a nonprofit who will take the lead and rent out space to other nonprofits. In most cases, the partner organization will use some space themselves and then actively manage the remaining space as a nonprofit center, creating homes for others, particularly smaller organizations. Feasibility will hang on the affordable housing developer/operator's ability to provide the space at a deeply discounted rate or for free.

For Nonprofit Partners

These housing projects are excellent opportunities for nonprofits to have highly visible ground floor space that roots them in the community. As seen above, these arrangements frequently come at very advantageous costs and terms. The major trade-off is that there is generally a long horizon from project concept to doors open. Because of the commitment involved, and to be a good partner with the developer to advance the project, we recommend the following for nonprofits participating in these housing projects.

- *Be Ready* Before engaging with a housing developer about space in a prospective project, the community nonprofit should prepare itself for the conversation. Key elements include: establishing board and staff agreement on the project; clarifying who will lead the project on behalf of the organization and making sure they have the time and capacity to do so; cataloging your space needs (how much and what kind of space is needed); and conducting a financial analysis to understand the organization's ability to take on debt, if needed. Since selection processes can be competitive, there may be a series of questions the developer will ask with considerations for how many people you serve from the neighborhood.

The last readiness item to consider is planning for the long haul. Because the project could take several years, it's important, as noted, to include succession planning as part of the readiness work.

- *Remain Flexible* The housing project will start with a project vision and objectives. The affordable housing developer may even enter into a set of non-binding agreements with the nonprofit. Because of the time horizon for real estate development and the reality that circumstances on the ground will change over the development period, there may be adjustments to the project that require a response from the nonprofit. While it is reasonable to expect a certain level of commitment from the developer, it is important to be a collaborative partner and bring a creative and solutions-oriented spirit to the evolving development environment. This may mean adjustments to design or cost structure. These considerations are important to discuss and memorialize at the beginning of the project.
- *Establish Feasibility and Fundraising Plans* Understanding how you will get the project done financially and what it will mean to operate out of the space are bedrock considerations for participation. Ideally, this is done before you agree to move forward with the developer. As you explore the project, you should develop both a 'sources and uses' budget as well as an operating pro forma for the project. The sources and uses will give you a clear sense of what it will cost to fit out the space (as noted, some developers will take care of this for the nonprofit tenant). The budget will likely need updating over time as costs change or escalate. The other key document is an operating pro forma. Many of the nonprofits we worked with moved from spaces where they were only responsible for paying rent and sometimes electricity. Most of the projects we supported had nonprofits on what is referred to as a net lease, where the nonprofit is responsible for all the costs of their space. It is important to develop a financial model so you can see the true cost of being in the project. We recommend working with someone knowledgeable in commercial development and operations to assist with this assessment.

  The financial assessment should include developing a fundraising and financing plan. Again, this will vary depending on the relationship with the housing developer. The nonprofit tenant may be part of overall project fundraising strategies, which will help contribute to the build-out cost of the tenant's space. Other projects will be delivered in a cold shell state, where the nonprofit will raise all of the funds to complete the tenant improvements for their unit. Coming to the table with some sense of where the resources will come from for the tenant improvement costs will help build a strong foundation for the partnership and support the success of the nonprofit moving into the space.
- *Establish a Development Team* Real estate development is not something most nonprofit leaders know anything about, nor is it a requirement for their success. To support these leaders in delivering their projects, we recommend establishing a development team whose participants will evolve over time. At the beginning, we highly recommend a real estate committee. This would be made up of organizational leaders, board members, and outside experts. Later, the organization will put together a project team that will consist of at least a project manager and an architect but may include others (real estate attorney, contractor, etc.). Again, because real estate projects are most often a once-in-a-career occurrence, proactively assembling a strong support team is key to success.

For Local Government

Local government can play a key role in the success of these projects. They can incentivize the activation of commercial corridors with a broader set of uses beyond retail, restaurants, and services. This work is particularly timely as places are reimagining what vibrant neighborhoods look like in a world still evolving from COVID and shifts in economic activity, particularly away from financial cores. With this in mind and informed by our previous work, we recommend the following for local government.

- *Incentivizing this Approach* Local governments can incentivize this approach in a myriad of ways. From soft debt concessions for developers who prioritize nonprofit use on the ground floor, to expedited review and construction permitting for this use, to adjusting impact fees, all of these and more can help prioritize this use. One particularly strong approach is local government making grants to the nonprofits to complete the tenant improvements. We managed one such program for the City of San Francisco that provided up to $500,000 in tenant improvement grants for nonprofits going into these affordable housing spaces. In many cases, this funding catalyzed additional investment from philanthropies and other government entities to complete the projects.

- *Zoning* A recent American Planning Association article noted, "Blanket retail requirements in all developments can lead to poor outcomes, such as vacant storefronts. Successful ground-floor use requirements need to consider a broader definition of 'active ground floor uses' to include things like makerspaces for local artisans, daycare facilities, breweries, community meeting spaces, and educational and medical uses, among others."[11] While many places do not have monolithic zoning for retail, there are still barriers to nonprofit use on the ground floor along commercial corridors, including conditional use processes that burden community organizations. Zoning strategies should grow to include other active uses, and many nonprofits are perfect partners to ensure that places are active and thriving.

For Philanthropy

Philanthropy plays a key role in the success of these projects. In every project noted here, philanthropy brought some sort of funding to the table. It is easy to see why: the combination of housing affordability and the provision of permanent homes for organizations with programs that enhance community well-being aligns closely with many foundations' missions. We see philanthropy as indispensable to these projects and suggest prioritizing the following ways they can help.

- *Early-Stage Money* Nonprofits need early-stage funding to consider these projects. There is a particular dearth of predevelopment money to support organizations in exploring real estate ventures. This funding supports activities like technical assistance, financial modeling, architectural drawings, and overall readiness to engage in a project, including funding organizational staff to take on this work.

- *Capital Grants* Grants for tenant improvements can drive projects and close gaps. These projects present a particular value to philanthropy. Because of the long-term leases associated with this approach, they provide many benefits of ownership without some of the costs, like the cost of land. Further, the affordable housing developer absorbs much of the cost of the building infrastructure. This allows philanthropy to make smaller capital grants that help their grantees secure long-term, affordable, high-quality space close to the community they serve.

- *Low-Cost Financing* While debt is less common in these ground floor projects, some can benefit from low-cost financing. Program related investments with low interest rates and interest-only terms can significantly contribute to the project's success. Typically, debt will be used for bridge financing until government sources come to the table. That said, longer term financing (seven years or more) should be considered.

Conclusion

Nonprofits play an important and catalytic role in the well-being and self-determination of communities, particularly those organizations deeply rooted in place with a strong community voice in decision-making. Affordable housing projects can play a similar role in stabilizing and strengthening communities and can be important neighborhood anchors, especially when sponsored and managed by community-based entities with a strong organizing ethos and high community engagement. When these entities partner on social purpose real estate projects, everyone benefits—most importantly, the communities they serve.

Prioritizing nonprofit use in ground floor commercial spaces of mixed-use projects extends their impact and reach, weaving together a community and supporting its cultural and economic vitality. This strategy can help solve the challenge of activating the ground floor, attract capital to the project, and bring important amenities and services to the tenants above and the surrounding community. Further, depending on the agreement, it can create permanent, affordable, quality space for the organizations that reside there.

In this paper, we have presented considerations to support this work and smooth out some of the bumps that inherently come with the complexities of real estate development. Of all of our recommendations, the most critical are the organizational readiness and trust building between the affordable housing developer and the community-based entities. With a clear starting place and deep relationship building, these multi-year ventures can navigate the inevitable surprises that come along way.

We hope that our experience and insights will encourage affordable housing developers and nonprofit organizations to engage more frequently in this approach.

Endnotes

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6 It is worth noting that occupancy costs are almost always a nonprofit's second highest cost after staff.

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Case 1: Youth Speaks and First Exposures

Introduction

In 2019, MEDA and CCDC broke ground on Casa Adelante at 2060 Folsom Street, an affordable housing development in San Francisco's Mission District with 127 housing units, including 29 homes for transitional age youth, and over 12,000 square feet of community-serving commercial space. Located next to a new public park, Casa Adelante marked the final step toward fulfilling Mission residents' hard-won campaign to transform an under-utilized public site into a community asset.

The project developers envisioned a suite of "cradle-to-career" programs occupying the ground floor commercial space. At the time of construction, MEDA and CCDC had designated one ground floor space for an early learning center and another space for PODER, a leadership development program that organized the campaign to build the adjacent park. MEDA and CCDC then issued a request for qualifications (RFQ) to identify a tenant for the remaining space, prioritizing programs benefiting low-income youth and families.

Through this process, two youth development organizations, Youth Speaks and First Exposures, were selected to lease 4,700 square feet at a below-market rent for up to 35 years. Both organizations empower young people to express themselves through storytelling, with Youth Speaks focusing on literary arts and spoken word education programs and First Exposures on photography. A long-term lease at Casa Adelante offered security of place to both organizations, addressing their historical challenges of finding a permanent home in San Francisco.

Although Youth Speaks and First Exposures entered into separate leases, the organizations collaborated on fundraising, design, and project management and created agreements to share program and common areas during operations. After successful lease negotiations, a joint capital campaign raising nearly $2 million, and the completion of a significant tenant improvement project, Youth Speaks and First Exposures began their programs at Casa Adelante in the summer of 2022. The space now offers a safe, vibrant, and transformative environment for youth to participate in arts education and mentorship programs.

Project Overview	
Building Name	Casa Adelante
Location	2060 Folsom Street, San Francisco, CA
Residential Developer	Mission Economic Development Agency (MEDA) and Chinatown Community Development Center (CCDC)
Total Residential Units	127 Units
Total Commercial Square Feet	12,400 SF
Profiled Tenants	Youth Speaks and First Exposures
Tenant Square Feet	4,737 SF
Year Completed	2022
Lease Terms	34 Years, 11 Months (including options) This lease term was set to avoid triggering real estate transfer tax. Below Market Rent

Tenant Selection and Lease Terms

At the time the RFQ was released, Youth Speaks and First Exposures were both struggling to identify a stable location for their programs. Youth Speaks' rent had recently increased by 60%, while First Exposures had moved six times in the prior two decades. Introduced to each other by their real estate advisors at Community Vision, Youth Speaks and First Exposures took the risk and decided t jointly respond to the RFQ issued by MEDA and CCDC with a vision to share the ground floor space at the project to create a hub for youth storytelling.[1]

After a successful proposal, the two organizations signed a MOU with MEDA and CCDC, which defined shared goals and each party's role in the project. The organizations then agreed to a letter of intent (LOI) outlining the key business terms of the lease. Lease negotiations followed the LOI and continued for roughly 18 months.[2] Finally, in the summer of 2021, the leases were signed. The final leases provided both organizations with a nearly 35-year term, including options, and a below-market rent, consistent with the terms outlined in the LOI. The space was to be delivered to the tenants in a warm shell condition, with basic improvements such as HVAC, concrete flooring, plumbing, and toilets. Youth Speaks and First Exposures were then responsible for completing the build-out of the space to their requirements.

Casa Adelante's financing influenced the lease terms that the housing developers offered Youth Speaks and First Exposures. MEDA and CCDC financed the commercial component of the project separately from the residential units, with a loan from the San Francisco Mayor's Office of Housing and Community Development (MOHCD) specifically for the development of community-serving commercial space within City-funded affordable housing properties. Flexible repayment terms from MOHCD allowed MEDA and CCDC to offer a below-market rent to the nonprofit tenants for an extended lease term. MOHCD's underwriting policies also led the developers to deliver the space in a specific warm shell condition, as this represented the maximum level of improvements that could be funded from loan proceeds.

Design and Construction

Youth Speaks and First Exposures were chosen as tenants after MEDA and CCDC had finalized the design of the warm shell space. In retrospect, the directors of Youth Speaks and First Exposures lament missing the opportunity to provide input on the warm shell design. Early consideration of their specific needs might have averted the costly relocation of the mechanical system and other existing improvements, which ultimately became part of the tenants' construction scope.

The tenants' construction project added new purpose-built spaces such as a darkroom, classrooms, and performance space, and made necessary upgrades to the warm shell improvements to accommodate these uses. For the nonprofit tenants, completing the improvements was a major undertaking that went far beyond the organizations' daily work of running youth development programs. Fortunately for them, the executive director of Youth Speaks had experience managing a capital project for another youth organization. They did engaged a construction manager to oversee the project, an architect to design it, and a general contractor to build it.

To fund the cost of tenant improvements, the organizations launched a joint capital campaign. The project received a $565,000 capital grant from the City and County of San Francisco's innovative Community Cornerstones program (managed by Community Vision), specifically targeted to nonprofit organizations locating on the ground floor of affordable housing developments. The City's grant was an early and important source of funding that helped the organizations attract philanthropic support. Funders were also excited to see two organizations work together to leverage assets.

Youth Speaks and First Exposures opened their doors in the summer of 2022. While each organization holds a lease for roughly half of the total floor area, they share program areas and common areas, governed by an operating agreement. Directors of both organizations acknowledge they are still learning how to share space and be mindful of each organization's needs. The organizations are also adapting to being part of a mixed-use project, navigating relationships with property management and building residents.

Reflections

The organizations devoted significant time and resources to the build-out of their space, capitalizing on a variety of organizational strengths, including one director's real estate experience and a collaborative fundraising approach. Through their efforts, the organizations gained security of place with a long-term, below-market lease and joined a growing ecosystem of community-based organizations located at Casa Adelante and other newly built affordable housing developments in the neighborhood. This collective presence serves as a formidable line of defense against displacement.

Sources

Interview with Cristy Johnston Limón (former executive director of Youth Speaks), May 2023

Interview with Michelle Lee (Youth Speaks) and Erik Auerbach (First Exposures), June 2023

Endnotes

1 It's worth noting that the Youth Speaks/First Exposures collaboration has been successful for at least two reasons. 1) The organizations' have similar missions (youth mentorship and empowerment through the arts); and 2) the support of community real estate advisor like Community Vision.

2 One of the factors that complicated lease negotiations was the involvement of multiple stakeholders: two housing developers and their lenders, two nonprofit tenants, as well as First Exposures' fiscal sponsor. It is important to have all parties engaged and committed to supporting the nonprofit tenants throughout the leasing process.

Case 2: SOMOS Mayfair

Introduction

In 2016, RCD embarked on its inaugural project in San Jose, having identified a site in the Mayfair neighborhood of East San Jose. Seeking local partners, RCD connected with SOMOS Mayfair (SOMOS), a grassroots, community-based organization with a 20-year history in the neighborhood. SOMOS helped facilitate a community-driven process that shaped the planning and development of the Quetzal Gardens housing project. Local zoning regulations required the project to provide a minimum amount of ground floor commercial space. To determine the best use for this space, SOMOS and a resident advisory committee conducted a needs assessment, which revealed two key priorities: childcare and support for small businesses.

SOMOS has experience operating early learning programs and was actively seeking a new location for programming and administrative space. Recognizing the potential alignment, SOMOS and RCD decided to explore the opportunity for SOMOS to locate on the project's ground floor. RCD and SOMOS eventually agreed upon a 15-year lease term, including renewal options, at a significantly below-market rent. From that point forward, SOMOS engaged in the project as a future tenant while continuing to support the community engagement process.

Now completed, Quetzal Gardens contains 71 units of affordable housing along with 9,000 square feet of ground floor commercial space anchored by SOMOS, along with a nonprofit credit union and a small business development program operated by the Latino Business Foundation Silicon Valley (LBFSV). The 7,096-square-foot SOMOS space serves as the organization's headquarters, with administrative offices for staff and a family resource center that engages families in early learning and leadership development programs.

Project Overview	
Building Name	Quetzal Gardens
Location	7 N King Rd, San Jose, CA
Residential Developer	Resources for Community Development
Total Residential Units	71 Units
Total Commercial Square Feet	9,000 SF
Profiled Tenants	SOMOS Mayfair
Tenant Square Feet	7,096 SF
Year Completed	2022
Lease Terms	15 Years, Below Market Rent

Tenant Selection and Lease Terms

RCD and SOMOS had already built a relationship through SOMOS' role in the community engagement process. As a result, RCD understood SOMOS' importance to the Mayfair neighborhood before entering lease negotiations.

RCD and SOMOS first drafted an MOU that defined an initial development concept and each party's role in completing the ground floor space. RCD also conducted due diligence to verify SOMOS' financial readiness to enter into a long-term lease. The parties then commenced lease negotiations, which continued for well over a year, with SOMOS receiving pro bono legal support.[1] In hindsight, SOMOS' co-director believes that clarifying business terms at the outset could have helped expedite lease negotiations. The final lease provided SOMOS with a below-market rent for a 15-year term, inclusive of renewal options. Fifteen years is typically the maximum term length that RCD offers community-serving commercial tenants, although the nonprofit developer is committed to considering lease renewals if the space continues to align with the tenant's needs.

As specified in the agreement, RCD was responsible for designing, building, and funding a turnkey space tailored to SOMOS' programmatic needs. Leveraging a combination of Low-Income Housing Tax Credits and other public funding sources, RCD secured key funding to complete the build-out of the SOMOS space. RCD was able to include the build-out cost of the SOMOS space in the basis of the project's Low-Income Housing Tax Credits allocation by categorizing the space as a qualified community service facility, as defined by the Internal Revenue Service (IRS). It is important to note that community service facilities, per IRS requirements, must primarily serve low-income beneficiaries. To demonstrate compliance, SOMOS must file an annual report detailing the number of low-income residents served by its programs.

SOMOS also collaborated on fundraising for the project. Notably, SOMOS secured a $500,000 Community Project Funding grant from the federal government at the request of the organization's congressional representatives. While federal funds were not available in time for construction, the funds will go towards programs and staffing at the new facility and potentially future enhancements to the leased space or common areas. SOMOS' former executive director says the organization could have played an even greater role in project fundraising had RCD shared more information about the project's funding needs earlier in the process.

Design and Construction

Although RCD was ultimately responsible for designing, permitting, and building the SOMOS space, SOMOS was an active participant throughout the process, providing meaningful input on the design of the space. As one example, the original design would have yielded a maximum of 5,000 square feet for SOMOS. When the organization determined that it needed more space, RCD's architects added a mezzanine, bringing the total floor area to over 7,000 square feet. SOMOS engaged a pro bono architect to coordinate with RCD's architect on interior design. Having a third-party architect was helpful, according to SOMOS' co-director, because it allowed the organization to develop a more robust vision for the space while working collaboratively with RCD's design team.

SOMOS opened its headquarters at Quetzal Gardens in the summer of 2022. Transitioning from a standalone building to a mixed-use development has sparked a period of learning and adaptation for SOMOS. For example, the organization now shares an entry with another commercial tenant and must coordinate building access when operating hours do not align. The organization is also learning how to best serve residents of Quetzal Gardens, who come from various communities across the county—a shift from SOMOS' historical focus on serving longtime residents of the neighborhood.

Reflections

SOMOS and RCD built a relationship based on each organization's strengths. RCD assumed project responsibilities aligned with the housing developer's real estate expertise, but they gave SOMOS the opportunity to shape the design of the project to reflect community priorities and, in the case of the ground floor space, the organization's real estate requirements. The resulting ground floor space at Quetzal Gardens adds capacity for SOMOS' programs in a high-quality facility that is accessible to transit. The space also acts as an entry point for the Mayfair community to continue engaging with Quetzal Gardens now that the project is complete.

Sources

Interview with Saúl Ramos (Co-Executive Director, SOMOS Mayfair), June 2023

Interview with Camille Llanes-Fontanilla (former Executive Director, SOMOS Mayfair), July 2023

Interview with Breann Gala (Director of Community Development, RCD), June 2023

Endnotes

1 SOMOS' attorney provided a thorough review of the lease and suggested numerous improvements to the lease template that will inform RCD's future ground floor projects, such as Healthy Black Families in Berkeley.

Case 3: Healthy Black Families

Introduction

In 2017, the Cooperative Center Federal Credit Union (CCFCU) decided to sell its property at 2001 Ashby Avenue in Berkeley. Throughout its history, CCFCU centered social and economic justice in its mission. It led efforts to combat redlining in the 1960s and 1970s through the creation of a home loan program. However, the neighborhood's struggle with gentrification and displacement led to a shrinking customer base and to CCFCU's decision to sell the property and relocate to a smaller footprint location closer to its customers.

The site sits on a prominent intersection across from the Ashby BART station in Berkeley, attracting a lot of interest from real estate developers. CCFCU reviewed numerous proposals, including market-rate, for-profit projects as well as projects with a mix of affordable and market-rate units.

For RCD, this site presented an opportunity to build housing for large families who can no longer afford to live in that neighborhood and who face displacement or those who've been displaced want to return to South Berkeley. They submitted a proposal for a 100% affordable building with commercial space to host a nonprofit that could provide services to families at risk of displacement as well as to the tenants of the new residential building. The new building is set to have 86 rental units affordable to households earning between 20% and 60% of the area's median income, as well as one manager's unit.

CCFCU chose the RCD proposal because of its commitment to all affordable units and its strong commitment to fighting gentrification and displacement. In 2019, CCFCU entered into a contract to sell the site to RCD.

Because of its deep affordability, the project won expedited approval under SB35, a California state law that lets cities push affordable housing projects through the permitting process much faster because they are not subject to the typical zoning and design review process.

Project Overview	
Building Name	Maudelle Miller Shirek Community
Location	2001 Ashby Avenue, Berkeley, CA
Residential Developer	Resources for Community Development
Total Residential Units	87 Units, incl. manager's office
Total Commercial Square Feet	1080 SF
Profiled Tenants	Healthy Black Families
Tenant Square Feet	1080 SF
Year Completed	Spring 2024
Lease Terms	15 Years, Below Market Rent

Tenant Selection

RCD has been based in Berkeley since its inception, giving the organization a strong reputation and an extensive community network. They know the market and community stakeholders well. Even with their rootedness in community, when the development opportunity arose, RCD immediately initiated an extensive community engagement process to ensure the stakeholders had a say in the development of the site.

RDC met with numerous community leaders, community-based organizations, elected officials, business owners, business associations, residents, etc. Healthy Black Families (HBF) was frequently brought up during those conversations as an organization doing impactful work in South Berkeley. While HBF was only formally established as an organization in 2013, its board of directors had been working in the neighborhood for several decades.

After a few meetings between the two organizations, they entered into a LOI for HBF to become a tenant of the commercial space on the ground floor. The LOI called for RCD to build the warm shell of the commercial space and to offer below-market-rate rent. However, RCD would be responsible for the costs of the design, construction, and financing of the tenant improvements.

Design and Construction

Following LOI execution, Community Vision helped HBF to secure pro bono design services. Fog Studios helped HBF through the conceptual and schematic design of the space. This allowed HBF to ensure that the space met its programmatic needs and build cost conscious design solution.

The costs of the tenant improvements were originally estimated at $100,000 to $245,000, depending on a variety of space features. HBF settled on a budget of $125,000. These estimates were inclusive of soft costs and fixtures, furniture, and equipment (FF+E).

As refinement of the tenant improvements design progressed, RCD and HBF negotiated a MOU which further defined the terms of the LOI and delineated in more detail the business terms such as term and lease structure, rate, and term.

This was a dynamic period for HBF as it was undergoing leadership changes at both the board and executive team levels. RCD remained supportive of the organization but was also concerned about the potential impact on the project due to HBF's organizational changes. As a result, the MOU outlined specific expectations for HBF related to the project, such as requiring a fundraising plan and establishing fundraising milestones. Concurrently, RCD assumed more responsibilities related to the design and construction of the commercial space. RCD's architect built on Fog Studio's conceptual design, creating subsequent design sets, and RCD took over the construction management of the tenant improvements. As a result, the total costs of the tenant improvements were significantly lower for HBF. Most importantly, having RCD take on these duties significantly reduced the burden on HBF to build the capacity needed to carry out a capital project of this magnitude.

The MOU was executed in May 2021, and construction is expected to be completed in September 2024.

HBF achieved its fundraising milestones related to the capital project. Final lease negotiations began in earnest in early 2024 with the goal of having the lease in place by the end of spring. The lease will include the terms negotiated in the MOU. Community Vision secured pro bono council (Gibson, Dunn & Crutcher LLP) to support HBF through the lease negotiations and review. The Gibson team had previously supported SOMOS Mayfair's negotiations with RCD for the lease of the commercial space at Quetzal Gardens, so they are familiar with RCD's preferred terms and approach.

Reflections

This project provided an opportunity to bring together two (or three, if you count the original landowner) Berkeley-based organizations to work toward addressing the gentrification and displacement faced by South Berkeley residents. For HBF, this project represented an opportunity to secure an affordable, permanent space in a central, transit-friendly location and to ensure that the space met its long-term programmatic needs. While the original agreement between the organizations called for more intensive involvement by HBF on the design and construction of the space, adjustments were made along the way to reduce the burden on HBF while still allowing for control over the overall design of the space to ensure it met its long-term programmatic needs. RCD remained committed to HBF through leadership changes, and HBF remained committed to the project throughout.

Sources

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Interview with Nicole Brown (Project Manager, RCD), November 2023