Livable Places **Update**

Emerging Trends in Community Planning and Design

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The Potential Role of Small Investors in Local Job Creation: Why invest in the stock market when you can invest in your own community? This is a question California USDA Director Glenda Humiston asked when she explored how we might finance new business enterprises in California that would be based on the state's precious and unique agricultural resources.

According to Humiston, a featured speaker at this year's Ahwahnee Conference, much of the high quality foods grown on local soils is currently being shipped outside of the U.S. for processing – picture locally-grown fruits and nuts being sent to businesses in Asia where they are coated with chocolate or sugar, wrapped in attractive packaging, and sent back to be sold in a local super market. Glenda asks the question, why don't we keep those jobs and profits here?

She discovered one important answer. A major barrier to establishing value-added businesses is that it's very difficult to finance them. Undeterred, Humiston then took a look at the billions sitting in the IRAs of local residents and wondered what it would take to allow local residents to invest some of their money in local businesses, rather than sending it to large investment firms that they don't always trust.

That question led her to research and produce a new financing resource titled, *Access to Capital: Growing Local Businesses, Financing Entrepreneurs, Building Strong Economies.* The document is available to be downloaded free of charge by visiting www.rurdev.usda.gov/Reports/CA-CalFOR.pdf

This groundbreaking document notes that "if Americans shifted just 1% of the $30 trillion they hold in long-term investments to small businesses, it would amount to more than 10 times the Venture Capital invested in all of 2011." Given the poor record of the investment community in the past few years, investing locally seemed to be an idea worth considering!

One of the interesting sources of capital noted in Humiston's document is crowdfunding, a collective effort of individuals who network and pool their money, usually via the Internet, to support efforts initiated by other people or organizations. Crowdfunding has been used recently in support of a wide variety of activities, from disaster relief to startup companies. It could be used to finance food trucks, small grocery stores, restaurants, and other amenities that make our communities more economically vital and more livable.

Last year, Congress approved a new "Jumpstart Our Business Startups Act" (the "*JOBS Act*"). This legislation provides a new "crowdfunding" exemption from state and federal securities law registration. The primary benefit of this new exemption is that companies will be able to obtain small investments from an unlimited number of investors, whether accredited by the SEC or not, provided certain conditions are met. There are limitations on how much one person can invest, depending on their income and a maximum of $1 million dollars per project can be financed through this mechanism.

Meanwhile, on the other side of the country, two young developers - the Miller brothers - had been asking the same question, why can't people invest in real estate in their own communities? These sons of a well-known Washington, D.C. developer had begun to acquire properties in a poorer neighborhood of town. They wanted to renovate buildings in the area and begin to turn its financial future around, but it was a place that would never attract capital from a bank or other large-scale investor. http://www.theatlanticcities.com/neighborhoods/2012/11/real-estate-deal-could-change-future-everything/3897/

The current system requires that to get into the real estate investment game, you have to know the right people and have enough money – six or seven figures worth. Though they have the right connections to fund the project through friends, the Millers thought local residents should have the same right to make real estate investments in their community. They set out to find a way to make that happen.

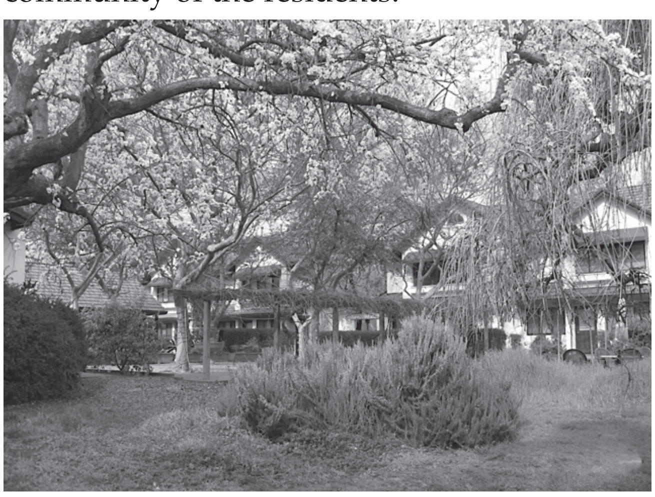
It was hardly an inexpensive venture! They began their quest prior to the adoption of the JOBS act, thus it took thousands in attorneys' fees to come up with a solution. But today the precedent has been set. The brothers found a little-used SEC mechanism – Regulation A – that permits businesses or individuals to provide small offerings to unaccredited investors. The only drawback is that Regulation A requires the entity providing the stock offering to submit extensive, time-consuming paperwork to state and federal regulators. Fortunately, the Millers were motivated and could afford to take on the challenge.

In August of last year, these young developers successfully took a single building on H Street in Washington D.C. and offered it to the public (https://fundrise.com/offerings/1/view) as a stock offering. Using a new company they established called Fundrise (https://fundrise.com/), the Millers invited anyone living in the area – accredited or not – to invest online in this one building and its future business for shares as small as $100. It was a public offering qualified by the Securities and Exchange Commission. Within about 3 months 175 people had together invested $325,000, enough to fund a third of the entire project. Fundrise has given its small investors a share of ownership in the H Street building along with a stake in 30 percent of potential profits in the business occupying the space. Rent alone on the 10-year lease is projected to yield an 8.4 percent annualized return on investment. If the rest of this experiment works like the Millers hope it will, their idea could be applied widely, in communities everywhere.

The Miller's mechanism for local investment and job creation is reportedly now being promoted by a former Los Angeles City Council president running for Mayor of Los Angeles. Councilmember Eric Garcetti found out about Fundrise through a mutual friend and is working the concept into his campaign speeches as a potential job development tool.

According to Councilmember Garcetti, "There's a real disconnect between capital flows in real estate and the communities to which money and opportunity go." Responding to concern that the average citizen would not be able to make good judgments about where to invest their money or be afraid to take the risk, Garcetti says, "In neighborhoods like mine where people are very savvy about the particular grind of the particular kind of coffee that's in a particular café, I think they're going to be pretty well-informed real estate investors." (http://www.theatlanticcities.com/neighborhoods/2012/11/real-estate-deal-could-change-future-everything/3897/)

Back in 1975, young developer Mike Corbett took a somewhat different tactic. The Village Homes mixed-use development had incorporated a small commercial center with a restaurant, offices, apartments, and a dance studio. Because it's such an integral part of the community, there was concern that private investors could take it over and make decisions that would not be in the best interest of the neighborhood. We also felt that sharing joint ownership of amenities would increase the sense of community of the residents.



Residents own the commercial center in Village Homes.

Initially, the SEC challenged the concept, stating that this idea amounted to the illegal sale of stocks. However a creative attorney developed a mechanism - the establishment of a for profit entity, wholly owned by the nonprofit homeowner's association, with all profits reinvested in the neighborhood. The attorney was able to make the case that this would be no different than a homeowner's association owning its own community pool and would therefore not be an illegal stock offering.

Study Reveals Economic Impacts of Parking Decisions: In the past, city leaders have required developers to include parking when they propose projects downtown. Sometimes the city has built the additional parking themselves. These city leaders have had only the best intentions, taking this action in the belief that more parking would bring more people downtown and help retail businesses compete with surrounding suburbs.

Recently, researchers at the University of Connecticut decided to check out whether providing abundant downtown parking actually does improve the economic vitality of the district. As it turned out, in the six communities that they studied, abundant parking has had quite the opposite effect!

The researchers compared outcomes in New Haven, Hartford and Lowell where the parking supply doubled between 1980 and 2000, and Berkeley, Arlington and Cambridge, where the supply of parking spaces leveled off. Their study revealed that cities where surface parking was limited were more economically vital, with more people spending time and money in the city center and more jobs!

According to University of Connecticut professors Norm Garrick and Chris McCahill, cities with higher rates of driving have fewer people per square mile, "a difference of more than 4,000 people per square mile for each 10 percent change in auto use." This is because more land dedicated to the automobile means less space for shops, restaurants, jobs, and "other things that make cities great."

Residents of those cities that limited parking have higher median family incomes and they actually own more cars. The secret is, they don't use them as much. They live closer to the urban core, there is less distance between residential and commercial areas, a better pedestrian environment, and more public transit. By contrast, cities with about twice as much land committed to parking for residents and employees have about 30 percent more auto use. This is true, even in lower income areas where residents have less ability to support a car. The problem is, they just can't get around without one.

The authors conclude, "If the function of parking in these places was to enable growth and development, the data suggests they were abysmal failures. . . Today, these places still struggle to compete in their regions." For more info: http://www.theatlanticcities.com/commute/2013/02/cars-and-robust-cities-are-fundamentally-incompatible/4651/

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