NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS

NALCAB

Equitable Commercial Revitalization:

Strategies for Anticipating Gentrification and Preserving Small Businesses

Revitalization of low- and moderate-income communities creates opportunities for existing residents and small businesses owners. However, the influx of capital also creates challenges, including the threat of gentrification. NALCAB defines gentrification as real estate price appreciation that leads to involuntary displacement and significant cultural change. Gentrification is commonly associated with the housing market. However, the impacts go beyond the availability of affordable living spaces and affect multiple aspects of a neighborhood, including commercial real estate and small businesses. As a neighborhood changes, businesses encounter a variety of new challenges as they try to adapt, including rising rents and changing clientele. Small businesses are significantly more vulnerable than large businesses to the negative effects of gentrification, particularly displacement. Small businesses owned by Latinos, immigrants, or other minorities face additional systemic and cultural barriers as they try to maintain and grow their businesses in a changing environment.

The consequences of gentrification for low- and moderate-income communities that have historically not received much public or private investment can be dramatic and long-lasting. Just as we know that access to diverse neighborhoods with growing economic and educational opportunities can shape the trajectory of a child in a profoundly positive way, we also know that housing instability and limited access to quality educational opportunities can shape the rest of their lives in negative ways. The impacts on small business, especially those that rent their commercial space, can lead to equally devastating consequences. Gentrification has particularly pronounced effects in vibrant commercial corridors that offer cultural products, goods, and services, and that are attractive nodes of social activity and entertainment. Many of these corridors are located in and around our urban cores with great accessibility and lower-cost housing stock.

Latino- and Immigrant-Owned Businesses: Essential to the US Economy

The definition for a small business varies significantly across the private sector, government entities, and communities. For the purposes of this report, a small business is defined as an independently owned and operated business, typically with fewer than 100 employees and less than $25 million in revenues, whose owner(s) exercises close control over operations and decisions.

The small business sector is a key pillar of the US economy and business development is an important path to wealth creation and economic securing. Businesses in their first five years of existence are credited with being the primary source of net job creation in the United States. For Latinos in particular, small business development and self-employment have an outsized economic importance and an even greater potential. Latino entrepreneurship represents an *opportunity* for local economies. A 2013 US Hispanic Chamber of Commerce study shows the number of Latino start-ups increased 6.66% from 2007-2013; a full 3.5% more than the overall population. Since 2002, the number of Latino firms has doubled to 3.1 million and, in 2013, Latino businesses contributed $468 billion to the economy.[1] According to the Kauffman Foundation's Index of Entrepreneurship, Latinos and immigrants demonstrate higher rates of entrepreneurship than any other major demographic segment.

Anticipating Gentrification and Protecting Small Businesses

For many, gentrification appears to be the result of uncontrollable private sector investment. However, gentrification is not the inevitable result of investment in a neighborhood. The flood of interest from private developers and investors that drives gentrification is often catalyzed by public policies or major public investments, both of which require decisions by elected leaders and public officials. When public sector decision-making is informed by market data, historical context, and community voice, more equitable policies and investments can be made. Policies and investments aimed at revitalization and growth can and should be balanced with policies and investments that address the needs and opportunities of low- and moderate-income people and other populations that are potentially vulnerable in an appreciating real estate market. The following sections provide guidance on how to anticipate neighborhood change and gentrification, identify small businesses that are vulnerable to being displaced, and develop strategies for preserving small businesses.

Analyzing and Anticipating Neighborhood Change

The drivers of neighborhood change, and gentrification, vary across markets. Creating the conditions for neighborhoods to revitalize without causing gentrification requires organizing, policy, programmatic, and investment strategies that are based on knowledge about how and why neighborhoods change over time, including data-driven projections of how real estate market activity and the location of residents vulnerable to displacement pressures might shape neighborhoods moving forward. To anticipate neighborhood change, NALCAB uses the following process:

A. Identify the factors that cause neighborhoods to change by drawing on local knowledge about how politics, economics, history, and culture shape development and population movements in a community; and collecting, analyzing, and mapping socioeconomic, demographic, housing, and investment data.
B. Analyze the factors causing change to understand where development and real estate price appreciation are likely to occur in the future.
C. Anticipate the impact and implications of real estate market changes for residents and small businesses.

<u>A. Identifying Catalysts for Neighborhood Change</u>

Across the communities that our members serve, NALCAB has found that some mix of the following factors usually drive neighborhood change:

- Proximity to neighborhoods that are experiencing significant demographic change and housing price appreciation
- Catalytic public and private investments

[1] United States Hispanic Chamber of Commerce, "Hispanic Businesses & Entrepreneurs Drive Growth in the New Economy", 2013, http://ushcc.com/wp-content/uploads/2013/09/Geoscape_HispanicBusinessOwners_FINAL.pdf.

- Housing affordability, namely, low-cost housing stock adjacent or near to amenities, opportunities, and/or higher-cost neighborhoods
- Access to amenities and opportunities, including but not limited to
    - commercial districts,
    - public transit,
    - employment nodes,
    - recreational opportunities, and
    - diversity and culture
- Availability of land for development
- Public policies and incentives

Market Appreciation and Demographic Trends

One element of anticipating real estate market activity and demographic changes in neighborhoods is to look at past trends across neighborhoods and consider how those trends might continue or spread to other areas. There are a variety of academic and practitioner-based studies that attempt to measure changes commonly associated with gentrification. From these studies, NALCAB has identified five indicators from the Decennial Census and American Community Survey (ACS) that we use to measure how neighborhoods have changed in ways that might indicate displacement has already occurred, or might occur if trends continue:

- (1) Median Owner-Occupied Home Value and (2) Median Gross Rent — to show how real estate prices have changed.
- (3) Median Household Income — to show if real estate price appreciation correlates with increases in household income.
- (4) Population 25 years or older with at least a bachelor's degree — to show whether increases in median household income are from higher paid newcomers moving into a Census Tract, or existing residents being paid more, since higher educational attainment broadly correlates to higher incomes, and relatively few individuals achieve higher education credentials after the age of 25.
- (5) Race/Ethnicity — to show whether demographic shifts are due to changes in the racial/ethnic composition of Census Tracts. This is good indicator of whether increasing incomes are due to newcomers to a neighborhood or improvements for existing residents.

In neighborhoods with large demographic shifts over time, it may be useful to dig down into the changes and try to understand if they are the result of new people moving in, existing residents moving out, or a combination of both.

Public and Private Investment

Experiences in cities across the country suggest that significant demographic and economic changes in neighborhoods are often driven by catalytic investments made or facilitated by public entities, which then attract subsequent investment from private actors. By tracking and mapping the location of large investments and clusters of smaller investments, connections can be drawn between investments and price and demographic changes in neighborhoods. Investment and development activity to track include:

- Large public infrastructure projects, including transit systems and roadways.
- Large housing and/or commercial development projects, publicly or privately funded.
- Expansion of public or private institutions, including hospitals and museums.
- Zoning changes.

It is also important to understand the characteristics of potentially catalytic investments in order to anticipate the possible impacts on existing small businesses and residents. Individual investments can be analyzed by looking at the following factors:

- Project name and address
- Names of owners and developers
- Total cost of project and amounts/sources of funding, including any public incentives
- Development type (residential, mixed use, industrial, park, transit, etc.)
- Construction type (new construction, rehabilitation, etc.)
- Year built or anticipated completion date
- Development details for housing or commercial properties: number and types of units, rents or sales prices, affordability restrictions

Affordability

Housing affordability affects where individuals live. It also determines, in part, where developers focus their efforts. If profit is a motivating factor for a developer, they will look to areas where land is relatively cheap and enough demand, or the potential for enough demand, exists for them to purchase, develop, and rent or sell their product at a profit. Understanding how market dynamics differ across a city matters when determining what equitable development strategies will fit a particular neighborhood.

The Affordability Gap Analysis calculates who can afford the cost of housing based on their income. The tool can be used for homeowner or rental housing. It can measure affordability in a single development, a neighborhood, or an entire city. Depending on the availability of data, affordability can be calculated for individuals based on a variety of factors, including their occupation, family size, education level, etc.

Example:

Tucson MSA occupational categories in May 2015, as a percentage of total employment (from U.S. Bureau of Labor Statistics):

1. Retail Salespersons, 3.2% (11,510)
2. Customer Service Representatives, 3% (10,820)
3. Combined Food Preparation and Serving Workers, Including Fast Food, 2.7% (9,490)

Affordability Gap: Tucson, AZ metro area – First Quarter 2015 Homeownership Market

Occupation	Median Income	Median Home Price	Annual Income Needed	Affordability Gap
Retail Salesperson	$18,307	$155,000	$42,242	-$18,307
Customer Service Rep.	$32,844	$155,000	$42,242	-$9,398
Food Prep Worker	$22,560	$155,000	$42,242	-$19,682

Source: National Housing Conference (NHC) Paycheck-to-Paycheck Tool

Affordability Gap: Tucson, AZ metro area – First Quarter 2015 Rental Market

Occupation	Median Income	30% Monthly Median Income	2 BR Fair Market Rent	Affordability Gap	One West Apts. Avg. Asking Price/Unit*	Affordability Gap
Retail Salesperson	$18,307	$458	$822	-$364	$1,999	-$1,541
Customer Service Rep.	$32,844	$821	$822	-$1	$1,999	-$1,178
Food Prep Worker	$22,560	$564	$822	-$258	$1,999	-$1,435

Source: National Housing Conference (NHC) Paycheck-to-Paycheck Tool, CoStar

**One West Apartments: Near Convention Center, at E Broadway Blvd and S Stone Ave. Year Built: 2016. Located within a rapidly changing census tract (Census Tract 1).*

Access to Amenities and Opportunities

Access to amenities (parks, grocery stores, etc.) and opportunities (good schools, employment, etc.) is an important driver of real estate market activity. Cultural assets are particularly important in low-income communities. Understanding which assets exist in and around a neighborhood, and how those assets impact housing demand and real estate market activity, is crucial to developing equitable neighborhood development strategies. Assets can include:

- Residents, including those with particular skills, knowledge, or experience
- Community-serving small businesses
- Vacant land and buildings
- Land and buildings owned by public entities
- Land and buildings owned by nonprofits
- Financial institutions

- Development incentive zones
- Healthcare facilities
- Educational institutions
- Public transportation routes and stations
- Subsidized housing
- Historical monuments
- Social service providers
- Cultural institutions
- Civic groups
- Places of worship
- Parks and recreational facilities
- Grocery stores
- Major employers
- Commercial corridor

Policies and Incentives

Public policy and development incentives shape where and how development happens and who it benefits. In order for equitable development to take place, there must be balance between economic growth-oriented policies and policies to prevent displacement, preserve residential and commercial real estate affordability, and connect low- and moderate-income households and small-businesses to economic opportunities.

Development Opportunities

The availability of land and buildings for development helps determine if development can occur in a neighborhood at a scale that can significantly impact real estate prices. Two types of property that may be targeted for development are:

- Vacant land and properties. The availability of vacant land or buildings may present opportunities for development, especially in cities that incentivize market rate development on vacant parcels.
- Subsidized properties with expiring affordability covenants. Many types of subsidized affordable housing have limits on the amount of time they must be kept affordable to certain income levels. Once those affordability restrictions are lifted, owners can choose to raise housing costs to whatever price the market will support. In areas with high housing demand, the potential for higher profits is an incentive for owners to renovate buildings and raise rents, or sell properties to an entity that will do so.

<u>B. Anticipating Market Activity and Price Appreciation</u>

Once you have collected and analyzed the data on housing and demographic trends, public and private investment activity, affordability, assets, public policies, and development opportunities, put it all together to anticipate where future development and investment might occur. Use the questions below to guide your analysis.

What parts of your community have experienced the following?

- Housing prices increasing faster than the regional average
- Household incomes, educational attainment, and the percentage of white households relative to non-white households increasing faster than the regional average
- A concentration of public and/or private investment

Do any of those neighborhoods, or neighborhoods adjacent and accessible to those areas, have any the following characteristics?

- Housing that is affordable relative to other parts of the region
- Proximity to assets like cultural institutions, jobs, parks, good schools, transit lines, and small business corridors
- Availability of land or buildings that could be purchased by developers looking to construct or rehabilitate housing or commercial space

Are there any policies or incentives in place that do the following?

- Help developers that want to build or renovate properties for market-rate housing or commercial spaces?
- Help developers that want to build or preserve affordable housing or affordable commercial spaces in those neighborhoods?
- Protect existing residents and business owners from involuntary displacement?

Impact of Neighborhood Change on Small Businesses

The demographic changes that can accompany gentrification pose unique challenges for small businesses that serve low- and moderate-income residents. In gentrifying neighborhoods, old customers may move away and new customers may want a different product. No longer seeing demand for their services and having to pay higher prices for real estate might lead small businesses to relocate, close, or offer different products to meet the new local demand. When gentrification displaces small businesses, or leads them to offer goods and services tailored to higher-income customers, low-income residents may no longer be able to access or afford the goods and services they need. Small business displacement may also result in items no longer being available at all, particularly specialty items for ethnic groups and immigrant communities.[2]

NALCAB has worked with local member organizations to better understand the impact of neighborhood change in the predominantly Latino and immigrant communities they serve. Though neighborhood change can result in many positive and negative changes within a community, there are some factors that make small business owners more vulnerable to its effects and potentially displacement:

- **Dependence on clients that live in the surrounding immediate community** — The demographic changes that accompany gentrification can pose challenges for small businesses that serve low- and moderate-income clients that live near the business. As people move in and out of neighborhoods, community-serving small businesses experience changing demand patterns. This can force small business to relocate, close, or offer different products to meet changing demand.
- **Small business owners that rent space** — Many small business owners do not own their property. In changing neighborhoods, commercial rents — like residential rents — might

[2] Sharon Zukin, "New Retail Capital and Neighborhood Change: Boutiques and Gentrification in New York City," *City and Community*, 8:1 (March 2009):61.

increase as landlords see an opportunity to make more profit or meet increased tax obligations. Small businesses that do not have a binding lease or operate in jurisdictions without legal protections for tenants are particularly vulnerable to sudden rent increases or eviction. Additionally, not owning the property in which their business operates is a challenge for business owners who want to make improvements to their physical space in order to grow their business or adapt to changing demand.

- **Limited access to capital** — Small business loans are subject to high transaction and underwriting costs relative to potential earnings for lenders. Due to this, traditional lenders are less likely to offer small business loans. This makes it more difficult for small businesses to access the capital necessary to grow and maintain a business. When this financial disconnect is combined with a lack of familiarity with the legal system, tax law, local codes, and standard accounting practices, business owners are left vulnerable to unanticipated costs and predatory business dealings.
- **Hostility towards informal businesses** — Gentrifying neighborhoods tend to have stricter regulations and permit requirements, requiring expensive licenses or limiting the number of permits available to street-based businesses. Those informal business owners who are unable to access the necessary documentation face potential criminal charges and fines.
- **Prioritization of mainstream brands as tenants** — Commercial land owners are often drawn to businesses such as banks, big box stores and chain-restaurants that can sign leases for over ten years and pay high rents; these extensive contracts limit the retail space available for small businesses and provide long-term competition. Further, these mainstream brands often receive incentives and tax breaks for relocation by local entities.

Although gentrification can result in significant changes for a community, the prospects of increased investment and physical improvements in a neighborhood are not inherently negative – many neighborhoods need the infrastructure improvements that typically accompany new investments. These changes can be advantageous overall. Reports from NALCAB members have indicated that some locally-owned small businesses in fact benefit from an influx of new residents and investments. It is the resulting displacement of people, small businesses, and other community institutions that creates a cause for concern. These changes could be beneficial to the quality of life in the area if the community's small businesses manage to stay in place and expand their customer base.

Strategies for Preserving Small Businesses in Changing Neighborhoods

Looking at the experiences of various small businesses in changing neighborhoods throughout the nation, including experiences shared by members of the NALCAB Network, the following strategies have been identified to help existing businesses survive and thrive in changing neighborhoods:

- Organizing and community engagement
- Technical assistance for small businesses
- Policy and advocacy for preserving and expanding small businesses

<u>Organizing and Community Engagement</u>

Community Outreach – Community engagement includes the identification of problems, opportunities, and potential solutions. Solutions should be driven from the community-up, with advocacy support from local organizations. Proactively engaging community members reduces the likelihood that community members will feel they have been ignored or left to deal with gentrification issues on their own. Including both existing and newer residents in conversations about neighborhood changes is a key component of successful community outreach. Though outside experts may need to provide input to the community, it is vital to build the experiences of the community into any planning efforts. Ultimately, public participation revolves around building trust.

Business Associations – Improving the independence of small business owners is critical to preserving small businesses. Neighborhood business associations serve as channels by which small business owners can work together to address individual and wider spread problems and successes. As a united group of small businesses, the ability to raise awareness and implement change is greater than the efforts of a single person.

<u>Technical Assistance for Small Businesses</u>

Community-based small business development organizations possess an in-depth understanding of their local neighborhood and businesses. This knowledge is based on long-standing relationships with small business owners and residents and is essential to providing culturally relevant resources. By offering technical support through local organizations, small businesses have access to a trusted resource that can help them navigate the complexities of business ownership. The types of technical assistance that are important for the success of small businesses include:

- *Facilitating property ownership* – Owning a building unlocks a key opportunity for a small business, particularly in a changing neighborhood. Not only does owning a building provide stability for the tenant, but also is an opportunity for the appreciating value of the land and space provides a chance for that business to build assets, make physical changes that can help their business grow, and potentially provide space for other small businesses to locate.
- *Legal support* – Legal assistance is critical for business owners, particularly when negotiating a lease and understanding their rights as tenants. For business owners who do not use English as their primary language, receiving assistance navigating legal terms and documents is critical to their success. Hacienda Community Development Corporation, a NALCAB member based in Portland, Oregon, developed a partnership with a small business legal clinic at Lewis and Clark University, which helps small business owners negotiate contracts, leases, and other legal agreements.
- *Financial support* – Financial support technical assistance covers a wide range of issues including grant and loan application assistance, connecting businesses to lenders, and developing a business growth strategy. Local organizations can also develop loan funds to provide loans to small business owners who cannot access affordable bank loans. Additionally, minority-owned and minority-serving small businesses represent the ideal recipients of Community Reinvestment Act funds.

- *Business development support* – Providing business development services to local small businesses can help owners adapt to the changing demographics and diversify their products and marketing to meet new demands. Potential development tactics include strategizing about how to expand the sale of a product beyond the local community by selling the product in a separate store or through the internet. Mission Economic Development Agency (MEDA), a NALCAB member based in the Mission District of San Francisco, has offered business development technical assistance for over forty years. Components of their program include developing a business and marketing plan and guiding business owners through the city permitting and licensing process, with services available in English and Spanish.

Depending on the business and the situation, the technical assistance needs may overlap multiple categories as listed here, or include other areas of focus. It should be noted that many cities have technical assistance programs of some sort available to small businesses that local organizations could connect with, build off, or model their own programs around.

Policy and Advocacy for Preserving and Expanding Small Businesses

Zoning and building codes – Available commercial space is directly influenced by zoning restrictions and building codes. Banning mixed use development places a greater limitation on where businesses can be located, and businesses may become geographically restricted if municipalities implement certain code restrictions. Additionally, some zoning prohibits businesses operated out of individual homes.

Economic Integration of Informal Businesses – Informal businesses provide important employment opportunities to low-income people of color who may face barriers to engaging in more traditional small business ventures. Formalizing businesses can provide new opportunities, including access to capital, a chance to grow, and income stability.

Construction Requirements and Development Incentives – Cities often do not have specific affordability requirements tied to the use of public funds, such tax breaks. To increase the supply of affordable commercial space reserved for locally-owned small businesses, cities might subsidize commercial real estate projects in return for the creation of affordable commercial space, or develop a mandatory requirement for a percentage of new commercial developments to be reserved for non-retail chain small businesses.

All three of these strategies are interrelated. To have successful programs supporting small businesses, especially in times of change, understanding community needs, concerns, and the local context are critical. Successful projects and programs are led by community-based organizations or through partnerships with them. Community engagement efforts inform small business development programming and technical assistance offered by local organizations and the city. In order to create the structural changes that address systemic barriers for small businesses, policy changes are needed, with an emphasis on access to capital, technical assistance, and property ownership for small businesses.