



# HOME GROWN TOOLS

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## for ECONOMIC DEVELOPMENT

[homegrowntools.unc.edu](http://homegrowntools.unc.edu)

Homegrown Tools tells the story of small towns that have successfully stimulated private investment and job creation. The tool is meant to connect public officials, practitioners, and researchers to successful small town economic development strategies and inspire small towns to leverage their unique assets. Homegrown Tools is managed by NCGrowth, an EDA University Center at UNC Chapel Hill, in partnership with the UNC School of Government, the Federal Reserve Bank of Richmond, the NC Rural Center, and the UNC Department of City and Regional Planning.



# Durham, North Carolina

## Achieving Economic Development through Mission-Oriented Real Estate Development

By the numbers	
Population (2016):	262,989
Municipal budget (2017-2018):	\$189,448,009
Per capita income (2016):	\$30,850
Median household income (2016):	\$52,208
Poverty rate (2016):	17.1%
Minority population (2016):	61%
Proximity to urban center:	0 miles
Proximity to interstate highway:	2.6 miles to I-85, 23 miles to I-40

## INTRODUCTION

The economic impacts of real estate development are seen in both the development process as well as in the new economic activity generated by a real estate asset once it is occupied. However, concerned with the promise of financial return, private developers do not often decide to pursue a project based on the potential for existing residents to benefit from the economic impacts. In the absence of private developers, community development financial institutions (CDFIs) and nonprofits have stepped up to leverage commercial real estate development as a form of economic development in distressed neighborhoods. The development of the Kent Corner buildings by Self-Help and the revitalization of the Lakewood Shopping Center by the Scrap Exchange are two examples of how unconventional nonprofit developers can create economic impact for the communities they serve.

## THE COMMUNITY AND ITS HISTORY

In the past decade, Durham, North Carolina has positioned itself as a hub of research, innovation and entrepreneurship. The city is home to Duke University, a world-class research institution and a growing start-up community centered around American Underground. Downtown Durham has witnessed what many are calling a “renaissance” with renewed interest and investment in what for decades had been an economically depressed and physically neglected environment.

The decline of the tobacco and textile industries left an economic vacuum in the city. A post-war building boom around the edges of Durham contributed to residential suburbanization, which was followed by a series of shopping centers that displaced commercial activity from downtown. While the nearby Research Triangle Park was conceived to generate economic activity in the region, it further drew activity away from downtown. This dynamic was compounded by the federal urban renewal program, which was utilized in Durham to demolish a 200-acre area of the historic-African American Hayti neighborhood adjacent to downtown, forcing Black residents and their businesses to be dispersed. All of these forces served to devalue downtown Durham, leaving it disinvested and in disrepair.

Beginning in the 1980s, the city began an effort to revitalize downtown by restoring historic buildings and attracting private investment. Under the leadership of Mayor Bill Bell, the city was proactive in courting development and creating a favorable business environment throughout the early 2000s. During Bell’s tenure, the city modified zoning codes and offered economic incentives among other policies to attract developers and businesses downtown and ultimately received \$1.7 billion in public and private investment between 2001 and 2017. As a result, property values have increased significantly and the city is now facing gentrification pressures and affordable housing challenges, particularly in the downtown core. The West End and Lakewood Tuscaloosa neighborhoods are two neighborhoods just outside of the downtown core where new investment has lagged, however, and which face the complex challenge of spurring investment while maintaining affordability and neighborhood assets that serve the community.

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## THE STRATEGY

Self-Help is a community development financial institution (CDFI) in Durham that provides a range of financial services and products to expand economic opportunity for underserved populations in North Carolina and nationwide. In 1991, Self-Help added residential and commercial real estate development to its portfolio of work. From his perspective as the director of business development and project management at Self-Help, Dan Levine sees the organization's real estate development work as a reflection of Self-Help's overall mission which is "creating and protecting economic opportunity for all." Particularly in the commercial development projects they pursue, the real estate team aims to provide opportunities for nonprofits, small businesses and other tenants - many of whom share Self-Help's commitment to assisting under-served populations - to access affordable space in the communities they serve.

The Kent Corner project in West End came together as a result of the groundwork that Self-Help had laid through prior involvement with the neighborhood. Through their engagement in several community planning processes from 2009 to 2013, Self-Help heard from residents that redeveloping the Kent Corner site on West Chapel Hill Street was a top priority for the neighborhood. As a result, Self-Help began to acquire properties in the area and approach potential tenants to determine whether the site would be suitable for their needs. The \$13 million project, completed in 2015, features a 10,000 square foot co-op grocery store and 38,000 square feet of commercial office space leased by the Center for Child & Family Health and other tenants affiliated with Duke University.

Self-Help's real estate projects often arise as a result of prior relationships with tenants and partners - by invitation, rather than independent initiative. The entities committed to and interested in the redevelopment of an area solicit Self-Help's development expertise. In addition to Kent Corner, Self-Help has also been a part of the redevelopment of the Lakewood Shopping Center which was initiated and is led by the Scrap Exchange, a creative reuse nonprofit organization in Durham.

The Scrap Exchange purchased 10 acres of the distressed Lakewood Shopping Center out of foreclosure in 2016 in hopes of transforming the area into a "Reuse Arts District" with affordable commercial space for new businesses and nonprofits. The purchase was made possible with a short-term loan from the North Carolina Community Development Initiative Fund. The Executive Director of the Scrap Exchange, Ann Woodward, and her team approached Self-Help for permanent financing and Self-Help agreed to invest and provide expertise. Although rehabilitation and leasing are still underway, several new businesses have opened, and a few nonprofits have relocated to the shopping center.

Both of these projects demonstrate the potential for commercial real estate development to be both financially sustainable and socially impactful. By cultivating broad partnerships and centering community interests, both Kent Corner and the Reuse Arts Districts have brought commercial activity, jobs for residents and increased services in underserved neighborhoods as well as provided spaces for community members and residents to gather and connect.

## THE OUTCOMES

### Kent Corner

- Over \$13 million in investment including private capital attracted through New Markets Tax Credits and a \$220,000 grant for streetscape improvement from the city.
- Remediated an environmentally contaminated site within a historic low-income community on the edge of downtown and transformed it into retail and commercial space.
- Major site work to improve pedestrian safety, enhance overall streetscape, and better organize traffic flow
- A 10,000-square foot building that houses the Durham Co-op Market, a community-owned, community-focused grocery store that aims to expand access to high-quality local food. The Co-op employs about 50 people and provides programs for low-income members including a \$3 dinner on Thursday nights and a 20% discount for SNAP recipients.
- A 38,000-square foot building that is leased by Duke University and anchored by the Center for Child & Family Health, which provides mental health services and training.
- Self-Help provided a combination of technical assistance and loans to two prospective business owners, a restaurant and a frozen yogurt shop, to help start new businesses in the commercial corridor.

### Reuse Arts District

- Over \$5 million in investments including a \$1 million no-interest loan from Duke University
- An estimated 38.5 jobs will be created through the Reuse Arts District
- Affordable commercial and office space for nonprofits and small businesses
- The Scrap Exchange organizes community events and workshops that bring art and education to the public, ranging from community clothing swaps to reuse information sessions. More than 8,000 people participate annually.

- The Scrap Exchange partners with area organizations (National Caucus & Center of Black Aging, Partners for Youth Opportunity, ReEmployAbility) that help individuals with barriers to employment join the workforce. In 2016, the Scrap Exchange worked with 7 individuals providing training and job-skillsdevelopment.

## HOW AND WHY THE STRATEGY IS WORKING

**Grounding projects in community needs.** Per Michael Palmer, senior outreach coordinator at Self-Help, a major factor in the success of Kent Corner was that it remained “conceptually grounded in addressing articulated community needs.” A 2013 neighborhood planning process co-facilitated by a neighborhood group, the Southwest Central Durham Quality of Life Project, and Self-Help reported a variety of community priorities, including economic development; residents sought to “attract businesses that serve the community, create jobs, and bring visitors to the area” and to encourage hiring programs that prioritize local residents.”<sup>1</sup> That plan also called for improving the physical appearance of the neighborhood’s business corridor on West Chapel Hill Street, increasing public green space, and repairing infrastructure and streetscapes. <sup>2</sup>Self-Help delivered on these priorities at Kent Corner, but as importantly, the real estate team engaged in the community planning process and brought resident voices into the development process to ensure that Self-Help maximized community-oriented outcomes.

Similarly, the Scrap Exchange has a strong community reputation and broad constituency that supports its vision. Andrew Foster, director of the Duke Community Enterprise Law Clinic, which has been involved in the Reuse Arts District, attributed the organization’s success to its deep involvement in their neighborhood: “She [Ann Woodward, executive director] can walk around any neighborhood where [the Scrap Exchange] has been working and she knows peoples’ names. She is embedded and, as a result, the Scrap is embedded and that is the kind of goodwill that has made the organization willing to invest time and energy and money and take a little risk to go on a journey with her.”

<sup>1</sup><https://community.duke.edu/wp-content/uploads/2014/03/QoL-SWCD-Neighborhood-Plan-1.pdf>  
<sup>2</sup> *ibid*

**Financial sustainability is key.** As a real estate developer, Self-Help must balance their mission to do good with economic conditions and other market realities. Although the organization strives to meet community needs, projects must be financially sustainable over time. To that end, the Kent Corner project team determined that a combination of office and retail was needed to sustain the project economically.

For the Scrap Exchange, a focus on retail and real estate has allowed the organization to achieve a level of financial sustainability that other nonprofits lack. As part of its mission, the Scrap Exchange accepts donations of clothing, books, and other materials that would otherwise end up in a landfill and resells them through its retail store. In 2016, retail sales constituted 67% of the Scrap Exchange's total income while grants comprised only 11%. Reduced dependence on grants and fundraising has meant the Scrap Exchange has the freedom to pursue its own agenda rather than meet the goals of a funder. Furthermore, financial sustainability allowed the Scrap Exchange to secure financing to purchase the Lakewood Shopping Center and catalyze further development in its neighborhood.

**Leveraging anchor institutions, public support and public ownership.** Duke University's participation in both of these projects was critical. The university provided no interest loans to both projects (hundreds of thousands of dollars of initial land banking funds to support property acquisition for the Kent Corner project and \$1 million for the Lakewood Shopping Center), and signed on as a tenant early on in the Kent Corner development. As an anchor institution in Durham, the university has both a vested interest in the city's development and the ability to leverage significant economic resources. These projects demonstrate how involving place-based institutions, like a university or hospital, can make unique real estate development possible and provide a win-win for communities and institutions.

The City of Durham also provided assistance for the Kent Corner project. The City sold a small surplus parking lot it owned on the eventual project site to Self-Help (through a public bidding process), and also provided a \$220,000 grant for streetscape improvements along the neighboring business corridor on West Chapel Hill Street. In addition, the City's streetscape and economic development planning

work helped motivate Self-Help to carry out the project. The City also granted economic incentives in the realm of \$150,000 for two businesses to open near the Kent Corner site.

## LESSONS LEARNED FROM THE STORY

**Nonprofits can be transformative economic development actors.** The economic impacts of real estate development are seen in both the development process as well as in the new economic activity generated by a real estate asset once it is occupied. Concerned with the promise of financial return, private developers often do not decide to pursue a project based on the potential for existing residents to benefit from those economic impacts, let alone the degree to which those impacts are equitably shared. In the absence of private developers, community development financial institutions (CDFIs) and nonprofits can step up to leverage commercial real estate development as a form of economic development in distressed neighborhoods. The development of the Kent Corner building by Self-Help and the revitalization of the Lakewood Shopping Center by the Scrap Exchange are two examples of how unconventional nonprofit developers can create economic impact for the communities they serve, and act as first movers in markets where private developers are not investing.

**Work with strategic partners to amplify mutually beneficial outcomes.** The success of both real estate development projects is a result of strong partnerships with external organizations. Both Kent Corner and the Lakewood Shopping Center are in close proximity to Duke University, giving it a vested interest in the sites and making it a willing partner in real estate development. The university provided an initial land assembly loan to Self-Help for the Kent Corner project and a \$1 million interest-free loan to the Scrap Exchange for the Reuse Arts District. Beyond financial support, Duke also agreed to pre-lease office space in Kent Corner for a long term at a market rental rate. Duke's willingness to becoming the anchor tenant was critical to Self-Help's ability to lease retail space to the Durham Co-op Market at a below-market rate, thus supporting the kind of community-serving retail that the West End neighborhood desired.

At the Lakewood Shopping Center, The Scrap Exchange partners with area organizations that help individuals with

<sup>3</sup> Scrap Exchange (2016). Annual Report.

barriers to employment join the workforce. The redevelopment project and the many business opportunities it creates allows a platform for the Scrap Exchange and other mission driven organizations to meet community needs.

**Transformative projects take time.** Self-Help first started working in the West End neighborhood in 2009, with a focus on responding to community interests in affordable housing creation. As they worked on affordable housing with partner non-profits, they actively participated in numerous community conversations within the neighborhood about what residents wanted, and eventually saw an economic development opportunity that they were well suited to address. The success of the Kent Corner development lies on the foundation of the community engagement and pre-development process that occurred over years. This kind of timeline is often not possible for a private developer and demonstrates again why a nonprofit is well positioned to take the first step in what a private developer might consider a new or difficult market.



## CONTACT INFORMATION

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