

NAREIM

FALL 2022

BEST PRACTICES SHARED | VALUE ADDED

dialogues

NAVIGATING *the* *coming* SLOWDOWN

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Why and how to collect utilities data from tenants

Using data science to nowcast rents for better decision-making

The rise of the vertically integrated operators



NAREIM

dialogues

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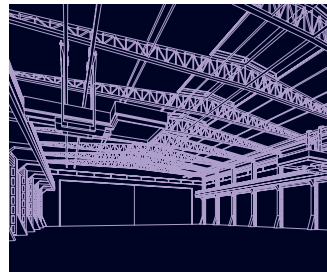
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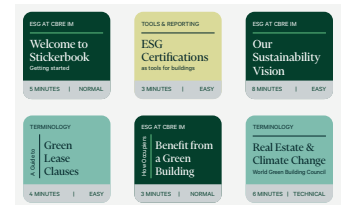
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A new model for EQUALITY

An ESG-forward, impact-oriented platform established to provide workforce housing, logistics buildings and mixed-use facilities, 1RACE aims to offer novel funding solutions and provide opportunities to marginalized communities.

By Mack Major, 1RACE
and Gene Dibble, IV,
Uncommon Impact Solutions

The events of 2020 catalyzed by the death of George Floyd, the increased broad corporate interest in racial equity and ESG, and subsequent mainstreaming of the Black Lives Matter movement are a clarion call for businesses and organizations to improve outcomes for all stakeholders. Due to commercial real estate's unique position — quite literally on the ground — the industry ought to be a leader in diversity, equity and inclusion (DEI) in supporting and building stronger, more equal communities.

Healthy people living and working in healthy buildings lead to healthy communities. ESG, in addition to helping investors invest in climate-change-friendly businesses and sectors, offers a framework for real estate firms to further DEI initiatives in creating robust and sustainable community health. All of this can and should be achieved without sacrificing, and in fact lead to, healthy returns for investors.

A new mission

Investor and strategist Saafir Rabb saw an opportunity to form a new real estate

platform that marries ESG-driven impact objectives with the three largest drivers of commercial real estate demand so far this decade: logistics, multifamily housing and mixed-use facilities (office and retail).

Rabb partnered with Murad Siam, a longtime business partner and co-founder/co-CEO of IDS Real Estate Group, to form 1RACE as a joint venture with IDS. An institutional investment manager with \$5 billion in assets under management, IDS gives 1RACE institutional backing and an established track record to see through their vision.

1RACE's vision is centered on an equitable approach incorporating marginalized communities in the execution of solvent commercial real estate projects at every level. Through its partnership with IDS, the firm has a goal to achieve greater societal parity and true inclusion of marginalized communities by hiring employees and incorporating resources intended to benefit these communities.

The firm launched in 2021, offering development, construction, property management and consulting services focused primarily on value-add and opportunistic investments. 1RACE also

identifies financial access points such as investors, associations, government entities and structured funds capable of investing equity, debt, credit enhancement and/or providing subsidies for 1RACE's managed services.

1RACE's approach serves to further address equity and inclusion in the commercial real estate sector by identifying, working through and demonstrating templates that prove that focusing on inclusion need not work at cross-purposes with earning healthy returns.

Effectively implemented, their approach will eliminate or greatly minimize structural barriers to entry that have previously challenged commercial real estate firms focusing on marginalized communities in the pursuit of achieving success.

Learning from past experiences

Prior to founding 1RACE, Rabb and Siam were approached by existing clients to serve as development managers for national retail expansion projects that aimed to use brokers and contractors from marginalized communities. Qualified vendors from these communities, however, were in frustratingly short supply within the targeted markets. Rabb and Siam also encountered other challenges, including weak or nonexistent relations between the institutions and top players within marginalized communities, and economic risk/return profile targets that outpriced the very communities they were focused on serving. Due to these problems, the expansion projects could not proceed as planned.

These experiences laid bare some of the structural challenges impeding equity in commercial real estate. Rabb and Siam knew that in order to address these problems, they would need to take

“ Contributing to the lack of diversity within the commercial real estate industry are long-standing barriers to entry for new investors and first-time funds. ”

a step back and design novel solutions that would provide them with the tools necessary to break down the barriers faced by qualified vendors from marginalized communities, as well as improve access to institutional resources that they and likely many others had faced. And so 1RACE began.

A real estate chicken-and-egg problem

Contributing to the lack of diversity within the commercial real estate industry are long-standing barriers to entry for new investors and first-time funds; these challenges are exacerbated for diverse firms. However, ESG goals and objectives have moved the needle forward by creating incentives for corporations, mainstream investors, philanthropic and financial institutions to target and support growth of commercial real estate funds with racial equity as a social impact objective. Organizations are committing large amounts of capital toward supporting equity in the US. For pension funds, ESG-targeted corporations and diversity-oriented emerging funds, 1RACE believes there is a robust market for capital allocation organized around the firm's core competencies and its ambition to expand the participation of

marginalized communities in the commercial real estate sector.

However, the traditional requirement of an investment track record, or a level of 'skin in the game,' is a significant barrier to entry for marginalized and often underrepresented groups. It is not uncommon for capital holders to require at least three years' worth of financial statements, as well as evidence of performance over a similar time period. This requirement disproportionately impacts minority communities, which not only lack opportunities to participate and thus the requisite experience, but also the connections necessary to succeed. The result has been a large amount of capital directed to a small group of managers or the same established participants.

There are also occasions when external investors require a personal guarantee for an organization seeking capital at an early stage in its life cycle. This, too, can be difficult for entrepreneurs from marginalized communities to obtain, increasing the number of hurdles they have to clear.

This is an ESG and DEI chicken-and-egg problem: investors from marginalized groups want to invest but are often challenged, due to a lack of experience and guarantees that can only come from having landed a series of projects in the first place. By organizing a structure in cooperation with an established commercial real estate platform, 1RACE mitigates the normal risk associated with firms lacking the experience to service capital-seeking ESG compliance and investment in marginalized communities.

The impact bond solution

A further solution to the funding problem for firms focusing on the

TIDE in action



Following a devastating fire in the building that housed the Embassy of Cameroon in Washington, DC in the 2000s, Saafir Rabb led the full restoration of the badly damaged building to a mixed-use facility housing the consular affairs office as well as a guest house. More than 80% of the project's labor force consisted of workers reintegrating into society and recovering addicts. Additionally, 75% of the labor used to carry out the restoration of an apartment building in Baltimore that Rabb acquired consisted of recovering addicts and workers from the immediate surrounding area. Going forward, 1RACE aims for 30% TIDE compliance on its projects.

inclusion of marginalized communities may lie in impact-first funds and blended financing. 1RACE is exploring the use of social impact bonds and development impact bonds (DIBs) which serve as a finance utility with measurable impact, the first of its kind for the commercial real estate industry. Impact bonds are results-based contracts that bring private capital to meet the demands of targeted outcomes. Applied to commercial real estate, DIBs targeting outcomes like expanded jobs within marginalized communities or home ownership help mitigate the risk for new firms, ensuring returns and results by design.

Risk capital for funding such projects is raised from a variety of sources, such as corporations and large investors with ESG goals along with first-time investors (including underrepresented investors). The bonds are usually repaid by public or philanthropic institutions once the impact is achieved, or topped up with a financial return once impact targets are met or exceeded. Issued by some of the world's most prominent organizations, the bonds will be leveraged to attract commitments from philanthropic contributions in a way that de-risks the outcomes and provides impact measured by third-party evaluators. 1RACE's impact bonds will be managed by BrightCap Ventures' Larry Biehl, a member of its Investment Committee.

1RACE aims to be a leader at the forefront of innovative finance structures in commercial real estate to help scale inclusivity and equality in the industry. Through these new financial products and a strong commitment to marginalized communities, 1RACE is exploring financing structures that open the door to critical tools like credit enhancements, tax incentives and other programmatic benefits that work to eliminate roadblocks that challenge ESG compliance regarding marginalized communities.

Success indicators

With certain projects, 1RACE will use what it calls the Target Impact Driver for Equity (TIDE) indicator. TIDE measures the deliberate inclusion in projects of people who are either recovering from addiction or returning from prison.

1RACE's own staff comes from a variety of communities and backgrounds in the US and the world. Additionally, to address the gap in resources and knowledge within marginalized groups across the commercial real estate industry, the

firm has a program to hire, train and pay people from these communities to learn how to execute and deliver high-profile and high-quality projects.

In addition to TIDE, 1RACE will employ indicators to measure success along the way. These indicators are agnostic of the type of real estate developed and measurement will take place at different steps with iterations as needed. In fact, 1RACE hopes its progress advances six of the UN's Sustainable Development Goals, covering poverty, health, decent work, industry and infrastructure, reduced inequalities, and sustainable cities and communities. Key measurements and progress of the phases of 1RACE's work will be featured in annual reports and outreach.

A call to action

1RACE sees a future in which the concept of competition and community works across differences to bring fresh talent and disciplined creativity to commercial real estate. It believes its approach moves the industry forward in a more equal way and encourages others to do so, too. Rabb also has higher aims: a paradigm shift across the industry — when equality is achieved, real and impactful change will benefit communities everywhere without sacrificing investor returns. Accomplishing this requires a movement of like-minded people and organizations. If you or your organization are interested in working with 1RACE, please reach us at contact@1racellc.com. ♦

Mack Major is Chief Operating Officer of 1RACE and **Gene Dibble, IV** is Chief Impact Officer of Uncommon Impact Studios.